



Middle East and Central Asia Regional Economic Outlook

NOVEMBER, 2018

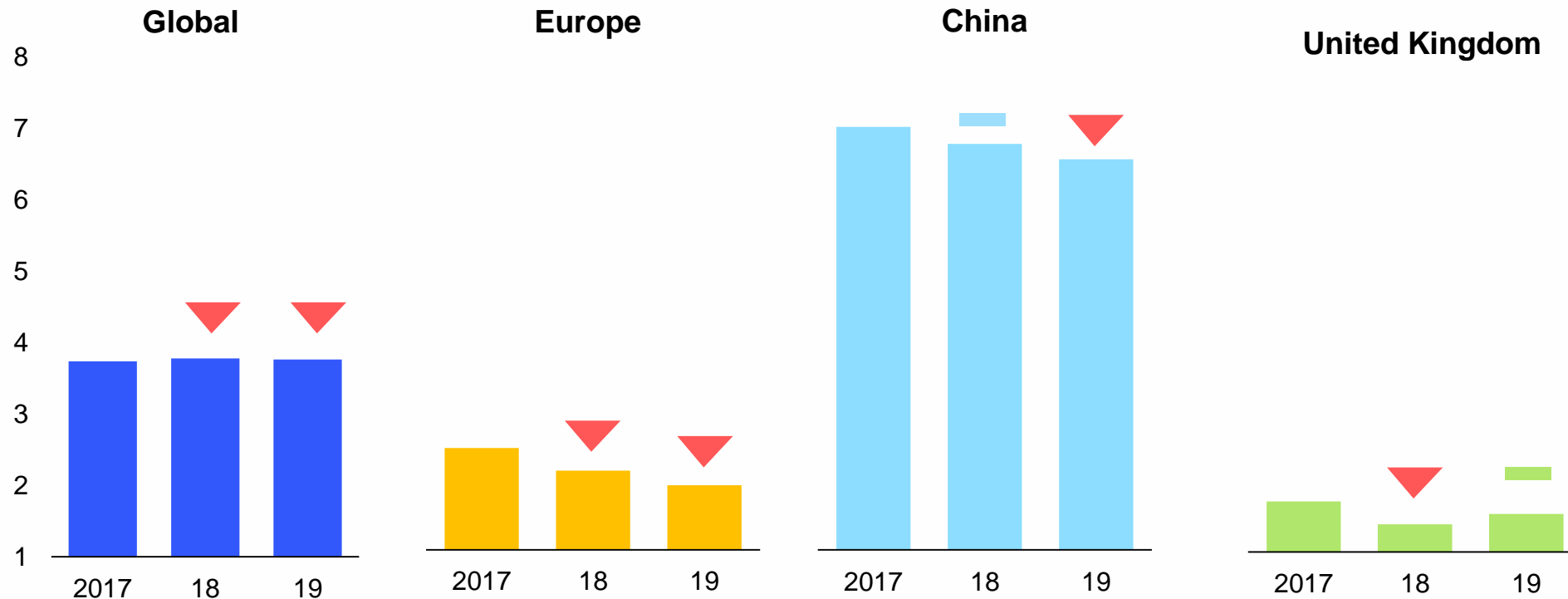
**Jihad Azour
Director, Middle East and Central Asia
Department**

Outline

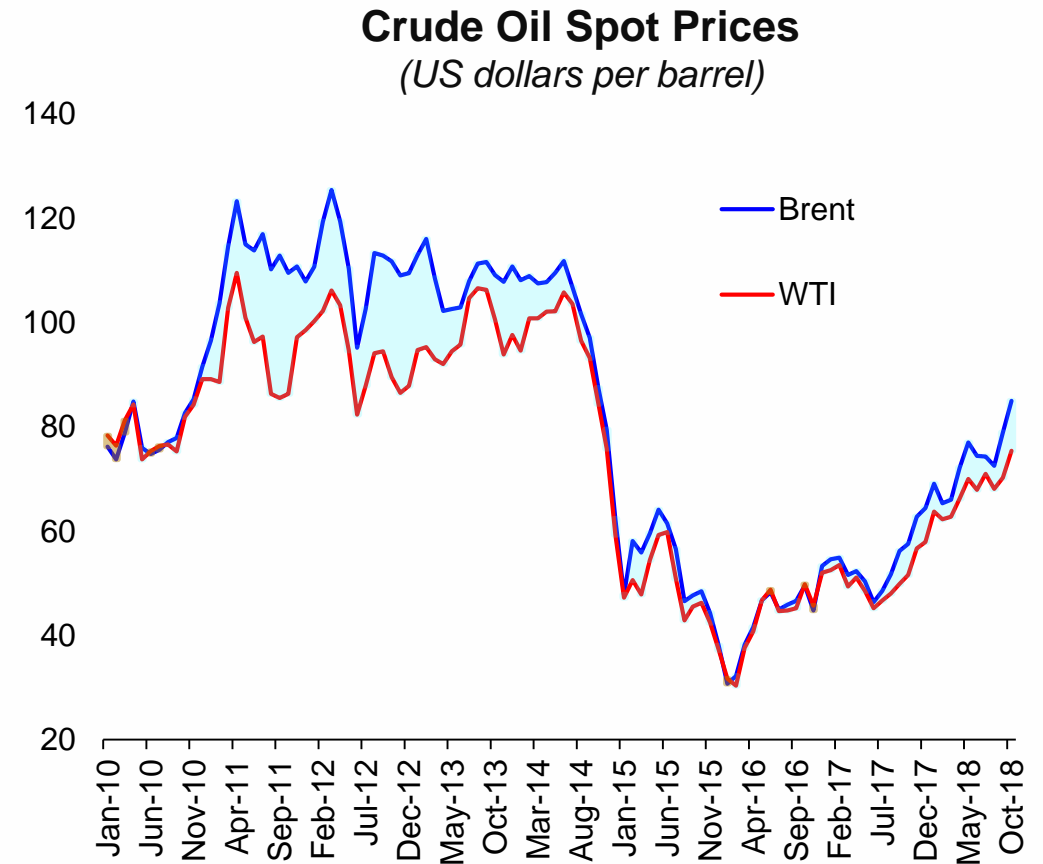
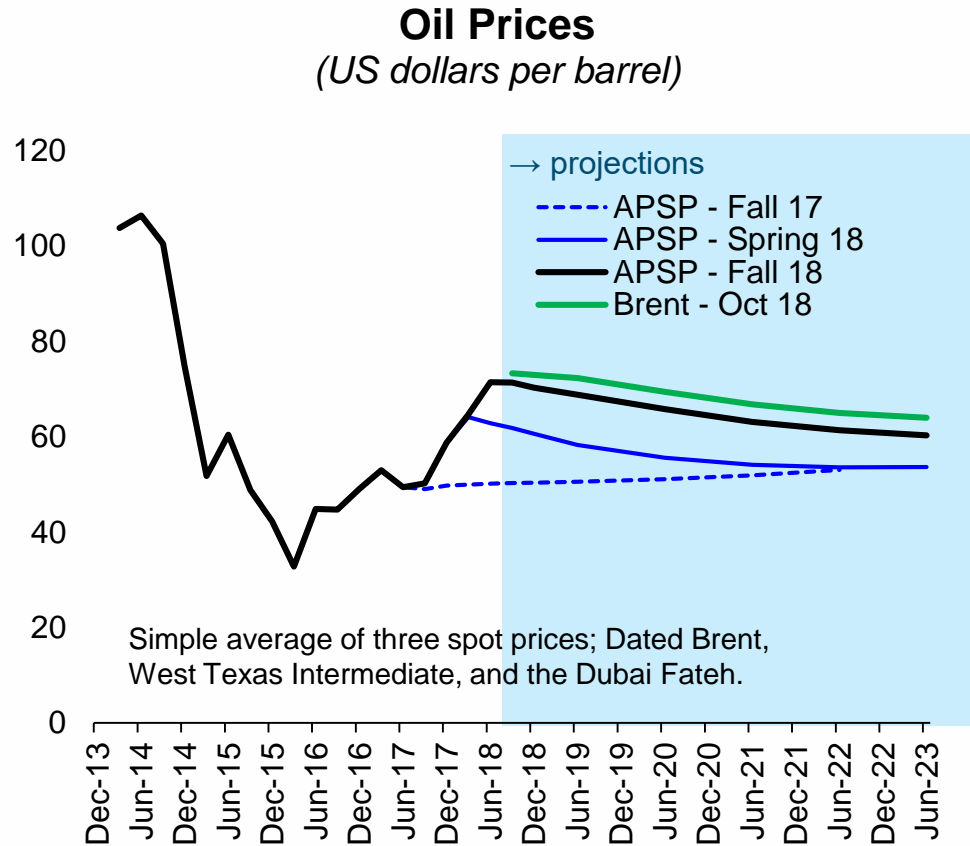
- A Changing Environment:
Gathering Storm Clouds?
 - Regional Outlook
 - Navigating Turbulent Waters
 - Sustaining Inclusive Growth
 - Key Takeaways

Global growth prospects are weakening

Real GDP Growth of Trading Partners
(Arrows represent direction of revision since April 2018 WEO)



Despite the recent surge, the medium-term outlook for oil prices remains uncertain



Sources: IMF Global Assumptions.
Note: These are baseline projections.

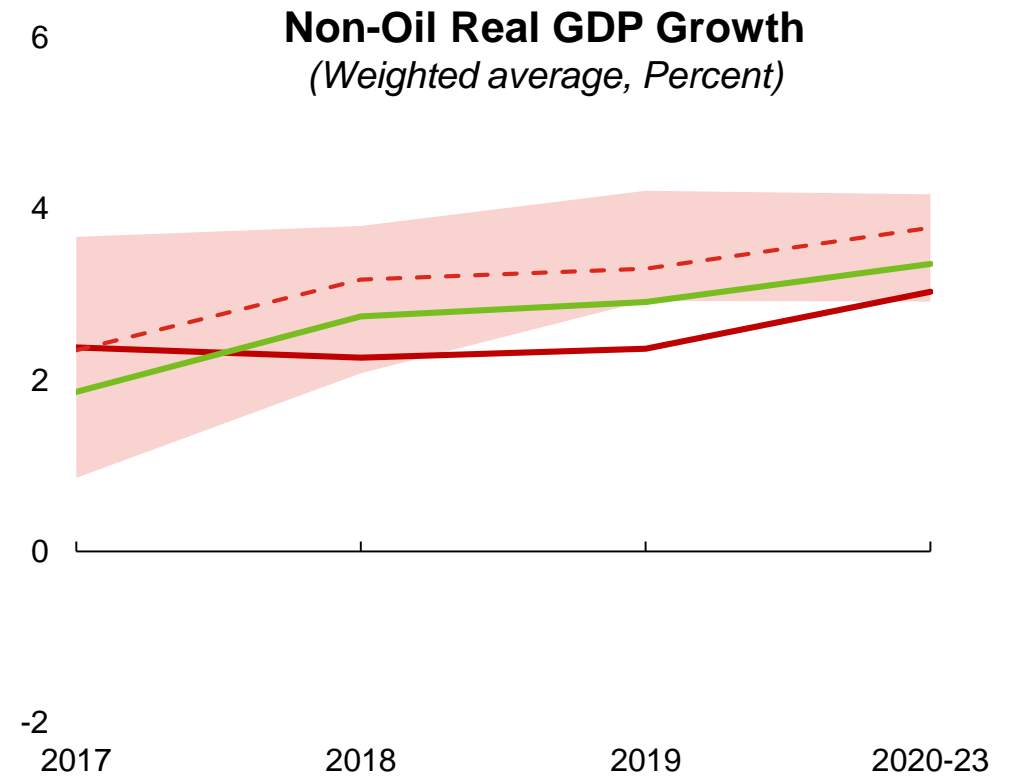
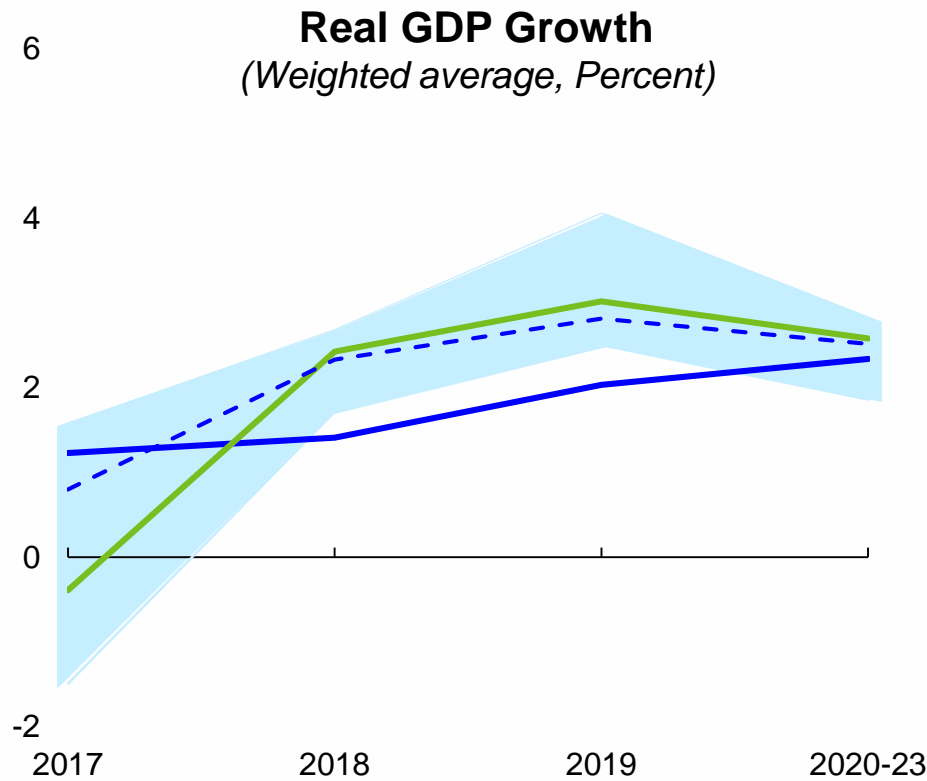
- A Changing Environment

- **Regional Outlook:**
Uneven and Fragile

- Navigating Turbulent Waters
- Sustaining Inclusive Growth
- Key Takeaways

Growth in oil exporters rebounding this year and next given higher oil production and stronger non-oil activity

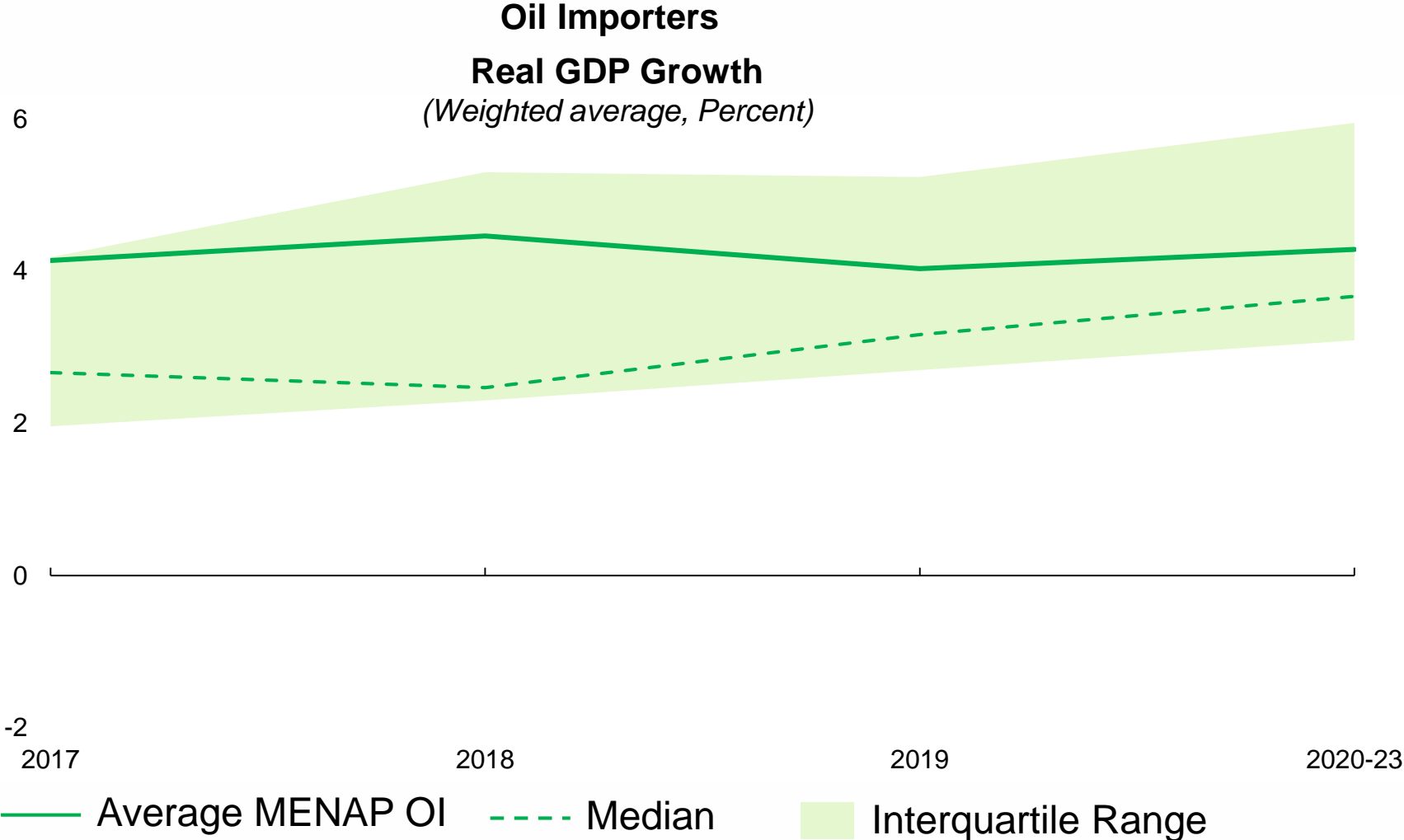
Oil Exporters



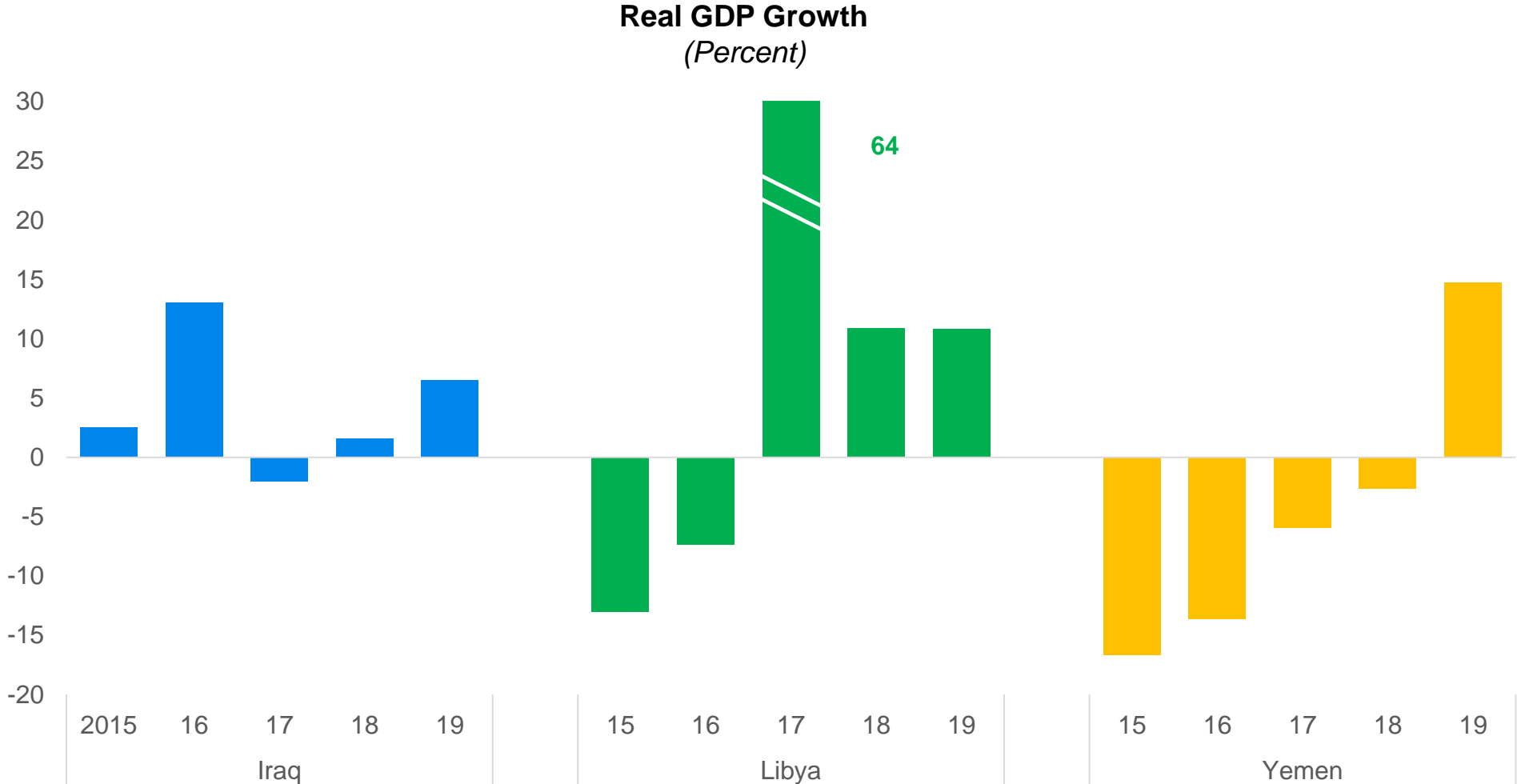
— Average MENAP OE — GCC

- - - Median Interquartile Range

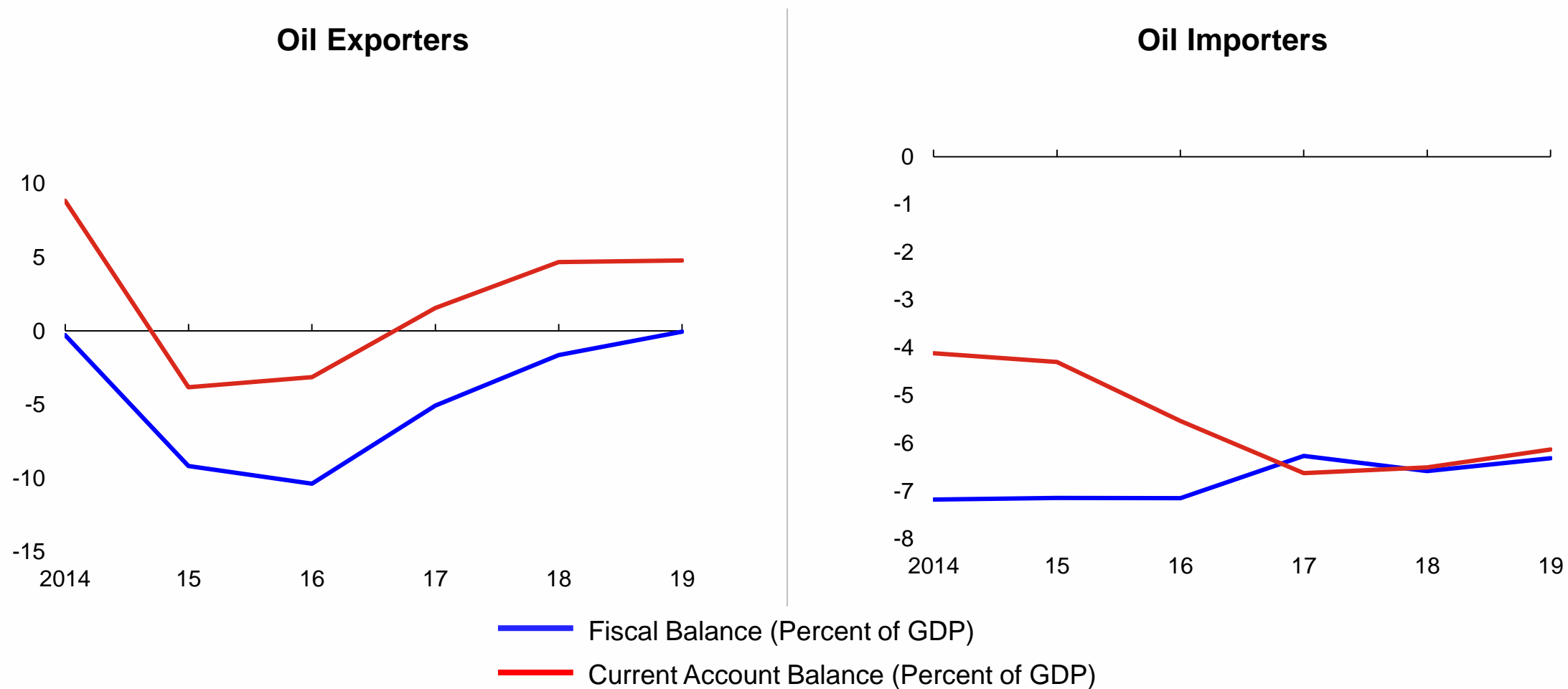
Modest growth under way in oil importers, with some heterogeneity across countries



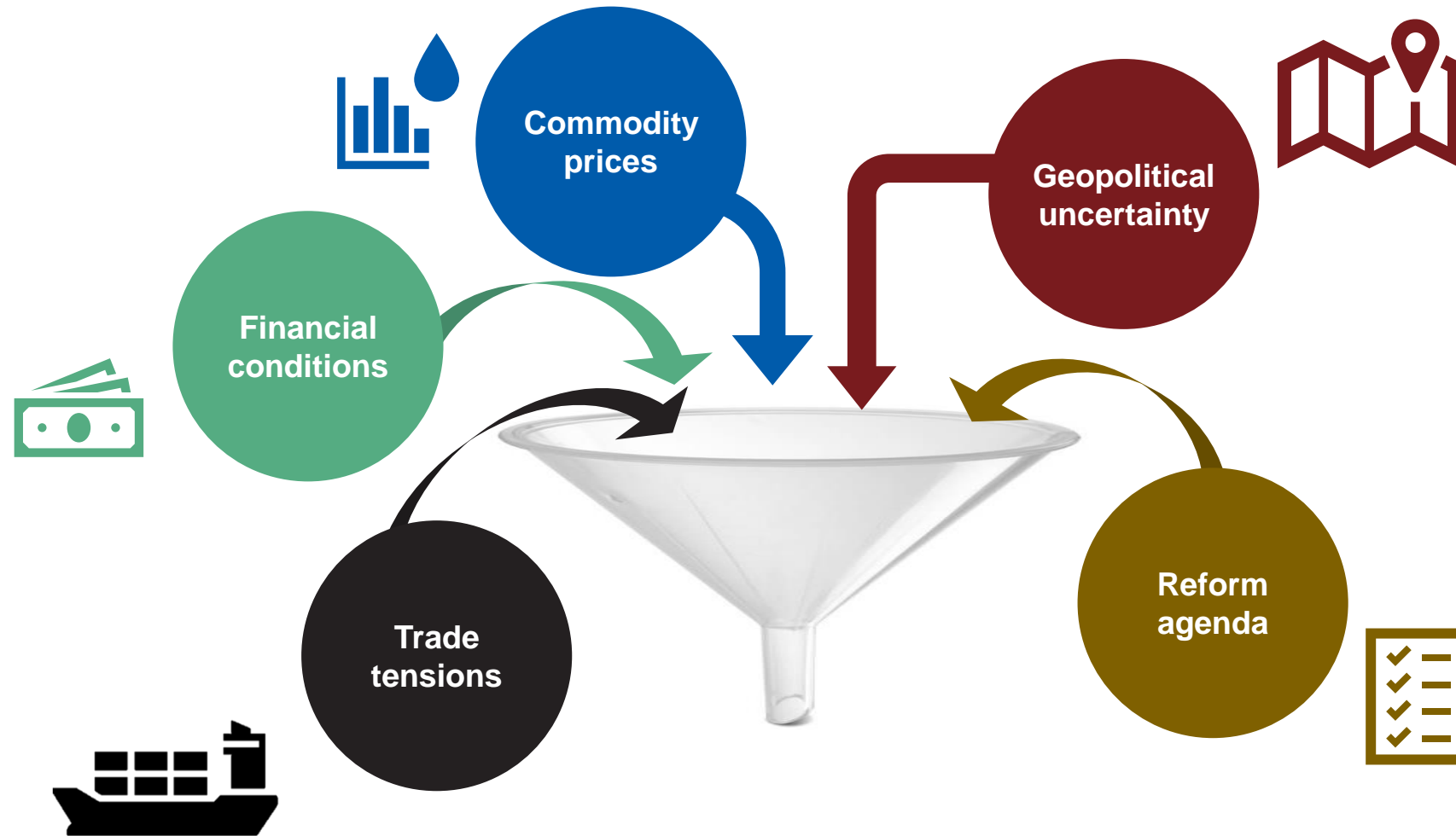
Economic conditions in countries affected by conflict remain volatile and uncertain



Recent recovery in oil prices having opposite effects on oil exporters and importers



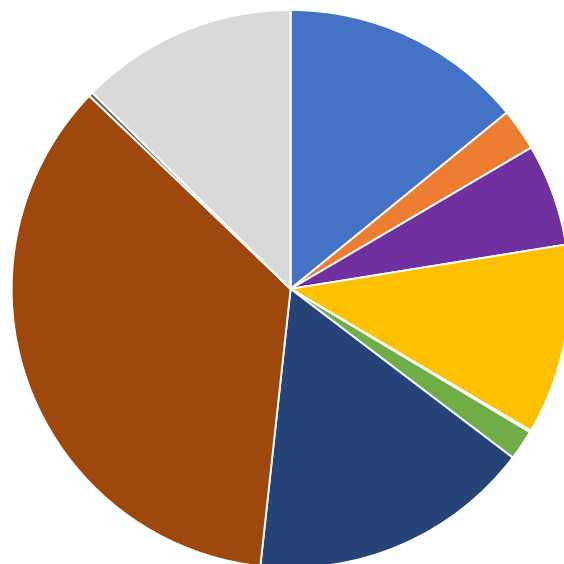
Multiple and intertwined risks challenge the region



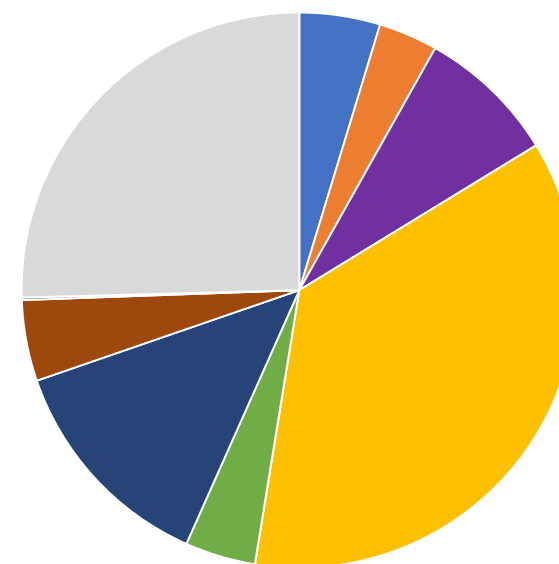
Direct impact from trade tensions likely small, but indirect effects could be large

Exports of Goods by Destination in 2017
(Share of total exports)

Oil Exporters



Oil Importers

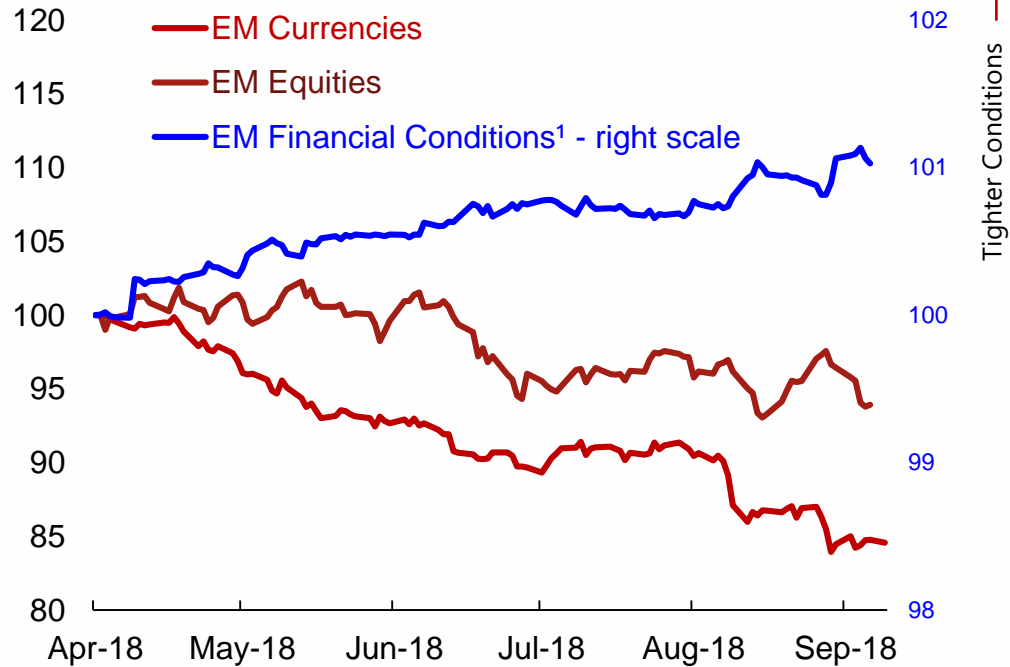


- China
- Turkey
- US
- Euro Area
- UK
- MENAP
- Asia excl. China
- Rest of the World

Spreads widening as market sentiment and financial conditions change

Financial Conditions in Emerging Economies

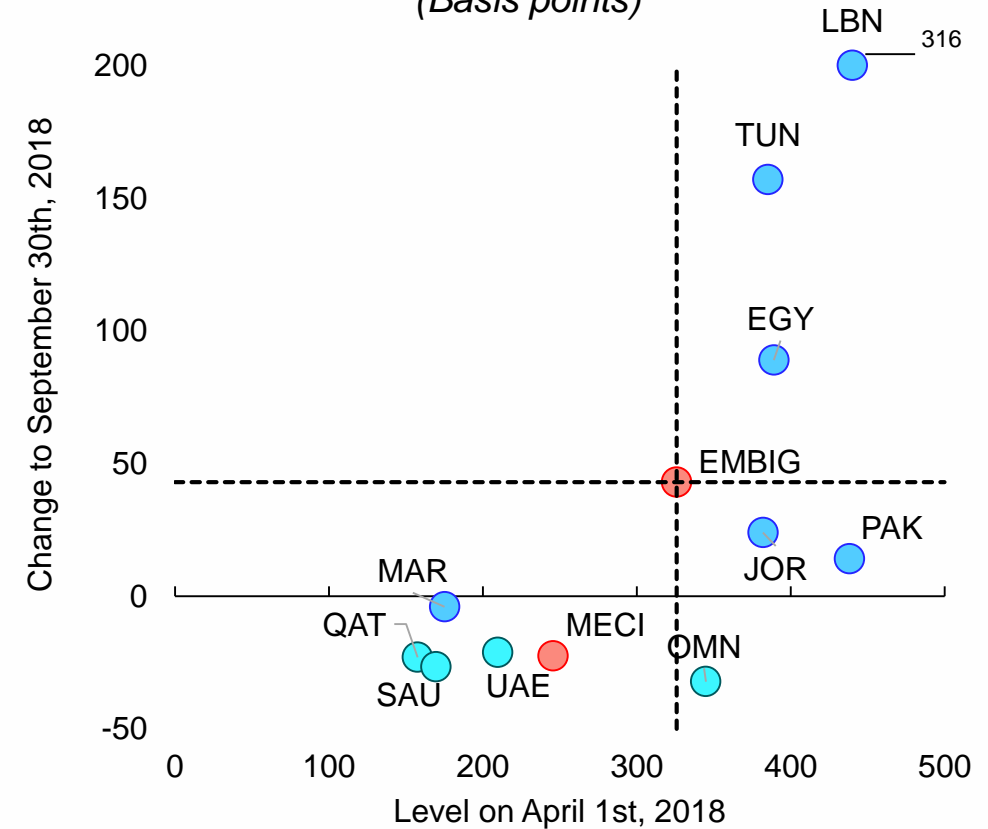
(Indexed, April 2018 = 100)



¹Index includes the average of Brazil, China, Chile, India, Indonesia, Korea, Mexico, Russia, South Africa, Thailand, and Turkey.

Sovereign Spreads²

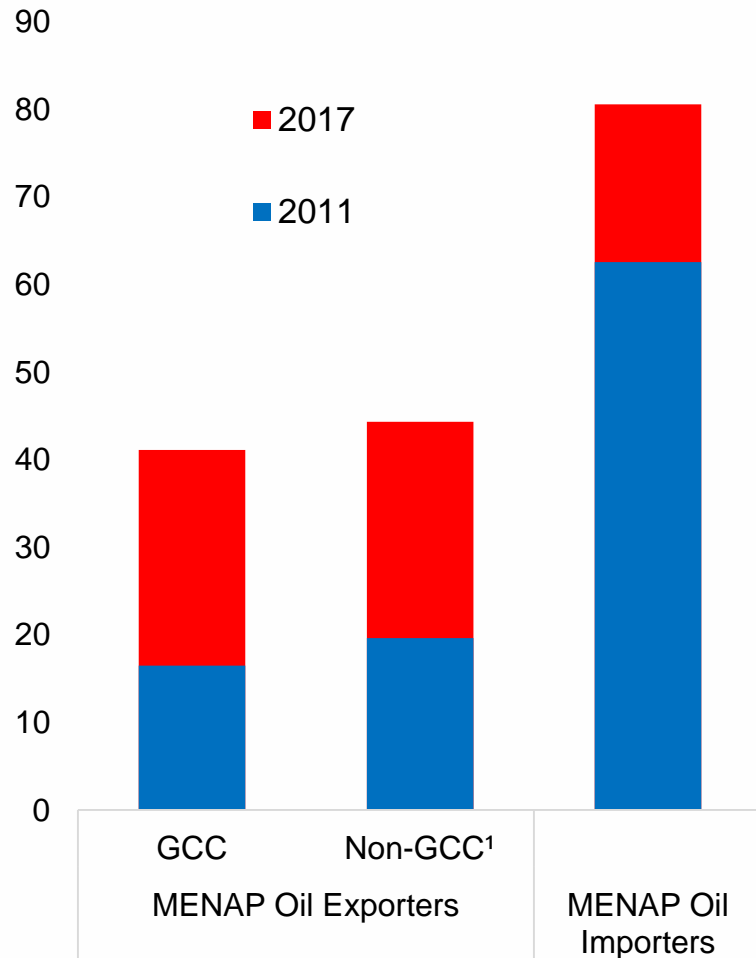
(Basis points)



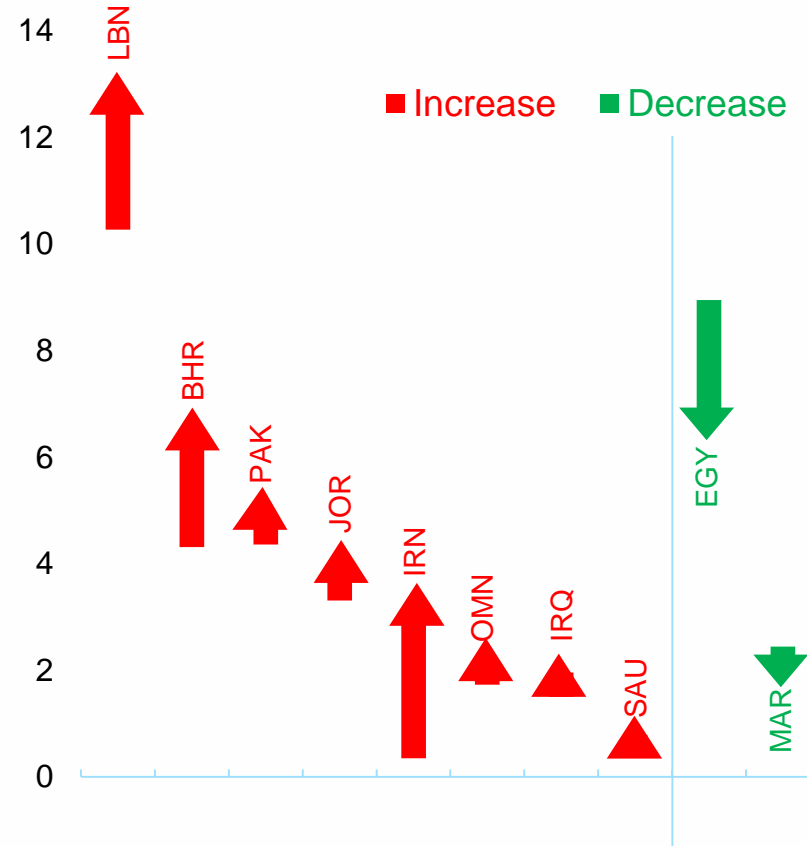
² JP Morgan EMBIG spreads are shown except for Bahrain, Oman, Qatar, Saudi Arabia and UAE where MECI (Middle East Composite Index) spreads are used instead.

Fiscal financing risks rising in some countries

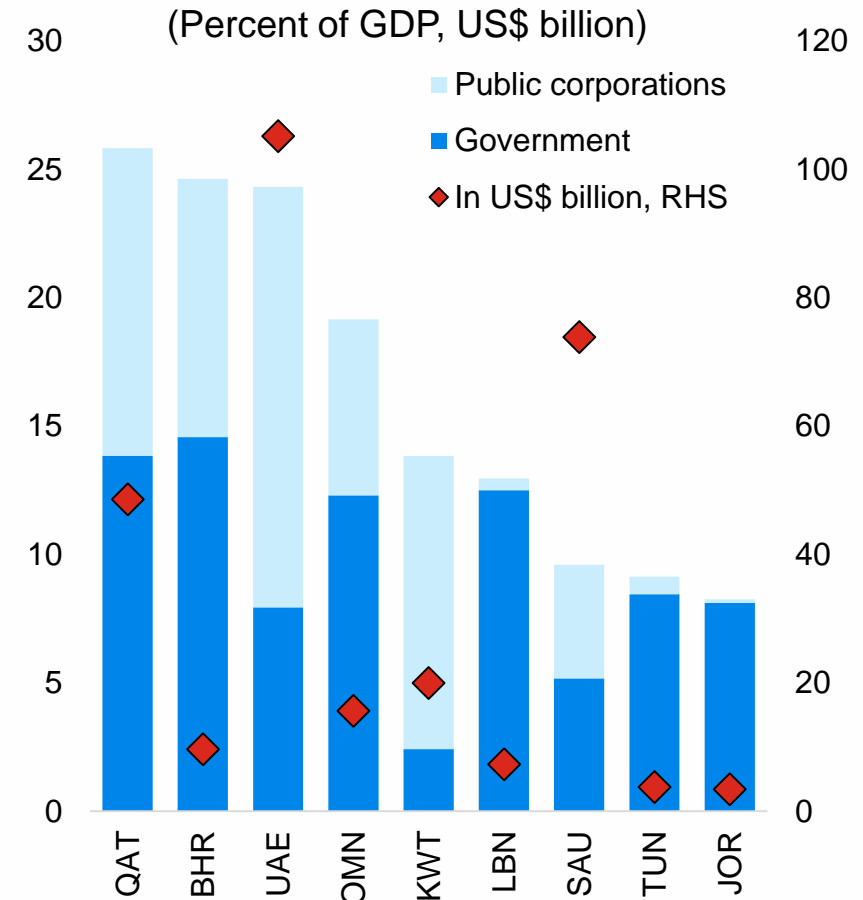
Gross Government Debt
(Percent of GDP, simple averages)



Government Interest Expense
(Change from 2018 to projected average in 2020-23, percent of GDP)



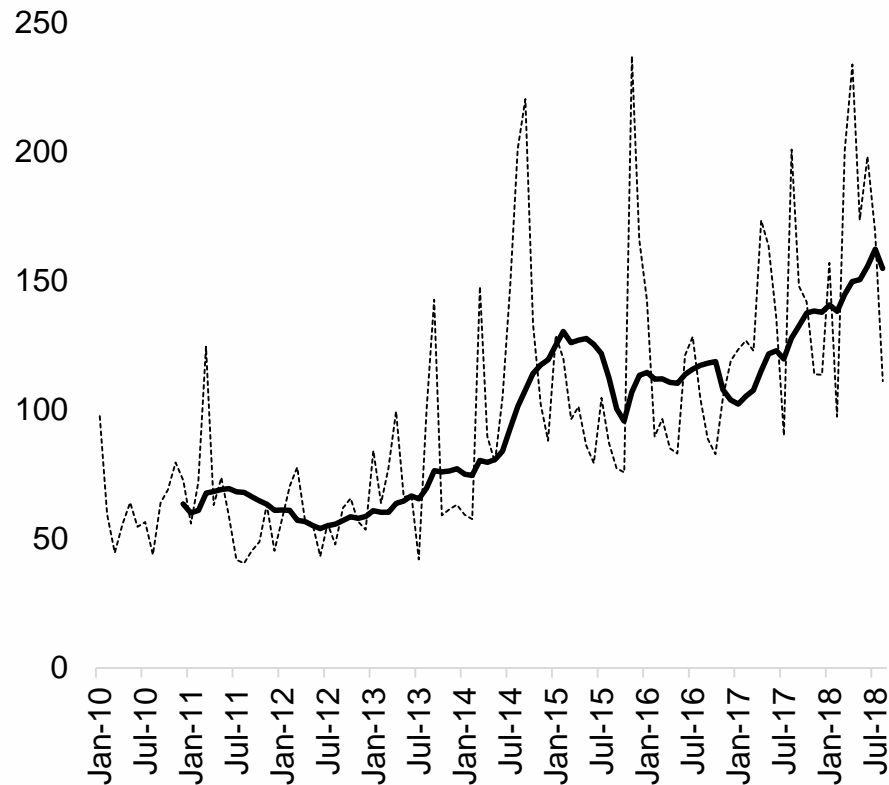
International Public Debt Maturing in 2019-23
(Percent of GDP, US\$ billion)



Sources: National authorities, IMF staff calculations, and Dealogic.
Notes: ¹Excludes Libya and Yemen.

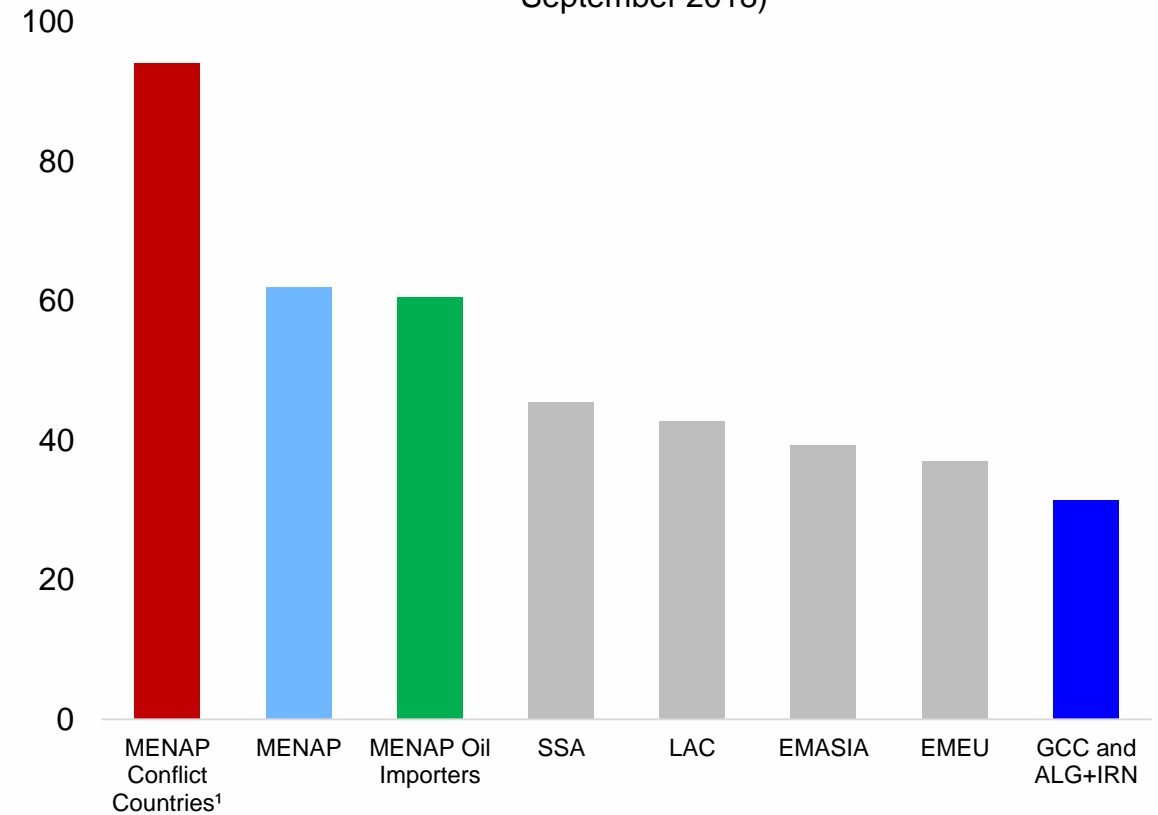
Geopolitical risks trending upwards, while regional risks remain high

Global Geopolitical Risk (GPR) Index



Source: Caldara, D and M. Iacoviello (2018), available at <http://policyuncertainty.com/gpr.html>

EIU Security Risk
(Simple averages across countries, higher = riskier, September 2018)



Source: Economist Intelligence Unit and IMF staff calculations.
¹Includes Iraq, Libya, Syria, and Yemen.

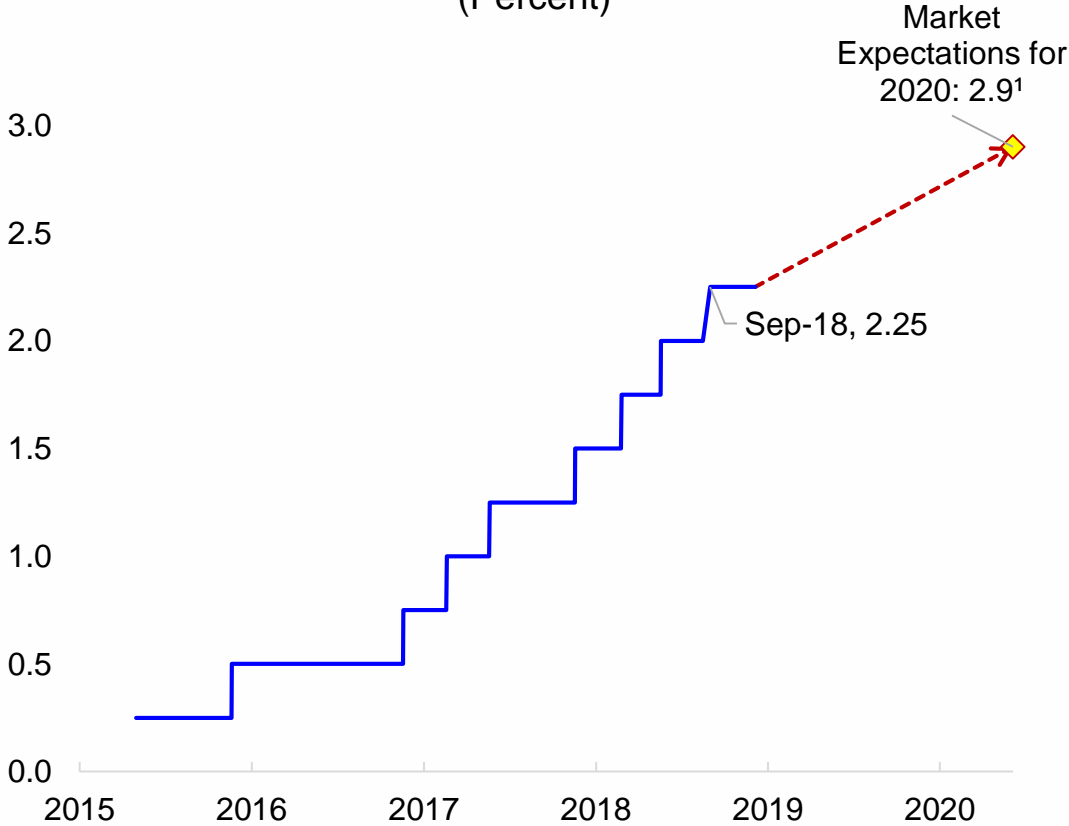
- A Changing Environment
- Regional Outlook

- Navigating Turbulent Waters:
Calibrating the Policy Mix

- Sustaining Inclusive Growth
- Key Takeaways

External developments will constrain monetary policy choices

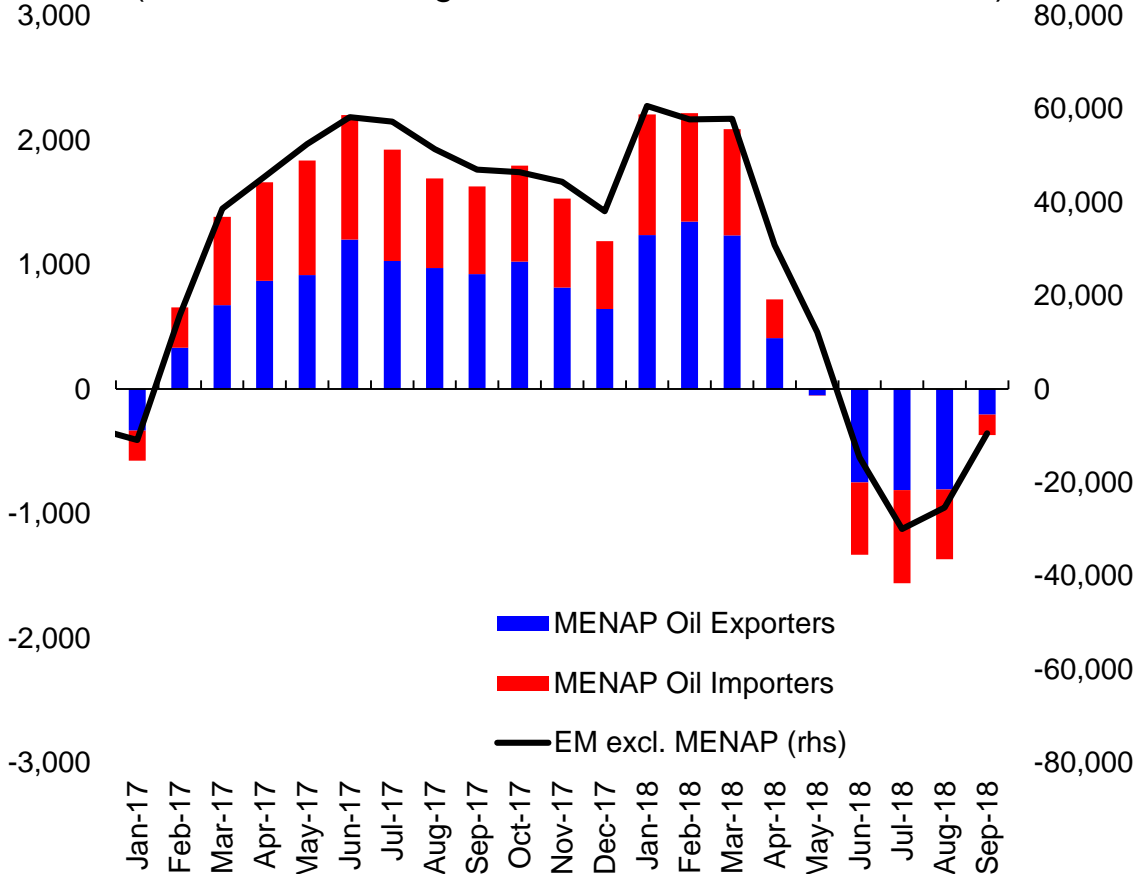
Federal Funds Rate
(Percent)



¹As of October 30, 2018

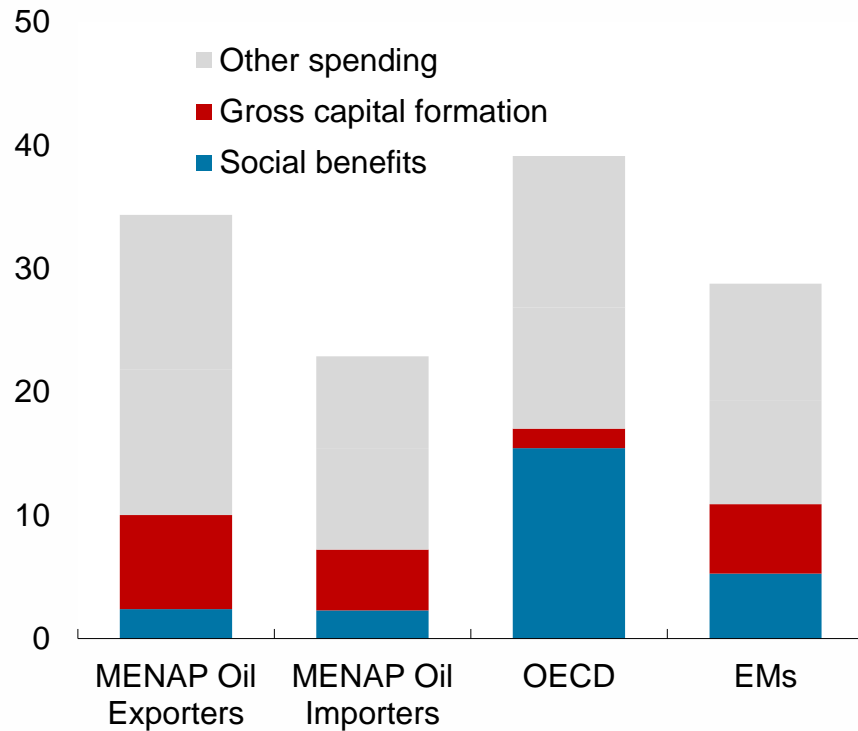
Capital Flow Pressures

(US\$ million, rolling 3-month EPFR cumulative flows)

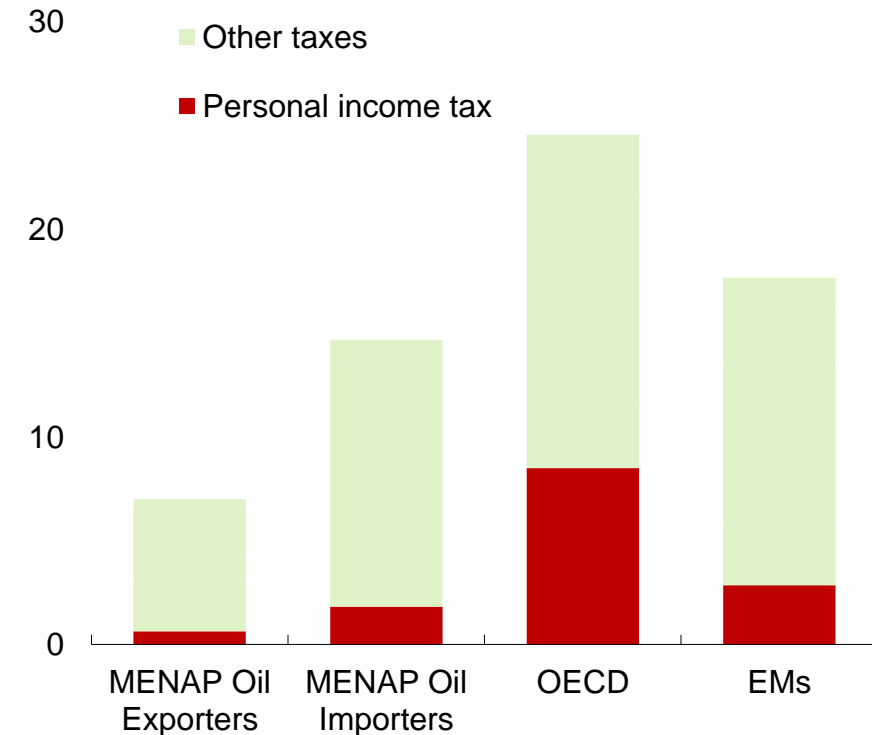


Scope for fiscal policy to be more growth-friendly and equitable

Composition of expenditure items
(Averages 2017, percent of GDP)



Composition of taxation items
(Averages 2017, percent of GDP)



Sources: National authorities, and IMF staff calculations.

Note: EM = emerging market economies.

¹Other expenses include defense, consumption of fixed capital, subsidies, grants and other expense. MENAPOE excludes Libya, Syria and Yemen.

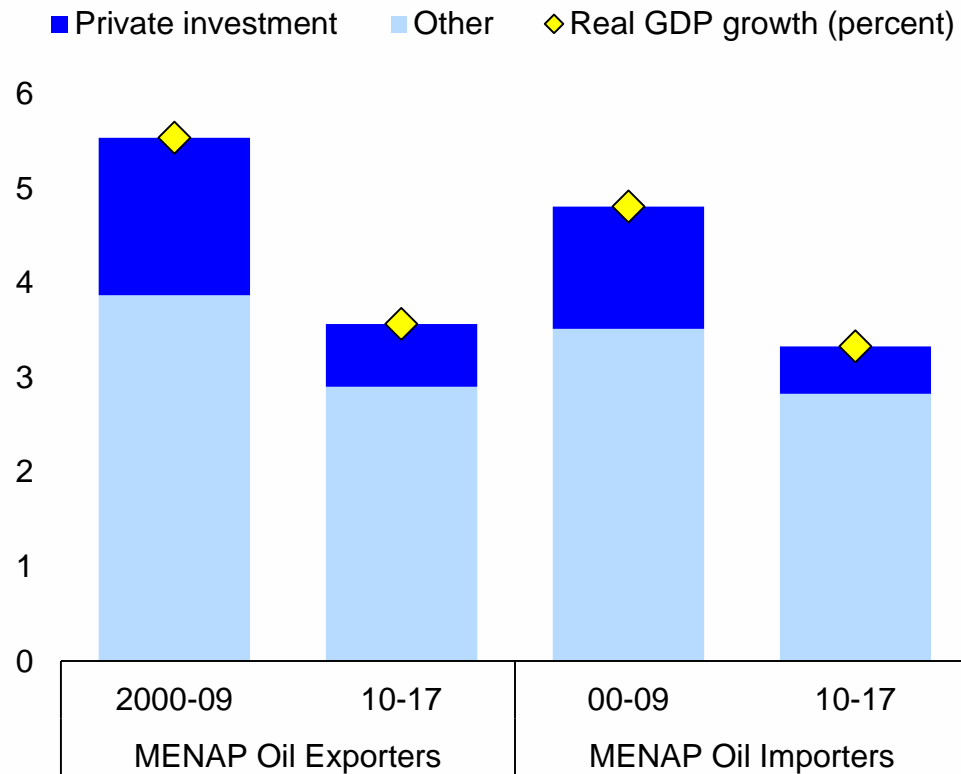
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- **Sustaining Inclusive Growth:**
Finding New Drivers of Growth

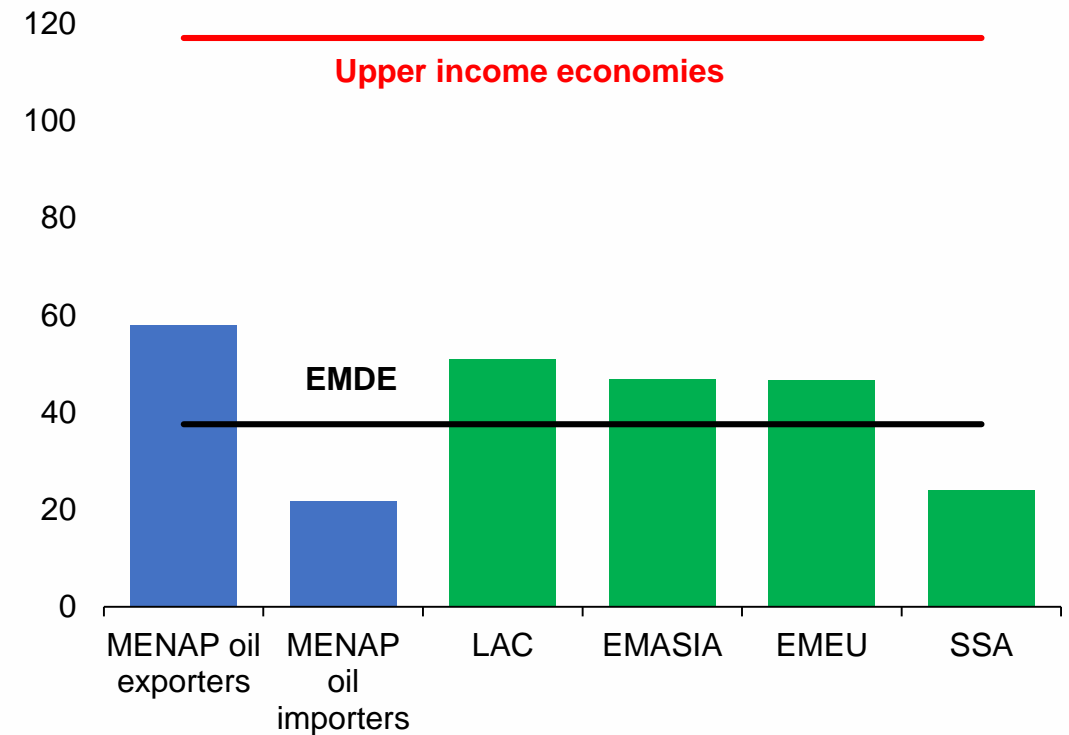
- Key Takeaways

Broader financial sector development would support private sector investment

Private Investment Contribution to Growth
(Simple averages, percentage points)



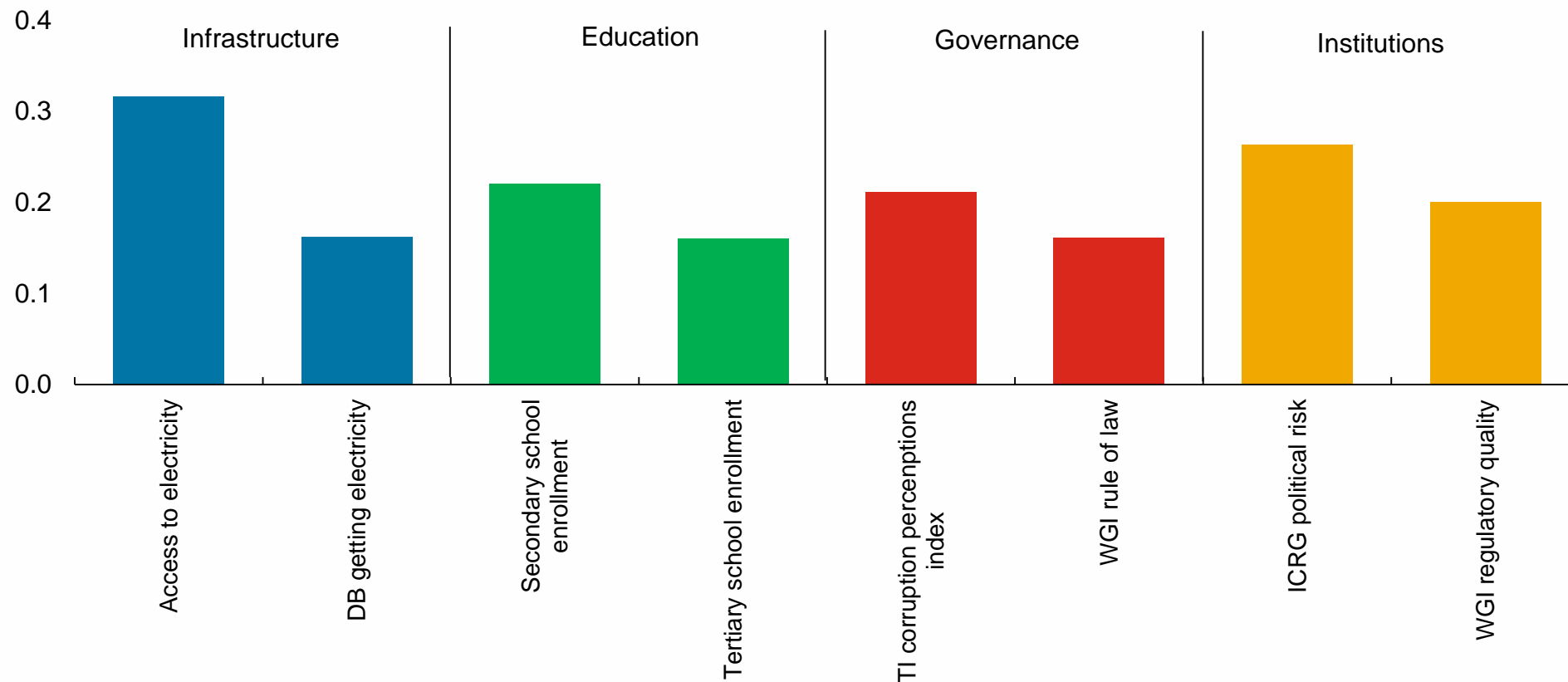
Credit to the Private Sector
(Percent of GDP, 2017)



Sources: World Bank; IMF, International Financial Statistics; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; and MENAP = Middle East, North Africa, Afghanistan

Need to improve infrastructure and education and strengthen governance and institutions

Country-Specific Determinants of Private Investment
(R-squared statistics of individual second-stage regressions)



Sources: World Bank World Development Indicators; IMF, *World Economic Outlook*; and IMF staff calculations. Notes: DB = Doing Business; ICRG = International Country Risk Guide; WGI= World Governance Indicators; and TI = Transparency International

Key Takeaways

- Growth is expected to continue at a modest pace, but remains uneven
- Risks of further tightening in global financial conditions and escalating trade tensions
- Political uncertainty and social tensions test the reform agenda in some countries, with complacency a risk in others

Policy Response

- Monetary policy choices will be constrained. Where possible, flexible exchange rates should serve as buffers in the event of external pressures
- Fiscal consolidation efforts should intensify to rebuild buffers and strengthen resilience
- There is scope to rebalance the fiscal adjustment to be more growth-friendly and equitable
- Increasing access to education and finance, and strengthening governance and institutions would attract private investment and drive growth that benefits all