World Economic and Financial Surveys

Regional Economic Outlook

Middle East and Central Asia

OCT 15

I N T E R N A T I O N A L   M O N E T A R Y   F U N D

Cataloging-in-Publication Data

Regional economic outlook. Middle East and Central Asia. – Washington, D.C. :
International Monetary Fund, 2004–

v. ; cm. – (World economic and financial surveys, 0258-7440)

Began in 2004.
Some issues also have thematic titles.

1. Economic forecasting – Middle East – Periodicals. 2. Economic forecasting – Asia, Central – Periodicals. 3. Middle East – Economic conditions – Periodicals. 4. Asia, Central – Economic conditions – Periodicals. 5. Economic development – Middle East – Periodicals. 6. Economic development – Asia, Central – Periodicals. I. Title: Middle East and Central Asia. II. International Monetary Fund. III. Series: World economic and financial surveys.

HC412.R445

ISBN: 978-1-51352-852-6 (Paper)
ISBN: 978-1-51351-338-6 (Web PDF)

The *Regional Economic Outlook: Middle East and Central Asia* is published annually in the fall to review developments in the Middle East and Central Asia. Both projections and policy considerations are those of the IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Please send orders to:
International Monetary Fund
Publication Services
P.O. Box 92780
Washington, DC 20090, U.S.A.
Tel.: (202) 623-7430 Fax: (202) 623-7201
publications@imf.org
www.imfbookstore.org
www.elibrary.imf.org

Contents

Boxes

Figures

Tables

Acknowledgments

The Middle East and Central Asia *Regional Economic Outlook* (REO) is prepared annually by the IMF's Middle East and Central Asia Department (MCD). The analysis and projections contained in the MCD REO are integral elements of the Department's surveillance of economic developments and policies in 31 member countries. It draws primarily on information gathered by MCD staff through their consultations with member countries.

The analysis in this report was coordinated under the general supervision of Masood Ahmed (Director of MCD). The project was directed by Aasim Husain (Deputy Director in MCD), Natalia Tamirisa (Chief of MCD's Regional Studies Division), and Martin Sommer (Deputy Chief of MCD's Regional Studies Division). The primary contributors to this report were Inutu Lukonga, Pritha Mitra, Saad Quayyum, and Bruno Versailles.

Other contributors included Kusay Alkhunaizi, Greg Auclair, Ritu Basu, Alberto Behar, Nabil Ben Ltaifa, Robert Blotevogel, Martin Cerisola, Kay Chung, Abdikarim Farah, Eddy Gemayel, Keiko Honjo, Maxym Kryshko, Davide Lombardo, Shamiso Mapondera, Gohar Minasyan, Eric Mottu, Dragana Ostojic, Gaëlle Pierre, Ben Piven, Björn Rother, Hossein Samiei, Andrea Santos, Rafik Selim, Asghar Shahmoradi, Moez Souissi, and Andrew Tiffin from the IMF; and Supriyo De, Kirsten Schuettler, and Seyed Reza Yousefi from the World Bank.

Gohar Abajyan, Gregory Hadjian, and Brian Hiland managed the database and computer systems and provided research assistance, with support from Greg Auclair, Mark Fischer, and Jonah Rosenthal. Esther George and Hanan Altimimi were responsible for word processing and document management. Giorgia Albertin, Xiangming Fang, Mbaye Gueye, Amina Lahreche, and Gaëlle Pierre reviewed the translations, in coordination with Yelena Eydinova. Neil Hickey edited the manuscript and coordinated manuscript production. Joanne Creary of the Communications Department oversaw typesetting and production of the publication.

Assumptions and Conventions

A number of assumptions have been adopted for the projections presented in the *Regional Economic Outlook: Middle East and Central Asia*. It has been assumed that established policies of national authorities will be maintained, that the price of oil[1] will average US$51.6 a barrel in 2015 and US$50.4 in 2016, and that the six-month London interbank offered rate (LIBOR) on U.S.-dollar deposits will average 0.4 percent in 2015 and 1.2 percent in 2016. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The 2015 and 2016 data in the figures and tables are projections. These projections are based on statistical information available through early September 2015.

The following conventions are used in this publication:

- In tables, ellipsis points (. . .) indicate "not available," and 0 or 0.0 indicates "zero" or "negligible." Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2011–12 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2011/12) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY 2012).
- "Billion" means a thousand million; "trillion" means a thousand billion.
- "Basis points (bps)" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

As used in this publication, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

The boundaries, colors, denominations, and any other information shown on the maps do not imply, on the part of the International Monetary Fund, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

[1] Simple average of prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil.

Country Groupings

The October 2015 *Regional Economic Outlook: Middle East and Central Asia* (REO), covering countries in the Middle East and Central Asia Department (MCD) of the IMF, provides a broad overview of recent economic developments in 2015 and prospects and policy issues for 2016. To facilitate the analysis, the 31 MCD countries covered in this report are divided into two groups: (1) countries of the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)—which are further divided into oil exporters and oil importers; and (2) countries of the Caucasus and Central Asia (CCA). The country acronyms and abbreviations used in some figures are included in parentheses.

MENAP oil exporters comprise Algeria (ALG), Bahrain (BHR), Iran (IRN), Iraq (IRQ), Kuwait (KWT), Libya (LBY), Oman (OMN), Qatar (QAT), Saudi Arabia (SAU), the United Arab Emirates (UAE), and Yemen (YMN).

MENAP oil importers[1] comprise Afghanistan (AFG), Djibouti (DJI), Egypt (EGY), Jordan (JOR), Lebanon (LBN), Mauritania (MRT), Morocco (MAR), Pakistan (PAK), Somalia (SOM), Sudan (SDN), Syria (SYR), and Tunisia (TUN).

MENA comprises Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

MENA oil importers comprise Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan, Syria, and Tunisia.

The **GCC** (Gulf Cooperation Council) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

The **Non-GCC** oil-exporting countries are Algeria, Iran, Iraq, Libya, and Yemen.

The **Maghreb** comprises Algeria, Libya, Mauritania, Morocco, and Tunisia.

The **Mashreq** comprises Egypt, Jordan, Lebanon, and Syria.

The **ACTs** (Arab Countries in Transition) are Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen.

The **Arab World** comprises Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

CCA countries comprise Armenia (ARM), Azerbaijan (AZE), Georgia (GEO), Kazakhstan (KAZ), the Kyrgyz Republic (KGZ), Tajikistan (TJK), Turkmenistan (TKM), and Uzbekistan (UZB).

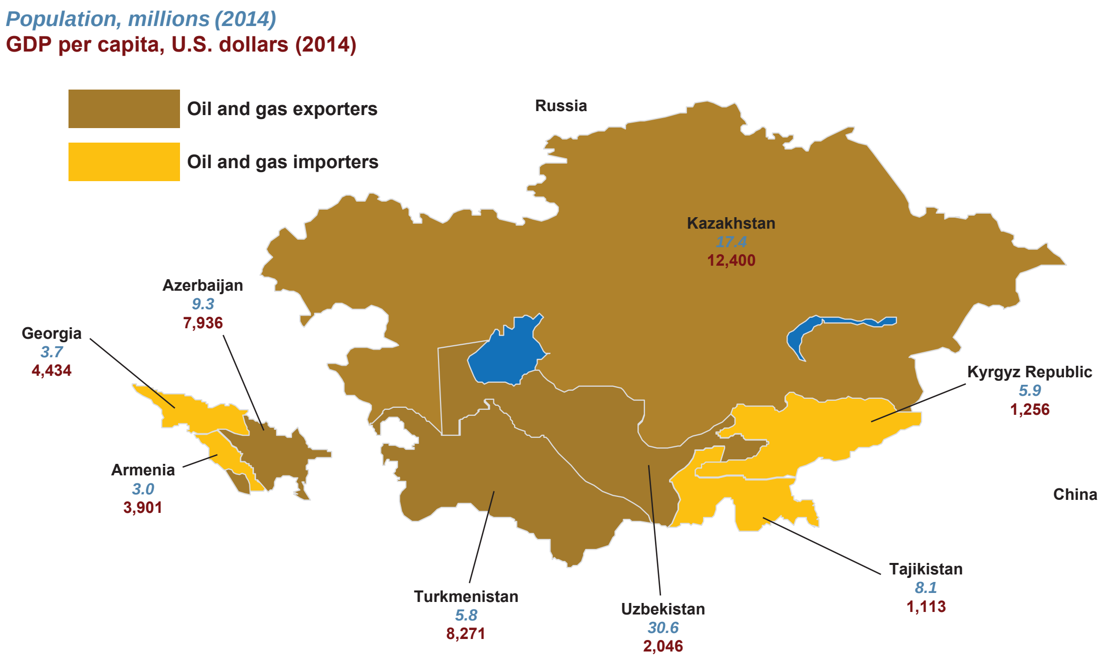
CCA oil exporters comprise Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

CCA oil importers comprise Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

The **CIS** (Commonwealth of Independent States) comprises Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Georgia, Mongolia, and Turkmenistan, which are not members of the CIS, are included in this group for reasons of geography and similarities in economic structure.

[1] Somalia is excluded from all regional aggregates owing to a lack of reliable data. For Sudan, data for 2012 onward exclude South Sudan. Because of the uncertain economic situation, Syria is excluded from the projection years of REO aggregates.

Caucasus and Central Asia



Sources: IMF, Regional Economic Outlook database; and Microsoft Map Land.
Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

CCA Region Highlights

A wave of external shocks—a sharp drop in commodity prices, the slowdown in Russia, a plunge in the value of the Russian ruble, and a strengthening of the U.S. dollar—have weakened economic growth in the CCA region despite countercyclical fiscal policies aimed at supporting output. Exchange rates either depreciated or were devalued, creating inflation pressures and limiting scope for monetary easing. Growth is expected to pick up only modestly in 2016 as the external environment is likely to remain challenging. Fiscal policy needs to ensure that the near-term accommodation is sustainable in the medium term. Greater exchange rate flexibility will protect external buffers and help mitigate external imbalances, but needs to be accompanied by stronger supervision to ensure financial sector stability. Accelerating structural reforms will be key to boosting growth in the medium term.

External Shocks Weighing on Growth

Lower oil, gas, and metal prices, together with spillovers from a contraction in Russia, have slowed economic activity in the CCA, given the region's heavy reliance on commodity exports, and given its close trade, investment, and remittance linkages with Russia. This year, for the CCA as a whole, growth is expected to reach only 3¾ percent, one of the lowest rates since independence, and 1½ percentage points lower than in 2014. Within this overall trend, there is considerable variation across countries, with growth exceeding 6 percent in Uzbekistan and Turkmenistan, in contrast to growth rates of 2–3 percent in most other countries. Growth in the CCA region is expected to pick up to 4 percent in 2016, driven by the improved growth performance of Russia and Europe.

Risks are mostly tilted to the downside. A further drop in oil prices will not only adversely affect oil exporters, it will also lower growth in oil importers, through spillovers from Russia, an oil exporter. Lower-than-expected growth in China and other emerging markets could further reduce global commodity prices and adversely affect the commodity exporters in the region. Lower-than-expected growth in the other major trading partners such as Russia and Europe could also delay the recovery.

Reforms Needed to Support Stability and Growth

Fiscal balances have deteriorated across the region because of countercyclical fiscal measures and a drop in revenues from lower oil prices in oil exporters and weaker economic activity in oil importers. In oil exporters, fiscal breakeven oil prices exceed current oil prices. Medium-term fiscal consolidation is needed to ensure that buffers are replenished and countries save adequately for future generations. For the oil importers, medium-term fiscal consolidation is also a priority, as is preserving capital and social expenditure to support the inclusiveness of growth.

A slowdown in growth, combined with weakening exchange rates, has increased vulnerabilities of the CCA countries' highly dollarized financial sectors. Directed lending, loans to unhedged borrowers, and short open foreign exchange positions have amplified the impact of the external shocks on the sector and call for strengthening supervision, macroprudential policies, and crisis management frameworks.

Developing the private sector beyond the extractive industries and making growth more inclusive will help the CCA region reduce its reliance on commodities and remittances and increase its resilience to shocks. The region has been lagging behind other emerging markets and developing countries in the quality of education, financial development, and export diversity, while the business environment and control of corruption are also weak in many countries. Addressing these shortcomings will unlock future economic prosperity.

CCA Region: Selected Economic Indicators, 2000–16

(Percent of GDP, unless otherwise indicated)

	Average 2000–11	2012	2013	2014	Projections 2015	Projections 2016
CCA						
Real GDP (annual growth)	8.9	5.6	6.6	5.3	3.7	4.0
Current Account Balance	1.3	3.2	1.9	2.0	–3.4	–3.8
Overall Fiscal Balance	2.6	4.7	2.8	0.9	–3.5	–1.5
Inflation, p.a. (annual growth)	9.7	5.3	6.0	5.8	6.8	7.4
CCA oil and gas exporters						
Real GDP (annual growth)	9.3	5.6	6.8	5.4	3.8	4.1
Current Account Balance	2.7	4.7	2.9	3.3	–2.7	–3.2
Overall Fiscal Balance	3.4	5.5	3.4	1.3	–3.5	–1.2
Inflation, p.a. (annual growth)	9.9	5.7	6.3	5.9	6.8	7.6
CCA oil and gas importers						
Real GDP (annual growth)	6.6	5.5	5.7	4.7	2.3	3.0
Current Account Balance	–8.4	–10.2	–7.2	–10.2	–10.0	–9.2
Overall Fiscal Balance	–3.2	–2.2	–2.4	–2.2	–3.6	–3.6
Inflation, p.a. (annual growth)	8.2	2.1	3.6	4.6	6.3	6.1

Sources: National authorities; and IMF staff calculations and projections.
CCA oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.
CCA oil and gas importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

Основные положения по региону КЦА

Разнообразные внешние шоки — резкое падение цен на биржевые товары, замедление роста в России, резкое снижение курса российского рубля и укрепление доллара США — привели к снижению темпов экономического роста в регионе КЦА, несмотря на контрциклические меры налогово-бюджетной политики, направленные на поддержку объема производства. Национальные валюты ослабли или были девальвированы, что создало инфляционное давление и ограничило возможности для смягчения денежно-кредитной политики. Возобновление экономического роста ожидается в следующем году, однако его темпы останутся умеренными, поскольку внешние условия, скорее всего, будут по-прежнему сложными. Необходимо, чтобы краткосрочные цели налогово-бюджетной политики обеспечили ее устойчивость в среднесрочной перспективе. Повышение гибкости обменного курса защитит внешнеэкономические буферные резервы и поможет уменьшить внешние дисбалансы, однако оно должно сопровождаться усилением финансового надзора в целях обеспечения стабильности финансового сектора. Ускорение структурных реформ будет необходимым условием для повышения темпов роста в среднесрочной перспективе.

Внешние шоки сдерживают рост

Снижение цен на нефть, газ и металлы, а также вторичные эффекты от сокращения производства в России привели к замедлению экономической активности в КЦА ввиду высокой степени зависимости региона от экспорта биржевых товаров и тесных связей с Россией через торговлю, инвестиции и денежные переводы. В этом году рост в регионе КЦА в целом, как ожидается, достигнет лишь 3¾ процента; это один из самых низких показателей со времени обретения независимости и на 1½ процентного пункта ниже, чем в 2014 году. В рамках данного общего тренда между отдельными странами отмечаются значительные различия — в Узбекистане и Туркменистане темпы роста превышают 6 процентов, что составляет контраст с темпами роста в 2–3 процента в большинстве других стран. Предполагается, что в 2016 году темпы роста в регионе КЦА вырастут до 4 процентов благодаря улучшению показателей экономического роста в России и Европе.

Риски в основном связаны с ухудшением ситуации. Дальнейшее снижение цен на нефть не только негативно скажется на странах-экспортерах нефти, но и приведет к замедлению роста в странах-импортерах нефти из-за вторичных эффектов из России, являющейся экспортером нефти. Более низкие, чем ожидается, темпы роста в Китае и других странах с формирующимся рынком могут вызвать дополнительное снижение мировых цен на биржевые товары и негативно повлиять на страны-экспортеры биржевых товаров в регионе. Более низкие по сравнению с ожиданиями темпы роста в других странах, являющихся основными торговыми партнерами, таких как Россия и страны Европы, также могут сдерживать восстановление экономики.

Реформы необходимы чтобы обеспечить поддержку стабильности и роста

Сальдо бюджетов ухудшились в разных странах региона из-за контрциклических мер налогово-бюджетной политики и уменьшения доходов в результате снижения цен на нефть в странах-экспортерах нефти и ослабления экономической активности в странах-импортерах. В странах-экспортерах цены на нефть, обеспечивающие сбалансированность бюджета, превышают текущие цены на нефть. В среднесрочной перспективе необходимо провести консолидацию бюджета, чтобы обеспечить пополнение резервов и накопление в странах достаточных сбережений для будущих поколений. Для стран-импортеров нефти среднесрочная бюджетная консолидация также является приоритетной задачей при одновременном сохранении объемов капитальных расходов и расходов на систему социальной защиты с целью придания экономическому росту всеобъемлющего характера.

Замедление темпов экономического роста в сочетании со снижением курсов валют повысило уязвимость существенно долларизированных финансовых секторов. Целевое кредитование, кредиты нехеджированным заемщикам и короткие открытые валютные позиции усилили воздействие внешних шоков на сектор и требуют укрепления надзора, проведения макропруденциальной политики и реализации антикризисных мер.

Развитие частного сектора за пределами добывающих отраслей и обеспечение всеобъемлющего характера экономического роста помогут региону КЦА уменьшить свою зависимость от биржевых товаров и денежных переводов и повысить устойчивость по отношению к шокам. Регион отстает от других стран с формирующимся рынком и развивающихся стран по качеству образования, развитию финансового сектора и разнообразию экспорта, и в то же время во многих странах деловая среда и борьба с коррупцией также находятся на низком уровне. Устранение этих недостатков расширит возможности для экономического процветания в будущем.

Регион КЦА: отдельные экономические показатели, 2000-2016 годы

(В процентах ВВП, если не указано иное)

	Среднее 2000–11	2012	2013	2014	Прогнозы 2015	2016
КЦА						
Реальный ВВП (годовой рост)	8,9	5,6	6,6	5,3	3,7	4,0
Сальдо счета текущих операций	1,3	3,2	1,9	2,0	-3,4	-3,8
Общее сальдо бюджета	2,6	4,7	2,8	0,9	-3,5	-1,5
Инфляция, в среднем за период (годовой рост)	9,7	5,3	6,0	5,8	6,8	7,4
Страны-экспортеры нефти и газа КЦА						
Реальный ВВП (годовой рост)	9,3	5,6	6,8	5,4	3,8	4,1
Сальдо счета текущих операций	2,7	4,7	2,9	3,3	-2,7	-3,2
Общее сальдо бюджета	3,4	5,5	3,4	1,3	-3,5	-1,2
Инфляция, в среднем за период (годовой рост)	9,9	5,7	6,3	5,9	6,8	7,6
Страны-импортеры нефти и газа КЦА						
Реальный ВВП (годовой рост)	6,6	5,5	5,7	4,7	2,3	3,0
Сальдо счета текущих операций	-8,4	-10,2	-7,2	-10,2	-10,0	-9,2
Общее сальдо бюджета	-3,2	-2,2	-2,4	-2,2	-3,6	-3,6
Инфляция, в среднем за период (годовой рост)	8,2	2,1	3,6	4,6	6,3	6,1

Источники: официальные органы стран; расчеты и прогнозы персонала МВФ.
Страны-экспортеры нефти и газа КЦА: Азербайджан, Казахстан, Туркменистан и Узбекистан.
Страны-импортеры нефти и газа КЦА: Армения, Грузия, Кыргызская Республика и Таджикистан.

3. Caucasus and Central Asia: Reforms Needed to Weather Shocks from Commodity Prices and Russia

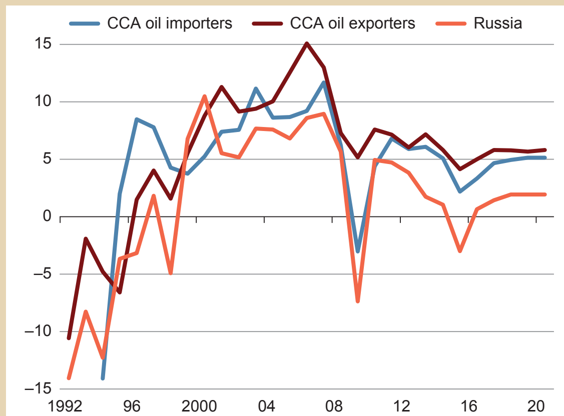
A wave of large external shocks, particularly lower commodity prices and the slowdown in Russia, has weakened growth prospects and raised vulnerabilities in the region. Increases in public spending have helped soften the immediate impact on economic activity, but fiscal consolidation remains a priority for the medium term. Exchange rate depreciations have supported competitiveness and helped preserve fiscal space, but they have also increased pressure on inflation and created challenges for the heavily dollarized financial sectors. Greater exchange rate flexibility will help protect external buffers, but needs to be accompanied by strengthened supervision to safeguard financial stability. Accelerating the pace of structural reforms remains key to improving the medium-term outlook for economic growth and job creation.

Economies Hit by External Shocks

Since late 2014 the CCA region has been hit by a series of adverse external shocks—a sharp drop in commodity prices, particularly for oil and metals, a significant slowdown in major trading partners, especially Russia, and a loss in competitiveness (owing to an increase in the value of the U.S. dollar, against which many countries manage their currencies, and a decline in the value of the Russian ruble). These shocks are expected to be persistent, unwinding only partially in the coming years and presenting policymakers with difficult choices.

Economic activity has slowed in response to these shocks, given the region's heavy reliance on commodity exports, its close trade and remittance linkages with Russia, and increased intraregional trade links between CCA oil exporters and importers. This year, growth is expected to reach only 3¾ percent, one of the lowest rates since independence, and 1½ percentage points lower than in 2014 (Figure 3.1). Stronger growth in Russia, Europe, and regional trading partners is expected to provide greater support to external demand and push growth to about 4 percent in 2016. However, medium-term growth projections are well below growth rates from 2000–07 (Figure 3.1). The slowdown in medium-term growth reflects a decline in productivity growth, inadequate

Figure 3.1
CCA Growth Rates
(Percent change)



Sources: National authorities; and IMF staff estimates.

physical infrastructure investment, overreliance on commodities whose prices have fallen, and a weakened outlook for Russia and, to a lesser extent, China and Europe (Mitra and others forthcoming).

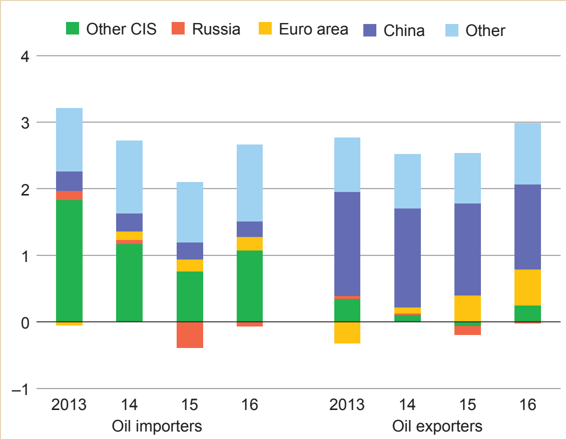
For CCA oil exporters, growth is projected at 3¾ percent for 2015, down from nearly 5½ percent in the previous year, despite a sizable fiscal stimulus in some countries (3 percent of GDP in Kazakhstan and 1 percent of GDP in Uzbekistan). Slower growth in oil production (Azerbaijan, Kazakhstan), fewer remittances from Russia (Uzbekistan), and less public investment (Turkmenistan), as well as weaker confidence resulting from currency depreciations, have contributed to the slowdown. Growth is expected to pick up in 2016 to 4 percent,

Prepared by Saad Quayyum with input from Inutu Lukonga and research assistance from Mark Fischer.

Figure 3.2

Trade Partner Growth Rates

(Percent change, weighted by export share)



Sources: National authorities; and IMF staff estimates.
Note: CIS = Commonwealth of Independent States.

as growth strengthens in important trading partners, such as Russia and the euro area, and as domestic confidence improves (Figure 3.2).

For CCA oil importers, growth is expected to slow to 2¼ percent in 2015 from 4¾ percent in 2014, despite a sharp increase in real fiscal expenditure in the Kyrgyz Republic and Armenia. The oil importers have strong economic links with Russia through trade, investment, and, particularly, remittances. Consequently, the contraction in Russia of 3¾ percent in 2015 has had a strong impact on these economies. Lower prices of aluminum, cotton (Tajikistan), and copper (Armenia), and lower gold production (Kyrgyz Republic), together with tighter monetary policy to mitigate inflation and exchange rate pressures, have also weighed on economic activity in 2015. Growth is expected to recover partially to 3 percent in 2016, as external demand from Russia, and from within the region, recovers (Figure 3.2).

Risks Tilted to the Downside

Downside risks related to a possible further deterioration in the external environment are on the rise. A further decline in oil prices would adversely affect not only oil exporters but oil importers as well, because of lower imports and remittances from Russia, an oil exporter whose currency has been following oil price movements in recent months. Links with China have become increasingly important (Box 3.1; see Figure 1.4 in Chapter 1); hence, a sharper-than-expected slowdown in China could weaken demand for CCA exports (particularly gas and other commodities from Armenia, Kazakhstan, Turkmenistan, and Uzbekistan) and reduce foreign direct investment (FDI). In addition, China's slowdown could put further downward pressure on global commodity prices (especially oil and metals), given its large share of global commodity consumption. This would hurt exporters of these commodities, including in the CCA region. Commodity importers will also be affected through their linkages with Russia and CCA commodity exporters.

Another downside risk is that the normalization of U.S. monetary policy would raise borrowing costs for countries with access to international markets (Armenia, Azerbaijan, Georgia, Kazakhstan) by more than is currently expected. A further strengthening of the U.S. dollar, reflecting asymmetric monetary policy in major advanced economies, together with a weakening of emerging market currencies, could put CCA currencies under pressure, adversely affecting intermediation through the CCA countries' highly dollarized financial systems. Upside risks include a stronger recovery in Russia, faster-than-expected growth in China and Europe, and a larger-than-expected improvement in commodity prices.

Exchange Rates under Pressure

Many CCA countries tightly manage their currencies against the U.S. dollar, either as outright pegged arrangements (Azerbaijan, Turkmenistan), within narrow ranges (Armenia, Tajikistan), or using a predetermined path (Uzbekistan). Prior to moving to a floating exchange rate regime in August 2015, Kazakhstan also tightly managed its currency within a narrow band.

Appreciation of the U.S. dollar and the sharp drop in the value of the Russian ruble, together with declining foreign currency inflows (remittances, FDI, exports), Box 3.1

Strengthening Linkages between China and the CCA

The rising role of China in the CCA region provides an opportunity for enhancing growth, employment, and diversification. It also poses policy challenges, namely rapidly rising external debt obligations to China, which need supportive policies to ensure the region's debt remains sustainable.

Trade and financial links between China and the CCA region have strengthened over the past decade and are expected to continue to expand in the coming years (Figures 3.1.1 and 3.1.2).

- Trade between China and the CCA region grew almost tenfold in the past decade, to $48 billion at end-2014 from only $5 billion in 2005.[1] China is the main trading partner for the Kyrgyz Republic, Tajikistan, and Turkmenistan, accounting for more than 25 percent of each country's total trade. Exports to China are concentrated mostly in oil and gas, minerals, and metals, while imports consist mostly of manufactured goods.

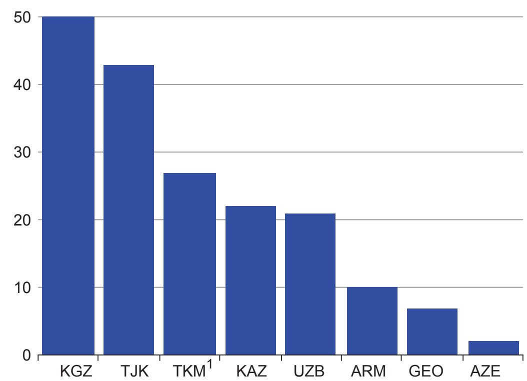
- Chinese official lending to the CCA region also soared, from $262 million in 2007 to $4,435 million in 2014.[2] External debt obligations to China are rapidly rising, particularly in the Kyrgyz Republic, Tajikistan, and Turkmenistan. Cross-border bank exposures are low and exist in only two countries (Georgia, Kazakhstan), while other linkages, such as currency swaps and budget support, are sporadic.

- Chinese foreign direct investment has also increased rapidly in recent years, reaching $5,555 million in 2012.[3] Over the next three to five years, China is expected to invest an additional $30–$35 billion in the CCA, mainly in infrastructure and mining.

Figure 3.1.1

CCA's Trade with China

(Percent of total trade, 2014)



Sources: IMF, Direction of Trade Statistics database; and IMF staff estimates.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]Data from TKM authorities.

China's economic interests in the region include accessing natural resources, building infrastructure to support resource extraction and other economic activity, and establishing new routes to European markets. To realize this vision, China launched the One Belt One Road initiative in 2013, involving 58 countries in South, East, and West Asia, as well as in Eastern Europe, Southern and Western Europe, and East Africa.[4] The aim is to

---

Prepared by Eddy Gemayel and Ritu Basu.

[1] Direction of Trade Statistics (DOTS), IMF.

[2] This excludes Azerbaijan for which information is not available.

[3] This aggregate includes Georgia (with data referring to 2011), while data for Turkmenistan are not available.

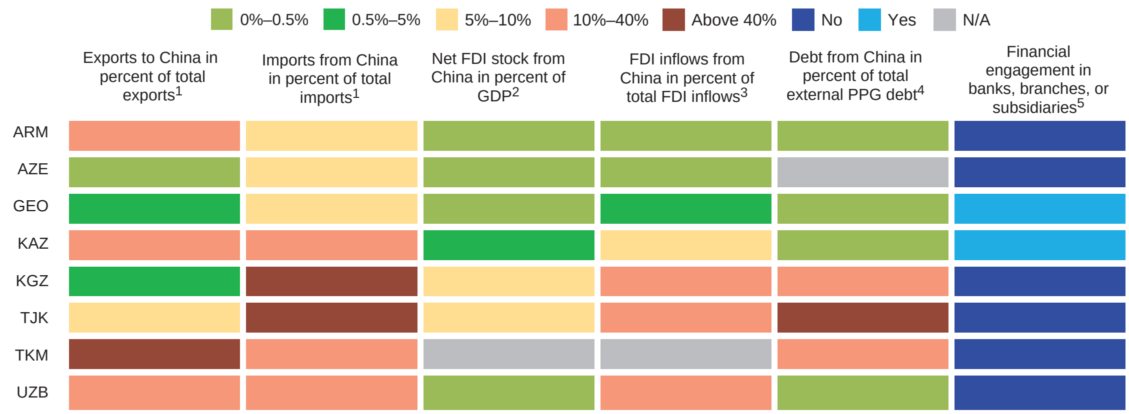
[4] This includes all CCA countries: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. Several MENAP countries are also members including Afghanistan, Bahrain, Egypt, Iran, Iraq, Jordan, Lebanon, Kuwait, Oman, Pakistan, Qatar, Syria, Saudi Arabia, and Yemen. Source: Fung Business Intelligence Centre (2015).

(*continued*)

Box 3.1 *(continued)*

Figure 3.1.2

China's Linkages with the CCA



Sources: IMF, Coordinated Direct Investment Survey (CDIS), Direction of Trade Statistics (DOTS), World Economic Outlook databases; national authorities; UN Conference on Trade and Development (UNCTAD); and IMF staff estimates.
Note: FDI = foreign direct investment; PPG = public and publicly guaranteed.
1DOTS data, referring to 2014.
2CDIS data, where available. UNCTAD data were used for Tajikistan and Uzbekistan. Data refer to 2013 (the latest available year), except for Georgia (2011), and Tajikistan and Uzbekistan (2012).
3UNCTAD data, where available. National sources were used for Tajikistan and Uzbekistan. Data refer to 2012 (the latest year available). FDI inflows are measured on gross basis.
4National authorities' data on total external PPG debt and external PPG by creditor in 2014.
5National authorities' data.

create the Silk Road Economic Belt connecting countries in the region, South Asia, Southeast Asia, the Middle East, and Europe in a transport-linked corridor via land roads, in tandem with the 21st Century Maritime Silk Route, which will connect China to Europe via sea routes through Asia (Figure 3.1.3). These initiatives will be supported by the $40 billion Silk Road Development Fund and the $100 billion Asian Infrastructure Investment Bank (AIIB).[5] China's involvement is expected to expand the region's economic prospects, particularly through access to large loans for infrastructure. This will enhance the scope for addressing infrastructure gaps and economic diversification.

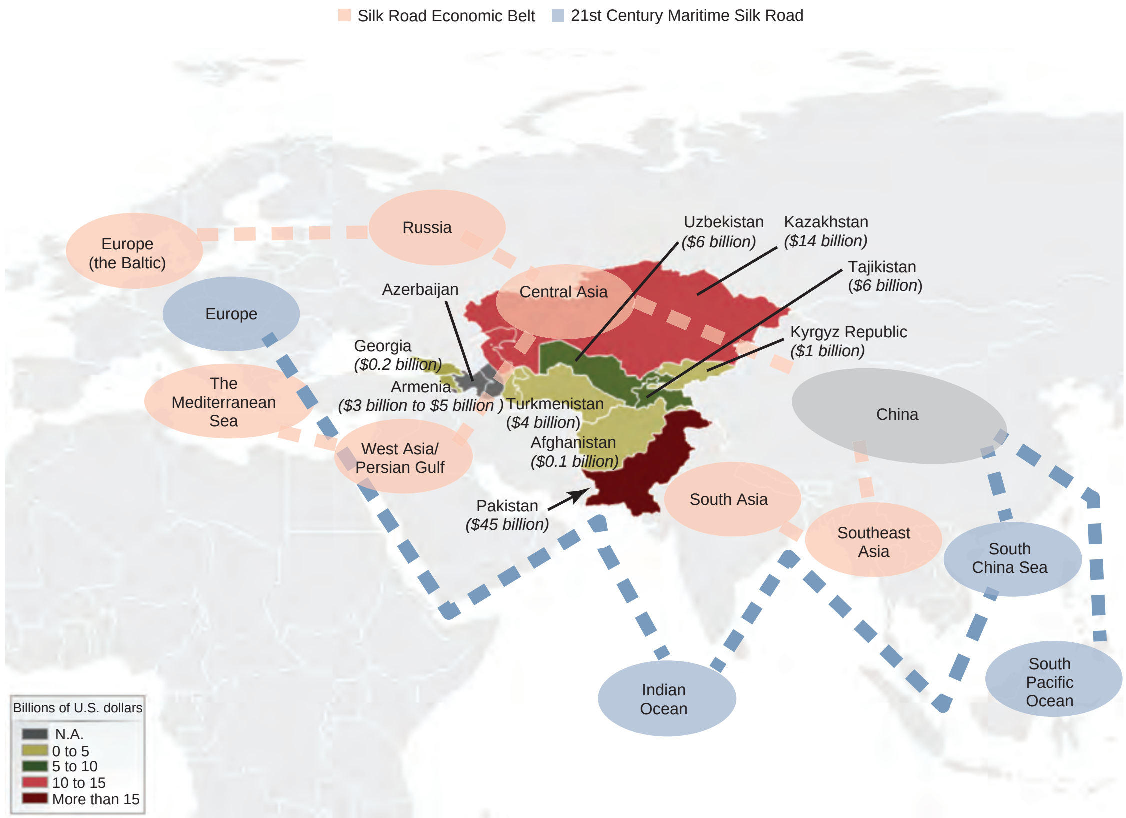
To maximize the growth and employment effects of Chinese investment and trade, and to ensure external debt sustainability, supportive policies need to be put in place. Implementing a prudent debt management strategy and subjecting investment projects to rigorous appraisal would strengthen the capacity to manage the rapidly growing external debt. Streamlining tax incentives and strengthening the business climate would also help level the playing field for domestic and foreign investors.

[5] Of the 57 member countries of the AIIB, five are from the CCA region (Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan).

Box 3.1 *(continued)*

Figure 3.1.3

China's One Belt One Road Initiative and Future Investment Commitments



Sources: Fung Business Intelligence Centre; and IMF staff estimates.

created pressure on the CCA currencies to adjust.[1] Many CCA countries intervened in the foreign exchange market and, consequently, suffered losses in international reserves.

Between November 2014 and August 2015, all the CCA currencies weakened against the U.S. dollar (Figure 3.3). This in turn helped to moderate the sharp appreciation of real effective exchange rates (that is, the strengthening of their currencies against those of their trading partners in inflation-adjusted terms) at the end of 2014 (Figure 3.3).

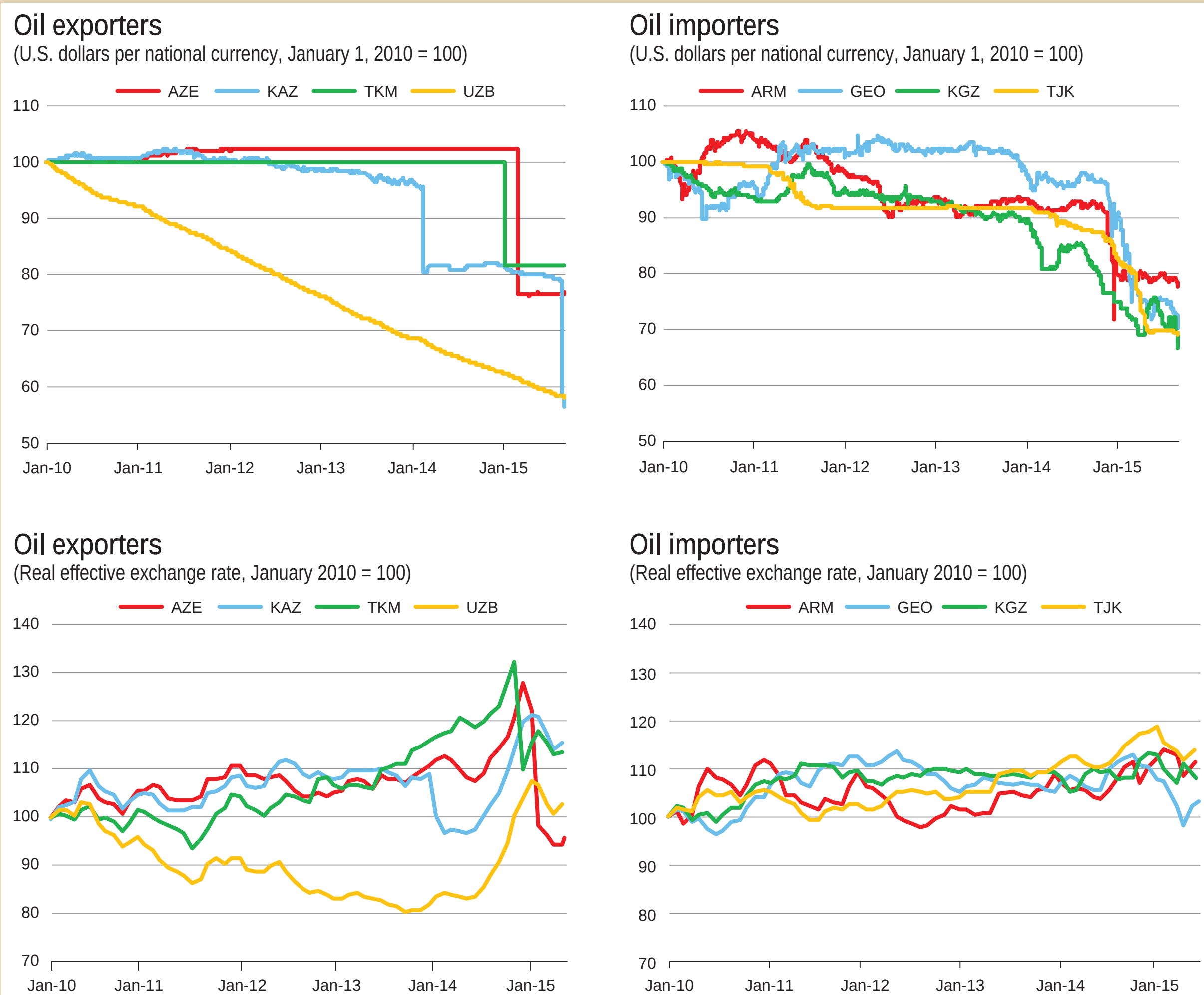
Pressure to adjust the exchange rate persists in some countries. For example, in Uzbekistan the difference between the official and parallel market rate has increased substantially since the beginning of the year. Greater exchange rate flexibility, accompanied by clear communication to anchor market expectations, would help CCA economies adjust to external shocks and improve their competitiveness.[2] However, policymakers also need to consider the impact of the exchange rate on their financial

[1] Between August 2014 and 2015, the U.S. dollar appreciated by 16 percent in nominal effective terms, and the Russian ruble depreciated by 45 percent against the U.S. dollar.

[2] Measures to increase exchange rate flexibility include limiting exchange rate intervention in Armenia, the Kyrgyz Republic, and Tajikistan, introducing a band around the central parity or a currency basket in Turkmenistan, and increasing the pace of depreciation in Uzbekistan.

Figure 3.3

CCA Exchange Rates



Sources: National authorities; and IMF staff calculations.
Note: An appreciation is a positive movement. Country abbreviations are International Organization for Standardization (ISO) country codes.

sector and take measures to ensure its health, especially given the sector's substantial foreign currency lending to unhedged borrowers and short open foreign exchange positions (Box 3.2).

Fiscal Policy: Supporting Near-Term Growth, Rebuilding Buffers, and Keeping Debt Sustainable

Countercyclical fiscal policies have helped many CCA countries mitigate the slowdown in economic activity in 2015. Fiscal deficits were allowed to rise in most of them, as overall expenditure (particularly from public investment) increased or held steady, while revenue contracted from lower oil prices in oil exporters and weaker economic activity across the region (Figure 3.4). Azerbaijan and Turkmenistan are exceptions, with projected declines in public spending in 2015, as these countries have already started to consolidate their non-oil fiscal positions in response to lower oil prices. Revenue gains from exchange rate adjustments also helped these countries, along with Kazakhstan, to reduce the necessary fiscal adjustment (see Figure 4.10 in Chapter 4).[3]

[3] As fiscal revenue from oil exports is earned in U.S. dollars, exchange rate depreciation increases its value in local currency.

Box 3.2

Balancing Macroeconomic and Financial Stability Objectives in CCA Countries

Faced with a weakening economic environment and rising financial risks, CCA countries need to reconcile three competing policy objectives: supporting growth, reining in domestic and external imbalances, and ensuring that the financial sector remains stable and intermediates effectively between savers and investors. The external shocks are affecting banking system stability through an adverse impact on the economy. Therefore, reducing economic imbalances would support banking system stability.

Increased exchange rate flexibility can play an important role in improving competitiveness, reducing trade and fiscal imbalances, preserving reserves, and promoting growth. It may, however, erode the debt-servicing capacity of unhedged foreign currency borrowers and destabilize dollarized banking systems. Several dynamics are at play, illustrating the challenges of resolving policy trade-offs at the present juncture:

- Expectations of currency depreciation have increased deposit dollarization, which is increasing short open foreign exchange positions and the risk of revaluation losses, thereby weakening banks' capital and domestic liquidity.
- Currency depreciation also erodes capital adequacy buffers for banks that have capital in local currency and risk-weighted assets in dollars. It also increases the debt burden of households and corporations that borrowed in dollars.
- Protecting the exchange rate by selling official reserves would reduce external buffers, potentially undermining confidence and increasing the risk of a disorderly exchange rate adjustment.
- Exchange rate pass-through to inflation is high because of countries' high dependence on imports, but tighter monetary policy to dampen inflationary pressures and provide support to the exchange rate may also exacerbate the already tight liquidity conditions in banks.
- Higher interest rates to dampen inflation pressures raise the debt service burden of borrowers with flexible-rate foreign currency loans, at a time when their loan burdens have already increased with the devaluation, while the weak interest rate transmission mechanism hampers their effectiveness for subduing inflation.
- Rising risks to financial stability and weakening aggregate demand are curtailing private sector credit growth, which may further weaken banks' balance sheets.

The external shocks that have hit the region are expected to persist, requiring a real effective exchange rate adjustment, of which the nominal depreciation is an important part. With high dollarization and low growth limiting the extent to which exchange rates can depreciate before financial system stability is threatened, near-term policies need to focus on measures to strengthen banks' resilience to macro shocks. These include:

- Risk monitoring of credit, concentration, exchange rate, and liquidity risks (silent deposit runs and systemic liquidity risks) through improved reporting and disclosure rules for banks and borrowers' foreign exchange (FX) open positions, and stress testing.
- Strengthening banking supervision, particularly oversight of banks' risk management practices and risk pricing of FX risks, as well as reducing directed lending.

Prepared by Inutu Lukonga and Saad Quayyum.

Box 3.2 *(continued)*

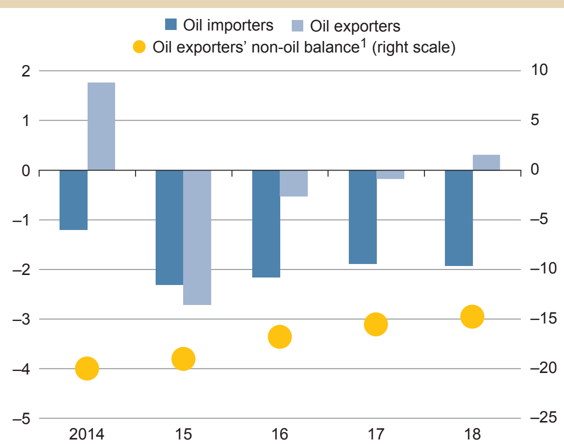
- Prudential measures, including minimum capital and provisioning requirements to cover solvency risks arising from borrowers' currency mismatches, and liquidity requirements in foreign currency to reduce liquidity risks.
- Reducing leverage among borrowers through limits on debt-to-income ratios, loan-to-value ratios on mortgages, and capital surcharges on lending to unhedged borrowers.
- In dollarized banking systems, matched FX positions do not protect banks from losses. A prudential approach designed to protect capital-asset ratios should be considered.

Medium- to long-term policy objectives should include addressing the root causes of dollarization. This can be achieved through the development of financial markets that provide alternative investment opportunities in local currencies and the development of hedging instruments (Ben Naceur, Hosny, and Hadjian 2015). These measures need to be supported by sound macroeconomic and financial policies to engender confidence in the domestic currency.

Figure 3.4

CCA's Overall Fiscal Balance

(Percent of GDP)

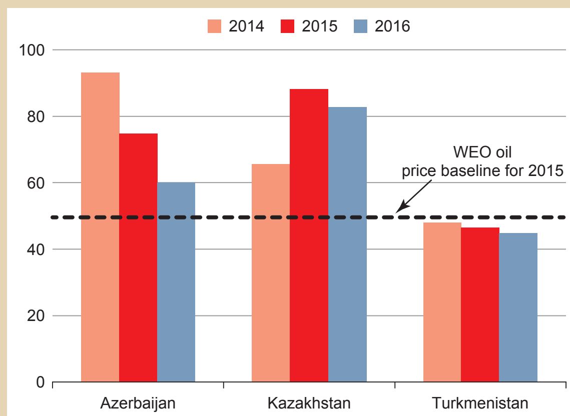


Sources: National authorities; and IMF staff calculations.
[1]In percent of non-oil GDP.

Figure 3.5

Fiscal Breakeven Oil Prices in the CCA

(U.S. dollars per barrel)



Sources: National authorities; and IMF staff estimates.
Note: WEO = IMF, World Economic Outlook database.

Fiscal policies need to ensure that near-term accommodation is sustainable in the medium term. With external conditions expected to improve in 2016, mainly as growth in Russia and Europe starts to recover, most CCA countries are expected to return to a path of fiscal consolidation.

With oil prices expected to remain low during the coming years, concrete plans for medium-term fiscal consolidation are therefore imperative so that oil exporters can rebuild buffers and ensure intergenerational equity. Figure 3.5 shows the fiscal breakeven prices of two of the three oil exporters to be higher than the $52 projected for this year, suggesting they cannot balance their budgets if oil prices remain low.

In the oil importers, improving the quality of public expenditure and consolidating the fiscal balance in the medium term, while preserving capital and social expenditure, will help to ensure that debt remains sustainable and, at the same time, safeguard growth and make it more inclusive. On average, public debt in the oil importers is projected to increase by about 7 percentage points of GDP from the previous year to above 45 percent of GDP, reaching nearly 60 percent in the Kyrgyz Republic and approaching 50 percent in Armenia.

Monetary Policy Faces Complex Trade-offs

Exchange rate depreciations are set to raise inflation in most countries in 2015, despite weakening demand and low global food prices. Inflation in the CCA is expected to edge up to 6¾ percent in 2015 from 5¾ percent in 2014, reaching double digits in Tajikistan. In 2016, inflation is projected to increase in Kazakhstan, the Kyrgyz Republic, and Georgia, in part from the exchange rate depreciations, while it is expected to moderate in all others mostly because of benign food and fuel prices and weak domestic demand.

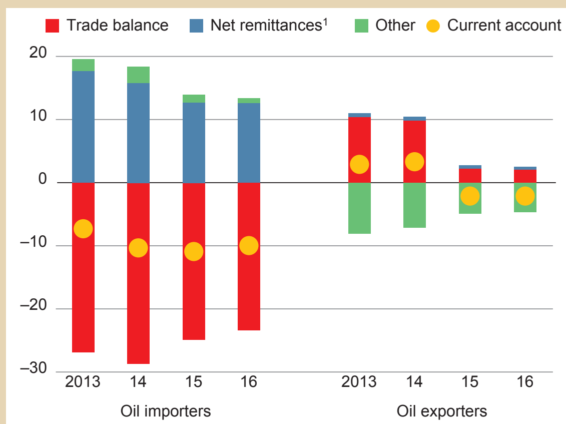
Monetary policy in the CCA region faces complex trade-offs: inflation is picking up while economic activity remains weak and the highly dollarized financial sectors in many countries are under duress. Tighter monetary policy can help anchor inflation expectations, but excess tightening may weaken financial intermediation and inhibit economic activity. Monetary policy needs to be tightened in countries where inflation pressures are high (Tajikistan, Uzbekistan). In Georgia, inflation has risen and the central bank, consistent with its inflation-targeting regime, has increased its policy rate five times this year to reach 7 percent by end-September, from 4 percent in December 2014. In Armenia, where these trade-offs are particularly acute, and monetary conditions are tighter than they were a year ago, the pace of normalization should be tied to inflation prospects.

External Vulnerabilities Have Risen

External positions in the CCA region are projected to weaken sharply in 2015, mainly because of lower oil and metal prices, a sharp drop in remittances from Russia, and a loss of competitiveness of local goods against Russian goods due to a much weaker ruble. The current account balance in the CCA oil exporters is expected to turn from a surplus of 3¼ percent of GDP in 2014 to a deficit of 2¾ percent in 2015, reflecting large oil export revenue losses (Figure 3.6). Exports are projected to decline further in 2016 driven by lower oil receipts, pushing the current account deficit to 3¼ percent of GDP.

The current account deficit in the CCA oil importers is expected to remain high at about 10 percent of GDP in 2015. Weaker exports and a large drop in the dollar value of remittances—in part the effect of the weakening Russian ruble—are expected to offset gains from lower oil prices and slowing import growth. Given the dependency on Russia's economic prospects,

Figure 3.6
CCA's Current Account Decomposition
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.
[1]Excludes employee compensation.

remittance flows are expected to recover only gradually. The current account deficit is expected to improve modestly in 2016, but remain above 9 percent of GDP. External debt is projected to increase to 74 percent of GDP in 2015 from 63 percent of GDP last year, owing to exchange rate depreciations and increased public financing needs. Reserves are expected to remain at about one month of imports in Tajikistan but above three months of imports in other oil importers.

Spillovers from the Economy to the Financial Sector

Currency depreciations, declining remittances, and the economic slowdown are putting the financial sector in the CCA under strain. The effect of these shocks has been amplified by significant preexisting vulnerabilities: dollarized bank balance sheets, short open foreign exchange positions, lending to unhedged borrowers, directed lending, and concentrations in loan portfolios. These vulnerabilities imply that capital buffers may overstate the ability of banks to absorb shocks.

The balance sheets of banks, households, and corporations have already started to weaken, as revaluation losses and credit and liquidity risks have risen. Bank profitability and capital adequacy have declined, and nonperforming loans have edged upward (Armenia, Azerbaijan, Tajikistan—see Figure 6.3 in Chapter 6).[4] Financial conditions have tightened (especially in Kazakhstan and Armenia). Rising balance sheet risks have increased risk aversion among banks, which, combined with declining aggregate demand, is curtailing private sector credit growth. Despite low financial depth and a weak link between credit and economic growth in the CCA, anemic credit growth is triggering feedback effects on economic activity and could affect asset prices, further weakening banks' balance sheets.

To safeguard financial systems, policies should be geared toward enhancing surveillance of emerging macro-financial risks and strengthening supervision and macroprudential policies, as well as crisis management frameworks that can ensure orderly resolution in case of bank distress. Steps also need to be taken to reduce directed lending (particularly in Tajikistan and Turkmenistan), enforce prudential regulations related to large exposures and other loan concentrations, and address the causes of dollarization. Policymakers also need to carefully balance the trade-offs between macroeconomic and financial stability objectives (Box 3.2; see also Chapter 6).

Improving Medium-Term Prospects and Creating Jobs

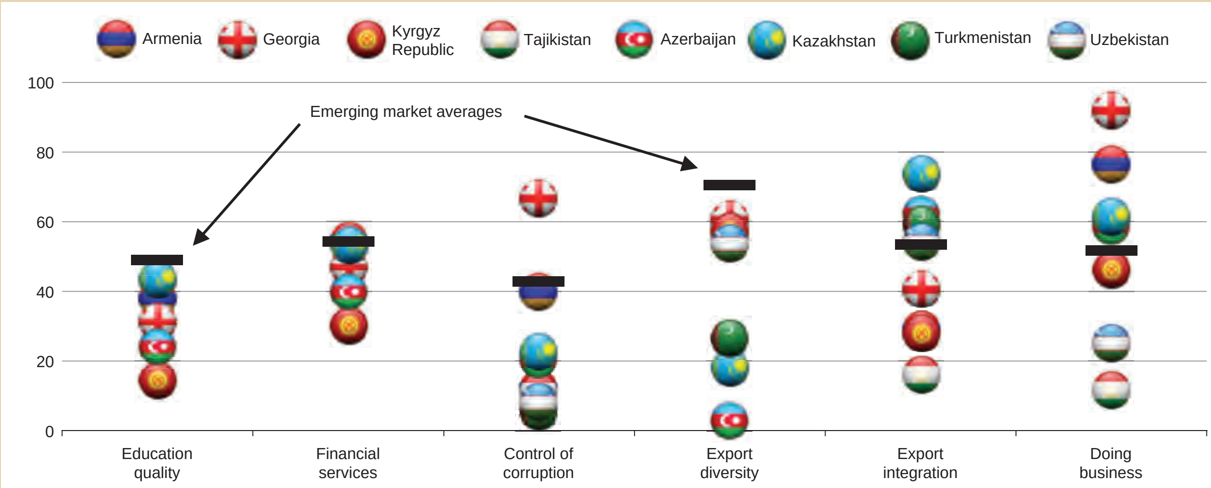
Developing the private sector beyond the extractive industries and making growth more inclusive will help the CCA region reduce its reliance on commodities and remittances. The region has been lagging behind other emerging markets and developing countries in the quality of education, financial development, and export diversity, while control of corruption and the business environment are also weak in many countries (Figure 3.7). Addressing these shortcomings together with infrastructure bottlenecks, and pursuing market-based restructuring of state-owned enterprises, would help boost medium-term growth prospects, and create employment opportunities for returning migrants and new entrants to the labor market.

[4] In Azerbaijan, disclosed nonperforming loans are underestimated as they include only the overdue portion of principal and interest.

Figure 3.7

Structural Reforms Needed in the CCA

(Global percent rank)



Sources: IMF World Economic Outlook database; IMF/DFID, Export Diversity Index; World Economic Forum, Global Competitiveness Report; World Bank, Doing Business Indicators; and World Bank, Worldwide Governance Indicators.

Productivity growth can be further enhanced by adopting more modern production methods through greater integration with global value chains (Mitra and others forthcoming). The CCA region can unleash its significant economic potential, provided it adjusts its policies to the "new normal" that is emerging from what are likely to be lasting external shocks.

CCA: Selected Economic Indicators

	Average 2000–11	2012	2013	2014	Projections 2015	2016
Real GDP Growth	**8.9**	**5.6**	**6.6**	**5.3**	**3.7**	**4.0**
(Annual change; percent)						
Armenia	8.0	7.1	3.5	3.4	2.5	2.2
Azerbaijan	12.7	2.2	5.8	2.8	4.0	2.5
Georgia	6.1	6.4	3.3	4.8	2.0	3.0
Kazakhstan	8.4	5.0	6.0	4.3	1.5	2.4
Kyrgyz Republic	4.3	–0.9	10.5	3.6	2.0	3.6
Tajikistan	8.0	7.5	7.4	6.7	3.0	3.4
Turkmenistan	13.9	11.1	10.2	10.3	8.5	8.9
Uzbekistan	6.8	8.2	8.0	8.1	6.8	7.0
Consumer Price Inflation	**9.7**	**5.3**	**6.0**	**5.8**	**6.8**	**7.4**
(Year average; percent)						
Armenia	4.2	2.5	5.8	3.0	4.3	3.4
Azerbaijan	7.1	1.0	2.4	1.4	5.0	4.2
Georgia	6.6	–0.9	–0.5	3.1	3.7	5.0
Kazakhstan	9.0	5.1	5.8	6.7	6.3	8.6
Kyrgyz Republic	9.2	2.8	6.6	7.5	8.3	9.0
Tajikistan	15.3	5.8	5.0	6.1	10.8	8.2
Turkmenistan	7.2	5.3	6.8	6.0	7.0	6.0
Uzbekistan	15.3	12.1	11.2	8.4	9.7	9.2
General Government Overall Fiscal Balance	**2.6**	**4.7**	**2.8**	**0.9**	**–3.5**	**–1.5**
(Percent of GDP)						
Armenia[1]	–3.5	–1.5	–1.6	–1.9	–4.0	–3.5
Azerbaijan[1]	4.9	4.9	0.8	–0.4	–9.2	–5.5
Georgia	–3.2	–3.0	–2.6	–2.9	–3.3	–2.7
Kazakhstan	2.8	4.5	5.0	1.8	–3.2	–0.3
Kyrgyz Republic	–3.1	–4.7	–5.1	–3.9	–5.9	–6.7
Tajikistan	–3.1	0.6	–0.8	0.0	–1.9	–2.6
Turkmenistan[2]	3.2	6.3	1.3	0.8	–0.9	–0.6
Uzbekistan	2.8	8.5	2.9	1.9	–0.1	0.3
Current Account Balance	**1.3**	**3.2**	**1.9**	**2.0**	**–3.4**	**–3.8**
(Percent of GDP)						
Armenia	–9.4	–10.0	–7.6	–7.3	–5.9	–6.4
Azerbaijan	7.1	21.8	16.4	14.1	3.0	2.7
Georgia	–11.6	–11.7	–5.7	–9.7	–10.7	–9.6
Kazakhstan	–1.0	0.5	0.4	2.1	–3.0	–4.1
Kyrgyz Republic	–3.5	–15.6	–15.0	–16.8	–17.7	–15.7
Tajikistan	–3.9	–2.5	–2.9	–9.2	–7.5	–6.1
Turkmenistan	4.1	0.0	–7.3	–5.8	–13.6	–12.1
Uzbekistan	5.2	1.8	2.9	1.7	0.2	0.3

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]State government.

7. Spillovers from Russia to the CCA

In the face of sharply lower oil prices and geopolitical tensions and sanctions, economic activity in Russia has rapidly decelerated, resulting in negative spillovers to CCA countries. The extent of the impact is commensurate with the level of each country's trade, remittance, and foreign direct investment links with Russia. So far, policy action by affected countries has focused on mitigating the immediate consequences of spillovers. However, given the likely persistent effects of the shocks, stronger and more urgent medium-term-oriented policy responses are needed.

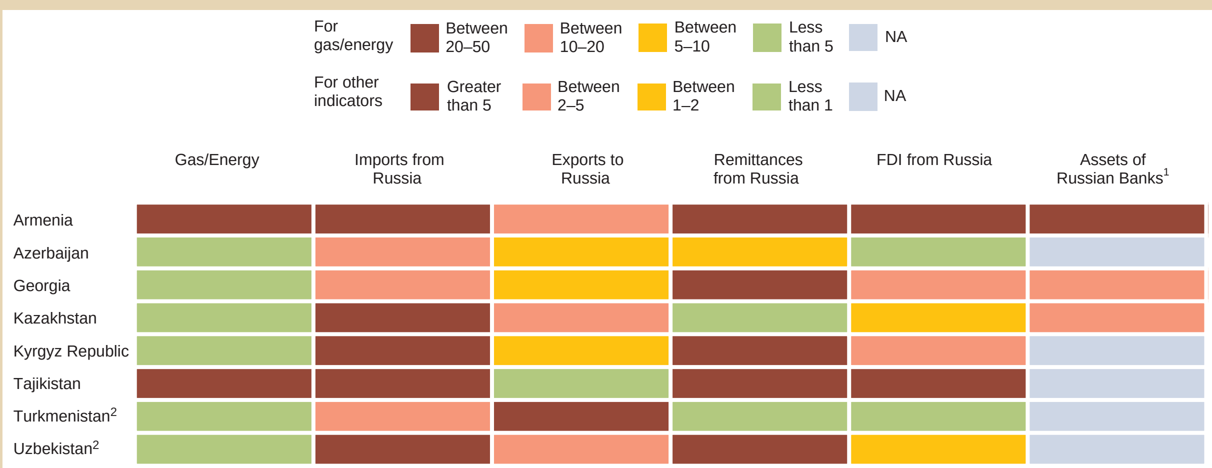
Outlook for Russia and Channels of Spillovers

The outlook for Russia's economy is for continued weakness, with low oil prices and sanctions expected to persist. Real GDP growth is expected to contract by 3.8 percent in 2015 before starting to recover in 2016. The fall in oil prices adds to preexisting structural bottlenecks and to the effects of sanctions imposed during 2014 and then extended in mid-2015. The adverse external environment, coupled with large increases in risk premiums and capital outflows, led to a 45 percent depreciation of the ruble against the U.S. dollar between August 2014 and August 2015.

Negative spillovers from Russia to the CCA economies occur primarily through trade, remittance, and foreign direct investment (FDI) channels (Figure 7.1). Turkmenistan commands the largest share of exports to Russia (more than

Figure 7.1

CCA Links with Russia, 2014 (or latest available)



Source: IMF staff calculations.
Note: Gas/energy imports from Russia are scaled by country's energy consumption; other variables are scaled by GDP. FDI = foreign direct investment.
[1] Including subsidiaries and branches.
[2] Indicates gas exporter to Russia.

Prepared by Dragana Ostojic and Maxym Kryshko, with research assistance from Mark Fischer and under the supervision of Hossein Samiei. This chapter draws on the Background Note to the IMF's Annual 2015 *Spillover Report*, titled: "Spillovers from Russia's Slowdown on Neighboring Countries."

9 percent of GDP). The remittances channel is particularly prominent for CCA oil importers, the world's most remittance-dependent economies. The FDI channel is significant for Armenia and Tajikistan. The financial sector channel is more limited, given the relatively small presence of Russian banks, though depreciations could pose risks to financial stability.

Trade Channel

For many CCA countries, Russia remains an important trading partner. For example, exports to Russia account for about half of Azerbaijan's non-oil exports, while for Armenia, exports to Russia, mostly food and brandy, constitute about 20 percent. Turkmenistan and Uzbekistan export gas to Russia, though they have been increasingly diversifying toward other markets, primarily China.[1] Traditional trade links and preferential agreements (through the Eurasian Economic Union) with Russia may reduce the incentive of some countries to diversify export destinations away from Russia. Imports from Russia, especially energy, are also relatively large. For Armenia and Tajikistan, energy imports from Russia amount to about 30 percent of their total energy consumption.

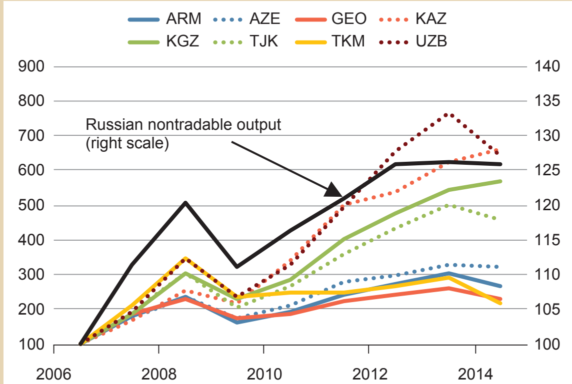
Remittances Channel

Remittances are a key channel for transmission of shocks from Russia to CCA oil importers. Remittances, mostly originating from Russia, constitute about 43 percent of GDP in Tajikistan, 30 percent of GDP in the Kyrgyz Republic, and 20 percent of GDP in Armenia as of 2014. They have grown substantially over the past decade and appear closely correlated with activity in Russia's nontradable sector, most notably construction (Figure 7.2). The large presence of migrant workers in Russia makes these countries vulnerable to risks of surges in unemployment and social tensions in the event that migrants are forced to return.[2] Remittances affect consumption, investment, and bank deposits in the recipient countries.

Figure 7.2

Remittances from Russia

(Indices, 2006 = 100)



Sources: Central Bank of Russia; IMF, World Economic Outlook database; and IMF staff estimates.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

Financial Channel

Spillovers via the financial system appear more limited, although Russian FDI is large in some countries (see Figure 7.1):

- Banking linkages—direct cross-border lending from Russia is relatively small, while the asset share of Russian banks is significant (in the range of 10 percent of total banking system assets) in some countries.[3] Azerbaijani and Kazakhstani banks have subsidiaries in Russia, but their assets are limited (about 2 percent of the home country's GDP). Exchange rate

[1] Russia accounts for about 25 percent of Turkmenistan's gas exports, down from about 70 percent during the global financial crisis.

[2] Although returning migrants can bring new skills and contacts back to their countries, they also create additional pressures on labor markets by increasing unemployment, putting downward pressures on wage levels, and increasing the need for social assistance.

[3] Sberbank has subsidiaries in Kazakhstan; VTB bank has subsidiaries in Armenia, Azerbaijan, Georgia, and Kazakhstan, and Gazprombank in Armenia.

movements (given the highly dollarized CCA banking systems) and declining remittance income could, however, affect CCA banks through the debt repayment capacity of bank clients and balance sheet effects.

- FDI—the stock of FDI from Russia is the highest (more than 5 percent of GDP) in Armenia and Tajikistan. The slowdown in Russia could decrease FDI flows, affecting long-term investment and growth prospects for these countries.

Current and Expected Impact on CCA Countries

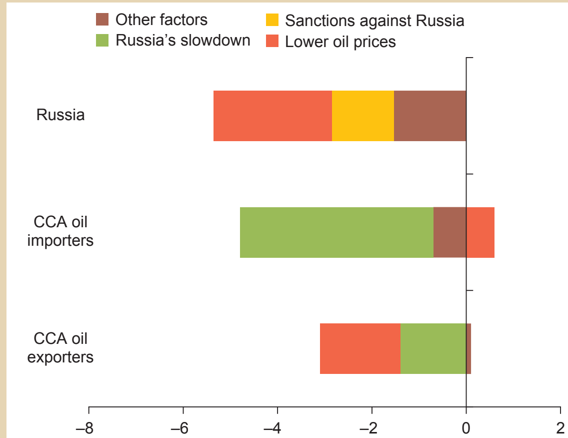
Russia's growth slowdown has had major adverse effects. Economic growth in the CCA economies has already decelerated and is expected to fall further in 2015. In addition, following the ruble's depreciation, exchange rates in many CCA countries weakened sharply against the U.S. dollar, while inflation is rising in some countries and risks are building up in financial systems. More specifically:

- The negative spillovers contributed to sizable downward revisions to growth forecasts across the CCA economies. For CCA oil importers, particularly, adverse spillovers from Russia in 2015 account for more than 2½ percentage points of downward growth revision, relative to April 2014 (Figure 7.3). For CCA energy exporters, negative spillovers from Russia contributed to a downward revision of 1½ percentage points in the growth forecast.
- Currencies of most CCA economies depreciated (or were devalued) reflecting weaker confidence, loss of competitiveness, and expected declines in foreign currency inflows from Russia (see Figure 3.3).
- Despite slowing growth, inflation pressure is rising with pass-through from exchange rate depreciations because the majority of imports, even from Russia, are denominated in U.S. dollars.
- Spillovers from Russia could have financial stability implications, given high dollarization, falling demand, and remittances. However, the impact so far has been limited, owing to relatively low financial sector exposure to Russia and to a transmission lag.

Figure 7.3

Revisions to Real GDP Growth, 2015

(April 2015 versus April 2014, percent)



Sources: IMF, World Economic Outlook database; and IMF staff estimates.

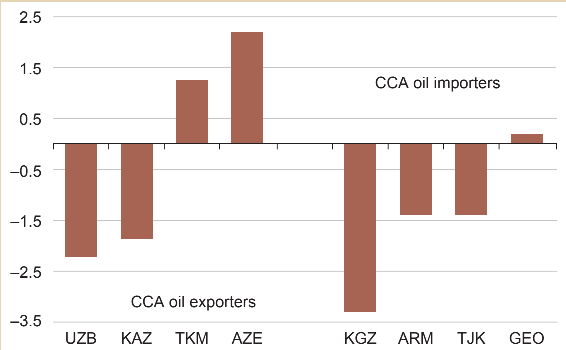
- Remittances to CCA countries have declined between 25 percent and 50 percent during the first half of the year.
- Although there is no evidence of a decrease in FDI inflows yet, reinvested earnings are expected to slow down.

Policy Responses

The policy responses in the CCA have so far focused on addressing the short-term impact of spillovers. Most countries tightened monetary policy and eased fiscal policy. Despite interventions by central banks, national currencies have depreciated relative to the dollar or have been devalued in nearly all CCA countries.

In the fiscal area, many countries responded to shocks with expansionary policies in 2015, though to varying degrees (Figure 7.4). In most cases, countries chose to let the automatic stabilizers work, while spending increased as a function of available fiscal space and financing.

Figure 7.4
Change in Cyclically Adjusted Fiscal Balances
(Percent of GDP, 2015 over 2014)



Sources: National authorities; and IMF staff calculations.
Note: Cyclically adjusted non-oil balances for Azerbaijan, Kazakhstan, and Turkmenistan. Country abbreviations are International Organization for Standardization (ISO) country codes.

- The fiscal policy response of CCA oil exporters—countries with buffers—was mixed. Kazakhstan took a proactive stance, enacting a large fiscal stimulus to counteract lower growth from the external shocks.[4] Uzbekistan cut some taxes, including the corporate income tax, in order to stimulate economic growth. However, Turkmenistan and Azerbaijan cut spending plans because of capacity constraints and earlier large investments.

- For CCA oil importers with low buffers, increasing spending to support growth is conditional on securing favorable financing. Financing under IMF-supported programs allowed Armenia and the Kyrgyz Republic to implement countercyclical policies. In addition, some governments (Armenia, Tajikistan) have sought additional donor support, particularly for capital spending projects and on-lending to small and medium-sized enterprises. The Kyrgyz Republic is implementing an intensive externally financed public investment program.

Nearly all CCA countries have allowed some nominal depreciation/devaluation in 2014–15. The policy response has involved central bank foreign exchange (FX) interventions,[5] while allowing gradual depreciation, and three cases of step devaluation.

- Though they initially resisted exchange rate changes through interventions, CCA oil importers have allowed their exchange rates to depreciate. Armenia and Tajikistan have sought to limit this with large FX sales—an increasingly unsustainable policy—while Georgia and the Kyrgyz Republic have allowed their exchange rates to move more freely.

- In contrast, most CCA energy exporters have tightly managed exchange rates and resorted to step devaluations, or moved to more flexible regimes. Following the preemptive 19 percent devaluation in February 2014, Kazakhstan continued to manage its tenge/dollar exchange rate before moving to the floating regime in August 2015. In response to the ruble depreciation and falling energy prices, Turkmenistan devalued its currency by 19 percent against the dollar (January 2015) and Azerbaijan devalued the manat by 34 percent vis-à-vis the dollar (February 2015). Uzbekistan has maintained the same pace of adjustment of its crawling peg as in 2014, but the spread between the official and parallel market exchange rates has more than doubled in 2015. In most cases, the exchange rate adjustments have been poorly communicated, weakening confidence.

Monetary policies were appropriately tightened in response to rising pressures on currencies and inflation in a majority of countries. Armenia, the Kyrgyz Republic, and, to some extent, Tajikistan used a wide set of instruments to tighten monetary policy, including raising policy and other rates and mopping up excess liquidity. However, given impaired interest rate transmission channels and,

[4] The stimulus, financed from the oil fund and multilateral developments bank, could total up to 6 percent of GDP over the next three to five years and is expected to focus on infrastructure projects. The government also requested $2 billion (about 1 percent of GDP) in budget support from the World Bank to help finance the expected larger deficit.

[5] In some countries, FX sales have reached more than 20 percent of gross reserves and currencies continued to depreciate.

in some cases, barely positive real policy rates, the effectiveness of monetary policy was limited. Uzbekistan's policy stance was mixed: while tightening monetary policy by restricting growth of monetary aggregates, the authorities relaxed their policy by keeping interest rates low.

In the financial sector, some countries have reacted to increased dollarization by introducing macroprudential measures. The policy response involved increased reserve requirements for foreign currency deposits (Armenia, Tajikistan), higher provisioning for foreign currency lending (Kyrgyz Republic), and tightening consumer and mortgage lending (Azerbaijan).

The long-lasting nature of the shocks reinforces the case for strengthening domestic policies to boost potential growth and ensure financial stability. A more severe scenario for the Russian economy would call for faster implementation of structural reforms.

- In the near term: continuing external imbalances point to the need for further exchange rate adjustment, which should be allowed without resisting the trends (Kyrgyz Republic, Tajikistan). To alleviate balance of payment pressures, Uzbekistan would need to accelerate the pace of nominal depreciation. In Armenia, after large foreign exchange sales to date and a fall in reserve coverage, the central bank should limit further intervention and allow the dram to move flexibly if market pressures reemerge. In Kazakhstan, following the decision to float the tenge, strengthening monetary policy instruments and liquidity management will enhance the policy framework and address macroeconomic imbalances. Given high dollarization, financial sector stability should be managed carefully and CCA central banks should step up risk monitoring and strengthen crisis management frameworks. Monetary conditions may need to remain tight, if depreciation results in sustained inflation pressures (Kyrgyz Republic, Tajikistan, Uzbekistan). Fiscal policies need to ensure that near-term accommodation (Armenia, Kazakhstan, Kyrgyz Republic) is sustainable in the medium term and that spending is well targeted, both to the poor to mitigate the shock, and also to meet medium-term growth objectives. In Georgia, automatic stabilizers should be partially allowed to strike a balance between reducing external imbalances and cushioning growth.
- In the medium term: rationalization of the public sector and increasing the efficiency of public spending may help create the necessary fiscal space in countries with limited policy buffers to avoid forced procyclical behaviors. In countries with fiscal policy space, lifting potential growth and ensuring fiscal sustainability in the medium term should be priorities. With exchange rate adjustment, high interest rates, and slow growth, central banks should further strengthen bank supervision—especially of systemic banks—and pursue de-dollarization policies. Further improvements to macro-financial policy frameworks, including greater transparency, better communication, and enhanced practices and tools, are vital for mitigating future shocks. Faster implementation of structural reforms to improve institutions, enhancing the efficiency of labor and product markets, and streamlining business regulation would lift up medium-term growth and increase resilience to negative spillovers.

Statistical Appendix

This publication features an abbreviated version of the Statistical Appendix. The full Statistical Appendix is available online at www.imf.org/external/pubs/ft/reo/2015/mcd/eng/pdf/mreost1015.xlsx

The IMF's Middle East and Central Asia Department (MCD) countries and territories comprise Afghanistan, Algeria, Armenia, Azerbaijan, Bahrain, Djibouti, Egypt, Georgia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, the Kyrgyz Republic, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tajikistan, Tunisia, Turkmenistan, the United Arab Emirates, Uzbekistan, the West Bank and Gaza, and Yemen.

The following statistical appendix tables contain data for 31 MCD countries. Data revisions reflect changes in methodology and/or revisions provided by country authorities.

Somalia is excluded from all regional aggregates owing to a lack of reliable data.

2011 data for Sudan exclude South Sudan after July 9; data for 2012 onward pertain to the current Sudan.

All data for Syria are excluded for 2011 onward because of the uncertain political situation.

All data refer to the calendar years, except for the following countries, which refer to the fiscal years: Afghanistan (March 21/March 20 until 2011, and December 21/December 20 thereafter), Iran (March 21/March 20), Qatar (April/March), and Egypt and Pakistan (July/June) except inflation.

Data on consumer price inflation in Table 1 relate to the calendar year for all aggregates and countries, except for Iran, for which the Iranian calendar year (beginning on March 21) is used.

Tables 1, 3, 4, 6, 7, 8, and 9 include data for West Bank and Gaza.

In Table 1, "oil GDP" includes "gas GDP." In Table 5, "oil" includes gas, which is also an important resource in several countries.

REO aggregates are constructed using a variety of weights as appropriate to the series:

- Composites for data relating to the domestic economy (Table 1, Table 2: Oil and Non-Oil Real GDP Growth, Tables 3–5) and monetary sector (Table 8: Credit to Private Sector) whether growth rates or ratios, are weighted by GDP valued at purchasing power parities (PPPs) as a share of total MCD or group GDP. Country group composites for the growth rates of broad money (Table 8: Broad Money Growth) are weighted by GDP converted to U.S. dollars at market exchange rates (both GDP and exchange rates are averaged over the preceding three years) as a share of MCD or group GDP.
- Composites relating to the external economy (Tables 6 and 7) denominated in U.S. dollars are sums of individual country data after conversion to U.S. dollars at the average market exchange rates in the years indicated for balance of payments data and at end-of-year market exchange rates for debt denominated in U.S. dollars. Composites relating to the external economy (Tables 6 and 7) denominated in percent of GDP/months of imports are sums of individual country data divided by sums of dollar-denominated GDP/sums of imports denominated in U.S. dollars.
- Composites in Table 2 (Crude Oil Production) are sums of the individual country data.

Table 1. Real GDP Growth and Consumer Price Inflation

	Real GDP Growth (Annual change; percent)					Consumer Price Inflation[1] (Year average; percent)				
				Projections					Projections	
	Average 2008–12	2013	2014	2015	2016	Average 2008–12	2013	2014	2015	2016
MENAP	**4.4**	**2.3**	**2.7**	**2.5**	**3.9**	**9.1**	**10.0**	**6.9**	**6.2**	**5.6**
Oil Exporters	**4.6**	**1.9**	**2.6**	**1.8**	**3.8**	**8.4**	**10.4**	**5.8**	**6.0**	**5.1**
Algeria	2.6	2.8	3.8	3.0	3.9	5.6	3.3	2.9	4.2	4.1
Bahrain	3.8	5.3	4.5	3.4	3.2	2.1	3.3	2.7	2.0	2.1
Iran, Islamic Republic of	1.4	–1.9	4.3	0.8	4.4	20.1	34.7	15.5	15.1	11.5
Iraq	7.9	6.6	–2.1	0.0	7.1	2.9	1.9	2.2	1.9	3.0
Kuwait	2.3	0.8	0.1	1.2	2.5	4.7	2.7	2.9	3.3	3.3
Libya	9.9	–13.6	–24.0	–6.1	2.0	7.5	2.6	2.8	8.0	9.2
Oman	5.8	4.7	2.9	4.4	2.8	5.3	1.2	1.0	0.4	2.0
Qatar[2]	13.5	4.6	4.0	4.7	4.9	2.3	3.1	3.0	1.6	2.3
Saudi Arabia	6.1	2.7	3.5	3.4	2.2	4.1	3.5	2.7	2.1	2.3
United Arab Emirates	2.3	4.3	4.6	3.0	3.1	3.2	1.1	2.3	3.7	3.0
Yemen	1.0	4.8	–0.2	–28.1	11.6	12.7	11.0	8.2	30.0	15.0
Oil Importers	**3.8**	**3.1**	**2.9**	**3.9**	**4.1**	**10.5**	**9.1**	**9.4**	**6.6**	**6.6**
Afghanistan, Republic of	10.7	3.9	1.3	2.0	3.0	8.0	7.4	4.7	–1.9	2.8
Djibouti	4.7	5.0	6.0	6.5	7.0	5.3	2.4	2.9	3.0	3.5
Egypt	4.2	2.1	2.2	4.2	4.3	11.7	9.5	10.1	9.5	10.0
Jordan	4.1	2.8	3.1	2.9	3.7	5.4	4.8	2.9	0.2	3.1
Lebanon	6.2	2.5	2.0	2.0	2.5	5.5	4.8	1.9	0.1	1.5
Mauritania	3.0	5.5	6.9	4.1	6.4	5.3	4.1	3.5	3.6	4.2
Morocco	4.4	4.7	2.4	4.9	3.7	1.6	1.9	0.4	1.5	2.0
Pakistan	3.1	3.7	4.0	4.2	4.5	13.0	7.4	8.6	4.5	4.7
Sudan	1.2	3.9	3.6	3.5	4.0	18.4	36.5	36.9	19.8	12.7
Syrian Arab Republic	…	…	…	…	…	…	…	…	…	…
Tunisia	2.4	2.3	2.3	1.0	3.0	4.0	5.8	4.9	5.0	4.0
CCA	**5.9**	**6.6**	**5.3**	**3.7**	**4.0**	**8.8**	**6.0**	**5.8**	**6.8**	**7.4**
Oil and Gas Exporters	**6.2**	**6.8**	**5.4**	**3.8**	**4.1**	**9.0**	**6.3**	**5.9**	**6.8**	**7.6**
Azerbaijan	5.5	5.8	2.8	4.0	2.5	7.4	2.4	1.4	5.0	4.2
Kazakhstan	4.9	6.0	4.3	1.5	2.4	9.0	5.8	6.7	6.3	8.6
Turkmenistan	11.2	10.2	10.3	8.5	8.9	5.4	6.8	6.0	7.0	6.0
Uzbekistan	8.4	8.0	8.1	6.8	7.0	12.2	11.2	8.4	9.7	9.2
Oil and Gas Importers	**3.6**	**5.7**	**4.7**	**2.3**	**3.0**	**7.7**	**3.6**	**4.6**	**6.3**	**6.1**
Armenia	1.4	3.5	3.4	2.5	2.2	6.0	5.8	3.0	4.3	3.4
Georgia	3.7	3.3	4.8	2.0	3.0	5.3	–0.5	3.1	3.7	5.0
Kyrgyz Republic	3.0	10.5	3.6	2.0	3.6	11.7	6.6	7.5	8.3	9.0
Tajikistan	6.6	7.4	6.7	3.0	3.4	10.3	5.0	6.1	10.8	8.2
Memorandum										
MENA	**4.5**	**2.1**	**2.6**	**2.3**	**3.8**	**8.7**	**10.3**	**6.7**	**6.4**	**5.8**
MENA Oil Importers	**3.9**	**2.8**	**2.4**	**3.8**	**4.0**	**9.4**	**10.1**	**10.0**	**7.9**	**7.8**
Arab Countries in Transition (excluding Libya)	**3.9**	**2.8**	**2.1**	**2.4**	**4.4**	**9.1**	**7.7**	**7.5**	**8.2**	**8.0**
GCC	**5.5**	**3.2**	**3.4**	**3.3**	**2.8**	**3.9**	**2.8**	**2.6**	**2.4**	**2.5**
Non-GCC Oil Exporters	**3.7**	**0.5**	**1.7**	**0.1**	**4.9**	**13.2**	**19.0**	**9.5**	**10.3**	**8.2**
Arab World	**5.2**	**3.0**	**2.2**	**2.6**	**3.7**	**5.9**	**4.9**	**4.7**	**4.5**	**4.5**
West Bank and Gaza[3]	8.3	2.2	–0.4	2.9	3.9	4.4	1.7	1.7	1.6	2.6

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

[1] Data on a calendar year basis for all countries except Iran.

[2] Qatar's data since 2010 reflect the recently published national accounts based on 2013 constant prices; data prior to 2010 are from Haver Analytics.

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

Table 2. Oil Exporters: Oil and Non-Oil Real GDP Growth; and Crude Oil and Natural Gas Production

	Average 2008–12	2013	2014	Projections 2015	Projections 2016	Average 2008–12	2013	2014	Projections 2015	Projections 2016
	Oil GDP *(Annual percent change)*					**Non-Oil GDP** *(Annual percent change)*				
MENAP Oil Exporters	**1.1**	**–2.7**	**1.4**	**1.2**	**7.7**	**5.8**	**5.0**	**3.7**	**1.3**	**3.3**
Algeria	–4.0	–5.5	–0.6	–2.8	1.8	7.2	7.6	5.8	5.2	4.3
Bahrain	–1.0	15.3	3.0	–1.0	0.0	5.1	3.0	4.9	4.5	4.0
Iran, Islamic Republic of	–7.9	–8.9	6.1	–0.3	18.0	3.3	–1.1	4.1	1.0	2.8
Iraq	7.4	3.1	4.6	10.8	11.6	8.6	10.2	–8.8	–12.3	0.5
Kuwait	2.7	–0.8	–1.9	0.0	2.2	1.7	3.6	3.5	3.0	3.0
Libya	27.0	–31.6	–53.7	–14.6	14.4	2.2	8.7	–1.0	–3.0	–2.0
Oman	5.0	3.0	–0.5	4.2	1.1	6.7	6.5	6.5	4.5	4.5
Qatar[1]	14.0	0.1	–1.5	0.2	1.4	13.1	10.6	10.6	9.5	8.4
Saudi Arabia	2.7	–1.6	1.5	4.2	1.2	7.5	6.4	5.0	2.9	3.0
United Arab Emirates	1.4	2.9	4.0	2.0	2.1	2.9	5.0	4.8	3.4	3.6
Yemen	2.9	13.2	–11.3	–61.0	85.2	1.0	4.0	1.0	–25.0	8.0
CCA Oil Exporters	**3.1**	**2.6**	**–0.6**	**0.7**	**1.5**	**7.3**	**8.2**	**7.1**	**4.2**	**4.0**
Azerbaijan	2.3	0.5	–2.4	–0.9	0.0	9.1	9.9	6.2	7.1	4.0
Kazakhstan	3.3	3.2	–1.3	–0.4	0.4	5.5	7.0	6.3	2.1	3.0
Turkmenistan	2.1	3.6	6.9	8.6	9.0	13.4	11.1	12.7	8.5	8.8
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**3.4**	**0.1**	**1.3**	**2.9**	**1.4**	**6.3**	**6.2**	**5.5**	**3.8**	**3.8**
Non-GCC Oil Exporters	**–1.4**	**–6.0**	**1.5**	**–0.8**	**15.1**	**5.2**	**3.7**	**1.6**	**–1.7**	**2.7**
	Crude Oil Production *(Millions of barrels per day)*					**Natural Gas Production** *(Millions of barrels per day equivalent)*				
MENAP Oil Exporters	**25.0**	**25.2**	**25.0**	**25.7**	**27.0**	**10.9**	**12.8**	**13.0**	**12.8**	**13.2**
Algeria	1.1	1.0	1.0	1.0	1.0	1.5	1.5	1.5	1.3	1.3
Bahrain	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4
Iran, Islamic Republic of[2]	3.9	2.8	3.1	3.1	3.7	2.5	2.6	2.8	2.8	2.8
Iraq	2.5	3.0	3.1	3.4	3.8	0.0	0.0	0.0	0.0	0.0
Kuwait	2.6	2.9	2.9	2.9	2.9	0.2	0.3	0.3	0.3	0.3
Libya	1.4	1.0	0.5	0.4	0.5	0.1	0.1	0.0	0.0	0.0
Oman	0.8	0.9	0.9	1.0	1.0	0.6	0.7	0.7	0.7	0.7
Qatar	0.8	0.7	0.7	0.7	0.7	2.9	4.0	4.0	4.0	4.1
Saudi Arabia	8.9	9.6	9.7	10.2	10.2	1.6	1.9	2.0	2.0	2.1
United Arab Emirates	2.5	2.8	2.8	2.9	2.9	1.1	1.3	1.3	1.3	1.3
Yemen	0.2	0.2	0.2	0.1	0.1	…	0.2	0.2	0.1	0.1
CCA Oil Exporters	**2.7**	**2.8**	**3.0**	**2.8**	**2.8**	**1.3**	**1.5**	**1.6**	**1.7**	**1.9**
Azerbaijan	0.9	0.9	0.8	0.8	0.8	0.3	0.3	0.3	0.3	0.3
Kazakhstan	1.6	1.7	1.9	1.7	1.7	0.0	0.0	0.0	0.0	0.0
Turkmenistan	0.2	0.2	0.2	0.3	0.3	1.0	1.2	1.3	1.4	1.6
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**15.8**	**17.2**	**17.2**	**17.7**	**18.0**	**6.7**	**8.5**	**8.6**	**8.7**	**8.9**
Non-GCC Oil Exporters	**9.2**	**8.0**	**7.8**	**8.0**	**9.1**	**4.2**	**4.3**	**4.4**	**4.2**	**4.3**

Sources: National authorities; and IMF staff estimates and projections.
[1]Qatar's data since 2010 reflect the recently published national accounts based on 2013 constant prices; data prior to 2010 are from Haver Analytics.
[2]Including condensates.

Table 3. General Government Fiscal Balance and Total Government Gross Debt

	General Government Fiscal Balance, Including Grants (Percent of GDP)					Total Government Gross Debt (Percent of GDP)				
	Average			Projections		Average			Projections	
	2008–12	2013	2014	2015	2016	2008–12	2013	2014	2015	2016
MENAP	**1.7**	**–0.1**	**–3.0**	**–11.0**	**–9.4**	**32.2**	**32.9**	**33.8**	**38.1**	**41.1**
Oil Exporters	**5.5**	**4.2**	**–0.8**	**–12.7**	**–11.1**	**16.3**	**13.4**	**14.6**	**20.5**	**25.0**
Algeria	–1.2	–1.5	–7.9	–13.9	–11.4	10.2	8.3	8.8	10.2	13.6
Bahrain[1]	–2.4	–4.3	–5.7	–14.2	–13.9	26.5	43.5	43.8	66.7	77.8
Iran, Islamic Republic of[1,2]	–0.1	–2.2	–1.1	–2.9	–1.6	11.5	15.4	15.8	16.4	15.3
Iraq[3]	–1.8	–5.8	–5.3	–23.1	–17.7	58.1	31.9	38.9	74.5	87.6
Kuwait[1]	28.2	34.0	26.3	1.2	0.0	9.5	6.4	6.9	9.9	9.8
Libya	8.4	–4.0	–43.5	–79.1	–63.4	3.5	3.3	39.3	50.5	46.5
Oman[1]	7.4	3.2	–1.5	–17.7	–20.0	5.5	5.1	5.1	9.3	12.2
Qatar	11.4	20.7	14.7	4.5	–1.5	30.8	32.3	31.7	29.9	27.8
Saudi Arabia[1]	10.2	5.8	–3.4	–21.6	–19.4	8.7	2.2	1.6	6.7	17.3
United Arab Emirates[4]	7.0	10.4	5.0	–5.5	–4.0	18.7	15.9	15.7	18.9	18.3
Yemen	–5.9	–6.9	–4.1	–8.5	–9.2	44.3	48.2	48.7	67.0	60.6
Oil Importers	**–6.5**	**–9.5**	**–7.9**	**–7.3**	**–5.8**	**65.5**	**75.3**	**75.4**	**75.3**	**75.2**
Afghanistan, Republic of	–1.0	–0.6	–1.7	–0.3	–0.2	11.4	6.7	6.4	6.6	6.8
Djibouti	–1.9	–5.9	–10.5	–11.5	–13.2	51.2	42.3	42.3	53.3	62.1
Egypt	–8.7	–14.1	–13.6	–11.7	–9.4	74.4	89.0	90.5	90.0	89.3
Jordan[1,5]	–6.9	–11.1	–10.3	–3.0	–2.4	68.9	86.7	89.0	90.0	86.6
Lebanon[1]	–8.0	–8.7	–6.0	–10.0	–8.0	142.3	133.4	133.1	132.4	134.3
Mauritania[1,6]	–1.4	–0.9	–3.6	–1.0	–4.7	79.3	76.4	76.6	84.3	85.1
Morocco[1]	–3.8	–5.2	–4.9	–4.3	–3.5	50.3	61.5	63.4	63.9	63.9
Pakistan[7]	–6.7	–8.4	–4.9	–5.3	–4.2	60.4	64.8	64.9	64.7	64.4
Sudan	–1.5	–2.3	–1.1	–1.8	–1.3	75.9	89.9	74.0	71.5	74.0
Syrian Arab Republic	–4.5	…	…	…	…	32.9	…	…	…	…
Tunisia	–2.3	–6.0	–3.7	–5.7	–4.0	43.1	44.3	50.0	54.0	56.3
CCA	**4.5**	**2.8**	**0.9**	**–3.5**	**–1.5**	**12.8**	**15.3**	**16.6**	**20.4**	**21.6**
Oil and Gas Exporters	**5.6**	**3.4**	**1.3**	**–3.5**	**–1.2**	**10.0**	**12.9**	**13.9**	**17.4**	**18.7**
Azerbaijan[1]	12.1	0.8	–0.4	–9.2	–5.5	10.4	13.8	15.9	20.6	22.7
Kazakhstan	2.3	5.0	1.8	–3.2	–0.3	10.1	12.9	14.9	18.3	18.8
Turkmenistan[8]	5.8	1.3	0.8	–0.9	–0.6	7.5	21.1	16.8	18.7	16.6
Uzbekistan	7.0	2.9	1.9	–0.1	0.3	10.3	8.3	8.5	11.6	16.0
Oil and Gas Importers	**–4.3**	**–2.4**	**–2.2**	**–3.6**	**–3.6**	**35.3**	**35.6**	**38.4**	**45.5**	**47.0**
Armenia[1]	–3.8	–1.6	–1.9	–4.0	–3.5	30.9	38.0	41.3	46.1	48.3
Georgia	–5.5	–2.6	–2.9	–3.3	–2.7	29.6	32.2	34.8	45.4	45.8
Kyrgyz Republic	–4.3	–5.1	–3.9	–5.9	–6.7	52.9	46.1	53.0	60.0	62.0
Tajikistan	–3.0	–0.8	0.0	–1.9	–2.6	34.1	29.2	28.3	32.9	34.6
Memorandum										
MENA	**2.7**	**0.8**	**–2.8**	**–11.8**	**–10.1**	**29.1**	**29.3**	**30.3**	**35.1**	**38.5**
MENA Oil Importers	**–6.5**	**–10.4**	**–9.7**	**–8.6**	**–6.9**	**69.6**	**83.4**	**83.5**	**83.4**	**83.4**
Arab Countries in Transition (excluding Libya)	**–7.1**	**–11.2**	**–10.5**	**–9.3**	**–7.5**	**65.3**	**77.7**	**79.6**	**81.3**	**80.6**
GCC	**11.0**	**10.6**	**2.9**	**–13.2**	**–12.6**	**13.1**	**9.3**	**9.0**	**13.2**	**18.9**
Non-GCC Oil Exporters	**–0.1**	**–3.1**	**–5.1**	**–12.1**	**–9.3**	**19.7**	**18.1**	**21.1**	**29.3**	**32.1**
Arab World	**3.4**	**1.5**	**–3.2**	**–13.7**	**–12.0**	**33.5**	**32.4**	**33.6**	**39.3**	**43.7**
West Bank and Gaza[3,9]	–19.8	–12.6	–12.4	–12.2	–13.8	22.6	19.0	19.7	20.6	21.0

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

[1] Central government.

[2] Includes National Development Fund but excludes Targeted Subsidy Organization.

[3] Excluding grants.

[4] Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah. Total goverment gross debt includes banking system claims. Excludes debt raised by federal and Emirati governments in the international markets.

[5] Central government. Includes transfers to electric company (4.3 percent and 2.7 percent of GDP in 2013 and 2014, respectively).

[6] Includes oil revenue transferred to the oil fund. Total government gross debt also includes oil revenues transferred to public enterprises and central bank debts.

[7] Debt figures include IMF obligations.

[8] State government.

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

Table 4. General Government Total Revenue Excluding Grants, and Total Expenditure and Net Lending

	General Government Total Revenue, Excluding Grants *(Percent of GDP)*					General Government Total Expenditure and Net Lending *(Percent of GDP)*				
	Average 2008–12	2013	2014	Projections 2015	Projections 2016	Average 2008–12	2013	2014	Projections 2015	Projections 2016
MENAP	**32.0**	**31.2**	**29.1**	**25.2**	**25.2**	**30.6**	**29.9**	**31.4**	**32.8**	**36.7**
Oil Exporters	**37.6**	**36.9**	**33.8**	**28.1**	**27.5**	**32.2**	**32.5**	**34.7**	**41.1**	**38.8**
Algeria[1]	40.0	35.8	33.2	29.6	28.9	41.2	37.3	41.2	43.6	40.2
Bahrain[2]	24.2	24.0	24.1	16.4	16.0	27.8	30.4	33.6	44.2	43.5
Iran, Islamic Republic of[2,3]	19.9	14.1	14.6	13.9	15.1	19.1	15.0	15.7	16.8	16.7
Iraq	45.4	42.6	40.1	36.6	39.0	50.4	48.4	45.4	59.7	56.7
Kuwait[2]	69.0	71.8	68.7	55.6	52.3	40.8	37.8	42.4	54.4	52.3
Libya	59.5	65.7	40.9	21.3	23.2	51.1	69.8	84.4	100.4	86.6
Oman[2]	45.0	49.1	47.2	39.5	38.0	39.7	47.2	50.2	60.0	61.4
Qatar	40.4	52.2	47.4	40.2	34.0	29.1	31.6	32.7	35.7	35.6
Saudi Arabia[2]	43.1	41.4	37.3	28.9	27.3	32.9	35.6	40.8	50.4	46.7
United Arab Emirates[4]	37.1	41.0	37.7	31.3	29.9	30.1	30.6	32.8	36.8	33.9
Yemen	26.8	23.0	21.0	10.0	12.9	34.5	30.8	27.8	19.8	23.0
Oil Importers	**20.3**	**18.9**	**18.8**	**18.9**	**20.4**	**27.4**	**28.9**	**28.8**	**27.3**	**27.0**
Afghanistan, Republic of	9.5	9.8	8.5	9.8	10.3	22.0	25.0	25.6	29.5	30.1
Djibouti	28.6	27.4	28.8	27.9	25.8	38.4	37.7	46.0	48.5	47.7
Egypt	24.6	22.7	21.2	22.9	25.4	33.7	37.1	38.6	35.4	34.9
Jordan[2]	22.9	21.5	23.0	23.2	23.5	33.2	29.6	30.9	29.1	30.2
Lebanon[2]	22.8	19.8	21.7	19.1	20.1	31.1	28.5	27.7	29.0	28.2
Mauritania[2,5]	22.4	26.9	27.5	28.3	25.9	24.8	28.6	31.3	31.1	31.4
Morocco[2,6]	28.2	27.1	26.5	24.3	25.5	32.2	32.9	33.0	30.0	30.0
Pakistan	13.5	13.3	14.5	14.4	15.3	20.4	21.8	20.2	19.8	19.6
Sudan	17.1	10.2	10.9	9.4	9.7	18.9	13.1	12.7	11.6	11.6
Syrian Arab Republic	21.6	…	…	…	…	26.1	…	…	…	…
Tunisia	23.6	23.6	24.0	22.4	23.1	26.3	29.8	28.1	28.4	27.4
CCA	**31.1**	**29.2**	**28.4**	**24.3**	**25.5**	**27.0**	**26.5**	**27.8**	**27.8**	**26.9**
Oil and Gas Exporters	**31.9**	**29.5**	**28.6**	**24.1**	**25.4**	**26.5**	**26.1**	**27.4**	**27.4**	**26.4**
Azerbaijan[2,7]	44.6	39.4	38.8	26.8	27.9	33.4	38.0	39.2	34.7	31.9
Kazakhstan	25.8	25.3	24.3	20.4	23.0	23.5	20.3	22.6	23.6	23.2
Turkmenistan[6]	19.3	17.4	16.3	13.8	13.3	13.5	16.1	15.4	14.8	13.8
Uzbekistan	38.9	35.9	35.2	34.9	34.8	32.2	33.4	33.6	35.4	34.9
Oil and Gas Importers	**24.7**	**26.1**	**26.7**	**26.0**	**25.8**	**31.2**	**29.9**	**30.7**	**31.5**	**31.3**
Armenia[2,7]	20.3	22.0	21.7	20.9	21.1	26.2	25.1	25.1	26.8	26.3
Georgia	27.1	26.8	27.0	27.1	27.1	34.6	30.1	30.9	31.3	30.5
Kyrgyz Republic	29.4	32.0	32.3	32.3	31.4	37.0	38.0	39.8	41.7	41.4
Tajikistan	21.5	24.6	26.9	24.3	24.2	26.7	27.7	28.4	28.2	29.2
Memorandum										
MENA	**34.3**	**33.5**	**31.0**	**26.6**	**26.5**	**31.9**	**32.6**	**34.4**	**38.8**	**37.0**
MENA Oil Importers	**23.9**	**22.1**	**21.4**	**21.7**	**23.4**	**30.9**	**32.8**	**33.5**	**31.2**	**30.8**
Arab Countries in Transition (excluding Libya)	**25.2**	**23.5**	**22.4**	**22.5**	**24.5**	**32.9**	**34.9**	**35.6**	**32.8**	**32.5**
GCC	**43.9**	**45.4**	**41.6**	**33.3**	**31.2**	**33.0**	**34.9**	**38.8**	**46.9**	**44.2**
Non-GCC Oil Exporters	**31.1**	**27.3**	**24.8**	**22.0**	**23.1**	**31.3**	**29.8**	**30.0**	**34.2**	**32.5**
Arab World	**37.9**	**37.9**	**34.7**	**29.5**	**29.1**	**35.0**	**36.5**	**38.7**	**43.7**	**41.5**
West Bank and Gaza[7,8]	21.0	18.6	21.5	21.7	22.0	40.7	31.2	34.0	34.0	35.8

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

1 Including special accounts.

2 Central government.

3 Includes National Development Fund but excludes Targeted Subsidy Organization.

4 Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.

5 Includes oil revenue transferred to the oil fund.

6 State government.

7 Expenditures do not include statistical discrepancy.

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

Table 5. Oil Exporters: Non-Oil Fiscal Balance and Revenue; and Fiscal and External Breakeven Oil Prices

	Average 2008–12	2013	2014	Projections 2015	Projections 2016	Average 2008–12	2013	2014	Projections 2015	Projections 2016
	Non-Oil Fiscal Balance (Percent of non-oil GDP)					Non-Oil Revenue (Percent of non-oil GDP)				
MENAP Oil Exporters	**–45.8**	**–45.5**	**–43.9**	**–42.9**	**–38.7**	**12.7**	**13.0**	**12.8**	**12.8**	**12.5**
Algeria	–45.8	–33.6	–37.9	–34.1	–29.8	19.2	19.5	18.6	18.7	18.6
Bahrain[1]	–30.7	–34.5	–35.3	–31.9	–30.8	3.9	3.8	4.0	3.7	3.6
Iran, Islamic Republic of[1,2]	–14.9	–10.5	–8.0	–7.5	–7.3	10.3	9.2	10.5	11.2	11.7
Iraq	–78.2	–69.4	–60.5	–66.8	–62.7	6.5	6.6	4.2	7.8	8.0
Kuwait[1]	–76.9	–73.6	–76.9	–68.8	–65.4	30.0	36.2	37.5	32.0	28.2
Libya	–136.0	–176.2	–133.0	–117.1	–100.8	16.5	9.5	4.4	3.0	3.4
Oman[1]	–60.5	–82.9	–85.4	–73.0	–69.7	13.9	13.3	13.0	13.4	13.8
Qatar	–47.1	–46.5	–45.1	–42.2	–37.3	15.9	21.9	18.1	14.5	14.1
Saudi Arabia[1]	–55.9	–59.0	–62.9	–64.0	–56.7	8.5	8.2	8.2	8.2	8.1
United Arab Emirates[3]	–28.9	–28.4	–28.9	–26.3	–23.5	17.2	20.3	20.9	20.4	19.1
Yemen[4]	–31.6	–24.9	–19.0	–12.2	–15.3	11.7	12.8	12.2	7.8	9.4
CCA Oil Exporters	**–20.7**	**–18.9**	**–20.3**	**–18.8**	**–16.7**	**20.0**	**17.2**	**18.3**	**15.7**	**16.4**
Azerbaijan[1]	–39.7	–45.6	–41.4	–36.2	–31.4	23.5	19.8	21.8	19.8	19.7
Kazakhstan	–14.6	–9.4	–13.8	–13.6	–12.5	19.4	16.7	17.9	14.9	16.1
Turkmenistan[5]	–8.7	–12.1	–10.8	–10.3	–8.6	14.4	14.3	13.2	11.6	11.4
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**–51.4**	**–53.8**	**–56.1**	**–54.4**	**–48.9**	**13.3**	**14.9**	**14.6**	**13.7**	**13.0**
Non-GCC Oil Exporters	**–40.0**	**–36.2**	**–29.8**	**–29.0**	**–26.9**	**12.0**	**10.9**	**10.7**	**11.7**	**12.1**
	Fiscal Breakeven Oil Prices[6] (U.S. dollars per barrel)					External Breakeven Oil Prices[7] (U.S. dollars per barrel)				
MENAP Oil Exporters										
Algeria	95.1	108.1	133.8	96.1	93.0	61.8	87.5	94.8	90.4	90.0
Bahrain	99.0	125.3	122.5	107.0	105.0	62.8	64.9	80.9	72.5	77.3
Iran, Islamic Republic of	84.3	115.8	94.2	87.2	70.4	60.6	54.2	55.4	42.7	47.5
Iraq	99.5	114.6	112.5	81.0	75.9	74.1	95.1	104.8	65.0	65.4
Kuwait	41.4	43.6	56.0	49.1	51.8	29.6	35.1	44.2	41.1	42.6
Libya	80.6	110.8	206.0	269.0	207.6	57.3	83.2	185.2	246.1	185.6
Oman	69.4	98.3	108.2	94.7	97.5	…	90.2	95.4	84.5	89.8
Qatar	58.5	60.0	56.3	55.5	57.8	…	51.5	50.2	46.1	58.6
Saudi Arabia	67.4	89.0	105.7	105.6	95.8	53.0	59.4	70.9	63.8	64.7
United Arab Emirates	67.4	69.4	78.4	72.6	67.5	…	49.3	50.5	44.8	43.6
Yemen[4]	…	214.8	160.0	314.0	304.0	…	168.0	120.0	…	…
CCA Oil Exporters										
Azerbaijan	47.8	82.4	92.0	69.7	60.6	…	74.2	69.1	55.9	56.4
Kazakhstan	70.5	63.2	65.5	88.1	82.7	77.8	108.3	105.7	84.5	86.7
Turkmenistan	…	41.9	47.9	45.5	42.7	…	63.4	60.4	46.8	42.6
Uzbekistan	…	…	…	…	…	…	…	…	…	…

Sources: National authorities; and IMF staff estimates and projections.
[1] Central government.
[2] Includes National Development Fund but excludes Targeted Subsidy Organization.
[3] Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.
[4] Yemen is a net oil importer in 2015 and 2016.
[5] State government.
[6] The oil price at which the fiscal balance is zero.
[7] The oil price at which the current account balance is zero.

Table 6. Current Account Balance

	(In billions of U.S. dollars)					(In percent of GDP)				
	Average			Projections		Average			Projections	
	2008–12	2013	2014	2015	2016	2008–12	2013	2014	2015	2016
MENAP	**276.6**	**344.0**	**192.5**	**–101.8**	**–121.6**	**9.1**	**10.2**	**5.6**	**–3.6**	**–4.3**
Oil Exporters	**309.0**	**387.4**	**229.6**	**–73.7**	**–97.0**	**13.6**	**15.2**	**8.9**	**–3.4**	**–4.3**
Algeria	15.8	0.8	–9.6	–31.0	–29.4	8.8	0.4	–4.5	–17.7	–16.2
Bahrain	1.8	2.6	1.1	–1.5	–1.9	6.5	7.8	3.3	–4.8	–5.9
Iran, Islamic Republic of	28.5	26.5	15.9	1.6	5.5	5.7	7.0	3.8	0.4	1.3
Iraq	10.8	3.0	–6.2	–20.9	–19.4	6.1	1.3	–2.8	–12.7	–11.0
Kuwait	53.9	72.5	53.5	11.4	8.9	37.5	41.2	31.0	9.3	7.0
Libya	17.6	8.9	–12.4	–18.5	–15.9	23.0	13.6	–30.1	–62.2	–49.1
Oman	5.3	5.1	1.5	–10.2	–14.7	8.0	6.6	2.0	–16.9	–24.3
Qatar	34.2	62.4	54.8	9.7	–8.6	22.4	30.9	26.1	5.0	–4.5
Saudi Arabia	108.7	135.4	76.9	–22.4	–30.3	17.8	18.2	10.3	–3.5	–4.7
United Arab Emirates	33.6	71.4	54.6	9.8	11.0	9.7	18.4	13.7	2.9	3.1
Yemen	–1.3	–1.2	–0.7	–1.8	–2.3	–4.6	–3.1	–1.7	–5.3	–5.4
Oil Importers	**–32.3**	**–43.4**	**–37.1**	**–28.1**	**–24.6**	**–4.5**	**–5.2**	**–4.2**	**–4.2**	**–4.2**
Afghanistan, Republic of	0.0	0.0	0.0	0.0	0.0	7.1	7.4	6.1	4.7	2.4
Djibouti	–0.2	–0.3	–0.4	–0.5	–0.5	–13.4	–23.3	–25.6	–31.4	–26.8
Egypt	–4.8	–6.4	–2.4	…	…	–2.0	–2.4	–0.8	–3.7	–4.5
Jordan	–2.6	–3.5	–2.4	–2.8	–2.6	–9.4	–10.3	–6.8	–7.4	–6.5
Lebanon	–6.5	–12.7	–12.4	–11.4	–11.0	–16.8	–26.7	–24.9	–21.0	–19.3
Mauritania	–0.6	–1.3	–1.5	–0.9	–1.2	–13.3	–24.4	–28.9	–18.3	–25.6
Morocco	–6.6	–8.5	–6.0	–2.4	–1.8	–6.8	–7.9	–5.5	–2.3	–1.6
Pakistan	–6.3	–2.5	–3.1	–2.3	…	–3.6	–1.1	–1.3	–0.8	–0.5
Sudan	–2.7	–5.9	–5.7	–4.9	–4.8	–4.6	–8.9	–7.7	–5.8	–5.6
Syrian Arab Republic	–1.3	…	…	…	…	–2.4	…	…	…	…
Tunisia	–2.4	–3.9	–4.3	–3.8	–3.1	–5.4	–8.3	–8.8	–8.5	–7.0
CCA	**15.4**	**8.5**	**8.8**	**–13.8**	**–15.1**	**4.8**	**1.9**	**2.0**	**–3.4**	**–3.8**
Oil and Gas Exporters	**19.3**	**11.6**	**13.4**	**–9.9**	**–11.3**	**6.9**	**2.9**	**3.3**	**–2.7**	**–3.2**
Azerbaijan	14.7	12.0	10.4	1.9	1.7	27.0	16.4	14.1	3.0	2.7
Kazakhstan	3.0	0.9	4.6	–5.9	–7.1	1.6	0.4	2.1	–3.0	–4.1
Turkmenistan	–0.2	–3.0	–2.8	–6.0	–6.2	–1.4	–7.3	–5.8	–13.6	–12.1
Uzbekistan	1.8	1.6	1.1	0.1	0.2	4.9	2.9	1.7	0.2	0.3
Oil and Gas Importers	**–3.9**	**–3.1**	**–4.6**	**–4.0**	**–3.7**	**–11.3**	**–7.2**	**–10.2**	**–10.0**	**–9.2**
Armenia	–1.3	–0.8	–0.8	–0.6	–0.7	–13.3	–7.6	–7.3	–5.9	–6.4
Georgia	–1.8	–0.9	–1.6	–1.5	–1.4	–13.4	–5.7	–9.7	–10.7	–9.6
Kyrgyz Republic	–0.6	–1.1	–1.2	–1.3	–1.2	–9.8	–15.0	–16.8	–17.7	–15.7
Tajikistan	–0.3	–0.2	–0.9	–0.6	–0.5	–4.4	–2.9	–9.2	–7.5	–6.1
Memorandum										
MENA	**281.9**	**345.0**	**194.4**	**–100.4**	**–122.1**	**10.0**	**11.0**	**6.1**	**–4.0**	**–4.7**
MENA Oil Importers	**–27.1**	**–42.5**	**–35.2**	**–26.7**	**–25.1**	**–5.2**	**–7.3**	**–5.7**	**–5.9**	**–5.9**
Arab Countries in Transition (excluding Libya)	**–17.7**	**–23.5**	**–15.8**	**–10.8**	**–9.8**	**–4.2**	**–4.7**	**–3.0**	**–4.2**	**–4.3**
GCC	**237.5**	**349.4**	**242.6**	**–3.1**	**–35.6**	**17.7**	**21.6**	**14.8**	**–0.2**	**–2.5**
Non-GCC Oil Exporters	**71.5**	**38.0**	**–13.0**	**–70.6**	**–61.4**	**7.7**	**4.1**	**–1.4**	**–8.8**	**–7.2**
Arab World	**253.4**	**318.4**	**178.4**	**–102.0**	**–127.6**	**10.9**	**11.6**	**6.4**	**–4.7**	**–5.6**
West Bank and Gaza[1]	–1.2	–1.5	–1.4	–1.4	–1.6	–12.2	–12.3	–10.9	–11.1	–12.0

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

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

Table 7. Gross Official Reserves and Total Gross External Debt

	Gross Official Reserves (Months of imports)					Total Gross External Debt (Percent of GDP)[1]				
				Projections					Projections	
	Average 2008–12	2013	2014	2015	2016	Average 2008–12	2013	2014	2015	2016
MENAP	**12.6**	**13.8**	**14.3**	**12.4**	**10.6**	**27.7**	**26.6**	**27.8**	**32.1**	**32.6**
Oil Exporters	**14.8**	**16.3**	**16.7**	**14.1**	**11.8**	**24.9**	**23.0**	**24.5**	**30.1**	**30.6**
Algeria	34.8	32.6	32.7	24.7	19.0	3.0	1.6	1.7	2.0	1.8
Bahrain	3.7	4.1	5.9	4.5	3.1	132.7	133.5	140.4	165.4	170.1
Iran, Islamic Republic of	11.8	18.2	17.8	17.5	16.9	4.0	1.7	1.4	2.5	2.8
Iraq	10.3	10.4	10.5	7.8	7.0	51.5	25.5	28.8	42.3	47.4
Kuwait	6.1	6.9	7.3	6.7	6.8	30.1	17.9	19.3	28.6	28.9
Libya	47.8	50.7	43.3	30.8	…	9.1	8.5	13.5	18.8	20.6
Oman	5.4	4.5	5.0	4.6	4.4	14.0	11.1	10.7	14.4	15.6
Qatar	6.2	7.9	7.8	7.1	6.1	76.1	80.9	79.9	86.1	87.2
Saudi Arabia[2]	30.3	33.8	36.8	32.4	27.0	16.0	11.6	12.3	14.9	15.0
United Arab Emirates	1.7	2.6	3.0	2.8	3.0	44.5	44.4	49.1	61.2	60.0
Yemen	6.1	4.8	5.9	2.7	1.3	20.3	15.2	14.3	17.1	15.6
Oil Importers	**5.8**	**4.5**	**5.3**	**5.8**	**5.9**	**36.6**	**37.7**	**37.8**	**36.6**	**37.3**
Afghanistan, Republic of	5.5	7.6	8.2	7.9	7.3	11.4	6.7	6.4	6.6	6.8
Djibouti	2.1	4.8	4.3	3.8	4.4	55.2	48.4	53.7	67.2	78.4
Egypt	5.6	2.5	2.7	3.2	3.1	16.2	15.9	16.1	14.9	16.4
Jordan[3]	6.6	6.7	8.6	8.7	8.4	60.0	65.1	65.5	66.2	64.7
Lebanon[4]	10.8	12.2	14.5	14.2	14.9	167.4	163.8	165.1	162.4	165.5
Mauritania	1.5	3.4	2.9	4.2	2.4	79.6	85.2	89.6	90.0	93.0
Morocco	6.2	4.7	6.0	6.3	6.8	24.7	30.1	30.4	32.3	32.1
Pakistan	3.1	1.5	2.2	3.3	4.0	30.5	26.3	26.5	24.0	23.9
Sudan	1.7	1.8	1.8	2.0	2.1	63.2	67.6	63.0	57.8	59.2
Syrian Arab Republic	11.2	…	…	…	…	15.5	…	…	…	…
Tunisia	4.4	3.4	3.9	4.2	4.5	49.1	54.1	56.2	64.4	67.5
CCA	**7.3**	**6.8**	**8.4**	**7.7**	**7.7**	**49.7**	**45.4**	**47.6**	**55.7**	**62.1**
Oil and Gas Exporters	**8.3**	**7.9**	**9.8**	**8.9**	**8.9**	**48.5**	**43.2**	**45.9**	**53.8**	**60.7**
Azerbaijan[3,5]	6.7	8.4	10.1	7.1	7.3	7.6	11.7	14.5	18.9	21.3
Kazakhstan	6.0	5.3	7.1	7.0	6.7	78.5	64.7	72.7	86.0	104.0
Turkmenistan[3]	…	…	…	…	…	7.5	21.1	16.8	18.7	16.6
Uzbekistan[3]	12.6	15.8	16.9	15.9	16.1	13.8	12.7	13.0	15.9	20.8
Oil and Gas Importers	**3.5**	**3.4**	**3.4**	**3.3**	**3.4**	**60.8**	**65.5**	**62.8**	**74.3**	**75.2**
Armenia	4.5	4.9	3.9	4.4	4.4	58.8	78.3	71.3	80.6	81.6
Georgia	3.7	3.4	3.8	3.6	3.7	60.2	65.4	63.1	76.8	74.0
Kyrgyz Republic[3]	4.1	4.1	4.1	3.5	3.6	80.9	71.9	76.3	88.5	90.4
Tajikistan	1.1	1.0	1.4	1.2	1.3	48.6	43.2	41.0	48.9	54.0
Memorandum										
MENA	**13.1**	**14.3**	**14.8**	**12.8**	**10.9**	**27.6**	**26.8**	**28.1**	**33.0**	**33.6**
MENA Oil Importers	**6.3**	**5.1**	**5.9**	**6.2**	**6.3**	**39.6**	**43.3**	**43.4**	**42.8**	**43.8**
Arab Countries in Transition (excluding Libya)	**5.7**	**3.9**	**4.6**	**4.8**	**4.8**	**24.8**	**25.8**	**26.1**	**26.2**	**26.8**
GCC	**12.5**	**14.3**	**15.1**	**13.2**	**11.2**	**33.9**	**31.2**	**33.2**	**40.8**	**41.0**
Non-GCC Oil Exporters	**19.9**	**21.8**	**21.5**	**16.9**	**13.8**	**12.5**	**8.7**	**9.1**	**11.8**	**13.2**
Arab World	**13.2**	**14.1**	**14.6**	**12.4**	**10.4**	**32.8**	**30.2**	**32.1**	**38.0**	**38.7**
West Bank and Gaza[6]	1.8	1.1	1.0	…	…	12.6	8.9	8.5	8.4	8.2

Sources: National authorities; and IMF staff estimates and projections.
[1] Nominal GDP is converted to U.S. dollars using period average exchange rate.
[2] Saudi Arabia Monetary Agency gross foreign assets.
[3] Excludes deposits of nonresidents held in the banking system.
[4] Excludes gold and encumbered assets.
[5] Public and publicly guaranteed debt, because private debt data are not reliable.
[6] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

Table 8. Broad Money Growth and Depository Corporations (Banking System) Credit to Private Sector

	Broad Money Growth (Annual change; percent)					Credit to Private Sector (Annual change; percent)				
				Projections					Projections	
	Average 2008–12	2013	2014	2015	2016	Average 2008–12	2013	2014	2015	2016
MENAP	**14.5**	**18.6**	**11.6**	**10.0**	**9.7**	**13.7**	**14.4**	**10.9**	**8.9**	**9.7**
Oil Exporters	**15.2**	**20.2**	**11.3**	**9.1**	**9.5**	**14.9**	**16.7**	**11.7**	**8.9**	**9.5**
Algeria	13.0	8.4	14.5	–1.6	7.9	13.4	20.9	14.7	10.2	11.8
Bahrain	8.4	8.2	6.5	2.9	4.8	14.1	6.6	–5.9	5.7	5.7
Iran, Islamic Republic of	22.2	42.9	18.8	18.0	15.6	17.6	32.5	15.0	18.6	16.8
Iraq	23.6	15.9	3.6	16.1	10.9	41.9	15.5	4.5	–2.0	3.0
Kuwait	9.5	9.7	2.8	4.4	4.4	6.0	7.3	5.0	4.7	4.7
Libya	20.6	6.9	11.5	3.5	3.5	17.1	20.7	7.1	–2.3	–4.0
Oman	12.4	8.5	12.0	8.2	8.5	16.7	6.8	10.9	7.2	6.5
Qatar	19.9	19.6	10.6	9.9	8.8	19.2	13.5	20.3	17.5	13.6
Saudi Arabia	12.1	10.9	11.9	8.3	8.0	12.0	12.5	11.8	8.4	7.9
United Arab Emirates	8.9	22.5	8.0	5.5	9.3	8.9	3.5	11.5	5.9	7.8
Yemen	11.0	12.5	0.2	5.9	16.2	0.7	38.9	2.6	–7.9	22.8
Oil Importers	**12.5**	**13.4**	**12.5**	**12.6**	**10.3**	**10.3**	**7.1**	**8.4**	**8.9**	**10.5**
Afghanistan, Republic of	24.3	9.4	8.3	4.0	5.8	12.6	10.1	–6.6	3.3	5.8
Djibouti	12.2	6.9	6.5	9.7	10.7	16.0	15.6	8.6	12.0	14.0
Egypt	10.5	18.4	17.1	16.4	9.5	6.7	9.8	7.4	12.8	13.6
Jordan	10.0	9.7	6.9	8.2	8.8	7.8	8.0	3.7	6.0	10.2
Lebanon[1]	13.2	9.0	6.0	8.0	8.0	16.3	9.6	9.3	8.7	4.8
Mauritania	14.4	13.6	8.6	4.0	7.5	14.4	11.1	11.2	8.6	8.1
Morocco	7.1	3.1	6.2	5.8	6.0	11.4	3.8	2.5	4.2	4.6
Pakistan	13.5	15.9	12.5	13.2	12.4	6.5	–0.6	11.0	5.6	9.8
Sudan	24.7	13.0	17.0	18.0	17.3	18.9	23.2	17.6	17.1	16.0
Syrian Arab Republic	11.5	...	...	...	...	26.8	...	...	...	...
Tunisia[1,2]	11.4	6.6	7.8	6.9	7.6	13.1	6.8	9.4	6.5	7.5
CCA	**23.2**	**15.5**	**11.3**	**7.1**	**13.4**	**20.2**	**23.0**	**11.3**	**12.4**	**13.3**
Oil and Gas Exporters	**24.2**	**14.9**	**11.5**	**6.5**	**13.5**	**20.5**	**22.7**	**9.6**	**12.2**	**13.7**
Azerbaijan	23.4	15.4	11.4	10.9	20.0	23.7	27.6	19.5	27.0	17.7
Kazakhstan	18.2	10.2	10.5	1.9	10.4	8.1	12.8	0.4	0.8	5.0
Turkmenistan	37.8	31.2	11.4	8.4	7.2	62.4	53.3	20.9	30.0	30.0
Uzbekistan	38.7	22.5	15.8	17.2	21.7	35.6	35.9	25.3	24.0	27.6
Oil and Gas Importers	**16.1**	**20.8**	**9.4**	**12.2**	**11.6**	**18.6**	**26.3**	**27.5**	**14.5**	**9.8**
Armenia	14.5	15.2	8.9	6.5	7.1	30.4	12.2	20.5	–2.0	4.0
Georgia	14.2	24.4	13.8	14.5	11.7	14.4	19.5	23.3	22.7	8.4
Kyrgyz Republic	18.1	22.8	3.0	11.2	14.1	15.4	36.1	43.6	17.6	15.3
Tajikistan	21.9	19.7	7.0	16.2	15.2	6.8	53.6	31.5	18.0	15.1
Memorandum										
MENA	**14.5**	**18.9**	**11.6**	**9.8**	**9.5**	**14.3**	**15.5**	**11.0**	**9.2**	**9.7**
MENA Oil Importers	**11.8**	**12.6**	**12.7**	**12.6**	**9.5**	**11.8**	**10.0**	**7.9**	**10.5**	**10.9**
Arab Countries in Transition (excluding Libya)	**9.8**	**12.8**	**11.8**	**11.9**	**9.1**	**8.4**	**10.2**	**5.9**	**8.3**	**11.7**
GCC	**11.7**	**14.4**	**9.7**	**7.3**	**8.0**	**11.5**	**9.5**	**11.6**	**8.4**	**8.2**
Non-GCC Oil Exporters	**20.0**	**28.2**	**13.7**	**12.0**	**12.2**	**19.7**	**26.7**	**11.8**	**9.8**	**11.7**
Arab World	**12.9**	**13.4**	**10.1**	**8.4**	**8.6**	**13.6**	**11.7**	**10.3**	**7.6**	**8.7**
West Bank and Gaza[3]	7.3	3.0	20.1	...	...	17.1	3.0	29.9	12.0	18.9

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

[1] Broad money is defined to include nonresident deposits (M5).

[2] Credit to private sector includes credit to public enterprises.

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

Table 9. Financial Sector Indicators

	Capital Adequacy Ratios (Percent of risk-weighted assets)			Return on Assets (Pretax, percent)			Nonperforming Loans (90-day basis, percent of total loans)		
	Dec-12	**Dec-13**	**Dec-14**	**Dec-12**	**Dec-13**	**Dec-14**	**Dec-12**	**Dec-13**	**Dec-14**
MENAP									
Oil Exporters									
Algeria	23.6	21.5	16.0	1.9	1.9	2.0	11.7	10.6	9.2
Bahrain[1]	19.3	18.5	18.3	1.2	1.1	1.4	5.8	5.6	4.6
Iran, Islamic Republic of[2]	…	…	…	…	…	…	17.6	15.4	…
Iraq	…	…	…	…	…	…	…	…	…
Kuwait	18.5	18.9	16.9	1.2	1.0	1.1	5.2	3.6	2.9
Libya	15.7	…	…	0.7	0.6	…	21.0	21.0	…
Oman	16.0	16.2	…	1.8	1.8	…	2.1	2.0	…
Qatar	18.9	16.0	16.3	2.4	2.1	2.1	1.7	1.9	1.7
Saudi Arabia	18.2	17.9	…	2.1	2.0	…	1.7	1.3	…
United Arab Emirates[3]	21.2	19.3	…	2.0	1.5	…	8.4	8.2	…
Yemen[4]	29.6	26.4	…	1.2	1.5	…	25.5	21.7	…
Oil Importers									
Afghanistan, Republic of	…	…	…	…	…	…	…	…	…
Djibouti	11.7	9.6	10.7	1.3	1.2	0.7	11.4	14.5	18.0
Egypt[5,6]	15.9	13.0	13.1	0.8	1.0	1.0	10.0	9.1	8.6
Jordan	19.0	18.4	18.4	1.1	1.2	1.4	7.7	7.0	5.6
Lebanon[5,7]	11.2	…	14.9	1.0	1.0	1.1	3.8	4.0	4.0
Mauritania[8]	29.2	32.4	28.1	1.4	2.0	1.9	25.7	20.4	
Morocco	12.3	13.3	13.8	1.0	1.0	1.0	5.0	5.8	6.8
Pakistan	15.4	15.1	17.1	2.1	1.7	2.2	14.5	13.0	12.3
Sudan	12.0	16.6	…	4.4	3.7	…	11.8	8.4	7.1
Syrian Arab Republic	…	…	…	…	…	…	…	…	…
Tunisia	11.8	8.9	9.7	0.6	0.7	…	14.9	15.2	15.8
CCA									
Armenia	16.8	16.7	14.5	1.1	1.4	0.7	3.6	4.5	6.8
Azerbaijan	16.8	18.1	19.2	0.7	1.5	1.7	5.7	4.5	4.4
Georgia[9]	25.3	25.2	…	1.0	2.6	…	3.7	3.1	…
Kazakhstan	18.1	18.8	16.8	–1.5	…	…	28.2	31.3	23.5
Kyrgyz Republic	28.3	25.0	21.8	3.0	2.8	2.6	7.2	5.5	4.5
Tajikistan[10]	23.3	20.2	12.0	0.2	0.7	–4.4	9.5	16.0	25.1
Turkmenistan	45.3	13.7	15.7	2.6	3.1	3.2	0.0	0.0	0.0
Uzbekistan	24.3	24.3	23.8	1.9	2.0	2.0	0.5	0.4	0.4
Memorandum									
West Bank and Gaza[11]	22.7	20.7	18.0	1.8	1.9	1.7	3.1	2.9	2.5

Sources: National authorities; and IMF staff estimates.

[1] Conventional retail banks only; excludes Islamic wholesale and retail banks along with conventional wholesale banks.

[2] December data refer to March data of the following year.

[3] National banks only.

[4] Data refer to all banks except the Housing Bank and CAC Bank.

[5] After tax.

[6] Provisioning to nonperforming loans surpassed 100 percent as of December 2009 and data refer to end of fiscal year.

[7] CAR according to Basel II in 2010 and Basel III from 2011 onwards.

[8] Provisioning to nonperforming loans stood at 89 percent in June 2011.

[9] Cumulative and annualized.

[10] CAR: Tier 1 capital as percent of risk-weighted assets. ROA: the quick turnaround in profitability in H1 2013 reflects sizeable underprovisioning for nonperforming assets in some large banks. Nonperforming loans: loans overdue by 30 days or more.

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

References

Abadie, A., and J. Gardeazabal. 2003. "The Economic Costs of Conflict: A Case Study of the Basque Country." *The American Economic Review* 93 (1): 113–32.

Albino-War, M., S. Cerovic, F. Grigoli, J. Flores, J. Kapsoli, H. Qu, Y. Said, B. Shukurov, M. Sommer, and S. Yoon. 2014. "Making the Most of Public Investment in MENA and CCA Oil-Exporting Countries." Staff Discussion Note 14/10, International Monetary Fund, Washington.

Andrle, M., P. Blagrave, P. Espaillat, K. Honjo, B. Hunt, M. Kortelainen, R. Lalonde, D. Laxton, E. Mavroeidi, D. Muir, S. Mursula, and S. Snudden. 2015. "The Flexible System of Global Models – FSGM." Working Paper 15/64, International Monetary Fund, Washington.

Arvai, Z., A. Prasad, and K. Katayama. 2014. "Macroprudential Policy in the GCC Countries." Staff Discussion Note 14/01, International Monetary Fund, Washington.

Behar, A. 2015. "Comparing the Employment-Output Elasticities of Expatriates and Nationals in the GCC." Working Paper 11/61, International Monetary Fund, Washington.

Ben Naceur, S. A. Hosny, and G. Hadjian. 2015. "How to De-Dollarize Financial Systems in the Caucasus and Central Asia?" Working Paper No. 15/203, International Monetary Fund, Washington.

Blotevogel, R., M. Cerisola, I. Haqiqi, and A. Shahmoradi. Forthcoming. "Estimation of Sanction Relief on Iran's Economy." Working Paper, International Monetary Fund, Washington.

Blotevogel, R., and R. Sidahmed. 2013. "Modelling Macroeconomic Risk Exposures of Bahraini Banks." Selected Issues Paper, International Monetary Fund, Washington.

Callen, T., R. Cherif, F. Hasanov, A. Hegazy, and P. Khandelwal. 2014. "Economic Diversification in the GCC: Past, Present and Future." Staff Discussion Note 14/12, International Monetary Fund, Washington.

Cerisola, M., C. Abdallah, V. Davies, and M. Fischer. 2015. "Assessing the Impact of Fiscal Shocks on Output in MENAP Countries." Technical Notes and Manuals, International Monetary Fund, Washington.

Coady, D., I. Parry, L. Sears, and B. Shang. 2015. "How Large Are Global Energy Subsidies?" Working Paper 15/105, International Monetary Fund, Washington.

Diwan, I., and T. Akin. 2015. "Fifty Years of Fiscal Policy in the Arab Region." Working Paper 914, Economic Research Forum, Giza, Egypt, May.

Duma, N. 2015. "Kazakhstan: Stress Testing the Banking System." In IMF Country Report No. 15/241, International Monetary Fund, Washington.

Escolano, J., L. Jaramillo, C. Mulas-Granados, and G. Terrier. 2014. "How Much Is a Lot? Historical Evidence on the Size of Fiscal Adjustments." Working Paper, 14/178, International Monetary Fund, Washington, September.

Espinoza, R., and A. Prasad. 2010. "Nonperforming Loans in the GCC Banking System and Their Macroeconomic Effects." Working Paper 10/224, International Monetary Fund, Washington.

Espinoza, R., and A. Senhadji. 2011. "How Strong are Fiscal Multipliers in the GCC?" Working Paper 11/61, International Monetary Fund, Washington.

Gelbard, E., C. Deléchat, U. Jacoby, M. Pani, M. Hussain, G. Ramirez, R. Xu, E. Fuli, and D. Mulaj. 2015. "Building Resilience in Sub-Saharan Africa's Fragile States." African Departmental Paper No. 15/5, International Monetary Fund, Washington.

Ghosh A., J. Kim, E. Mendoza, J. Ostry, and M. Qureshi. 2013. "Fiscal Fatigue, Fiscal Space and Debt Sustainability in Advanced Economics." *Economic Journal* 123 (February): F4–F30. Doi: 10.1111/ecoj.12010.

Haqiqi, I. 2011. "Modeling Financial Variables in a Computable General Equilibrium Model." Monetary and Banking Research Institute, Tehran, Iran.

Haqiqi, I., and M. Bahalou Horeh. 2013. "Macroeconomic Impacts of Export Barriers in a Dynamic CGE Model." *Journal of Money and Economy* 8 (3): 117–50.

Husain, A., K. Tazhibayeve, and A. Ter-Martirosyan. 2008. "Fiscal Policy and Economic Cycles in Oil-Exporting Countries." Working Paper 08/253, International Monetary Fund, Washington.

Husain, A., R. Arezki, P. Breuer, V. Haksar, T. Helbling, P. Medas, M. Sommer, and others, 2015. "Global Implications of Lower Oil Prices." Staff Discussion Note 15/15, International Monetary Fund, Washington.

International Monetary Fund. 2012. "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries." IMF Policy Paper, International Monetary Fund, Washington.

———. 2015a. "United Arab Emirates–Article IV Report." IMF Country Report No. 15/219, International Monetary Fund, Washington.

———. 2015b. "Georgia: Financial Sector Assessment Program–Stress Testing the Banking Sector–Technical Note." IMF Country Report No. 15/7, International Monetary Fund, Washington.

Jewell, A., M. Mansour, P. Mitra, and C. Sdralevich. 2015. "Fair Taxation in the Middle East and North Africa." Staff Discussion Note 15/16, International Monetary Fund, Washington.

Kryshko, M. 2015. "Remittance Growth Spillover Analysis. Case of Tajikistan." IMF Selected Issues Paper SM/15/118, International Monetary Fund, Washington.

Love, I., and R. Ariss. 2013. "Macro-Financial Linkages in Egypt: A Panel Analysis of Economic Shocks and Loan Portfolio Quality." Working Paper 13/271, International Monetary Fund, Washington.

Manushek, E., and L. Woessmann. 2015. *Universal Basic Skills: What Countries Stand to Gain*. Paris: Organisation for Economic Co-operation and Development.

Meyersson, E. 2015. "The Staggering Economic Costs of the Syrian Civil War." Retrieved from http:// erikmeyersson.com/2015/07/01/the-staggering-economic-costs-of-the-syrian-civil-war/.

Mitra, P., A. Hosny, G. Abajyan, and M. Fischer. 2015. "Estimating Potential Growth in the Middle East and Central Asia." Working Paper 15/62, International Monetary Fund, Washington.

Mitra, P., A. Hosny, G. Minasyan, G. Abajyan, and M. Fischer. Forthcoming. "Avoiding the New Mediocre: Raising Potential Growth in the Middle East and Central Asia." Staff Discussion Note, International Monetary Fund, Washington.

Moody's Analytics. 2011. "Fiscal Space." Retrieved from https://www.economy.com/mark-zandi/documents/2011-12-13-Fiscal-Space.pdf.

Ostry, J .D., A. R. Ghosh, J. I.Kim, and M. S. Qureshi. 2010. "Fiscal Space." Staff Discussion Note 10/11, International Monetary Fund, Washington.

Sab, R. 2014. "Economic Impact of Selected Conflicts in the Middle East: What Can We Learn from the Past?" Working Paper 14/100, International Monetary Fund, Washington.

Shahmoradi, A., I. Haqiqi, and R. Zahedi. 2010. "A Computable General Equilibrium Model for Iran." Ministry of Economic Affairs, Tehran, Iran.

U.S. Energy Information Administration 2015. Short-Term Energy Outlook. April, Washington DC.

Warner, A. M. 2014. "Public Investment as an Engine of Growth." Working Paper 14/148, International Monetary Fund, Washington.

World Bank. 2015. "Economic Implications of Lifting Sanctions on Iran." *MENA Quarterly Economic Brief* 5.