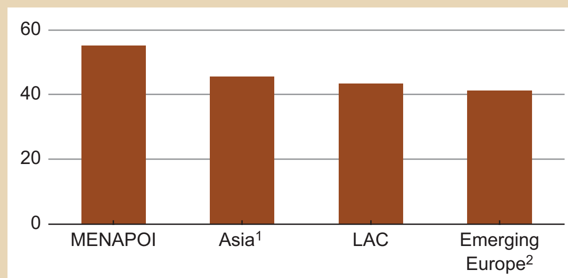
2. MENAP Oil Importers: Complex Political Dynamics and Security Challenges

Widespread uncertainties from complex political transitions and intensifying social tensions are thwarting economic recovery; in this atmosphere, limited progress has been made so far in building consensus for much-needed fiscal and structural reforms. Growth is expected to remain significantly below the levels necessary to reduce the region's high unemployment and improve living standards in the near and medium terms. Looming fiscal and external vulnerabilities, as well as rising domestic, regional, and geopolitical tensions, mean that the MENAP oil importers are increasingly susceptible to downside risks. The same conditions that make it difficult to focus on the necessary policy actions, however, show the urgency of the need for such actions to ensure macroeconomic stability, create jobs, and improve living standards. Measures that can raise employment and confidence quickly, as well as stepped-up international assistance, are needed to buttress deep reform and stabilization efforts that will lay the foundation for higher, sustainable, and more inclusive growth. Absent success, the MENAP oil-importing countries risk being drawn into a vicious cycle of economic stagnation and persistent socioeconomic strife.

Tension and Conflict Impair Economic Activity

Political and regional dynamics continue to shape economic developments across the MENAP oil importers. Political risks are among the highest across emerging and developing regions (Figure 2.1). The intensifying conflict in Syria (Box 2.1) and political developments in Egypt and Tunisia have heightened concerns of wider destabilization. Spillovers from these countries, as well as bouts of social unrest and escalating security concerns, complicate economic management. Upcoming elections (all in 2013–14) further increase policy uncertainty in Afghanistan, Lebanon, and Mauritania. Only Morocco, and, more recently, Jordan, Morocco, and Pakistan, have newly formed governments that have the multiyear horizon needed to enact reforms for growth and employment; but even in these countries, reform prospects are uncertain, given the challenge of building strong public consensus for difficult economic reforms.

Figure 2.1
High Political Risk
(100 represents the highest political risk)



Sources: PRS group; and IMF staff calculations.
[1]Excludes Japan, Korea, Singapore, and Taiwan.
[2]Includes Belarus, Moldova, Russia, and Ukraine.
Note: LAC = Latin America and the Caribbean; MENAPOI = MENAP oil importers.

Weak confidence undermines domestic economic activity. Across the region, investment is restrained, deterred by sociopolitical uncertainties, lack of a credible medium-term policy agenda, and—in Egypt, Lebanon, and Pakistan—electricity supply disruptions. Corporate risk premiums remain high (Figure 2.2), and credit growth is low because of weak demand and only gradually declining nonperforming loans (NPLs). Stock markets, not yet recovered to pre–Arab Spring levels, remain weak. Domestic activity is sustained by consumption, which, in turn, is underpinned

Prepared by Pritha Mitra with input from country teams, and research assistance by Gohar Abajyan and Lisa Dougherty-Choux.

Box 2.1

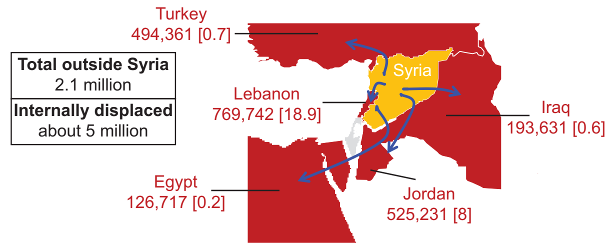
The Syrian Conflict and Its Regional Ramifications

The humanitarian and economic cost of the Syrian crisis is tragic, with heightened risks for regional stability, and adverse socioeconomic, political, and security implications for neighboring countries.

The conflict, now in its third year, has led to more than 100,000 casualties to date. The United Nations estimates that 5 million people have become internally displaced and close to 7 million people are in need of humanitarian assistance inside Syria. Humanitarian relief and access continue to be restricted because of difficult security and political conditions. Additionally, more than 2 million Syrians are now refugees in neighboring countries, resulting in severe repercussions for host countries, particularly Jordan and Lebanon (Figure 2.1.1). The average daily outflow of refugees has hovered around 6,500 so far in 2013. Aid efforts aimed at providing safe drinking water, better sanitation, food rations, and health supplies to refugees are also facing difficulties.

Figure 2.1.1

Estimate of Refugee Flows from Syria[1]



Source: U.N. Refugee Agency, Information Sharing portal: Syria Regional Refugee Response.

[1]As of September 29, 2013. Figures reflect the number of refugees registered or awaiting registration. Figures in brackets denote the share of Syrian refugees in the host country's population.

The Syrian economy has been devastated by the conflict. The consensus holds that the economy has contracted significantly, by about one-quarter to one-third, and the country's physical and social infrastructure and capital stock have suffered significant destruction. Activity is estimated to have declined across all key sectors, including agriculture, transportation, construction, trade, and oil. The Syrian pound lost more than 65 percent of its value against the U.S. dollar in both the official and parallel markets, and inflation has reportedly exceeded 65 percent. More than half of the Syrian labor force is estimated to have become unemployed. The fiscal deficit has likely widened—particularly in view of oil revenue losses—and the external and financial sector positions are expected to have worsened significantly. Investment activity has reportedly come to a halt.

The Syrian crisis is posing significant challenges to neighboring countries. Jordan and Lebanon have been severely affected by the crisis. They are hosting more than half of the total refugees, and economic, social, and political pressures are high. There also have been important implications for Iraq, particularly related to security.

The crisis is straining Jordan's social, economic, and fiscal conditions. As of end-September 2013, officially registered Syrian refugees in Jordan amounted to about 8 percent of Jordan's population. Of these, more than one-fourth (121,000) were hosted at Zaatari camp, close to the border with Syria. Despite donor and international assistance, the inflow of refugees has presented Jordan with additional fiscal pressure (estimated by the Jordanian authorities at 1 percent of GDP for 2012 for the public sector, including utility companies), mostly for education and health care needs as well as increased security outlays. About 32,000 Syrian students attend schools in Jordan, and 12,000 students are awaiting registration; some 4,000 students benefit from a school feeding program. Furthermore, the increased demand by refugees has raised rental costs and housing prices and is straining the domestic labor market as refugees compete with locals (and Egyptian migrant workers) for jobs, particularly in the informal market. This competition for jobs is exacerbating the already high unemployment rate, which stood at 12.2 percent in 2012.

Prepared by Randa Sab, Amgad Hegazy, Alina Luca, Dmitriy Rozhkov, and Kusay Alkhunaizi, and supervised by May Khamis.

Box 2.1 (*concluded*)

On the economic front, the crisis has disrupted transit trade through Syria, although Jordan's diversified trade channels have mitigated the impact so far.[1] It is difficult to disentangle the impact of Syria from general regional uncertainty, but events in Syria contributed to a decline in foreign direct investment inflows into Jordan from an average of 8 percent of GDP in 2009–10 to an estimated 4.5 percent in 2012. Tourism income, despite recovering partially in 2012 to 11 percent of GDP, was still below the average precrisis level of 13 percent seen in 2009–10.

Lebanon's economy has been hit hard, and sectarian tensions have increased. One-third of Syrian refugees were located in Lebanon by end-September 2013, equivalent to about 19 percent of Lebanon's population. Lebanon needs more international support to help it cope with the Syrian crisis; the cost of refugees is straining the country's already weak public finances as the government faces rising health care, education, and security costs. Furthermore, the Syrian conflict has raised political tensions in Lebanon, and is contributing to difficulties in forming a new government (a caretaker government has been in place since April 2013).

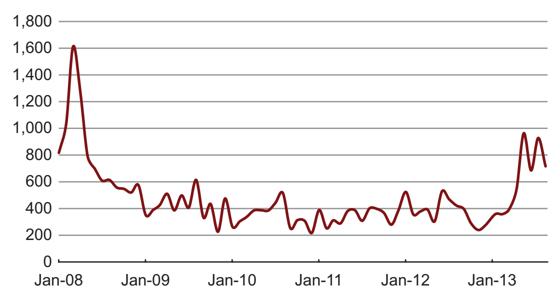
The Syrian conflict has also had a devastating impact on Lebanon's economy. Real GDP growth is estimated to have declined from 8 percent on average during 2009–10 to 1.5 percent in 2012, partly as a result of a sharp decline in tourism and related industries. Although bilateral trade accounted for only 6–9 percent of Lebanon's exports of goods and services before the conflict, transit trade and tourism from and to Lebanon through Syria were reportedly substantial and have been seriously affected by the conflict. The number of tourists to Lebanon declined by 32 percent in 2012 compared with its 2009–10 average, particularly after GCC countries advised their nationals against travel to Lebanon. Deposit growth has moderated to about 8 percent annually in 2013 from 18 percent on average during 2009–10, while foreign direct investment inflows are estimated to have been about 7 percent of GDP in 2012, down from 12.7 percent, on average, during 2009–10. Lebanese banks have contained their direct exposures to Syria, halving these exposures and increasing provisions.

Iraq's security conditions and trade with Syria have been severely affected. Concurrently with the escalation in Syria, the security situation deteriorated dramatically in Iraq. In the first quarter of 2013, protests against the de-Baathification and antiterrorism laws erupted in Anbar province on the border with Syria. The subsequent countrywide escalation in sectarian violence led to a steep increase in deaths, which in July reached their highest monthly level since 2008 (Figure 2.1.2). The economic disruption in Syria—in the past Iraq's main trade route to the Mediterranean—and the worsening security conditions have brought imports to Iraq from and through Syria almost to a halt, down from 15–20 percent before the conflict. Moreover, the influx of Syrian refugees to Iraq, equivalent to less than 1 percent of Iraq's population at end-September 2013, is accelerating, particularly from the Kurdistan region of Syria, placing further demand on already strained public services.

Figure 2.1.2

Iraq: Violence Indicator, January 2008–August 2013

(Documented civilian deaths from violence per month[1])



Source: Iraq Body Count; and United Nations Assistance Mission for Iraq (UNAMI).

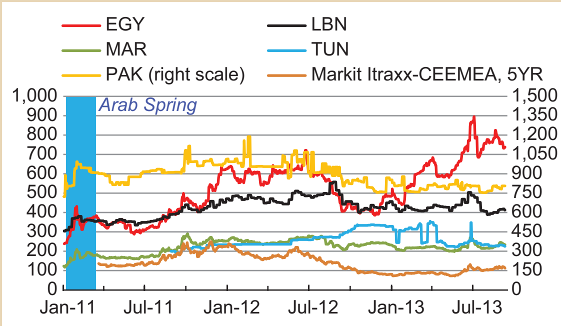
[1]Data for May–August 2013 are taken from UNAMI press releases.

[1] Pre-conflict bilateral trade with Syria was very small, around 3 percent of total trade.

Figure 2.2

Credit Default Swap Spreads Indicate High Risk Premiums

(Basis points, January 1, 2011–September 11, 2013)

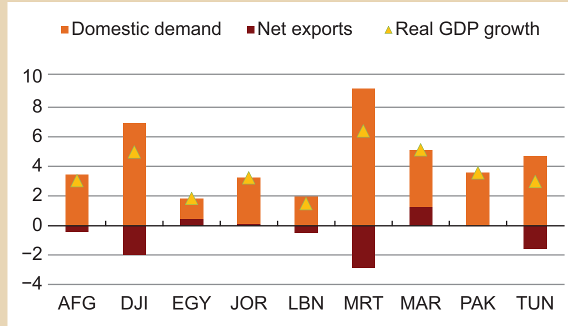


Sources: Bloomberg, L.P.; Markit; and IMF staff calculations.

Figure 2.3

Domestic Demand Dominates Contributions to Real GDP Growth

(Percent, 2013)



Sources: National authorities; and IMF staff calculations.

by large public wage bills, energy subsidies, and remittances, mostly from Europe and the GCC (Figure 2.3). Morocco is an exception this year: an extraordinary post-drought agricultural rebound underlies growth. Djibouti, Mauritania, and Sudan also diverge from the regional growth trends: in Djibouti, strong port activity continues to attract foreign direct investment (FDI) and construction, and in Mauritania a thriving mining sector and public infrastructure work buoy growth. Sudan's growth, however, is still sensitive to its relations with South Sudan. For most economies, high unemployment (especially for youth and women) and large disparities in socioeconomic conditions persist and continue to fuel social discontent. The situation in Somalia, which recently resumed relations with the IMF, is particularly challenging (Box 2.2).

External activity also remains subdued because of the weak global recovery. Nascent improvements in exports, tourism, and FDI largely reflect only partial recovery after major disruptions early in the Arab Spring and, in some cases, increased investment interest in mining sectors and improved competitiveness resulting from exchange rate depreciation (Figure 2.4). Tourist arrivals in North Africa continue to suffer from sociopolitical uncertainties in the region and subdued growth in the euro area. Diversification toward lower-value-added package tourism has supported receipts. Jordan's tourism has picked up with the diversion of GCC tourists from Lebanon. Remittances, mostly from Europe and the GCC, are holding up.

The region's recovery remains sluggish, and expectations of a pickup in activity are once again delayed. Real GDP growth is forecast to be 3 percent for 2013–14, substantially below the average of emerging markets and developing countries, and about the same as last year (Figure 2.5). Growth is not expected to pick up next year as the still-difficult sociopolitical environment in many countries delays a broader return of private sector confidence, while planned fiscal consolidation weighs on public demand.[1] The global environment is projected to strengthen gradually, but still-weak growth in Europe, the main trading partner of North African countries, will continue to limit the pickup in external demand.

[1] Annex 4 highlights fiscal policy tools that can minimize the adverse impact on growth while promoting equity considerations.

Box 2.2

Somalia: Reengaging with the IMF

In April 2013, the IMF recognized the Federal Government of Somalia (FGS) as the government of Somalia, resuming normal relations after an interruption of more than 20 years. The recognition allows the FGS to exercise Somalia's rights and obligations of membership in the IMF; however, Somalia is currently not eligible to access financial support in the context of a financial program, pending the clearance of arrears to the IMF, which currently stand at about 234 million special drawing rights (equivalent to about US$355 million).

Context and Recent Developments

The political situation remains fragile. Large parts of the country still remain beyond the control of the central government or have separated and declared self-rule. Rebuilding critical infrastructure and delivering basic social and economic services will be crucial as the new government works to gain the trust of the Somali people, advance the process of national reconciliation, and extend its authority over all parts of the country.

What little is known about the economic situation in Somalia is based on partial and anecdotal evidence. Somalia has remained without a recognized government during the more than 20 years of intermittent war and civil strife among clans and regions, resulting in the complete destruction of most of the institutions of government. The limited evidence about economic conditions suggests that economic activity has started to pick up more recently, the main sectors of production being livestock, fisheries, logging, and a number of services, such as communications, construction, and money transfer. The rebound in economic activity has been driven by the return of Somalis living abroad and by continued buoyant remittances from the Somali diaspora.

IMF Engagement and Next Steps

IMF staff has started to provide policy and technical advice to the Somali authorities. The first formal contacts took place in April 2013, during the IMF/World Bank Spring Meetings, and in June, a staff team met with the Somali authorities in Nairobi. The IMF's work on Somalia will be on three fronts: (1) conducting surveillance and providing policy advice, (2) preparing the ground for a staff-monitored program and debt relief, and (3) devising a comprehensive and sustained program to develop capacity. Particularly on the latter, IMF staff will focus on delivering technical assistance on national accounts and prices, tax policy and administration, and central banking and currency reforms.

Stepping up the IMF's surveillance and policy advice will be contingent on economic and institutional conditions in the country, in particular, improvements in the compilation and dissemination of key economic statistics. In addition, the pace of the IMF's reengagement with Somalia will depend critically on progress toward peace and reconciliation among the different regions and stakeholders.

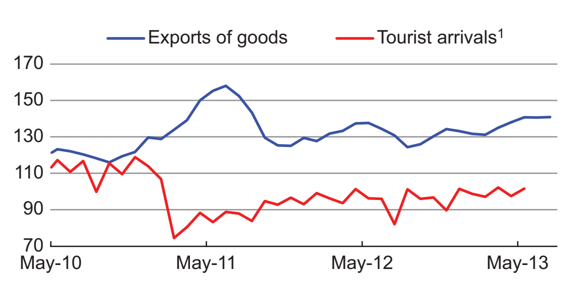
Prepared by Gamal El-Masry.

Inflation, though declining since 2011, remains above 8 percent (Figure 2.6). Falling global food and energy prices, along with weak domestic activity and below-potential economic growth, have been dampening inflation; however, ongoing and planned phasing out of energy subsidies, public sector wage increases, and monetization of deficits are sustaining inflationary pressures. In some countries (for example, Pakistan and Sudan), past exchange rate depreciations are also contributing to inflation. On balance, headline inflation is expected to rise by about ½ percentage point to 8¾ percent in 2014. To the extent that accommodative monetary policy is successful in raising low credit growth, it could also add to the pressures.

Figure 2.4

Signs of Life in Goods Exports and Tourist Arrivals

(Index; 2009 = 100, exports series is 3-month moving average; tourist arrivals series is seasonally adjusted)



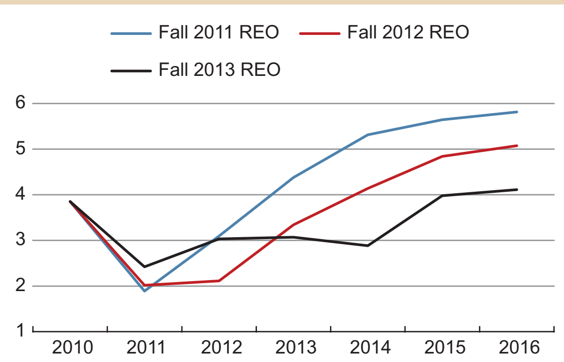
Sources: Haver Analytics; national authorities; U.N. World Tourism Barometer; and IMF staff calculations.

[1]Includes Egypt, Jordan, Lebanon, Morocco, and Tunisia.

Figure 2.5

Real GDP Growth Forecasts Revised Downward

(Annual percent change)

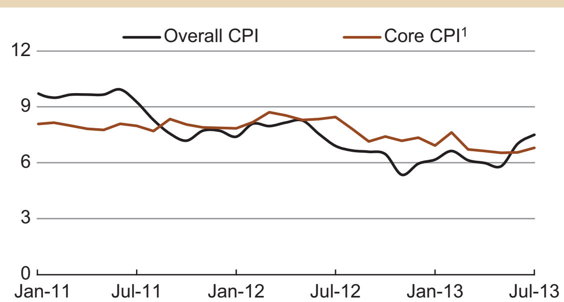


Sources: National authorities; and IMF staff calculations.

Figure 2.6

Inflationary Pressures Persist

(Consumer prices; period average, annual percentage change)



Sources: Haver Analytics; and national authorities.

[1]Excluding Sudan.

Note: CPI = consumer price index.

Downside Risks Are Significant

Domestic and regional factors are the main sources of downside risks. Setbacks in political transitions, vested interests delaying reforms, further intensification of social and security tensions, or regional spillovers from Syria or, to a lesser extent, Egypt would further damage confidence. A weaker growth scenario shows that growth in 2014 could fall to 1¾ percent (or 1¼ percentage point lower than the baseline) and unemployment would rise sharply if these risks were to even partially materialize (Box 2.3). For example, if Afghanistan's upcoming elections are contested, the political situation could rapidly deteriorate and further raise policy and security uncertainties. In Pakistan, a surge in domestic sectarian violence would batter confidence. Paralyzed domestic politics and social unrest (or simply fear of it in Morocco) would delay much-needed reforms in Egypt, Morocco, and Tunisia. In Mauritania, social unrest could also lead to extensive mining sector strikes. A deeper slowdown caused by a further deterioration in domestic confidence, with growth coming to a halt, also cannot be precluded. On the upside, which appears less likely in the near term, faster progress in political transitions, resulting in the emergence of governments with longer time horizons and credible reform plans, could rapidly boost domestic confidence and economic activity.

External risks are also mostly tilted to the downside. Slow growth in Brazil, Russia, India, China, and South Africa (the BRICS) or in GCC countries, or protracted stagnation in the euro area, could weigh on tourism, trade, remittances, and capital flows (especially sovereign financing). A tightening of global financial conditions accompanied by a significant rise in risk premiums for emerging economies could result in lower FDI and higher external financing costs (Annex 2); however, it is unlikely to substantially change rollover risk for most countries because their financing costs are already very high—reflecting large risk premiums, especially for MENAP oil importers with fixed

Box 2.3

MENAP Oil Importers: Weaker Growth Scenario

Civil unrest and political divisions are high across the region and may intensify in the coming months, possibly involving an escalation of the war in Syria, a worsening of developments in Egypt, heightened security concerns in Pakistan and Afghanistan, as well as increased domestic political uncertainty. The economic repercussions of such shocks would be manifold, stalling growth, widening fiscal and external balances, and raising inflation and financial market volatility. Under a plausible set of country-specific assumptions about a further escalation of domestic and regional tensions (yet stopping short of a full-blown regional crisis), growth in MENAP oil importers is estimated to decline from about 3 percent to about 1¾ percent in 2014. Unemployment would rise by about 1 percentage point or 1½ million people. Stronger shocks to confidence could bring the economy to a halt.

MENAP oil importers are at high risk of experiencing domestic and regional adverse shocks in the next year. Possible sources of these shocks are varied but center on political and security developments. If Afghanistan's upcoming elections are contested, the political situation could rapidly deteriorate, intensifying policy and security uncertainties as international troops withdraw. In Pakistan, underlying political and social tensions could prompt a surge in domestic sectarian violence. Sudan's upcoming presidential elections, as well as serious security concerns along the border with South Sudan, could halt economic reforms. Domestic political paralysis and heightened social unrest stemming from recent political developments could further delay much-needed reforms in Egypt and Tunisia. Reforms could also be delayed in response to fears of social unrest or if the cabinet reshuffle is not completed soon in Morocco. Social discontent could spark widespread mining strikes in Mauritania. Political tensions in Lebanon could increase with accelerated spillovers from Syria. A deepening of Syria's economic and humanitarian crisis would further devastate the economy and accelerate the influx of refugees to Lebanon and Jordan (Box 2.1). Jordan could also be forced to import more expensive energy inputs if cheap Egyptian gas supplies are further disrupted.

Realization of these shocks would have severe consequences for growth and fiscal balances. In all cases, a contraction of economic confidence would likely dampen tourism, exports, foreign direct investment, and domestic activity. Under a plausible set of country-specific assumptions, regional growth would fall from 3 percent to 1¾ percent in 2014, while stronger shocks could even lead to stagnating output. Insufficient improvement in economic conditions risks reinforcing sociopolitical frictions and dealing further setbacks to political transitions in many countries, thereby causing further delays in the economic recovery, potentially leading to a vicious cycle. Fiscal deficits in the weaker-growth scenario would widen in line with lower tax revenues, increased wage bills, and social and security spending pressures. Meanwhile, needed reforms, particularly to wasteful subsidies, would be delayed. Mauritania is an exception: lower revenues are expected to be offset by reduced investment spending. In Lebanon, weak confidence could result in reduced depositor inflows, and could increase financing pressures and rollover risk in the government debt market.

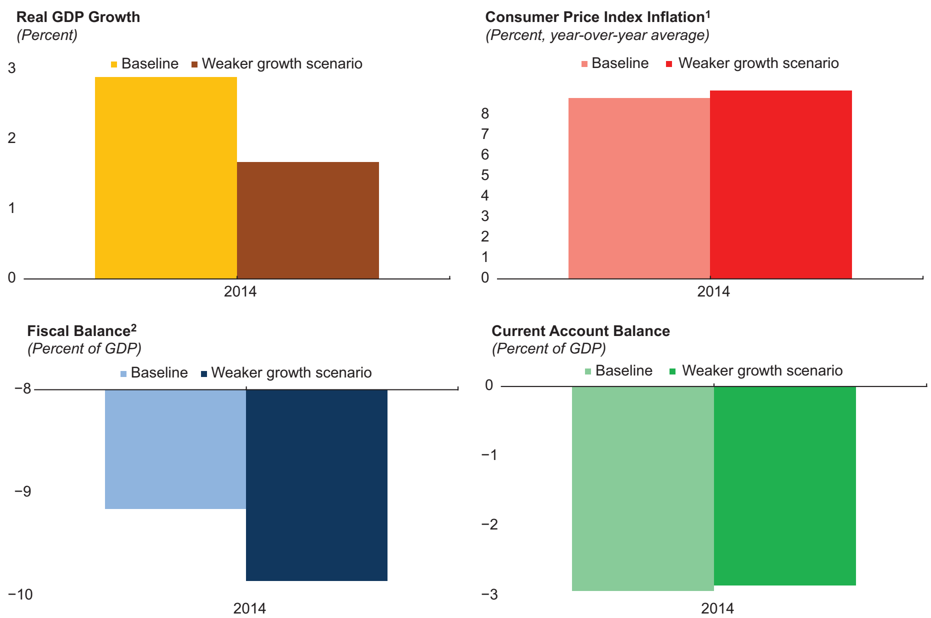
Regional fiscal balances are set to widen under the weaker-growth scenario, whereas current account balances and inflation would remain broadly unchanged because of the offsetting effects of slower economic growth and exchange rate depreciation. Significant declines in tourism would increase current account deficits in Morocco and Tunisia. In Mauritania and Sudan, respectively, reduced mining and oil production would weigh on exports and raise the deficit. More refugees would add to pressures on the deficit in Jordan and Lebanon through increased spending, including on health and education. In contrast, the current account deficit would likely improve in Afghanistan, Egypt, and Pakistan, where the impact of compressed domestic demand on imports would dominate other current account developments. Nevertheless, lower capital inflows would erode reserves in Pakistan and Afghanistan. Both countries, along with Sudan and Tunisia, would experience greater exchange rate depreciation, despite likely increases in foreign aid. The exchange rate depreciation would fuel inflation in these countries while additional refugee demand for food and housing would elevate it in Lebanon and Jordan. The large output gap would help contain inflation in the rest, and would even slightly reduce inflation in Egypt (see Figure 2.3.1). The important drawback is that such a scenario would hinder medium-term growth prospects.

Prepared by Pritha Mitra with inputs from country teams, research assistance by Gohar Abajyan, and supervised by Natalia Tamirisa.

Box 2.3 *(concluded)*

Figure 2.3.1

MENAP Oil Importers: Baseline and Weaker Growth Scenarios for 2014



Sources: National authorities; and IMF staff calculations.

[1]MENAP oil importers except Jordan.

[2]General government balance, except Lebanon and Pakistan. Tunisia reports the central government balance only.

exchange rates. Moreover, advanced countries' provision of guarantees on international bond issues helps contain financing costs (Jordan, Tunisia). Limited reliance on private flows for financing external deficits also curbs the risk of a sudden stop. A rise in global energy prices—for example, following a geopolitical event—would fuel inflation and strain external and fiscal balances. On the upside, faster growth in the euro area or the GCC would be a positive factor for the MENAP oil importers.

External and Fiscal Positions Are Highly Vulnerable

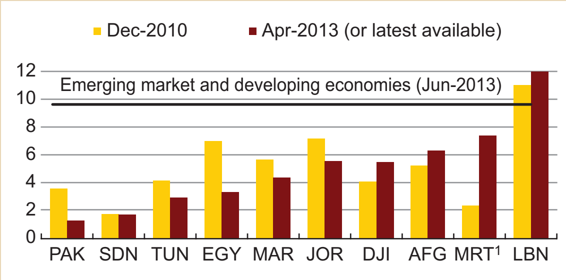
Weak investment helps contain import growth and external current account deficits, but pressures persist. The region's current account deficit remains high at 4¾ percent of GDP. Disruptions in transit trade through Syria, and higher food imports to feed increasing numbers of refugees, are weighing on current account balances in Jordan and Lebanon. In Jordan, these effects are compounded by the need to substitute expensive fuel imports for decreased Egyptian gas supplies for electricity production, although prospective new phosphate exports to India may partly relieve these pressures. In contrast, large investment-related imports in Djibouti and Mauritania, mostly financed by FDI, are widening the current account deficit.

International reserves remain at precariously low levels (Figure 2.7). Some improvements in current accounts, FDI, and sovereign financing through international bond issues and other forms of financing and grants from foreign governments (particularly in Egypt, Jordan, Morocco, and Tunisia) have helped stabilize reserves in most countries. In 2014, further improvements in the trade balance are expected to raise reserves slightly. Nevertheless, reserves remain strikingly low (especially in Egypt,

Figure 2.7

Low Reserve Coverage

(Gross international reserves, months of imports)

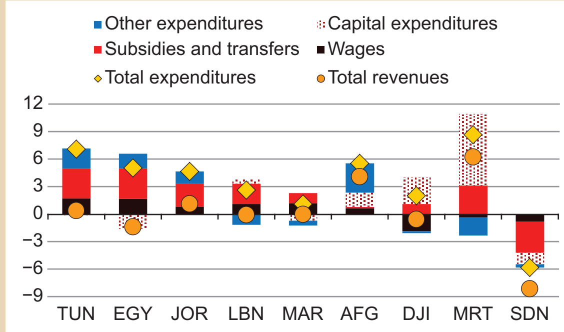


Sources: National authorities; and IMF staff calculations.
[1]Reserves in months of the following year's imports, excluding extractive industries imports.

Figure 2.8

Change in Revenue and Expenditure

(Percent of GDP, 2010–13)



Sources: National authorities; and IMF staff calculations.

Pakistan, Sudan, and Tunisia) and are vulnerable to the realization of downside risks.

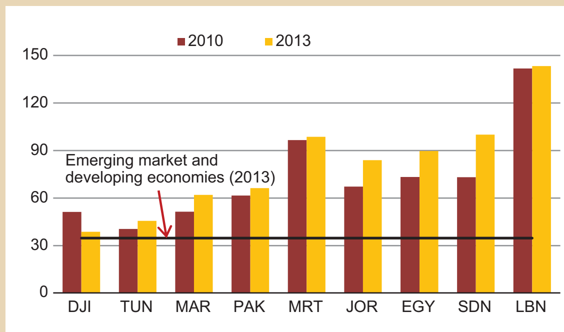
Public deficits and debt are high. Sustained large fiscal deficits have augmented already high debt ratios (Egypt, Jordan, Lebanon, Mauritania, Sudan) and raised susceptibility to shocks in those countries in which debt ratios were moderate (Morocco, Pakistan, Tunisia). These higher ratios have been largely the result of increases in generalized subsidies and public wage bills since 2011 that were intended to soothe political and social unrest and ease the burden of elevated international food and fuel prices (Figure 2.8). Low tax revenues and sometimes large quasi-fiscal activities have compounded pressures on deficits and debt (Figure 2.9). In many cases, reliance on domestic banks for financing runs the risk of reducing the availability of credit for the private sector. In other cases, monetization of deficits is creating inflationary pressures.

Implementation of fiscal consolidation in the current socioeconomic environment is challenging. After the region's deficits peaked in 2013, national policymakers expect to bring deficits down in 2014 (Afghanistan, Jordan, Morocco, Pakistan, Sudan, Tunisia) by improving revenue collection and, in some cases, further phasing out energy subsidies. Measures to reduce generalized energy subsidies are under way in Egypt, Jordan, Mauritania, Morocco,

Figure 2.9

High Public Debt

(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

Pakistan, and Tunisia (Box 2.4 provides details). Nonetheless, spending on subsidies continues to be high, owing to high international food and fuel prices and the substantial share of food and fuel in consumption. Moreover, capital spending has often been cut to offset some of the increased current spending, which includes larger public sector wage bills. In the medium term, policymakers plan to reallocate some of the savings from reduced subsidies toward social protection for the poor and increased capital spending; but rising political uncertainty, social unrest, and downside risks to growth pose significant risks to these plans.

Box 2.4

Subsidy Reform in MENA: Recent Progress and Challenges Ahead

Subsidy reform in MENA has gained new momentum under rising fiscal pressures and demands for better economic conditions, particularly in the Arab countries in transition (ACTs). Several governments have taken steps to reduce the fiscal cost of subsidies, but citizens remain concerned about the rise in inflation and are uncertain about the benefits of reform. Sustained progress will require more countries to start comprehensive reform, while the countries that have already taken measures will need to consolidate their gains.

Subsidies play an important role in MENA countries. For decades, countries in the region have relied heavily on generalized price subsidies—overwhelmingly on energy products but also on food—as the main tool to provide social protection and, in oil exporters, share hydrocarbon wealth with citizens. The IMF estimates that, for the region, pretax energy subsidies—measured as the difference between the value of consumption at world and domestic prices—amounted to about $237 billion in 2011, which is equivalent to half of world subsidies (Figure 2.4.1), 8.6 percent of regional GDP, and 22 percent of government revenue. Energy subsidies are largest in most oil exporters in MENA but still exceed 5 percent of GDP in two-thirds of the countries in the region—well above spending on education (Figure 2.4.2).[1] In contrast, food subsidies amounted to 0.7 percent of GDP for the region.

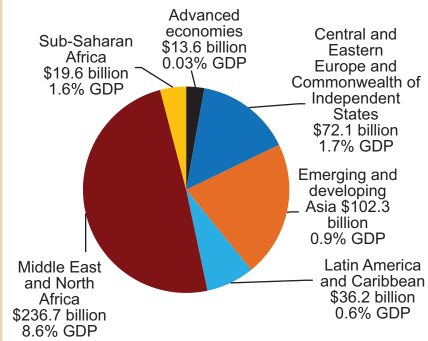
Energy subsidies create economic distortions. Generalized price subsidies are expensive and inefficient as a social protection tool because they benefit mainly the better-off, whose energy consumption is much higher than that of the poor. By encouraging higher energy consumption, subsidies increase pollution and damage health. Subsidies may also lead to overinvestment in capital-intensive activities, limiting job creation, and underinvestment in energy production, which, in turn, may cause poor service quality and shortages. Finally, subsidies promote smuggling and corruption.

Several MENA countries have recently taken steps to lower energy subsidies. In the past few years, Egypt, Jordan, Mauritania, Morocco, Sudan, Tunisia, and Yemen initiated subsidy reform by increasing

Figure 2.4.1

Total Pretax Subsidies, 2011

$481 billion (0.7% of GDP)

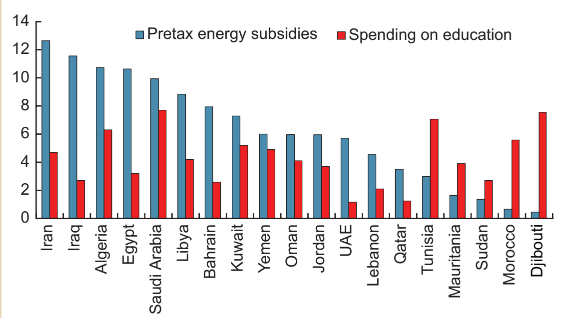


Sources: Deutsche Gesellschaft für Internationale Zusammenarbeit; IMF World Economic Outlook database; International Energy Agency; Organization for Economic Cooperation and Development; national authorities; World Bank; and IMF staff estimates. For details on subsidy calculations, see Clements and others (2013).

Figure 2.4.2

MENA Pretax Energy Subsidies and Spending on Education[1,2]

(Percent of GDP)



Sources: Deutsche Gesellschaft für Internationale Zusammenarbeit; IMF World Economic Outlook database; International Energy Agency; Organization for Economic Cooperation and Development; national authorities; World Bank; and IMF staff estimates. For details on subsidy calculations, see Clements and others (2013).

[1]Includes petroleum, electricity, natural gas, and coal subsidies.

[2]Pretax energy subsidies refer to 2011; education refers to the latest available data.

Prepared by Randa Sab, Younes Zouhar, and Giorgia Albertin; supervised by Carlo Sdralevich.

[1] See Clements and others (2013); and the April 2011 *Regional Economic Outlook*: *Middle East and Central Asia*. Due to the calculation methodology, subsidy estimates may differ from subsidy spending recorded in individual countries' government budgets.

Box 2.4 *(continued)*

energy prices while mitigating the impact on the poor—albeit with varying levels of effort and results. In most cases, reforms have been part of a broad-based fiscal strategy to reduce fiscal deficits and free resources to be put toward social spending and infrastructure—which could help boost growth and reduce poverty and inequality. Reforms have often been supported by international stakeholders, including IMF technical assistance and financial arrangements.

Reform efforts need to go further. For 2012, preliminary IMF estimates show that pretax subsidies for diesel and gasoline, which represent about half of total energy subsidies, have remained broadly stable at about 3½ percent of regional GDP. In countries that implemented price increases (mostly one-off adjustments not linked to pricing formulas), the savings were eroded by higher international fuel prices and exchange rate movements. Furthermore, many countries have not yet acted on subsidy reform. To ensure the reductions are durable, countries need to introduce, or implement more rigorously, automatic price-setting mechanisms for energy products—possibly coupled with smoothing mechanisms to avoid domestic fuel price volatility—which will also help depoliticize pricing. Countries should also deepen reform by combining tariff increases with restructuring of the energy sector. These measures should be pursued even if international energy prices decline, which could create a window of opportunity for reform.

Managing the political economy of subsidy reform is crucial in the current difficult political situation, especially in the ACTs. Policymakers and international partners must move carefully and choose the reform mix that balances fiscal returns against social opposition to price increases. They should strive to mitigate the impact of price increases and strengthen confidence that the resulting savings will be put to good use. To this end, they should avoid abrupt price shocks, and should communicate effectively to the public the costs of subsidies and the benefits of reform. But, to gain crucial support for reform, subsidy removal should be accompanied by the introduction, or, if already existing, the scaling up of well-targeted social safety nets to compensate those who will be hardest hit by higher prices. Targeted cash transfers or vouchers, especially if based on need, are particularly effective.

Most Recent Subsidy Reform in MENA

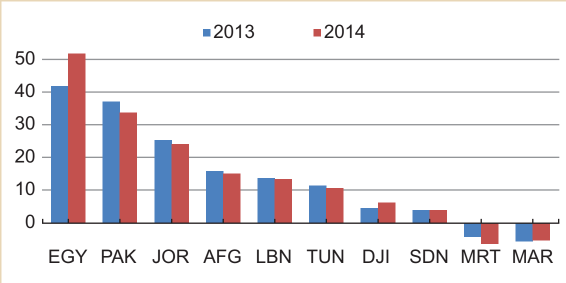
Countries	Recent Measures	Main Mitigating Measures	Next Steps
Egypt	2012–13: prices for 95 octane gasoline increased by 112 percent for high-end vehicles; fuel oil prices for non-energy-intensive industries increased by 33 percent and for energy-intensive industries by 50 percent; January 2013: electricity prices to households increased by 16 percent on average; natural gas and fuel oil prices for electricity generation increased by one-third.	No electricity tariff change for the lowest consumption bracket; Temporary subsidy for the tourism sector to finance the conversion to more efficient and cheaper fuel sources, and promote switching to natural gas for transport.	Adopt smartcards; Expand priority social programs and targeted cash transfers.
Jordan	June 2012: electricity tariffs increased for selected sectors (banks, telecommunications, hotels, mining) and large domestic corporations and households; November 2012: elimination of fuel subsidies; January 2013: monthly fuel price adjustment mechanism resumed; August 2013: electricity tariffs increased by 7.5–15 percent for selected nonhousehold consumers.	Cash transfers to families below a certain income threshold (70 percent of the population) if oil prices are above $100 per barrel.	Gradually increase electricity tariffs and develop new energy sources with lower generation costs.

Box 2.4 *(concluded)*

Most Recent Subsidy Reform in MENA

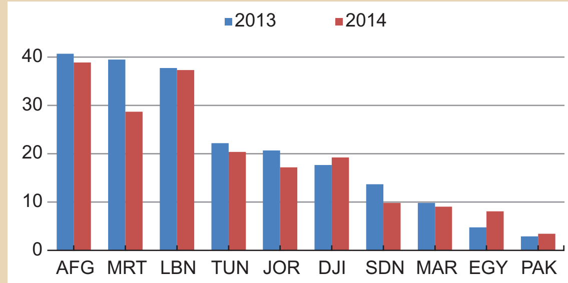
Countries	Recent Measures	Main Mitigating Measures	Next Steps
Mauritania	May 2012: new automatic diesel price formula introduced, bringing domestic fuel prices up to international levels.	Gradual reorientation of social safety net toward well-targeted cash transfer schemes.	Ensure diesel pricing formula is applied automatically; Eliminate the general electricity subsidy.
Morocco	June 2012: diesel prices increased by 14 percent, gasoline by 20 percent, and industrial fuel by 27 percent; September 2013: started implementation of a partial indexation mechanism for certain petroleum products. As a result, diesel prices increased by 8.5 percent, gasoline by 4.8 percent, and fuel by 14.2 percent.		Launch a comprehensive subsidy reform combined with cash transfers.
Sudan	June 2012: gasoline, diesel, and liquid petroleum gas (LPG) prices increased by 47, 23, and 15 percent, respectively; jet fuel liberalized. September 2013: diesel prices increased by 47.5 percent, gasoline by 41.6 percent, and LPG by 66.7 percent.	A salary adjustment by an average of about SDG 100 for all civil servants; a monthly grant allocation of SDG 150 for about 500,000 urban poor families; a reduction in the premium for health insurance for about 500,000 poor families; and an exemption of school and transportation fees for disabled people.	Gradually phase out the remaining subsidies on oil and other staples while strengthening the social safety net through higher social spending and a more coherent and better targeted social safety net.
Tunisia	September 2012: gasoline and diesel prices and electricity tariffs increased by 7 percent, on average; March 2013: further 7–8 percent price increase for the same products.	Plans to strengthen the existing cash transfer program with the introduction of a unified registry and improved targeting system.	Replace energy subsidies gradually with a well-targeted social safety net; Introduce an automatic price mechanism for fuel products in 2014.
Yemen	2011–12: gasoline prices increased by 66 percent (for a limited period) and diesel and kerosene prices doubled. 2013: diesel price unified across users, including the electricity sector.		Further reduce energy subsidies through gradual increase in fuel prices; Strengthen support through an expansion of the Welfare Fund.

Figure 2.10
Fiscal Financing Needs
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: General government fiscal deficit (excluding grants) plus domestic and external amortization.

Figure 2.11
External Financing Needs
(Percent of GDP)



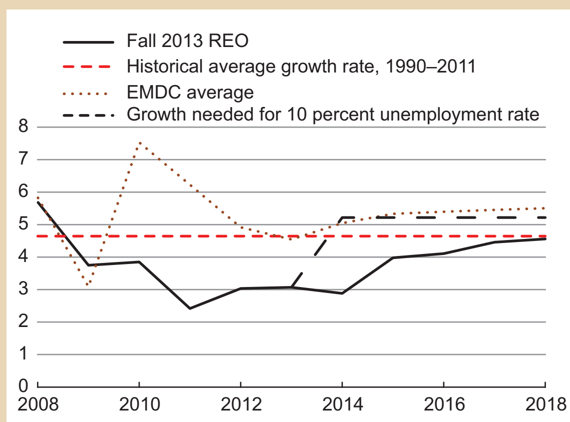
Sources: National authorities; and IMF staff calculations.
Note: Current account deficit (excluding official current transfers) plus total external amortization (excluding nonresident deposits).

Hefty financing needs are pressing. Gross budgetary financing needs in the oil importers are estimated to be about $250 billion for 2014 (Figure 2.10). The financing needs are particularly large (in excess of 25 percent of GDP) in Egypt, Jordan, and Pakistan, because of high deficits and short maturities of domestic Treasury bills used to finance them. Domestic and official financing is expected to cover the bulk of the budget financing needs, and includes a continuation of bilateral donor assistance such as, for example, the GCC financing recently offered to Egypt. Gross external financing needs (Figure 2.11), which are also substantial, on the order of $90 billion next year, are also projected to be financed in part from official sources, including IMF programs, as well as by FDI and other private inflows. For Lebanon, net bank inflows, largely in the form of nonresident deposits, will also be important. However, sizable domestic and external downside risks, described earlier, indicate significant risks to the financing needs and the inflows expected to finance them.

Medium-Term Growth Prospects Are Weak

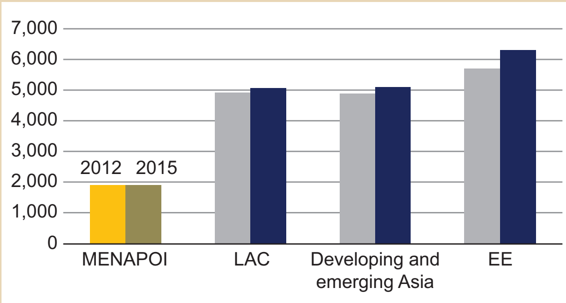
Growth expectations for the medium term are insufficient to create jobs and improve living standards. Potential economic growth of the MENAP oil importers has fallen below the average for emerging market and developing economies (Figure 2.12). Numerous impediments—poor business climate, inflexible labor markets, weak infrastructure, high public debt burdens, and, for some, underdeveloped financial systems and a lack of exchange rate flexibility—undermine competitiveness and productivity, which are already among the lowest in the world (see Box 1.1). Absent deep structural reforms, economic growth will be too low to create employment and improve living standards. Under current projections, per capita GDP is set to stagnate (Figure 2.13) and unemployment will not decline in the next

Figure 2.12
Underwhelming Growth Prospects, Real GDP
(Percent)



Sources: National authorities; and IMF staff calculations.
Note: EMDC = emerging markets and developing countries.

Figure 2.13
Average Real GDP Per Capita
(U.S. Dollars)



Sources: National authorities; and IMF staff calculations.
Note: EE = Eastern Europe; LAC = Latin America and the Caribbean; MENAPOI = MENAP oil importers.

three years. In the longer term, these outcomes are likely to worsen if the pace of reform does not accelerate. Moreover, these projections are subject to sizable downside risks, stemming, as discussed above, from a gamut of domestic, regional, and geopolitical factors. In such a setting, the region risks being trapped in a vicious cycle of economic stagnation and persistent sociopolitical strife.

A Package of Reforms and External Financing Is Needed

Moving to a new, more stable equilibrium requires simultaneous policy action on multiple fronts, starting immediately and continuing through the medium term. Policy goals are threefold: (1) create jobs to help sustain sociopolitical transitions, (2) make inroads in fiscal consolidation to restore debt sustainability and rebuild buffers protecting the economy from unanticipated shocks, and (3) embark without delay on structural reforms that will improve the business climate and governance, and enhance equity. Addressing these priorities simultaneously in the current environment is challenging—sociopolitical dynamics constrain policy effectiveness; high downside risks, if realized, could rapidly aggravate external and fiscal vulnerabilities; and a weak global recovery limits the scope for export growth. A package of domestic policy measures, centered on fiscal and structural reforms, is needed. It should be supported, as appropriate, by accommodative monetary and exchange rate policies and external official financing. The package needs to include both medium-term reforms and measures that can bring early improvements in employment and confidence, to buttress medium-term efforts and reduce the short-term costs of adjustment.

Getting the Pace and Composition of Fiscal Consolidation Right

Pursuing fiscal consolidation at a gradual, steady pace, if financing allows, would help minimize adverse short-term effects on growth. Some countries may be tempted to continue responding to rising political and social pressures by increasing spending on generalized subsidies, public wages, and other nonpriority needs; this approach, however, would largely benefit the relatively well-to-do and public sector employees. Moreover, even though it would give a temporary boost to growth, it would exacerbate the underlying vulnerabilities, requiring a larger and more painful adjustment in the future, which would possibly be more costly for the poor. Given high public debt and large fiscal and external imbalances, fiscal consolidation will not only build fiscal sustainability and increase policy buffers; it could reduce external current account pressures, bolster confidence, ease high risk premiums in international and domestic markets, and improve the availability of private sector credit. Sustained consolidation will depend on gaining and maintaining public support: containing the negative impact on incomes and reducing social inequities will be essential. A gradual pace would help reduce short-term costs to the population, though pacing will depend on the availability of external financing.

Reorienting the composition of expenditures will improve targeted support for the needy and promote job creation (Annex 4). Reorienting social support from generalized energy subsidies to social safety nets that better target the needs of the poor can improve social outcomes while yielding significant savings (Box 2.4). Channeling part of these savings into growth-enhancing items, such as quality spending on health care, education, and capital, would reduce risks to near-term economic activity, elevate equity, and boost productivity, jobs, and growth potential. In addition, reining in real public wage growth, which influences countries' overall real wage growth, would foster competitiveness and jobs.

In this context, it is particularly important that the fiscal consolidation be accompanied by clear communication of how it can benefit taxpayers by improving growth prospects and equity. For example, governments can assure taxpayers that part of the savings from consolidation could finance the expansion of public transport, which, among other benefits, would partially offset the increased travel costs from higher fuel tariffs. Likewise, governments could emphasize that savings from reductions in generalized subsidies would be used to increase social support for the poor and skills training for the unemployed.

Mobilizing revenues will also be critical to consolidation efforts and reducing inequities (Annex 3). Broadening the tax base through reduced exemptions and deductions, as well as raising income tax progressivity and excise and property taxes, would strengthen weak revenue collection at little cost to growth, creating more space for growth-enhancing spending during and after the consolidation period. Importantly, these revenue reforms would also enhance the fairness of the tax system, and tax and customs administration improvements would support the business environment and, consequently, growth potential.

Improvements in public debt management may help reduce fiscal vulnerabilities. Domestic bond issues with longer maturities, market-determined yields, and a broader investor base could reduce rollover risks. Increasing the frequency of sovereign bond issues on international markets would have a similar effect while supporting reserves. (This step may become feasible if confidence improves after initial progress in reducing fiscal and external vulnerabilities.)

Extending the reach of fiscal coverage beyond central and local governments to social security systems, extrabudgetary funds, and state-owned enterprises would help in the design of more effective and efficient fiscal policy packages and would address contingent liabilities (Box 2.5).

Where Conditions Allow, Monetary Policy Should Be Supportive

An accommodative monetary policy stance remains appropriate for most countries in the region, considering weak recovery, declining inflation, and risks of higher global interest rates. While prioritizing price stability, maintaining low interest rates for an extended period would both reduce the cost of public debt and stimulate private sector activity; however, directed lending that targets specific sectors (usually implemented through banks) should be avoided. Coordinating with fiscal efforts—including reduced monetization of deficits—could offset any inflationary effects, averting adverse effects on inequality or competitiveness. When tight monetary policy is needed to contain inflationary risks, its pace and intensity would still need to be coordinated with fiscal policy. Interbank markets play an important role in implementing this policy, and more active liquidity management could improve their traction.

Banking systems generally appear sound, with more than sufficient capital adequacy ratios, liquidity buffers, and high but declining NPL ratios. Nevertheless, country-specific weaknesses need to be addressed, including exposures to sovereign debt. Banking and financial sector supervision should also be strengthened with tighter rules on the classification of NPLs, loan restructuring, and regulatory forbearance, as well as greater transparency, more stringent data provisioning requirements, and development of macroprudential tools. Together, these would also improve access to finance and the effectiveness of monetary policy. More broadly, efforts to deepen domestic debt markets and further develop Islamic finance instruments would greatly benefit financial sector development.

Box 2.5

Fiscal Coverage in MENAP and CCA

The global financial crisis has shown the importance of preemptively identifying sources of fiscal risks to support macroeconomic stability and inclusive growth. For many MCD countries facing significant fiscal consolidation needs, an adequate assessment of the fiscal stance is essential for implementing a sound fiscal policy. An assessment of the fiscal stance requires better fiscal data and more transparency, in particular, comprehensive coverage of the public sector and its operations.

As previously noted by Zakharova (2008), the coverage of fiscal accounts in MCD countries remains mostly focused on the central government. However, fewer than half of these countries cover the social security system, other extrabudgetary funds, and subnational government accounts and consolidate them in their official accounts. The coverage of state-owned enterprises (SOEs) and government financial institutions (GFIs) also remains limited, with the notable exceptions of Djibouti and Morocco (which publish comprehensive data on SOEs), as well as Egypt and the Kyrgyz Republic (for GFIs). Fiscal coverage tends to be narrower on average than in other regions.

Efforts in recent years to strengthen the coverage and transparency of fiscal operations have been centered on adopting the methodology in the IMF's *Government Finance Statistics Manual 2001* (GFSM 2001). More than half of MCD countries have already adopted or are in the process of fully adopting GFSM 2001, several with IMF-supported implementation, such as Saudi Arabia and Tajikistan. In addition, many resource-intensive countries have become participants of the Extractive Industry Transparency Initiative, most notably Azerbaijan, Iraq, the Kyrgyz Republic, and Mauritania.

Sustained efforts to continue expanding the coverage and reporting of fiscal operations should pay significant future dividends for policymaking. Improved measurement of fiscal deficits, quasi-fiscal activities of SOEs, public sector exposures to the financial sector, and more realistic macroeconomic assumptions supporting budgets are important for enhancing standards and assessing risks to public finances, as evidenced by recent crises in several advanced economies. In this regard, and in the face of pressing capacity constraints, MCD countries could consider giving greater priority to expanding their fiscal coverage and reporting, with technical assistance from the IMF, including the new Fiscal Transparency Code and Fiscal Transparency Assessment, as well as through other regional organizations, such as the nascent ArabStat (see Box 2.7).

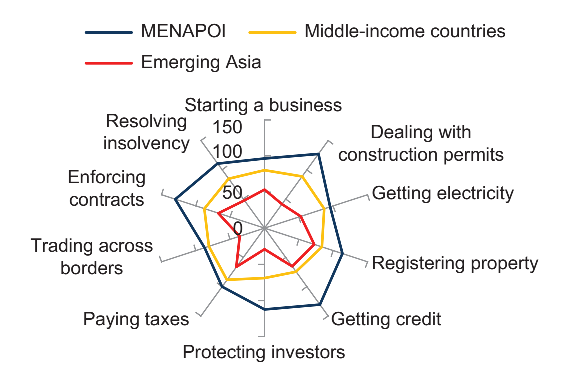
Prepared by Martin Cerisola.

In some countries, macroeconomic stabilization could also require greater exchange rate flexibility to improve external balances and rebuild international reserves. During the past year, some action has already been taken in Egypt, Pakistan, and Tunisia. However, in a number of countries, exchange rates remain overvalued. Further exchange rate flexibility would greatly improve competitiveness, especially in an environment of declining inflation. In the medium term, moving from pegged exchange rate regimes toward targeting monetary aggregates or an inflation-targeting framework would also benefit some countries.

Structural Policies to Raise Growth Potential

Creating and implementing a bold and credible structural reform agenda will enable the transition to more competitive and fair economies propelled by private sector growth and many more jobs. It is important for the region's governments to press ahead and reduce socioeconomic risks by raising access to economic opportunities and delivering higher standards of living and a more equitable distribution of incomes. As a first step, governments will need to develop medium-term

Figure 2.14
Many Avenues to Improving the Business Environment



Source: World Bank, Ease of Doing Business Rankings, 2013.
Note: MENAPOI = MENAP oil importers. Economies are ranked from 1 to 183, with first place being the best.

visions for their economies that win broad-based support from their populations. These visions would provide guideposts for reforms spanning the business environment, access to financing, labor markets, and trade integration within MENAP and with other regions.

Ongoing political transitions complicate the creation of large-scale reform agendas, but some less controversial, yet critical, measures can be a starting point for reforms. Several measures that foster a business environment conducive to FDI and domestic investment could be immediately initiated (Figure 2.14). These include simplifying procedures for starting a business (for example, a one-stop window), streamlining business regulations, making use of electronic platforms for public services used by businesses, establishing an investment code affirming investors' rights and a procurement code for government projects, as well as streamlining contract enforcement in judicial courts. Establishing a far-reaching credit bureau, a registry of collateral assets, and effective insolvency legislation could rapidly expand access to finance, especially for small and medium-sized enterprises. Social assistance in the form of joint public and private sector training for currently unemployed and unskilled workers, as well as vocational training programs tailored to private sector needs, would encourage firms to hire in the near and medium terms. In addition, taking measures today to expand the region's labor force by raising female labor force participation could substantially boost the region's economic potential (see Box 1.3). Finally, trade facilitation measures can be promptly implemented to deepen trade integration with advanced and fast-growing emerging market economies and within the MENAP region (Box 2.6).

International Support

Official financing can help accommodate a slower and less painful adjustment, provided it is offered in the context of credible medium-term reform plans. Official financing can alleviate fiscal pressures and provide an opportunity for a more gradual and less painful fiscal consolidation. It can also give countries more time to develop sound structural reform plans and build consensus for them. In countries already prepared to move quickly with difficult reforms, official financing can help catalyze additional, private financing. Recent IMF arrangements in Jordan, Morocco, Pakistan, and Tunisia aim to achieve these goals. However, if financing is absorbed without formulating medium-term reform plans, including plans for maintaining fiscal and external debt sustainability, it would only delay the inevitable unwinding of the underlying imbalances and require a larger and more painful adjustment in the future, when financial support may not be forthcoming. In addition to external and budget financing, the international community can also provide support through technical assistance and other capacity-building initiatives.

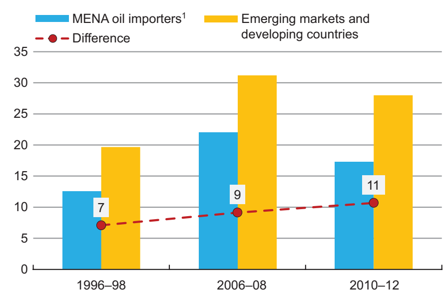
Box 2.6

Trade Integration as a Catalyst for Economic Transformation in the MENA Oil Importers

Figure 2.6.1

Merchandise Exports

(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
[1]Excluding Syria.

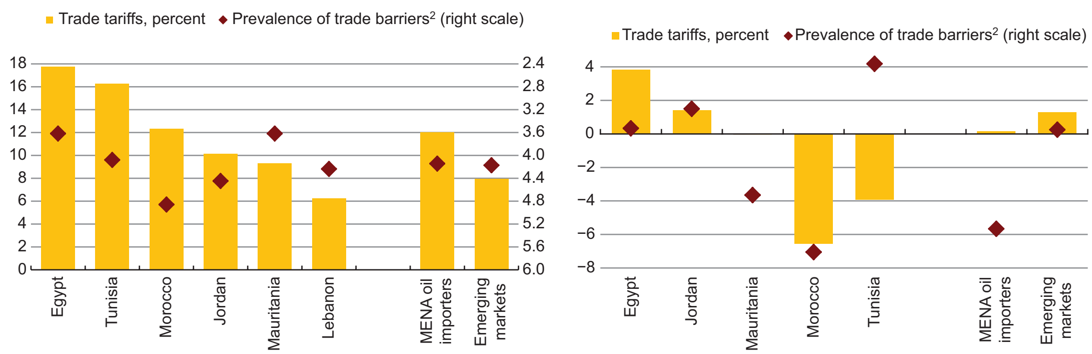
Trade has not been a significant engine of growth in the MENA oil importers. The ratio of exports to GDP is significantly below the average for emerging markets and developing countries, and the gap has widened (Figure 2.6.1). Trade patterns, particularly in the North African countries, remain oriented toward Europe, and the region has benefited little from the high growth of emerging markets. Although some countries have relatively low tariffs (Lebanon) or have taken steps to lower them (particularly Morocco and Tunisia), the region's average tariff remains high (Figure 2.6.2). Nontariff barriers are also significant, though some countries (especially Mauritania and Morocco) have reduced them during the past decade. The transition toward higher-value-added exports has been slow, in part owing to low foreign direct investment (FDI). This mirrors trends in the broader MENA region, where, according to recent estimates, exports are only a third of their potential, and aggregate intraindustry trade, an indicator of trade in differentiated goods and of participation in supply chains, is lower than in Africa and all other regions (Behar and Freund, 2011).

Deeper trade integration could provide a significant boost to the region's economies.[1] Raising the MENA region's openness to the level of emerging Asian countries could increase GDP growth by as much as a full percentage point (*Regional Economic Outlook: Middle East and Central Asia*, October 2010). Deeper trade integration would not only create growth and jobs in the export sector, it could also catalyze productivity growth by increasing inward FDI and facilitating access to better and cheaper intermediate inputs. Experience from Central Europe, for example, shows that integration into international supply chains can generate significant greenfield FDI.

Figure 2.6.2

Trade Barriers, 2013

Change in Trade Barriers, 2006–13[1]



Source: World Economic Forum, *Global Competitiveness Report* 2013–14.
[1]Change in trade tariffs and trade barriers from 2006 to 2013.
[2]Scaled from 1 to 7, with 7 being the least restrictive.

Prepared by Harald Finger, with research assistance by Jaime Espinosa-Bowen and Mandana Dehghanian.

[1] For empirical evidence supporting the positive effect of deeper trade integration on economic growth, see Frankel and Romer (1999, pp. 379–99).

Box 2.6 *(concluded)*

Larger markets tend to be more successful in attracting FDI, which points to the benefits of regional integration (IMF, 2013a). The drive toward deeper trade integration can also help spur reform efforts in other areas (such as business regulation and labor market reform), which should help further strengthen competitiveness and economic potential.

Deeper trade integration for the MENA oil importers will require better access to advanced economy markets. The European Union's high tariffs, quota restrictions, and farm subsidies remain a significant impediment to agricultural exports from the MENA region. The European Union could deepen its trade relationships with MENA oil importers through effective implementation of the proposed Deep and Comprehensive Free Trade Areas (DCFTAs). This process will take time, but immediate steps could include providing better access for agricultural products (the European Union has already adopted an agreement with Morocco). The United States could also deepen its existing trade agreements with Jordan and Morocco, and enter into free trade agreements with the remaining MENA oil importers. Giving MENA oil importers better access to the U.S. and EU markets is especially important given the planned United States–European Union Transatlantic Trade and Investment Partnership (TTIP), which could have negative effects on regional exports and jobs because of trade diversion from MENA oil importers to countries within the TTIP (Felbermayr, Heid, and Lehwald, 2013).

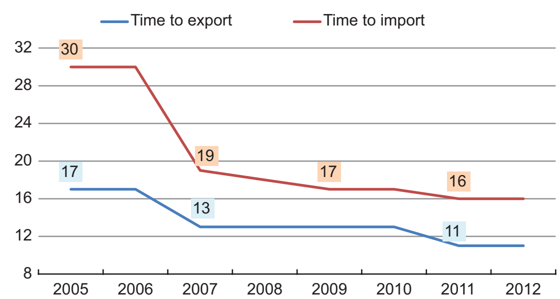
MENA oil importers should aim to reap the full benefits of integrating into global trade. The region should strive to further reduce its tariff and nontariff barriers and, in some cases (Lebanon and Sudan), become members of the World Trade Organization. The countries should also aim to diversify trade toward fast-growing emerging markets and higher-value-added goods. To better exploit the opportunities presented by global value chains, countries can benefit from removing import barriers for their exporting industries. Increased regional integration, accomplished by addressing nontariff barriers and harmonizing policies, would also help countries' prospects for integration into global value chains. The removal of import barriers will need to be sequenced and paced in a way that minimizes the risk of negative short-term effects on affected industries, and that provides for adequate social protection. Losses in budgetary revenues stemming from lower tariffs would also need to be compensated for, at least temporarily, by increases in other revenues or by expenditure cuts.

Simplification of customs rules and procedures, the upgrading of logistics, and export-promoting policies can also help catalyze trade. These policies, which would also be supported by the European Union in the context of DCFTAs, are gaining increasing importance in a world of global value chains. Better logistics in particular have been shown to promote exports. For example, by one estimate, an improvement in Egypt's logistics quality to Tunisia's level could increase Egypt's exports by 12 percent (Behar, Manners, and Nelson, 2012). Morocco has shown large improvements in this area, investing in port infrastructure (including the expansion of Tanger-Med to become the largest port in Africa) and weeding out obstructive procedures (Figure 2.6.3).

Figure 2.6.3

Morocco: Simplifying Trade Procedures

(Days)



Source: World Bank, Ease of Doing Business Rankings.

Training for small exporters and new entrants could help them navigate trade rules, including standards and certification procedures. Increased assistance from state overseas marketing agencies would be a considerable asset, especially for smaller companies. Other possible export promotion policies include export credits, insurance and guarantee schemes, tax concessions on earnings and profits, and duty drawback provisions on imported inputs. These measures would need to be implemented in a transparent way to mitigate governance concerns and as part of broader fiscal programs (see Annex 4).

Box 2.7

ArabStat

A high-level conference on Macroeconomic and Financial Statistics for Evidence-Based Policymaking in 2012, jointly organized by the IMF and the Moroccan authorities, concluded that despite significant improvements in availability and quality, statistics in the Middle East and North Africa countries still need further development. Data weaknesses are evident in all areas of macroeconomic statistics, albeit to varying degrees across countries. These weaknesses relate to the availability, coverage, periodicity, and timeliness of data, as well as to data quality and use of best statistical practices. Moreover, only five Arab economies have subscribed to the Special Data Dissemination System (SDDS), and no Arab country is expected to join the SDDS Plus initiative in the near future. A regional statistical organization is seen as essential to champion the development of better statistics in the region. The conference called for the creation of ArabStat, a regional statistical initiative, initially under the auspices of the Arab Monetary Fund (AMF).

On April 2, 2013, the Council of Arab Finance Ministers, while meeting in Dubai, formally approved the launch of ArabStat, marking a major step in the development of the region's statistical systems. ArabStat was subsequently established within the AMF and will be guided by a Steering Committee comprising representatives of member countries, the AMF, and other regional and international organizations. The ultimate objective of ArabStat is to create a regional forum to harmonize statistical methodologies, enhance statistical data compilation and dissemination, improve data quality, and promote exchange of data within the region and with other data users. It aims at adopting best practices and technical knowledge, promoting cooperation among statistical agencies and with other partners, and acting as a focal point for delivering technical assistance to member countries.

ArabStat has entered the implementation phase under the stewardship of a technical committee that includes representatives from Arab countries and regional as well as international institutions. The committee is currently finalizing the by-laws and discussing the work program of ArabStat for the upcoming two years.

Prepared by Mohammed El Qorchi.

MENAP Oil Importers: Selected Economic Indicators

	Average						Projections	
	2000–07	2008	2009	2010	2011	2012	2013	2014
Real GDP Growth	**5.1**	**5.7**	**3.8**	**3.9**	**2.4**	**3.0**	**3.1**	**2.9**
(Annual change; percent)								
Afghanistan, Rep. of	…	3.6	21.0	8.4	6.1	12.5	3.1	3.5
Djibouti	3.0	5.8	5.0	3.5	4.5	4.8	5.0	6.0
Egypt	4.7	7.2	4.7	5.1	1.8	2.2	1.8	2.8
Jordan	6.6	7.2	5.5	2.3	2.6	2.8	3.3	3.5
Lebanon	3.5	8.6	9.0	7.0	1.5	1.5	1.5	1.5
Mauritania	4.3	3.5	–1.2	4.7	3.6	6.9	6.4	6.4
Morocco	4.6	5.6	4.8	3.6	5.0	2.7	5.1	3.8
Pakistan	5.2	5.0	0.4	2.6	3.7	4.4	3.6	2.5
Sudan[1]	8.8	3.0	5.2	2.5	–1.8	–3.3	3.9	2.5
Syrian Arab Republic[2]	4.2	4.5	5.9	3.4	...	...	...	...
Tunisia	4.8	4.5	3.1	2.9	–1.9	3.6	3.0	3.7
West Bank and Gaza[3]	0.6	7.1	7.4	9.3	12.2	5.9	4.5	3.9
Consumer Price Inflation	**4.9**	**12.9**	**10.4**	**8.6**	**9.9**	**9.4**	**8.3**	**8.7**
(Year average; percent)								
Afghanistan, Rep. of	…	26.4	–6.8	2.2	11.8	6.4	5.5	5.5
Djibouti	2.6	12.0	1.7	4.0	5.1	3.7	2.7	2.5
Egypt	5.7	18.3	11.7	11.4	9.9	7.8	8.6	10.5
Jordan	3.0	13.9	–0.7	5.0	4.4	4.8	5.9	3.2
Lebanon	1.6	10.8	1.2	4.5	5.0	6.6	6.3	3.1
Mauritania	6.6	7.5	2.1	6.3	5.7	4.9	4.2	5.2
Morocco	1.8	3.9	1.0	1.0	0.9	1.3	2.3	2.5
Pakistan	5.4	10.8	17.6	10.1	13.7	11.0	7.4	7.9
Sudan[1]	7.6	14.3	11.3	13.0	18.1	35.5	32.1	27.4
Syrian Arab Republic[2]	3.9	15.2	2.8	4.4	...	...	...	...
Tunisia	2.9	4.9	3.5	4.4	3.5	5.6	6.0	4.7
West Bank and Gaza[3]	3.4	10.9	2.8	3.7	2.9	2.8	2.5	2.7
General Government Overall Fiscal Balance	**–4.6**	**–5.5**	**–5.1**	**–5.9**	**–7.0**	**–8.4**	**–9.7**	**–8.0**
(Percent of GDP)								
Afghanistan, Rep. of	…	–4.0	–1.3	0.9	–0.8	0.2	–0.6	0.0
Djibouti	–2.0	1.3	–4.6	–0.5	–0.7	–2.7	–3.1	–4.8
Egypt	–7.2	–8.0	–6.9	–8.3	–9.8	–10.7	–14.7	–13.2
Jordan[4]	–3.3	–5.5	–8.9	–5.6	–5.7	–8.8	–9.1	–8.0
Lebanon[4]	–14.2	–9.7	–8.3	–7.7	–6.1	–9.0	–10.4	–11.0
Mauritania[4,5]	1.3	–6.5	–5.1	–1.9	–1.5	2.8	–4.4	–8.2
Morocco[4]	–4.4	0.7	–1.8	–4.4	–6.7	–7.6	–5.5	–4.8
Pakistan	–3.1	–7.1	–5.0	–5.9	–6.9	–8.4	–8.5	–5.5
Sudan[1]	–1.1	0.6	–5.1	0.3	0.2	–3.8	–2.0	–0.9
Syrian Arab Republic[2]	–2.1	–2.9	–2.9	–7.8	...	...	...	...
Tunisia[6]	–2.7	–0.7	–2.3	–0.4	–3.0	–4.4	–7.2	–6.3
West Bank and Gaza[3]	–33.1	–24.5	–30.1	–17.8	–16.9	–16.5	–14.9	–13.3
Current Account Balance	**–0.8**	**–4.0**	**–4.6**	**–3.0**	**–3.5**	**–5.8**	**–4.8**	**–3.5**
(Percent of GDP)								
Afghanistan, Rep. of	…	5.1	1.6	2.8	2.4	3.9	2.5	1.8
Djibouti	–4.4	–24.3	–9.3	–5.4	–14.1	–12.3	–13.1	–15.1
Egypt	1.6	0.5	–2.3	–2.0	–2.6	–3.1	–2.6	–0.9
Jordan	–3.5	–9.3	–3.3	–5.3	–12.0	–18.1	–9.9	–9.1
Lebanon	–12.5	–7.7	–9.3	–9.9	–12.4	–16.2	–16.7	–16.7
Mauritania	–16.4	–14.9	–11.6	–9.3	–7.6	–32.7	–34.3	–22.6
Morocco	1.9	–5.2	–5.4	–4.1	–8.1	–10.0	–7.2	–6.1
Pakistan	0.2	–8.1	–5.5	–2.2	0.1	–2.1	–1.0	–0.6
Sudan[1]	–5.6	–1.5	–9.6	–2.1	–0.4	–10.8	–11.9	–7.0
Syrian Arab Republic[2]	0.3	–1.3	–2.9	–2.8	...	...	...	...
Tunisia	–2.7	–3.8	–2.8	–4.8	–7.3	–8.1	–8.0	–6.6
West Bank and Gaza[3]	–22.9	10.9	–12.0	–10.6	–23.6	–28.9	–22.4	–21.0

Sources: National authorities; and IMF staff estimates and projections.

Note: Variables reported on a fiscal year basis for Afghanistan (March 21/March 20 until 2011, and December 21/December 20 thereafter) and Egypt and Pakistan (July/June), except inflation.

[1]Data for 2011 exclude South Sudan after July 9. Data for 2012 and onward pertain to the current Sudan.

[2]2011–14 data exclude Syria due to the uncertain political situation.

[3]West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

[4]Central government. For Jordan, includes transfers to the electricity company (4.3 and 2.7 percent of GDP in 2013 and 2014, respectively).

[5]Includes oil revenue transferred to the oil fund.

[6]Includes bank recapitalization costs and arrears payments.