

Middle East and North Africa Regional Economic Outlook

October 19, 2016



Roadmap

Global Environment

MENAP Conflicts

MENAP Oil Exporters

MENAP Oil Importers

Global growth remains lackluster

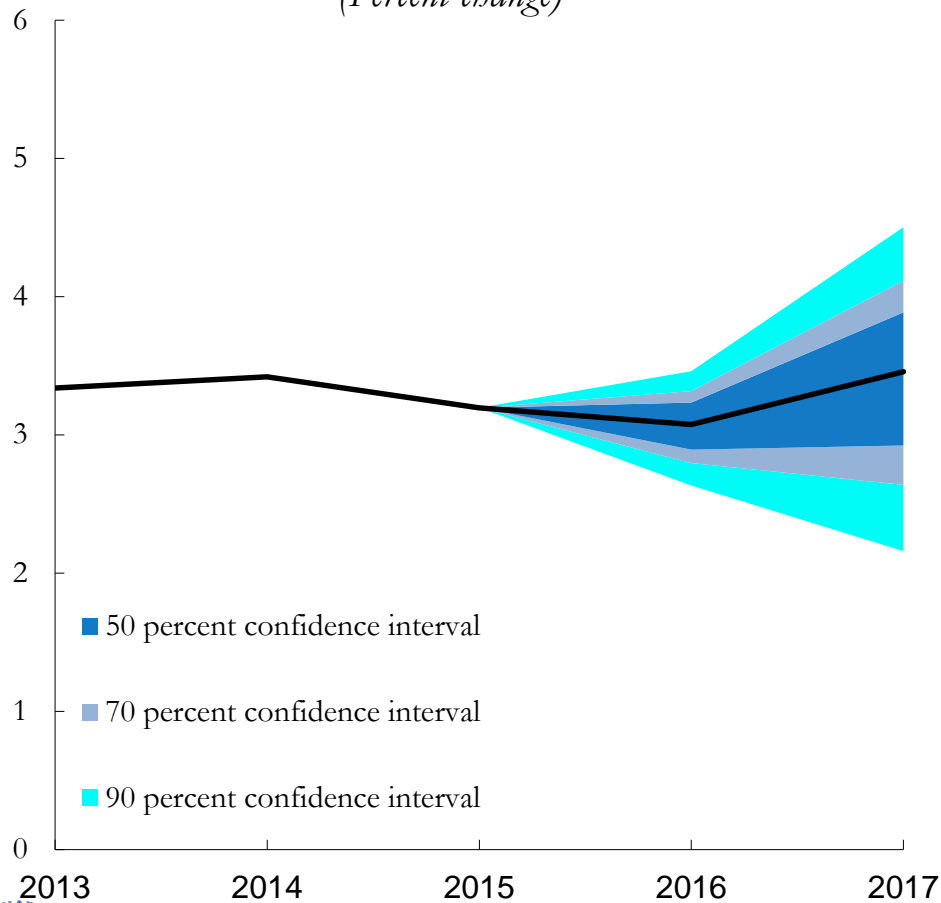


	World	U.S.	Euro Area	Emerging markets	China	Russia
2015	3.2	2.6	2.0	4.0	6.9	-3.7
2016	3.1	1.6	1.7	4.2	6.6	-0.8
2017	3.4	2.2	1.5	4.6	6.2	1.1

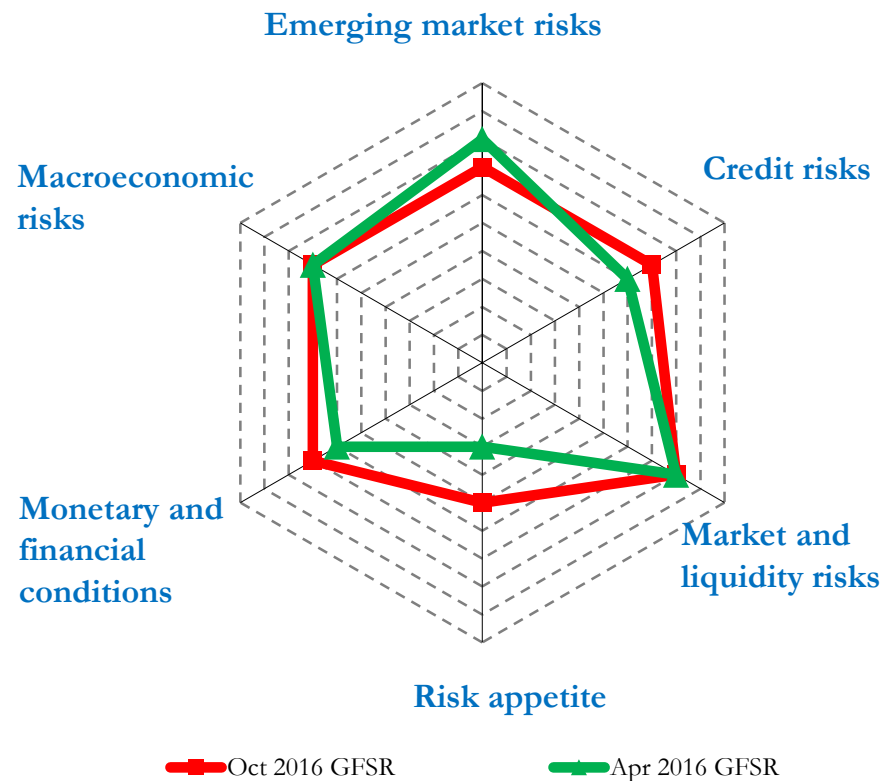
Risks are to the downside—more pronounced from inward-looking policies and secular stagnation, less so from emerging markets

World GDP Growth

(Percent change)



Global Risks



Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.
Source: IMF GFSR report.



Source: World Economic Outlook.

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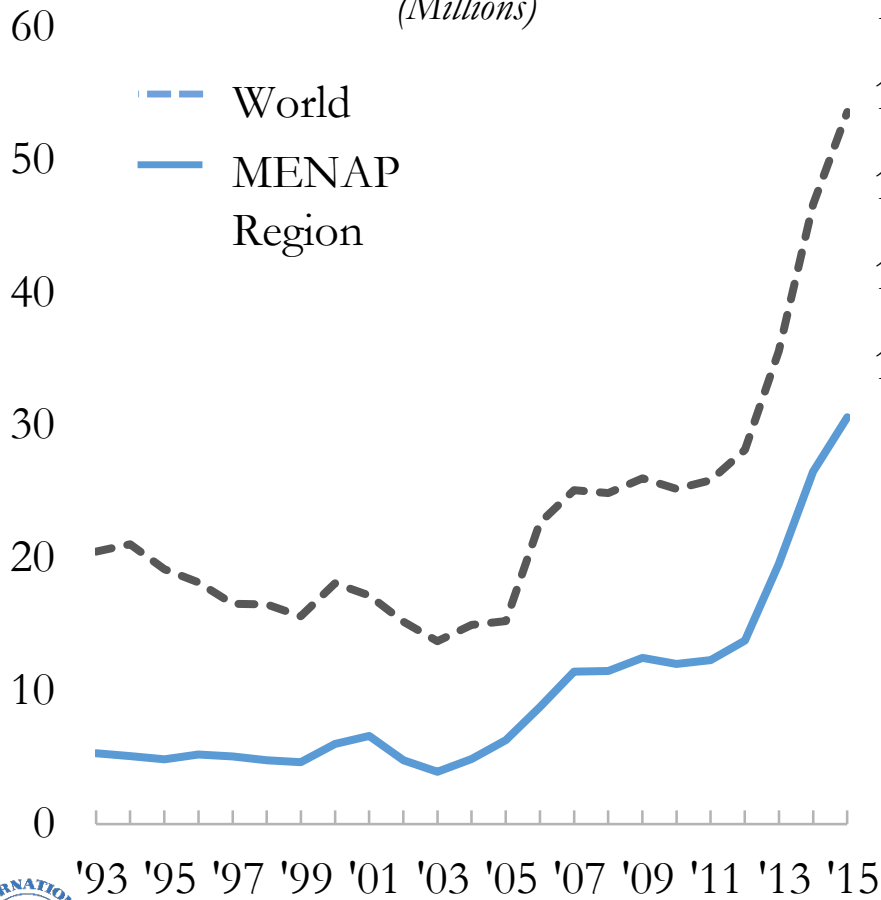
MENAP Oil Exporters

MENAP Oil Importers

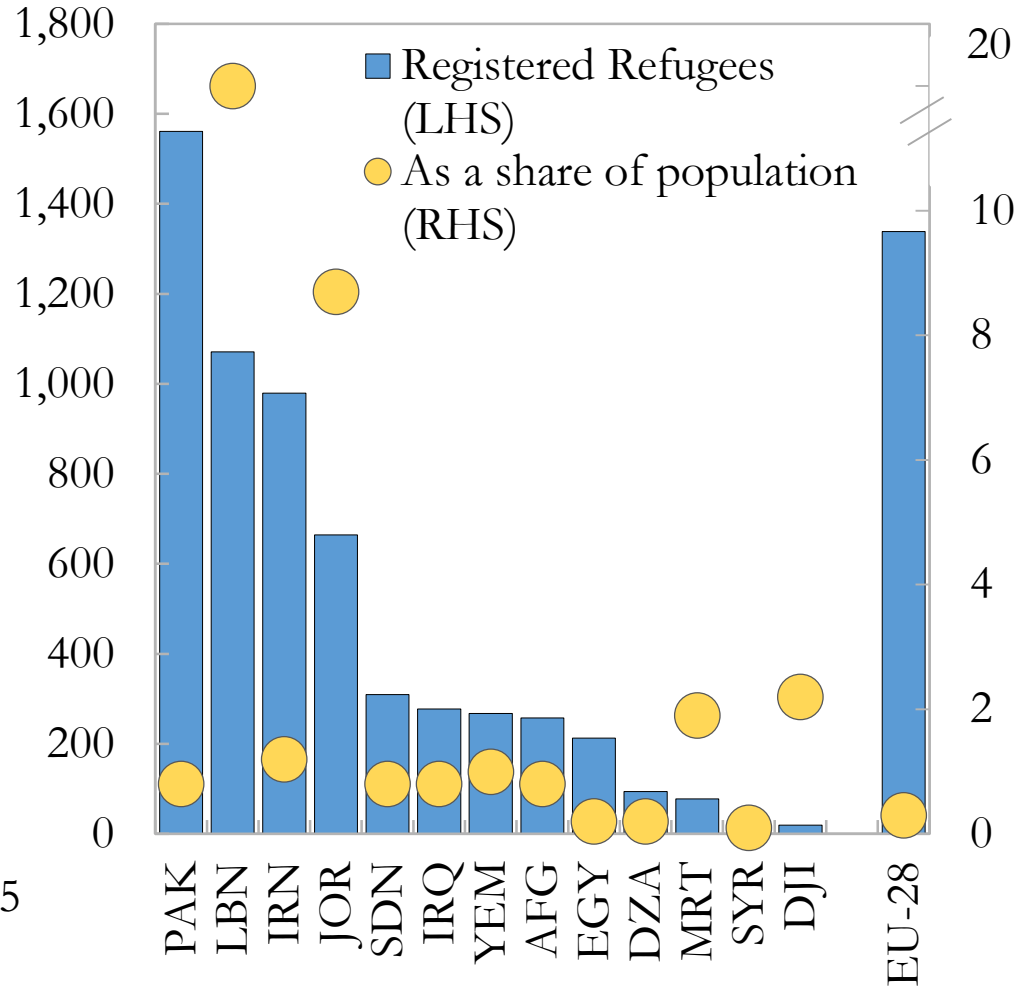
Conflicts in the MENAP region have resulted in a massive humanitarian crisis

Displaced Persons: Refugees Plus IDPs

(Millions)

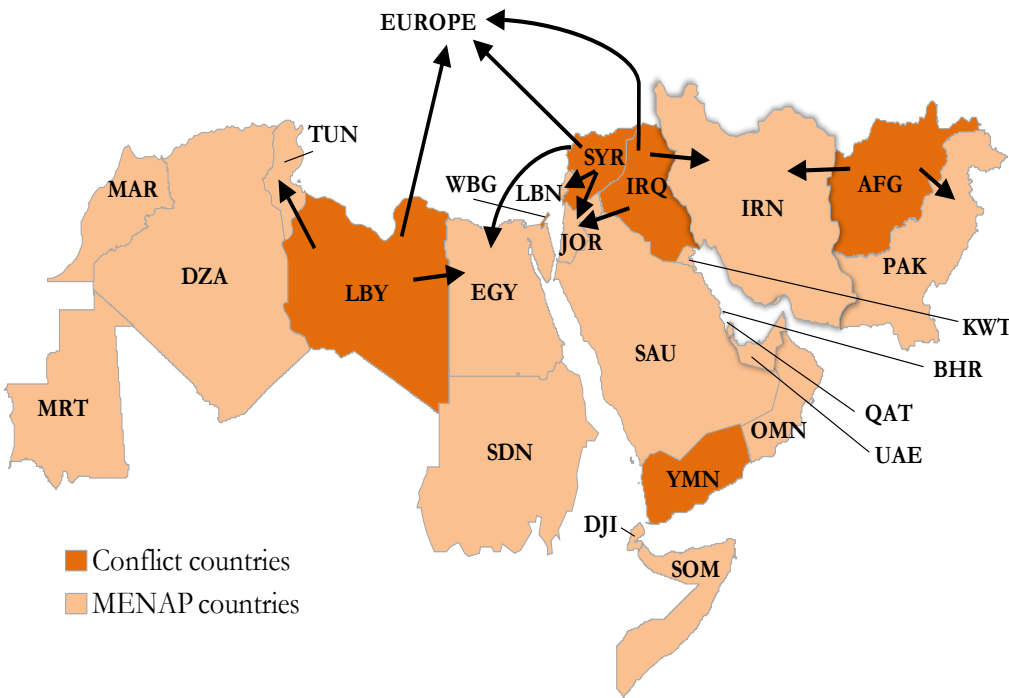


Refugees Hosted in MENAP Countries



Conflicts threaten economic stability in the MENAP region

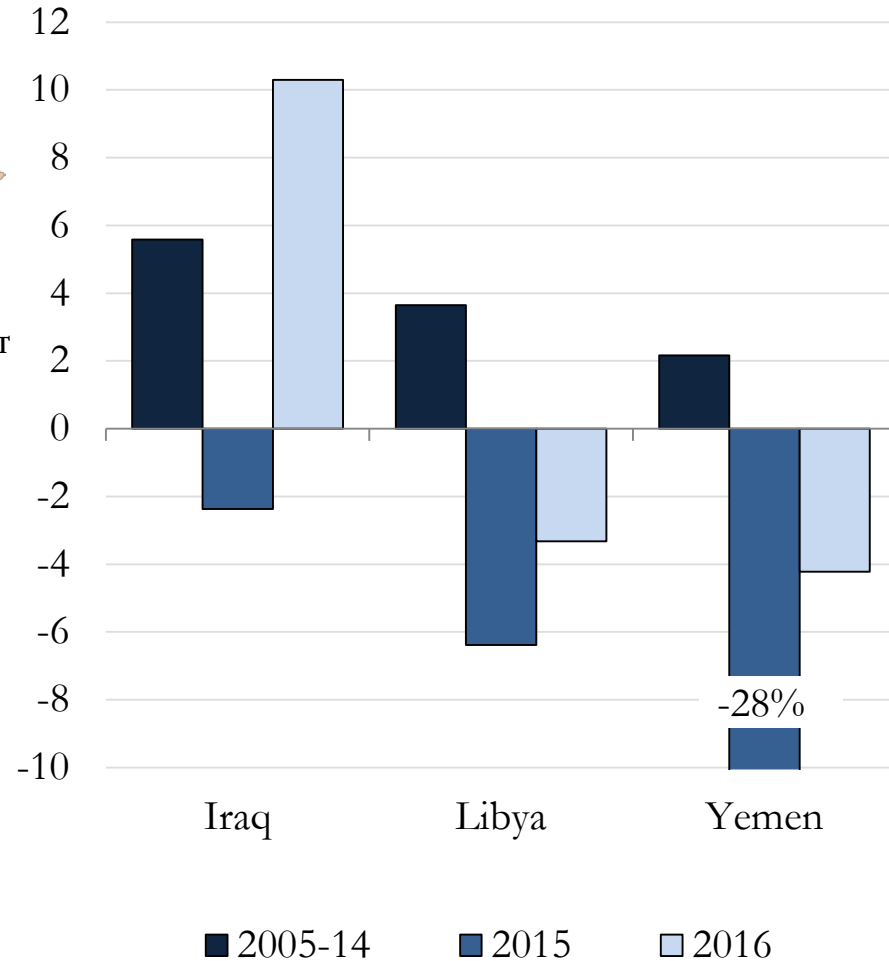
Spillovers from Conflicts



Note: Country borders do not imply any judgment on the part of the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries.

Real Overall GDP Growth

(Percent)



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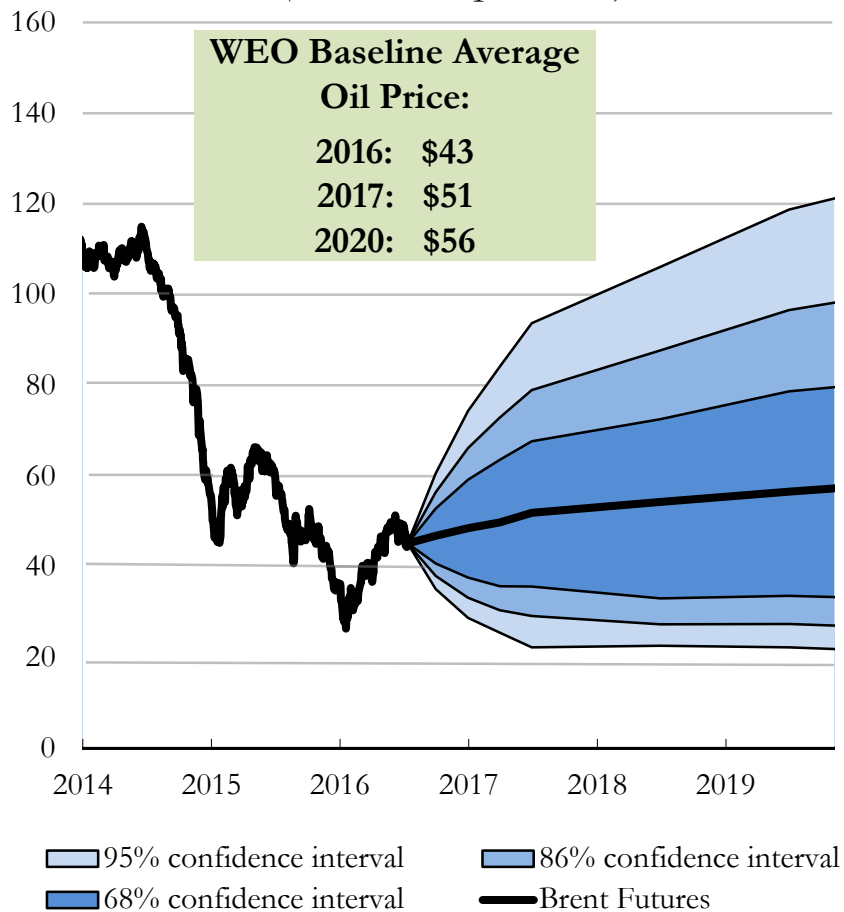
MENAP Oil Exporters

MENAP Oil Importers

Oil prices are expected to remain low

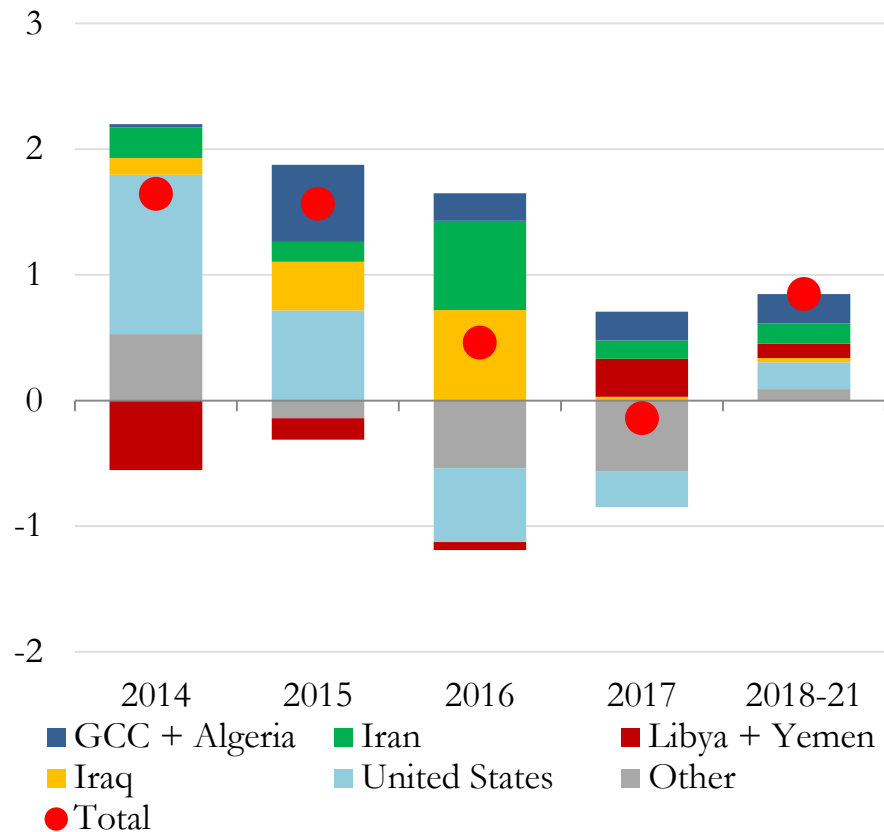
Brent Crude Oil Price

(U.S. dollars per barrel)



Crude Oil Production

(Change relative to previous year, millions of barrels per day)

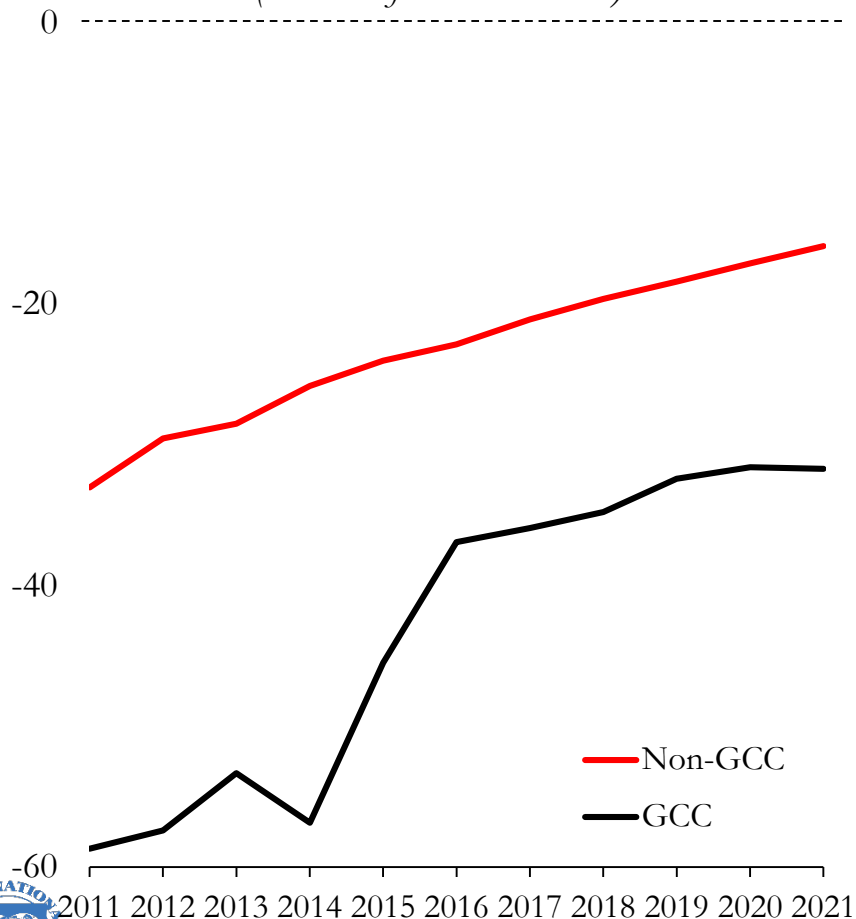


Sources: Bloomberg; IEA and IMF staff calculations.

Oil exporters are making strides in adjusting their fiscal positions, but much remains to be done...

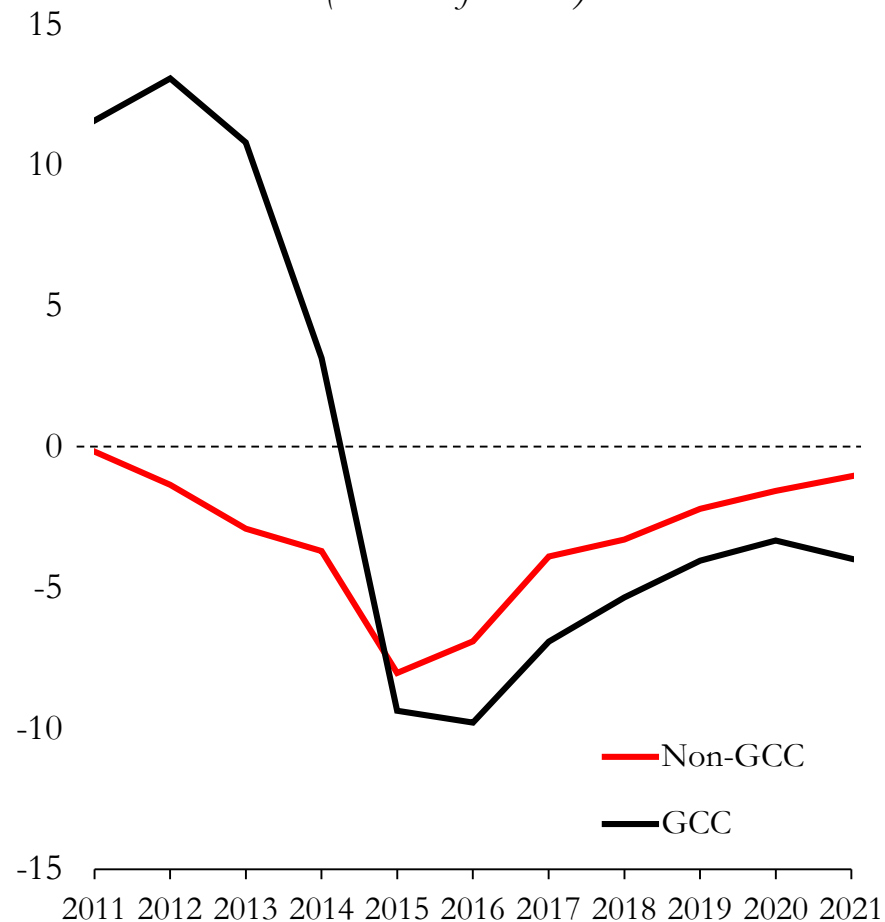
Non-oil Fiscal Balance

(Percent of non-oil GDP)



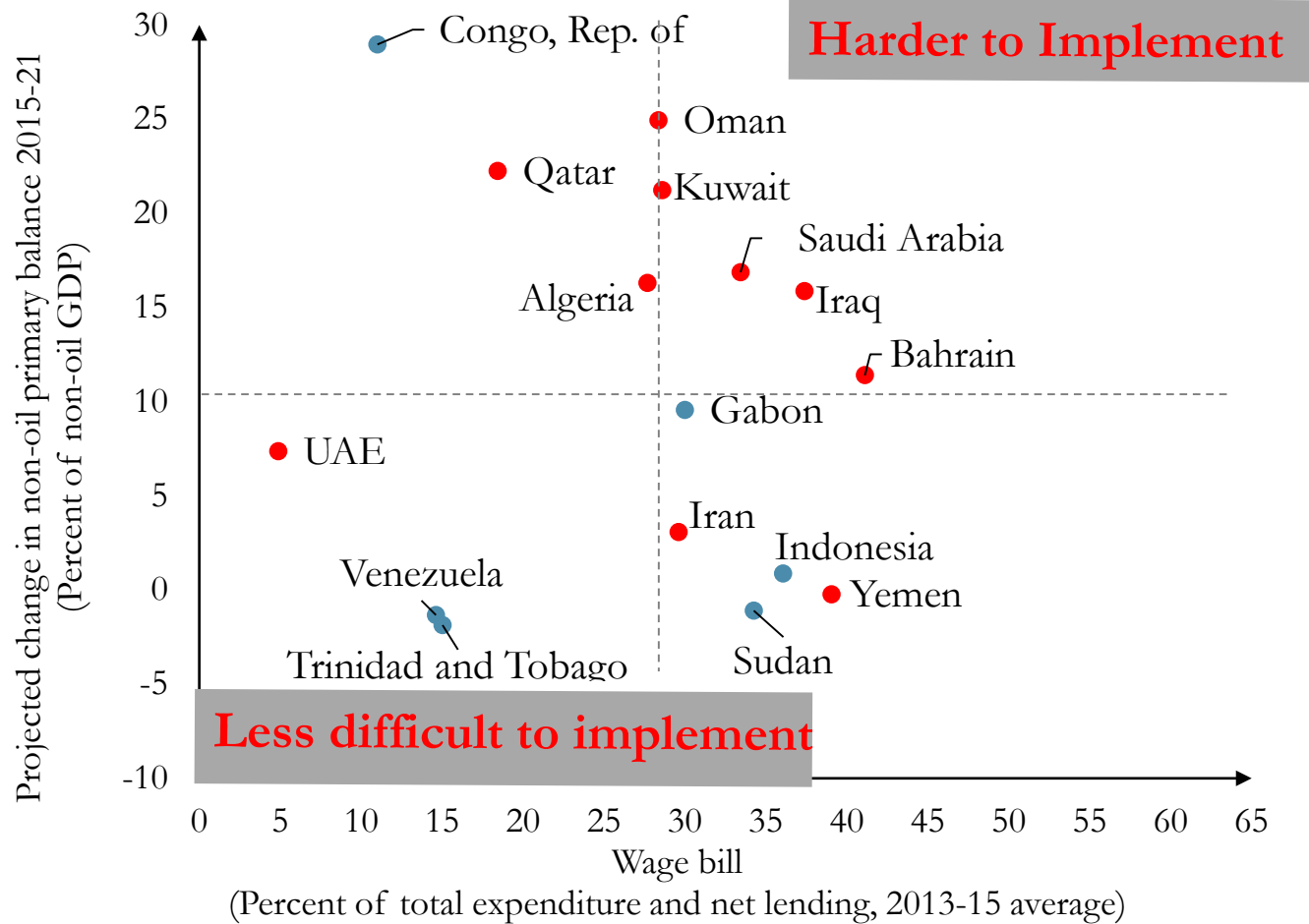
Overall Fiscal Balance

(Percent of GDP)



..and next steps will be harder to implement, especially in an environment of low growth

Fiscal Plans and Fiscal Rigidity



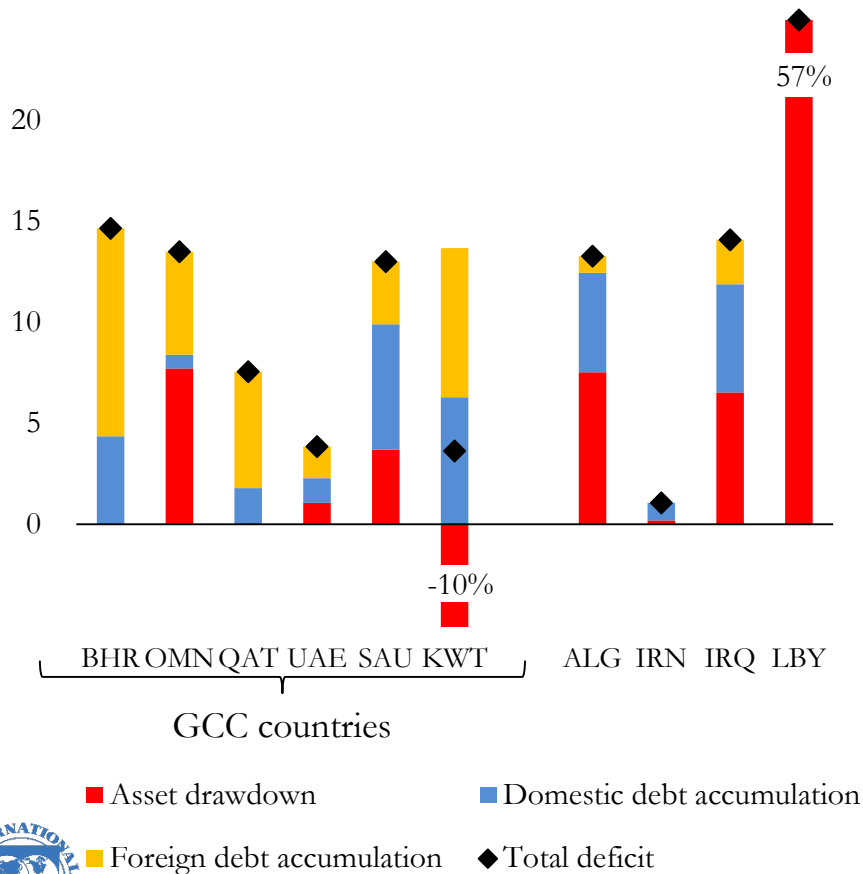
Note: The vertical and horizontal lines dividing the chart into four quadrants correspond to the median of the respective variables.



Projected financing is expected to shift from asset drawdown to debt issuance—market conditions remain favorable for most

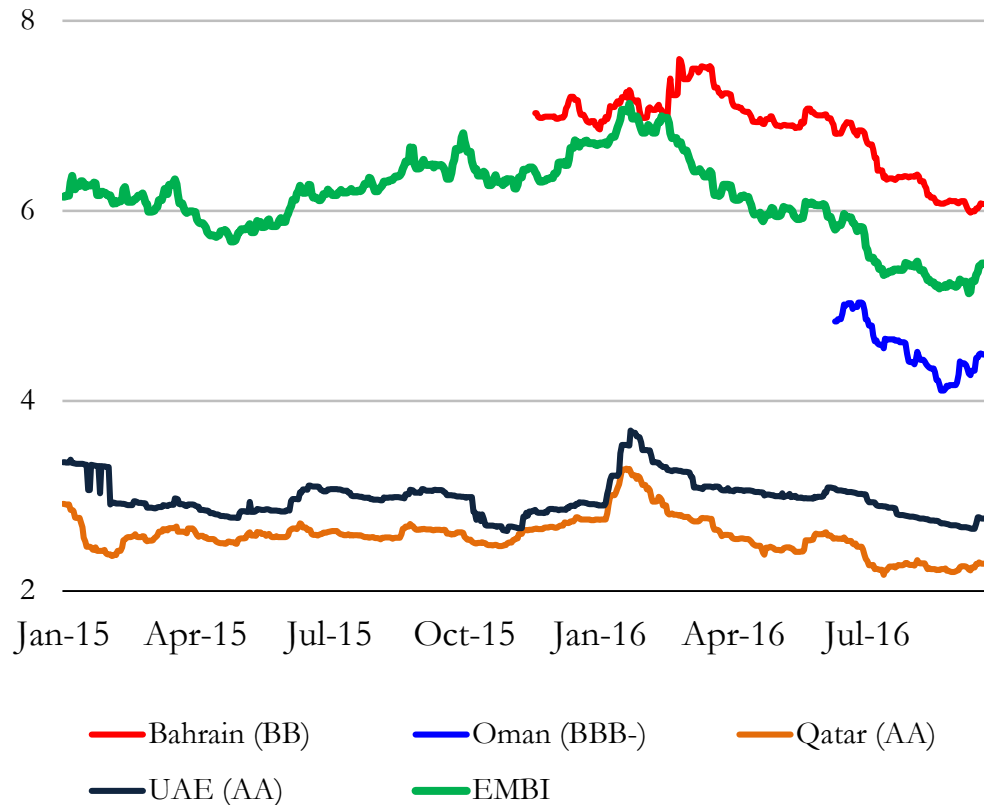
Financing of Fiscal Deficits

(2016, Percent of GDP)



Sovereign Bond Yields

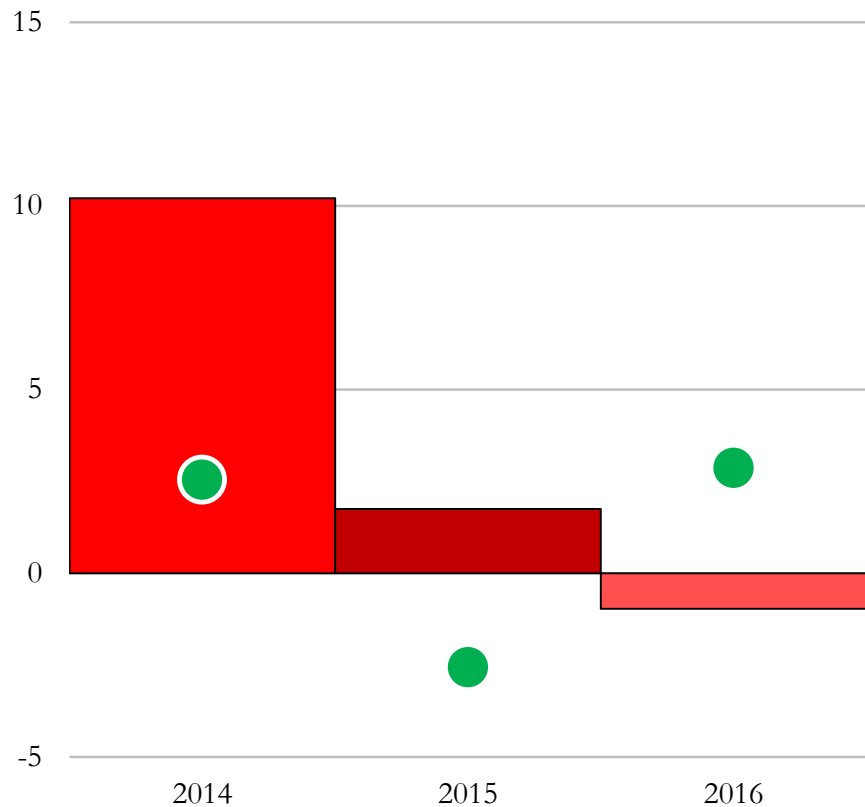
(Percent)



The financial sector should continue to be closely monitored

GCC's Deposit Growth, 2014–16

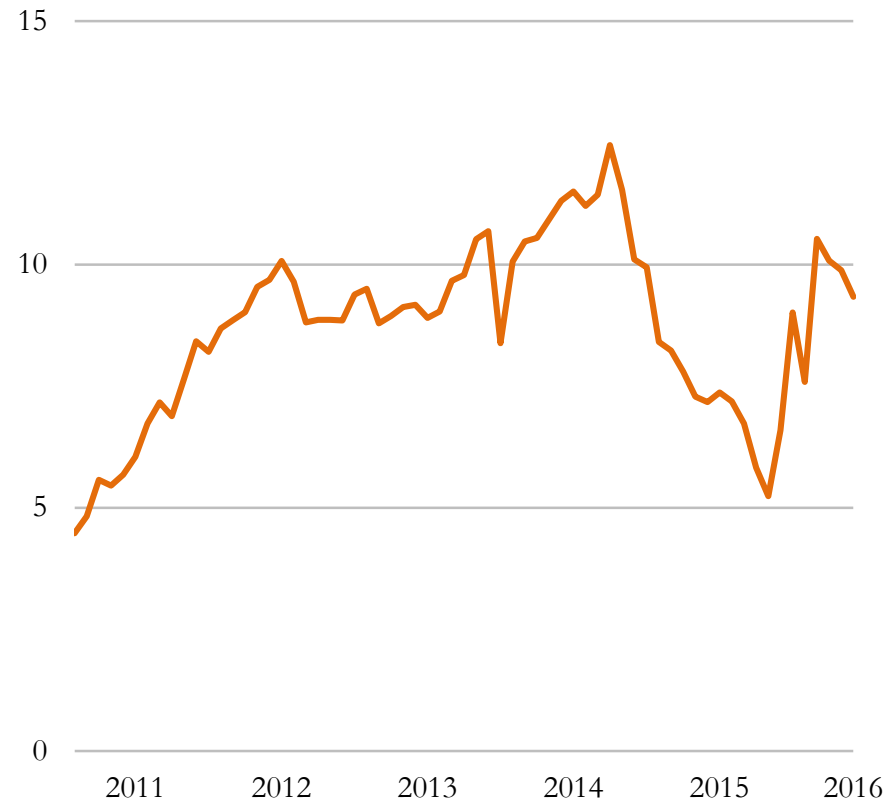
(Annual percent change)



■ Deposits excl. government ● Government deposits

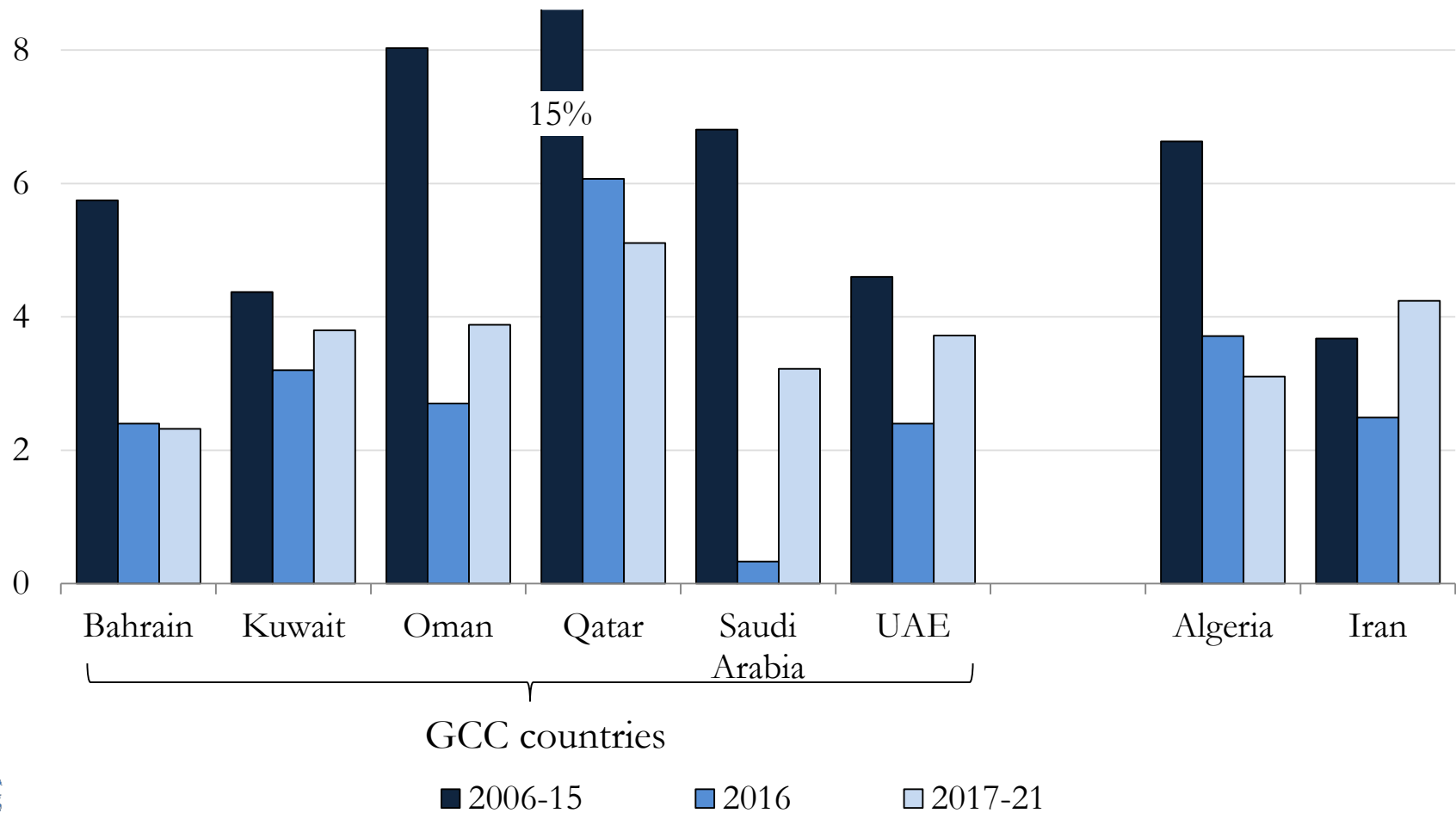
GCC Private Sector Credit Growth, 2011–16

(Annual percent change)

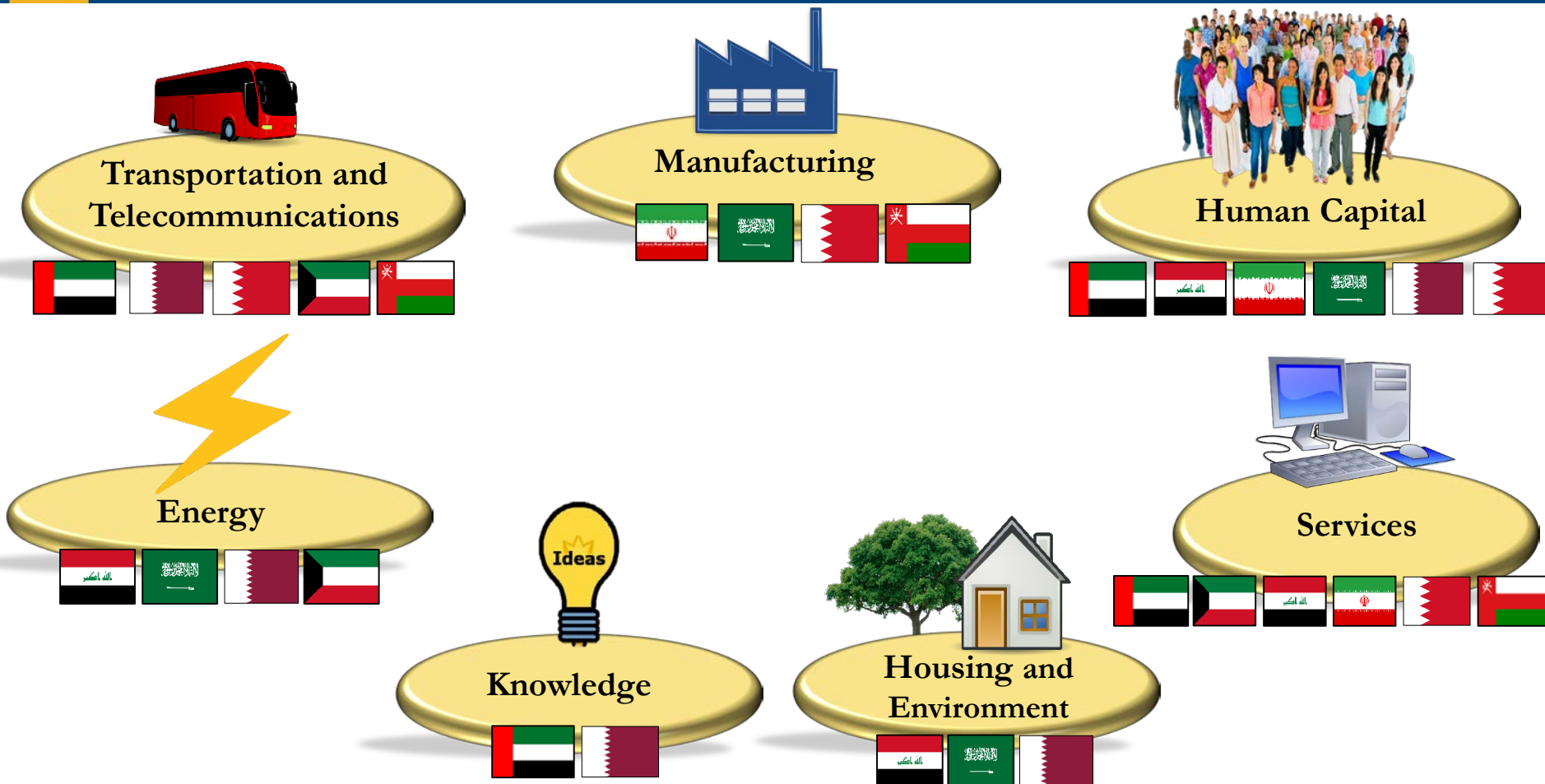


Non-oil growth is bottoming out in some countries as fiscal drag eases. Medium-term growth prospects remain subdued.

Real Non-oil GDP Growth (Percent)



Implementation of diversification plans can help create employment and support fiscal consolidation




Bahrain


Iran


Iraq


Kuwait


Oman

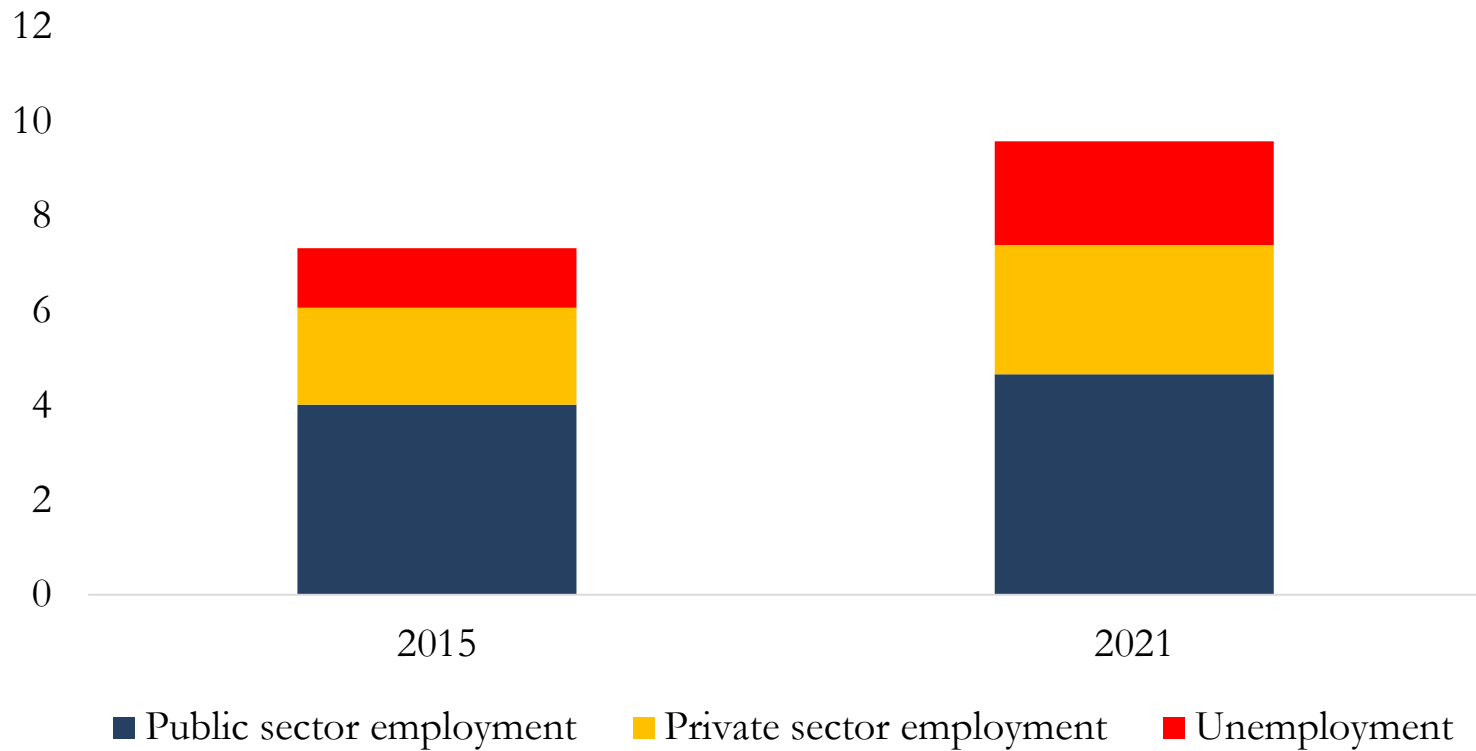

Qatar


Saudi Arabia


UAE

Oil exporters need to accelerate creation of private sector jobs for rapidly growing populations

Projected Employment in the GCC *(Millions of people)*



Key Takeaways on MENAP Oil Exporters

- MENAP oil exporters continue to face an exceptionally challenging policy environment of persistently low oil prices and conflicts.
- Fiscal consolidation is progressing, but more remains to be done to place public finances on a sounder footing.
- Some countries announced plans to accelerate diversification away from oil. Such plans should be quickly developed into specific reforms and implemented.
- Business friendly policies are needed to enable the private sector to create jobs necessary to absorb a rapidly growing labor force.
- Policymakers need to remain vigilant about financial stability risks given tightening liquidity and the risk of lower bank asset quality.

Roadmap

Global Environment

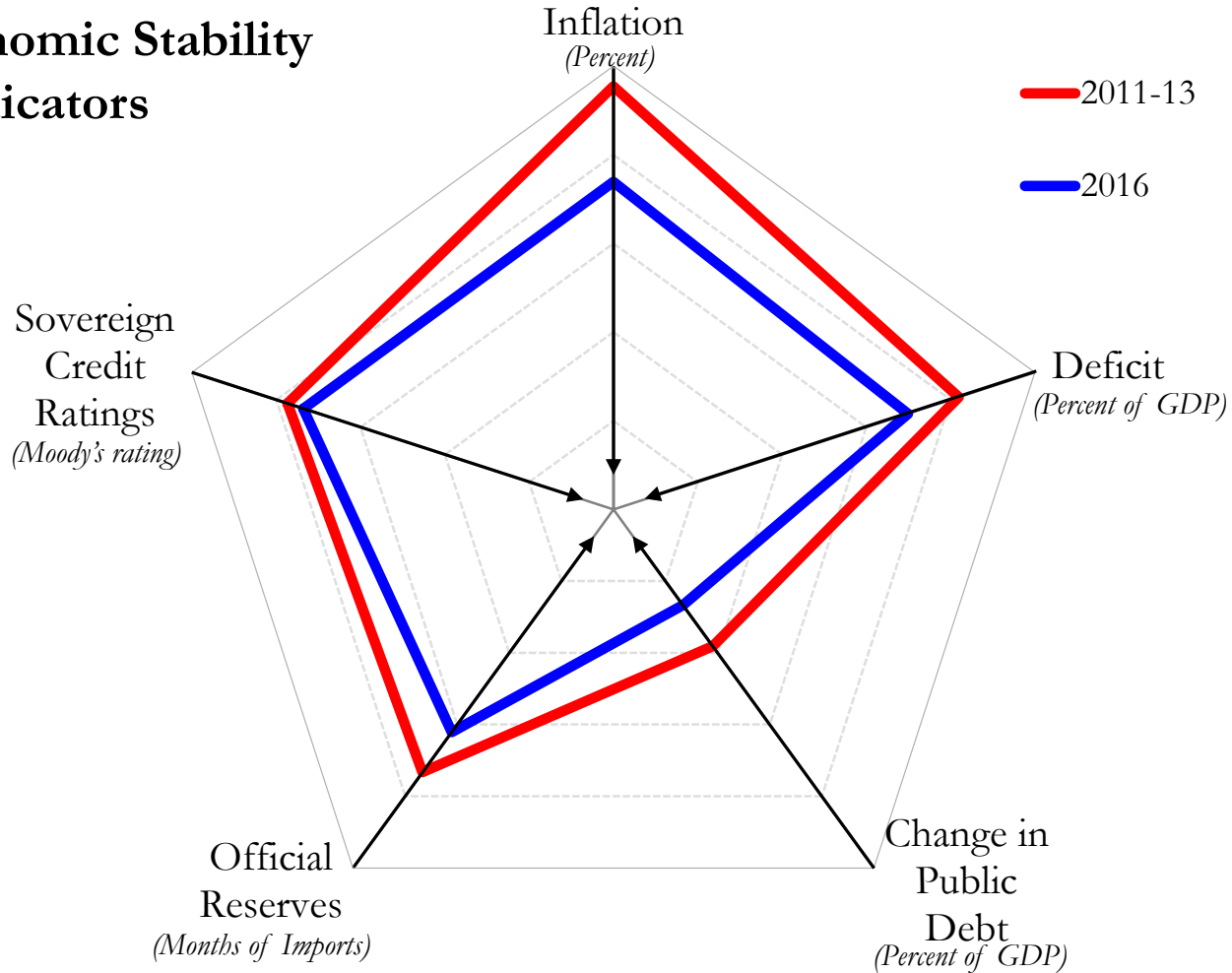
MENAP Conflicts

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Macroeconomic stabilization has advanced with sound policies and lower oil prices

Macroeconomic Stability Indicators



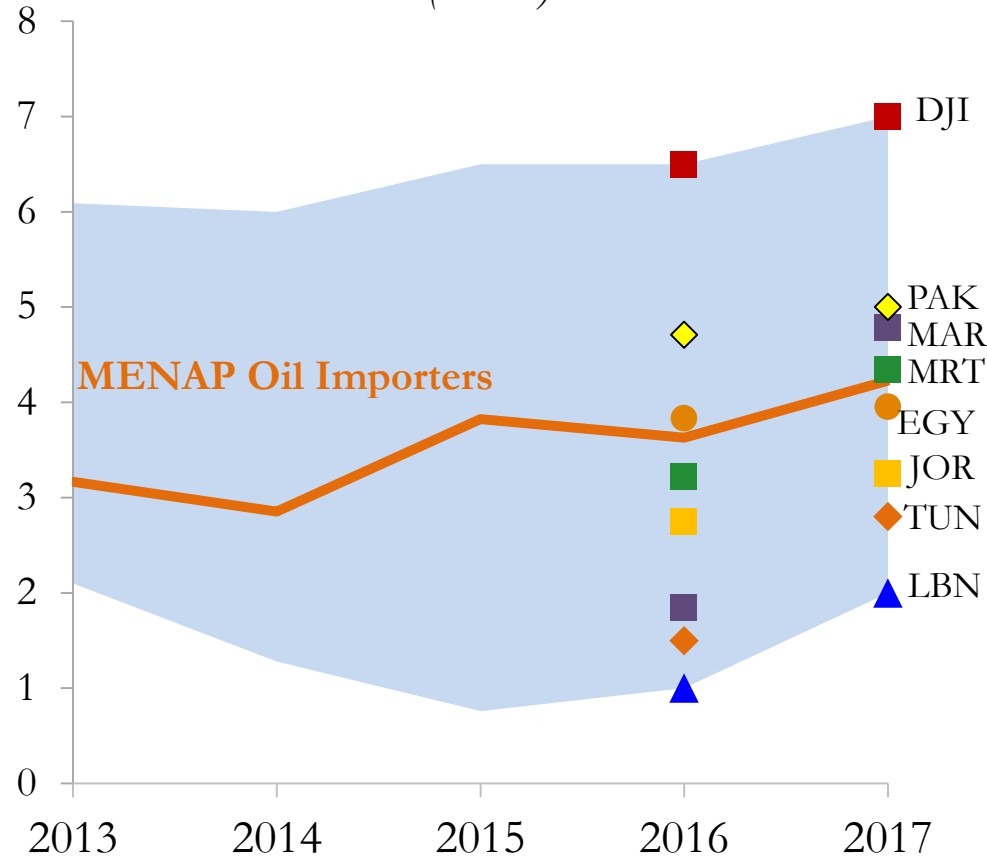
Note: Movement towards the center indicates improvement. Inflation ranges from zero to 10%; deficit and change in public debt from zero to 10% of GDP; reserves from zero to 12 months of imports; and credit ratings from C to Aaa.



Yet recovery has been weak, and over the medium term MENAP oil importers risk getting stuck in a low-growth equilibrium

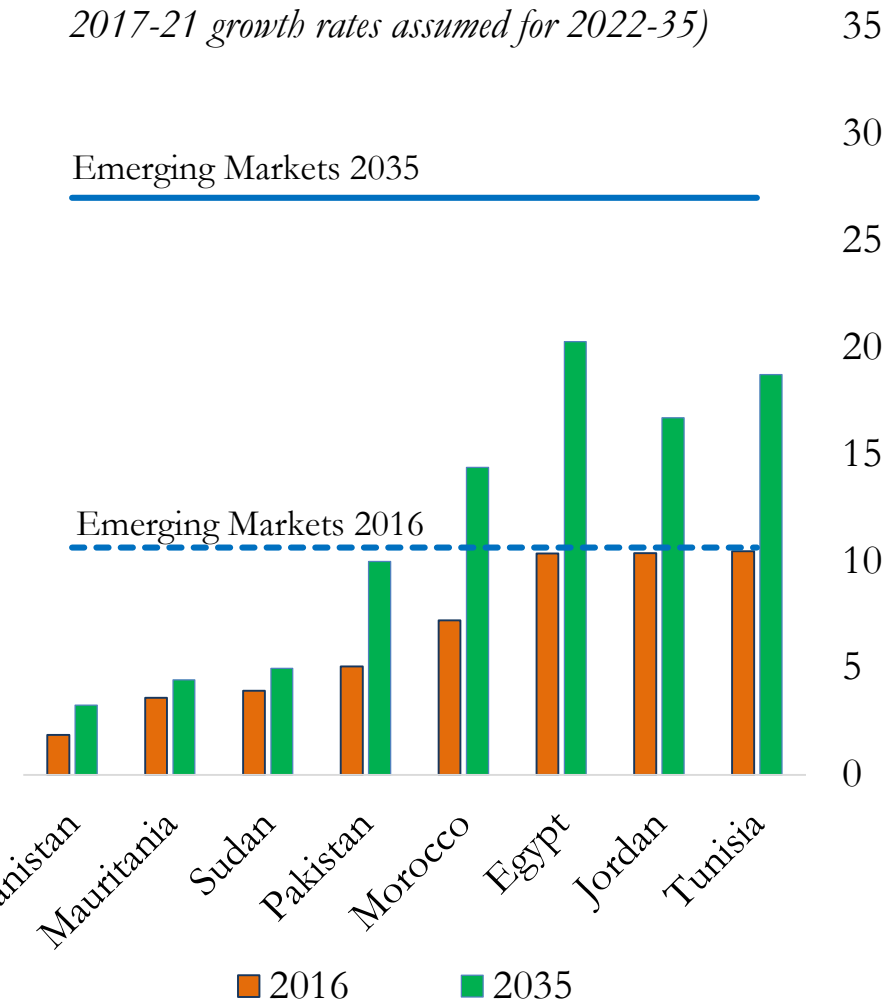
Real GDP Growth

(Percent)



Income Per Capita

(PPP U.S. Dollars in Thousands,
2017-21 growth rates assumed for 2022-35)

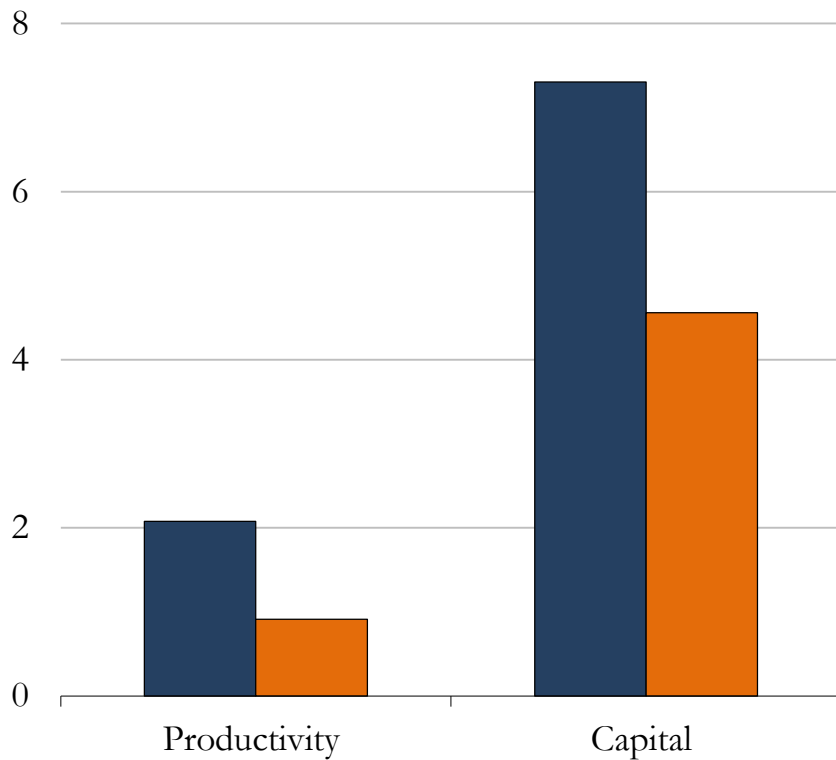


Range of country growth rates

Higher, more inclusive growth and job creation hinges on raising productivity and capital growth

Long-Term Productivity and Capital Growth 2008-2015

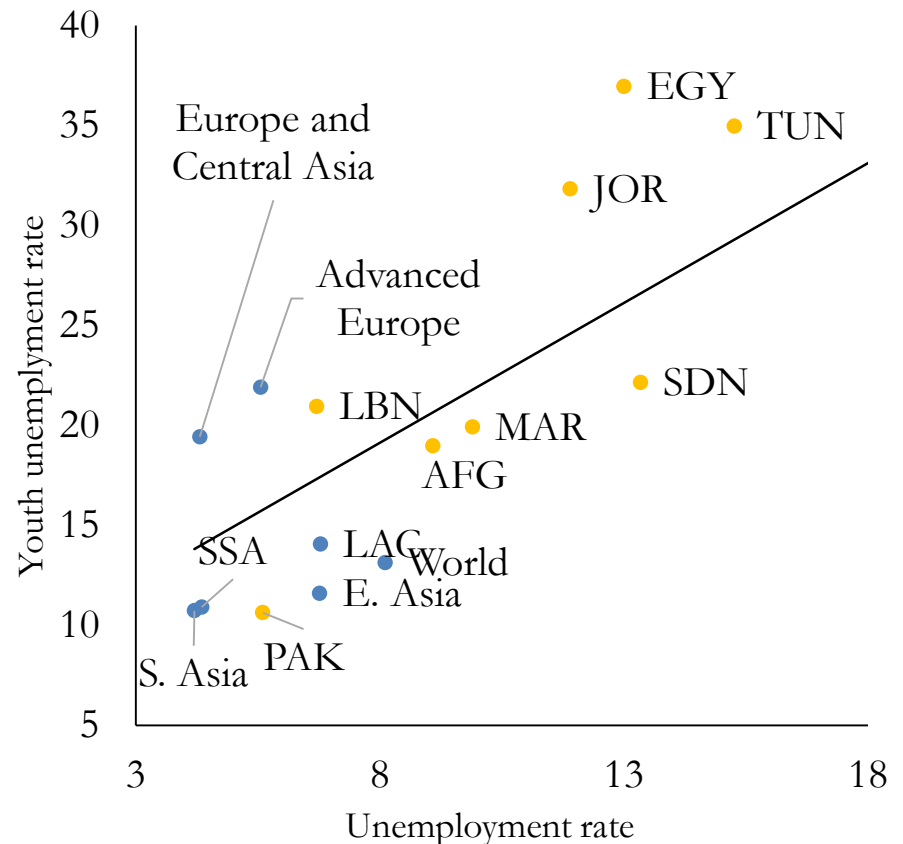
(Percentage points)



■ EMDC ■ MENAPOI

Unemployment

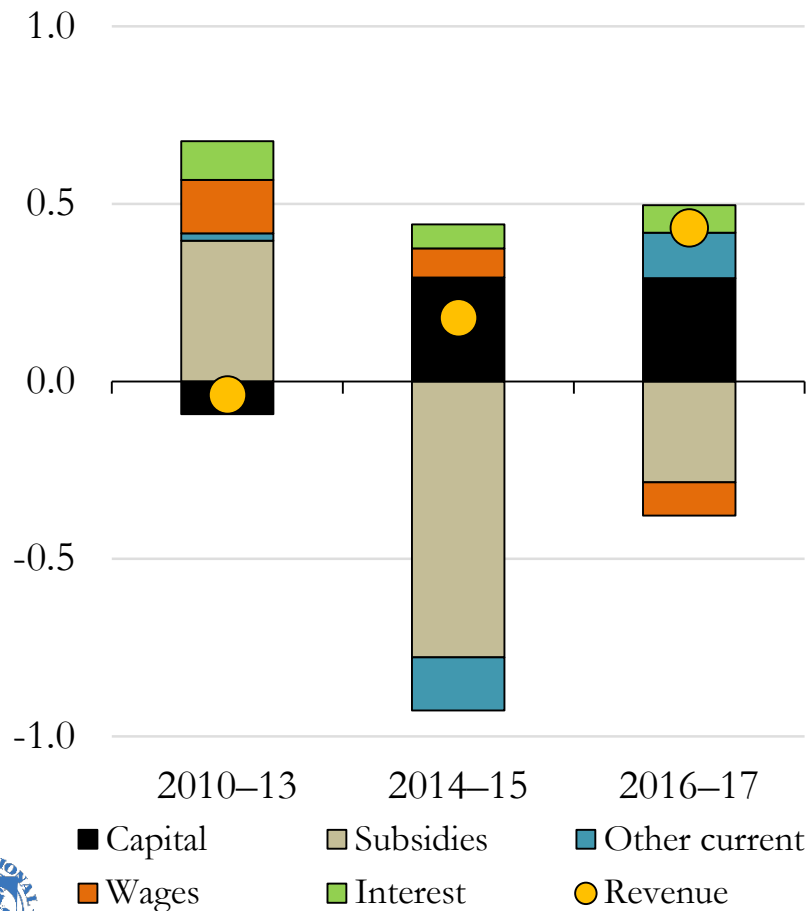
(Latest available, percent)



Continued fiscal consolidation can expand room for growth-enhancing investment and social spending while putting debt on sustainable path

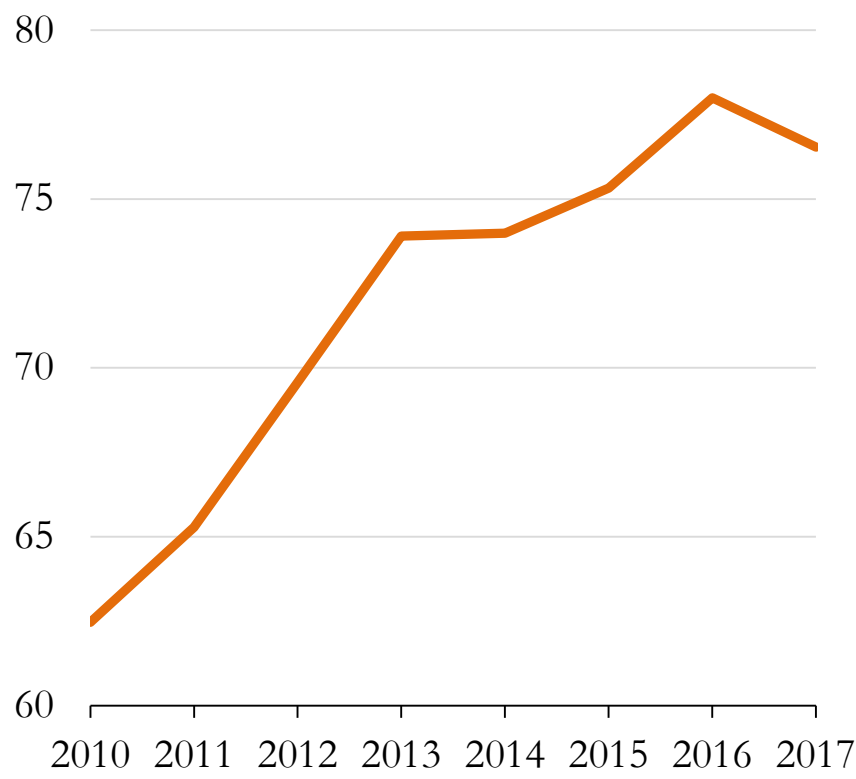
Changes in Government Revenues and Spending¹

(Percentage of GDP, Change from Prior Year)



Gross Public Debt

(Percent of GDP)




Reforms have led to advances in key structural areas

	Corruption	Infrastructure	Regulations	Education	Finance	Trade
Egypt		↑	↑			↑↑
Pakistan			↑	↑		↑↑
Morocco	↑	↑↑	↑	↑	↑	↑
Tunisia						
Jordan	↑		↑	↑		↑

Improvement from 2007:

Some (Zero to 10%) ↑ ↑↑ Large (Between 10% and 20%)

Score in 2016: (Out of 10)

0  10

Worse Better



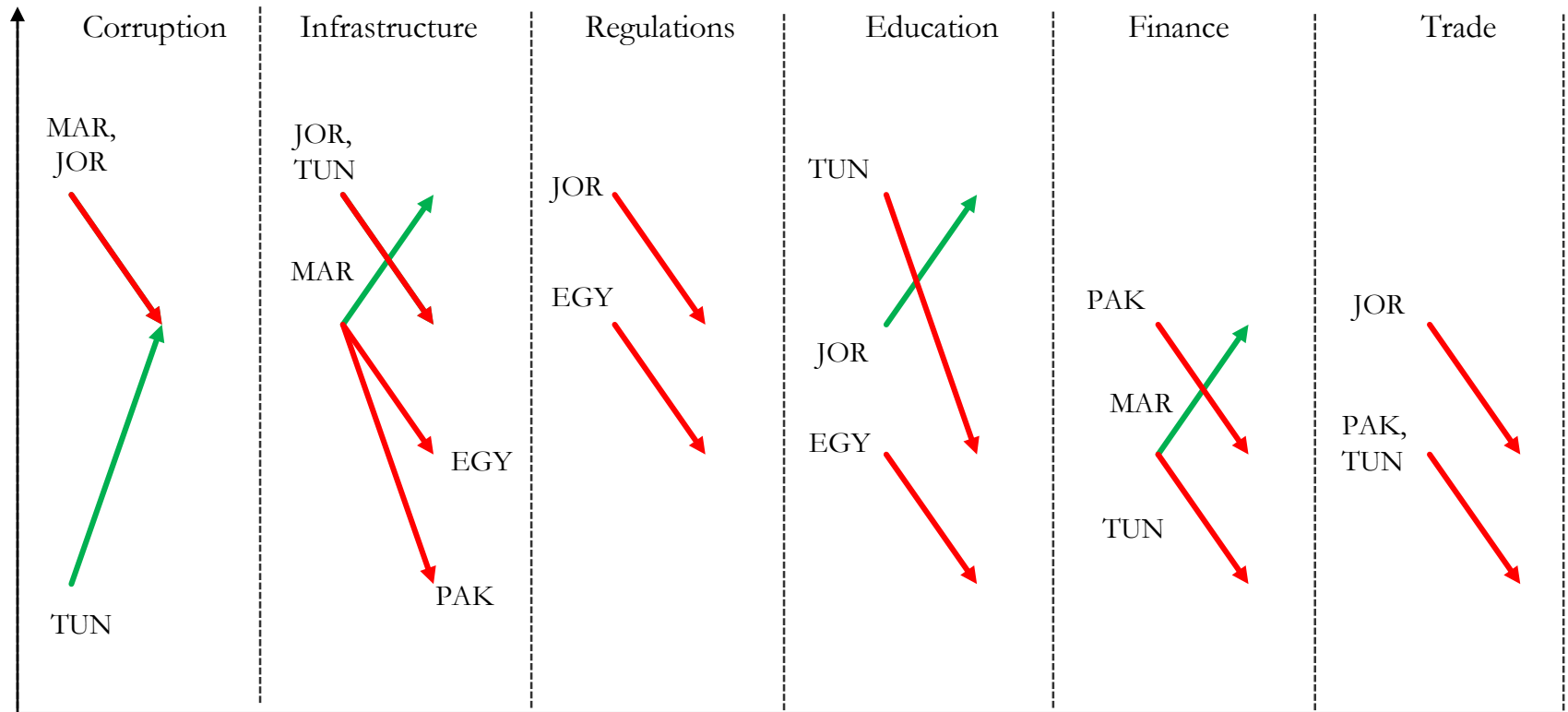
Sources: ICRG, PRS Group; World Bank (only finance indicator); World Economic Forum; and IMF staff calculations.
 Note: Sources of structural indicators were chosen based on data availability. Results are broadly robust to using alternative sources.

Reforms need to be accelerated for countries to be able to compete with global peers and further boost inclusive growth and jobs

Structural Reform Ratings Relative to Global Peers

(Arrows begin at 2007 ranking and end at 2016 ranking)

Better



Worse

Sources: ICRG, PRS Group; World Bank (only finance indicator); World Economic Forum; and IMF staff calculations.

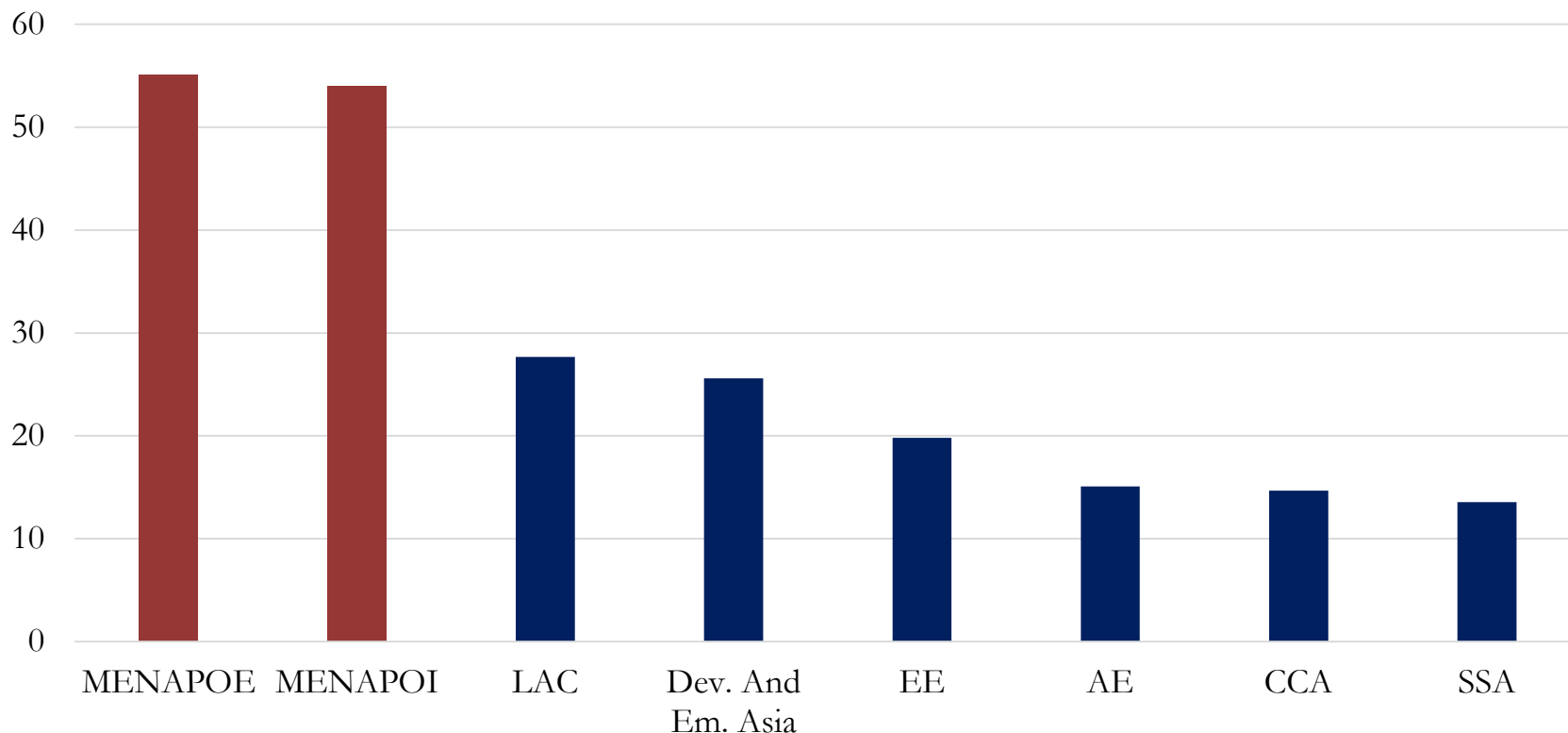
Notes: 1. The vertical axis shows the ranking of a countries' performance relative to the performance of their global peers (defined as EMDCs). The 100 ranking reflects the top ranking among EMDCs; a 80 ranking means a country is performing among the top 80 percent of EMDCs, and so on. The arrows demonstrate changes in rankings that reflect changes in countries' own performance and/or performance of their global peers (defined as EMDCs). 2. Countries without a substantial change in rankings relative to global peers are not shown. 3. Sources of structural indicators were chosen based on data availability. Results are robust to using alternative sources.



Boosting female labor force participation, which is lower than in global peers, is a \$1 trillion opportunity

Gender Gaps in Labor Force Participation^{1,2,3}

(Percentage points, average 2005-14)



¹Defined as male less female labor force participation rate.

²AE: Advanced Economies; DEA: Developing and Emerging Asia; EE: Emerging Europe; LAC: Latin America and the Caribbean.

³If the gap in female participation during the past 10 years had been double (instead of triple) the average gap in emerging market and developing countries, MENAP would have gained \$1 trillion in cumulative output.



Key Takeaways on MENAP Oil Importers

- Macroeconomic stabilization is progressing thanks to recent reforms, sound policies, and low oil prices.
- Yet high risk of getting stuck in a fragile, low-growth, high-unemployment equilibrium amid weak external demand and continued regional conflicts.
- Higher, more inclusive growth and job creation hinges on raising productivity and capital investment.
- Growth-friendly fiscal reforms – also needed for debt sustainability – and accelerated structural reforms are key to achieve this.

MENAP outlook is broadly unchanged since last April—subdued growth across the region due to low oil prices and conflicts

Real GDP Growth, 2015-17

	GCC and Algeria	Iran	Conflict Countries	MENAP Oil Importers
2015	3.4	0.4	-5.7	3.8
2016	2.0 ▼	4.5 ▲	7.3 ▲	3.6 ▲
2017	2.4 ▼	4.1 ▲	3.5 ▼	4.2

▼ Indicates a decline in projections relative to April 2016 REO Update

▲ Indicates an increase in projections relative to April 2016 REO Update

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