

2. MENAP Oil Importers: Restore Macroeconomic Sustainability and Accelerate Growth

Despite political uncertainty, bouts of social unrest, and the escalation of the conflict in Syria, Arab transition governments have maintained macroeconomic stability. However, fiscal and external balances have deteriorated, and limited progress has been made in building consensus for needed economic reforms. MENAP oil importers' growth in 2012 is expected to remain at low levels, associated with a weakening global economy, high food and fuel commodity prices, regional tensions, and continued policy uncertainty. A moderate recovery is expected in 2013. The depletion of fiscal and reserve buffers over the past year has left very little policy space and has heightened vulnerabilities. Prompt policy action—and timely and adequate international support—are essential for restoring macroeconomic sustainability, addressing long-running structural deficiencies to lay the foundations for inclusive growth in the medium term, and creating jobs for a young and growing population. Targeted social safety nets need to be put in place to ensure that the poor are protected during the transition.

Downturn Continues in 2012, Possible Moderate Recovery in 2013

In recent months, progress has been made in most ACTs,¹ on the one hand, with governments newly elected, and political reforms being implemented in Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen. On the other hand, the conflict in Syria has escalated into a civil war since April 2012, and is now a humanitarian crisis with increasingly significant regional spillovers, especially for Iraq, Jordan, and Lebanon (Box 2.1). Beyond the ACTs, military skirmishes have continued between Sudan and South Sudan. In addition, although Afghanistan, Djibouti, Mauritania, and Pakistan have been relatively unaffected by regional political instability, they are also facing their own economic and social challenges.

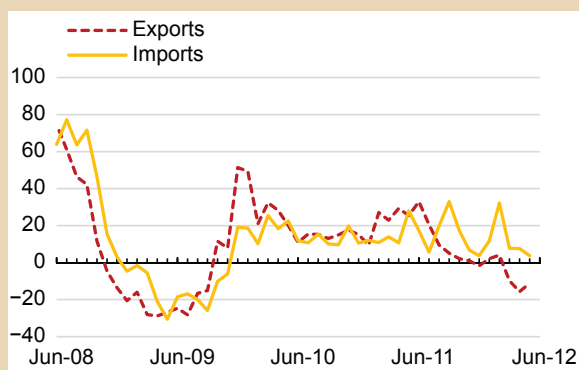
Meanwhile, the external environment has deteriorated: international food and fuel prices have continued to rise and economic activity in trading partners, both in Europe and key emerging markets, has weakened.

Prepared by Padamja Khandelwal with input from country teams.

¹ In this chapter, Libya and Yemen are excluded from the analysis covering the ACTs as these countries are oil exporters. Economic data from Syria are limited, so, unless specifically mentioned, regional aggregates in this chapter exclude Syria.

Figure 2.1

Exports and Imports of Goods (Annual percent change)



Sources: Haver Analytics; and national authorities.

These exogenous factors are weighing on economic activity in several ways: exports of goods, which had remained relatively robust in 2011, have declined significantly thus far in 2012, and have not yet bottomed out (Figure 2.1); import bills are growing with rising food and fuel commodity prices; tourism arrivals have fallen in some countries, and are recovering only slowly in others; and foreign direct investment inflows have remained subdued. Among the major country-specific growth-inhibiting factors in 2012 are the disruptions to gas supplies in Jordan and the drought in Morocco. However, large mining and infrastructure investments in Mauritania, increased

Box 2.1

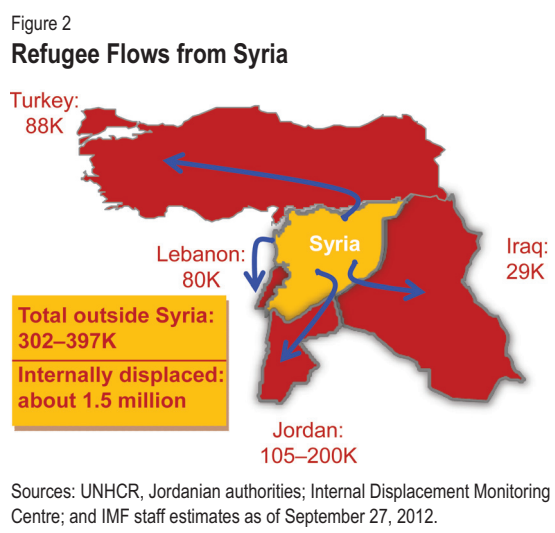
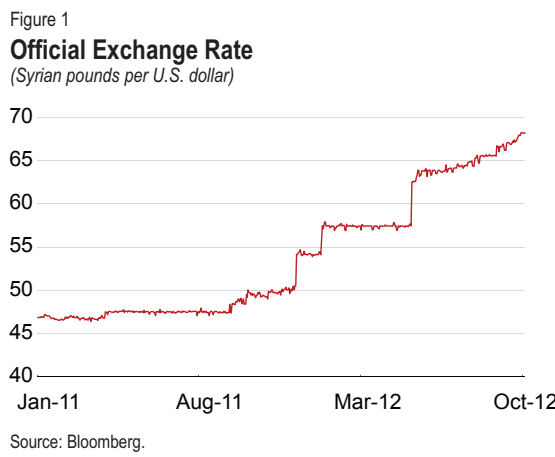
Syria's Crisis: Domestic Economic Impact and Regional Spillovers

The unrest in Syria has escalated into a civil war and a serious humanitarian crisis. Although the conflict was initially concentrated in rural areas impacted by a severe drought, since late 2011 it has spread to urban areas, including Syria's main commercial centers. Human rights organizations have reported more than 30,000 deaths as of September 2012 owing to the conflict.

The conflict has had wide-ranging economic repercussions. The direct impact of the conflict, together with sanctions imposed by the European Union, the United States, and the Arab League, has stifled economic growth through a severe slowdown in trade, tourism, private investment, and the destruction of infrastructure. The banking sector has been adversely affected by the erosion of private-sector confidence, with foreign banks increasingly reluctant to provide trade financing to Syria. The official and black market exchange rates have depreciated by 44 percent and 35 percent, respectively, between March 2011 and September 2012 (Figure 1).

The conflict is also affecting neighboring countries. The number of refugees is estimated at between 300,000 and 400,000 as of end-September 2012, which could strain the budgets of host governments in Jordan, Iraq, and Lebanon (Figure 2). Economic activity in neighboring countries has also been adversely affected, primarily through lower regional tourism and higher cost of bilateral and transit trade. For instance, travel to Lebanon has been affected by the conflict, and transit trade through Syria to and from Iraq, Jordan, and Lebanon has suffered. The perceived risk that neighboring countries could be drawn into the conflict may also weaken confidence more broadly.

Prepared by Oussama Kanaan and Randa Sab.



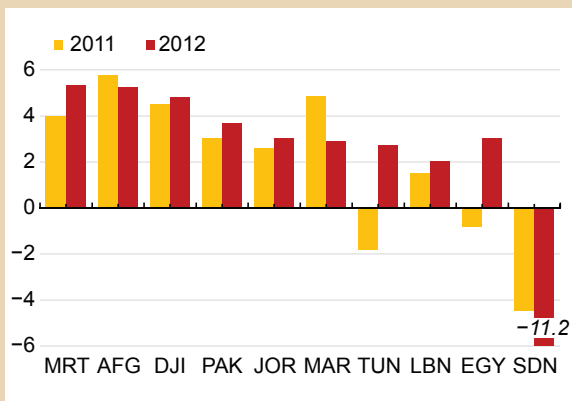
port activity in Djibouti, and demand from Libya for exports from Tunisia are all proving beneficial.

Macroeconomic policies are providing only a limited boost to economic activity. Many governments across the region sharply increased subsidies in 2011 in response to higher food and

energy prices and to social demands. However, this spending primarily benefits the better-off and has had limited efficacy in protecting the vulnerable. At the same time, public investment was reduced in some countries, adversely affecting current and prospective growth. In 2012, governments have had limited fiscal space to provide further stimulus. In addition, in countries where governments are

Figure 2.2

Real GDP Growth in 2012 Similar to 2011
(Real GDP, annual percent change)



Sources: National authorities; and IMF staff calculations.

transitional, considerable uncertainty regarding authorities' medium-term policy agenda is deterring private investment, thereby weakening near-term growth potential. As a result of these factors, growth in 2012 is forecast at about the same low level as in 2011 (Figure 2.2).

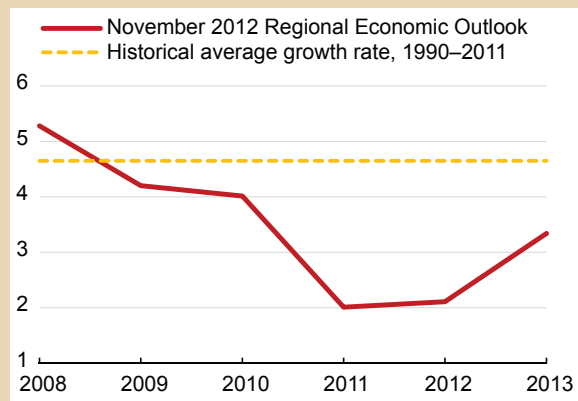
The baseline scenario for 2013 assumes steady improvement in political stability in most ACTs, and continuation of the status quo in Syria and associated regional spillovers. Based on these assumptions, the outlook for MENAP oil importers remains challenging, in line with experience from similar episodes of political transition (Box 2.2). An overall moderate recovery is expected in 2013, with positive country-specific factors in Afghanistan, Djibouti, Mauritania, and Morocco expected to boost growth. For other countries, growth is expected to remain below long-term trends, and unemployment is projected to increase owing to continued anemic external demand, high food and fuel commodity prices, regional tensions, and policy uncertainty (Figure 2.3).

Inflation Stable in Most Countries, But Concerns Rising

The increase in MENAP oil importers' overall, food, and core inflation since late 2011 primarily reflects developments in Sudan, where inflation has

Figure 2.3

Weak Recovery in 2013
(Real GDP, annual percent change)



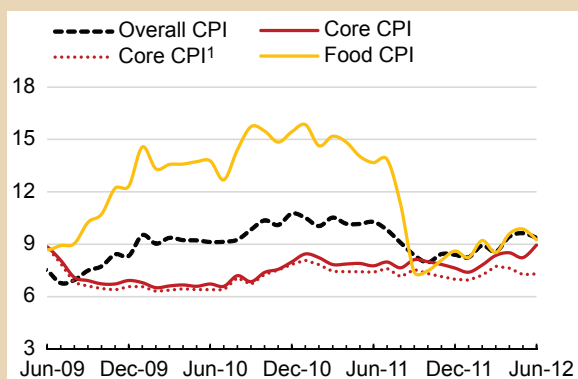
Sources: National authorities; and IMF staff calculations.

increased sharply as a result of a large exchange rate devaluation in the official and parallel markets and monetization of the deficit (Figure 2.4).

Core inflation has crept up in some other countries, but has declined in others. Since end-2011, it has accelerated slightly in Pakistan and Tunisia as a result of accommodative monetary policies and a slight nominal depreciation. These increases in core inflation have been offset by decreases in other MENAP oil importers, where inflation pressures have remained muted owing to weak aggregate demand and some nominal effective exchange rate appreciation arising

Figure 2.4

Inflationary Pressures
(Consumer prices; period average, annual percent change)



Sources: Haver Analytics; and national authorities.

¹Excluding Sudan.

Box 2.2

The Economics of Political Transitions

One and a half years after the onset of the Arab Awakening, the ACTs are now in the midst of an economic downturn, and their macroeconomic vulnerabilities have heightened. This box examines previous transitions to identify common trends in the evolution of key macroeconomic variables that may hold lessons for the ACTs.

Previous political transitions that are similar to those of the Arab Awakening were identified, with a focus on countries that have undergone intense political instability (PI), together with severe social unrest. The Cross-National Time-Series (CNTS) Data Archive and BBC News were used to identify all comparable events in low- and middle-income countries. The search yielded a sample of 11 PI episodes that roughly matched the intensity of PI associated with the Arab Awakening.¹

In these cases, PI was associated with a large decline in output and investment. Countries experienced a decline in output in the year of the PI (shaded portion of Figure 1), with contemporaneous real GDP declining by more than 4 percent on average.² Actual growth rates dipped below trend for all countries during the year of the event, and during the subsequent two years. Unemployment rates rose, by about 1–1½ percentage points on average, during the first two years after the start of PI, and took between four and five years to recover. As occurs with downturns in general, consumption remained resilient while investment suffered a large decline. Public and private investment declined by about 20 percent on average during the event year, and remained low in subsequent years.

Fiscal positions worsened during PI, and recovered slowly. Overall fiscal balances deteriorated sharply during the event year, and continued to widen for two years as a result of both lower revenue and higher spending. Fiscal balances returned to precrisis levels only in year T+4 (Figure 2), and had an adverse impact on government debt (in percent of GDP).

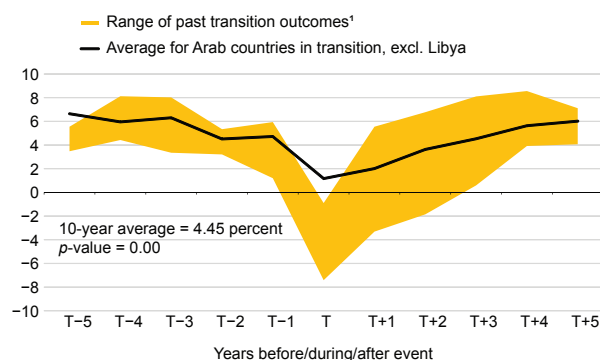
Prepared by Padamja Khandelwal and Agustín Roitman.

¹ The 11 cases comprise: Albania (1997–98), Argentina (2001–03), Cote d’Ivoire (2000–01), Honduras (2009–10), Korea (1980–81), Madagascar (2002), Myanmar (1988–90), Paraguay (1999–03), Philippines (1983–87), South Africa (1990–94), and Togo (1991–93). The Cross-National Time-Series Data Archive may be accessed at <http://www.databanksinternational.com>.

² The text boxes in each of Figures 1–3 contain (i) the 10-year average of the variable prior to year T and (ii) the p-value from a t-test where the null hypothesis is that values in year T are the same as those in prior years.

Figure 1

Real GDP Growth
(Percent)

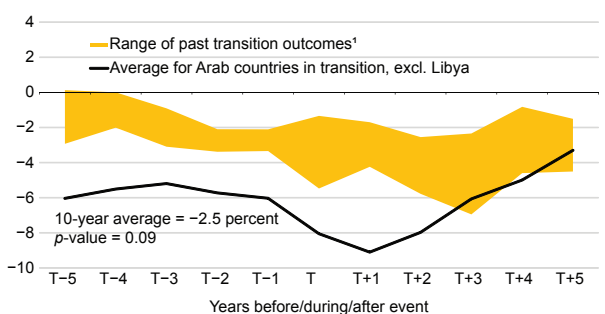


Sources: National authorities; and IMF staff estimates.

¹ Spread between 1st and 3rd quartile.

Figure 2

Overall Fiscal Balance
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

¹ Spread between 1st and 3rd quartile.

Box 2.2 (concluded)

Over the medium term, external current account deficits improved in many countries. Ten of the 11 countries entered their crisis period with large current account deficits (Figure 3). During PI, the already large current account deficits and crisis-induced difficulties in accessing external finance typically led to a decline in international reserves. Reserves recovered slowly, returning to precrisis levels about four years after the crisis. However, over the medium term, by year $T+5$, seven countries had vastly improved external current account balances, whereas four of the 11 countries had worse current account deficits.³

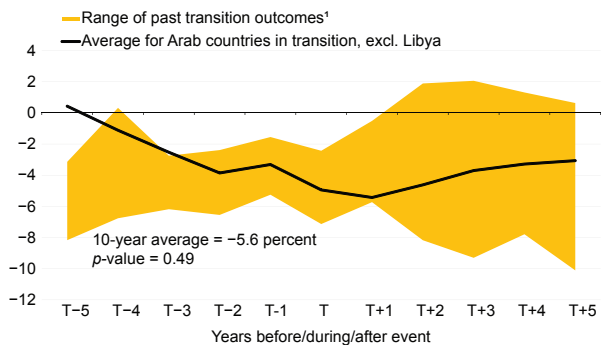
Episodes of PI and conflict often recur, but governance and economic reforms can reduce the likelihood of recurrence.

Two ongoing empirical studies document an urgent need to improve governance and institutions in the ACTs. The first study finds that countries with a past history of domestic conflict have a high risk of subsequent conflict. Implementing growth-enhancing policies, reforming dysfunctional institutions, and addressing urgent needs can help reduce the risk of conflict recurrence. The second study finds that in the years following PI, output is a function of countries' ability to implement governance and economic reforms. Further, countries with initial better quality of governance have, on average, a lower probability of entering an instability episode, suggesting that reforms will reduce the risk of the recurrence of PI episodes in the future.

Many of the economic trends that have characterized earlier episodes of PI are becoming evident in the ACTs (dark line in Figures 1–3). Output declined in 2011 in Egypt, Libya, Tunisia, and Yemen, but remained more stable in Jordan and Morocco. Macroeconomic stability has come under pressure because fiscal deficits in the ACTs were already large going into the crisis, and have widened as they did in earlier episodes of PI. External current account deficits have also deteriorated in the ACTs, and international reserves have declined. Inflation has remained muted in most ACTs, owing to weak aggregate demand. Future developments in the ACTs will largely depend on policy action. The fiscal consolidation that is currently planned in the ACTs is larger than in historical episodes of PI, and external adjustment more gradual. Real GDP is forecast to return to its long-term trend level over a four- to five-year period, as in previous cases of PI, but more gradually, having initially declined in the ACTs by less than earlier episodes of PI.

³ Pairwise correlations (not reported here) indicate that medium-term improvements in current account deficits were accompanied by depreciation of real exchange rate and gains in terms of trade.

Figure 3

Current Account Balance
(Percent of GDP)

Sources: National authorities; and IMF staff estimates.

¹ Spread between 1st and 3rd quartile.

from the strength of the U.S. dollar (Figure 2.5). Inflation is expected to rise in Egypt, Morocco, and Tunisia, as governments plan to increase pass-through and reduce commodity and energy subsidies.

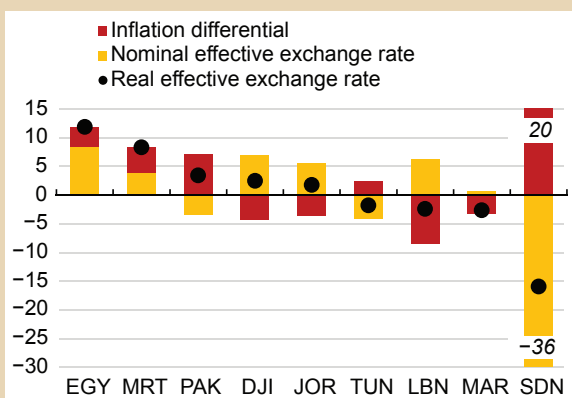
Monetary policy will need to respond to second-round effects from higher pass-through of international food and fuel prices, to continue to dampen inflation expectations. Although

the degree of economic slack is increasing, the vulnerability of many countries in the region to supply-side inflation shocks during past downturns (Box 2.3) raises concerns over inflation pressures at the present juncture. Certainly, monetary policy should remain accommodative toward first-round effects, but not ignore core inflation as a key indicator of domestic inflation. In any case, authorities will need to remain vigilant

Figure 2.5

Exchange Rates Have Appreciated in Some Countries

(Percent change from July 2011 to July 2012; increase represents appreciation)

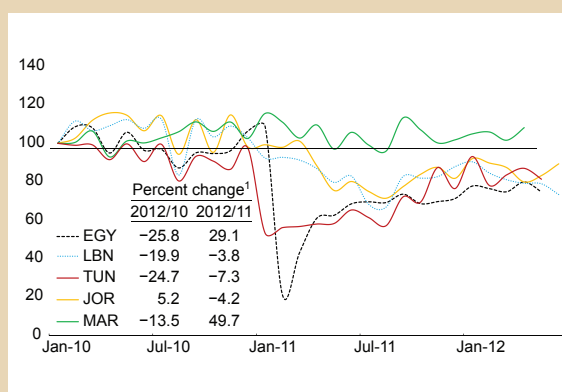


Source: IMF, *World Economic Outlook*.

Figure 2.6

International Tourist Arrivals

(Index; January 2010=100, seasonally adjusted)



Sources: Haver Analytics; national authorities; and IMF staff calculations.

¹Year-over-year growth; most recent month.

against increases in headline and core inflation, and take action if second-round effects begin to materialize from higher international commodity prices, or if the previous year's public-sector wage increases filter through to the private sector as MENAP oil importers' economies begin to recover in 2013 (Annex 2.1).

External Deficits Widening, Reserve Buffers Diminished

External current account deficits are set to deteriorate in 2012 for many MENAP oil importers. Remittances have remained stable, but aggregate exports of goods in 2012 are down in Egypt, Jordan, Mauritania, Morocco, Pakistan, Sudan, and Tunisia. The decline in exports can be attributed to the euro area recession and slowing growth in emerging markets, declining prices of primary nonfuel commodities, dislocation of goods transit through Syria, disruptions to mining in Jordan and Mauritania, and the secession of South Sudan. Tourism arrivals are recovering, albeit slowly, and are still significantly below 2010 levels in Egypt, Jordan, Lebanon, and Tunisia (Figure 2.6). However, in Lebanon and Morocco, arrivals have declined in 2012 because of spillovers from Syria and economic weakness in Europe, respectively. At

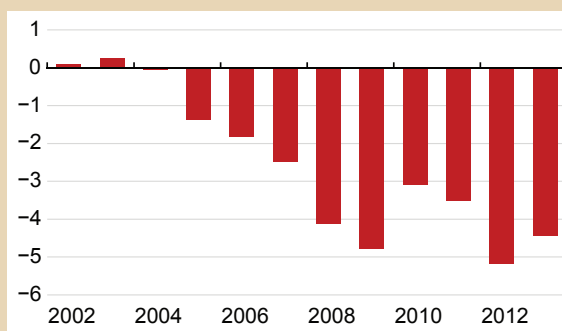
the same time, persistently high international food and fuel prices are keeping import bills elevated. In 2013, the overall current account deficit is projected to improve slightly as a weak recovery gets under way in Europe, but will still remain unsustainably large (Figure 2.7).

Global conditions and domestic policy uncertainty have continued to weigh on capital flows. Foreign direct investment is expected to have declined slightly from the low levels of 2011. Securities issuance on international capital markets continued to fall during the first half of 2012, particularly in Egypt, Lebanon, and Pakistan, at a pace faster than

Figure 2.7

External Current Account Deficits Continue to Widen

(MENAP oil importers: percent of GDP)



Source: IMF (2012d).

Box 2.3

Recovering from a Downturn: Lessons from Past Business Cycles

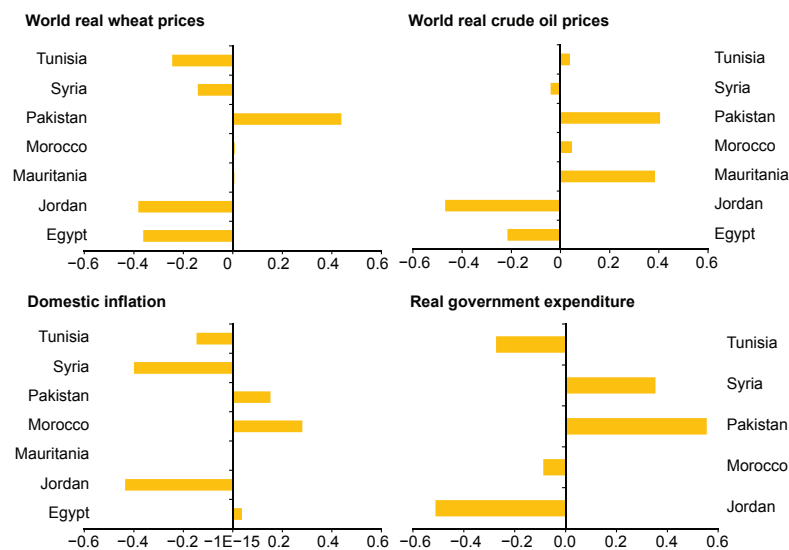
To better inform policy choices for MENAP oil-importing countries during the current economic downturn, variations in key macroeconomic variables over past business cycles (data spanning 1962–2011) were examined. The main findings are:

Rising international food and fuel prices are likely to further weaken economic activity in most countries. For Egypt, Jordan, Syria, and Tunisia, evidence is found in support of a negative association between shocks to world wheat prices and output—the reverse is found in Pakistan, which is a large agricultural producer. Evidence also supports a strong negative association between shocks to world fuel prices and output in Jordan, reflecting its dependence on imported oil. In contrast, output is positively associated with shocks to fuel prices in Mauritania (possibly reflecting its large mining sector and the comovement of commodity prices) and Pakistan (possibly reflecting its growing petrochemical sector).

Rising food and fuel prices could drive supply-side inflation. A strong negative association between inflation and output fluctuations over the business cycle—as in Jordan, Syria, and Tunisia—indicates, on the one hand, that inflation is likely driven by supply shocks. On the other hand, a positive association, as in Morocco and Pakistan, provides evidence that inflation in these countries was likely driven by demand pressures. For Egypt and Mauritania, evidence points to a broadly similar role for demand and supply factors.

Government expenditure is procyclical in some countries. A procyclical (countercyclical) fiscal policy entails higher (lower) spending during expansions and results in a positive (negative) association between expenditure and output fluctuations. Evidence of countercyclical fiscal spending is found only in Jordan and Tunisia; fiscal spending was strongly procyclical in Pakistan and Syria, and acyclical in Morocco (see figure).

Contemporaneous Correlation of Selected Variables with Output Fluctuations, 1962–2011¹



Source: IMF (2012d).

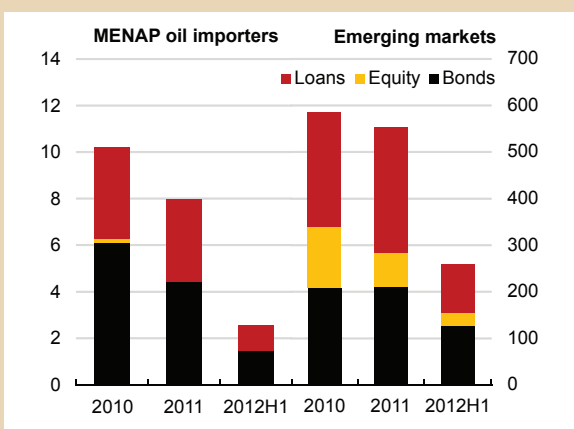
¹ Fluctuations in output are measured as the deviations of actual output from potential. The ideal-band pass filter (Corbae and Ouliaris, 2006) is employed to calculate potential output, shocks to inflation, and world food and fuel prices.

These findings suggest that during the current downturn, high and rising food and fuel prices are likely to depress growth and cause supply-side inflation, calling for vigilance against the possibility of second-round inflation effects. In addition, policymakers in many oil-importing countries may find that they have limited room to pursue countercyclical fiscal policy, given diminishing fiscal buffers.

Prepared by Padamja Khandelwal and Paul Cashin.

Figure 2.8

International Issuance of Bonds, Equity, and Loans¹
(Billions of U.S. dollars)



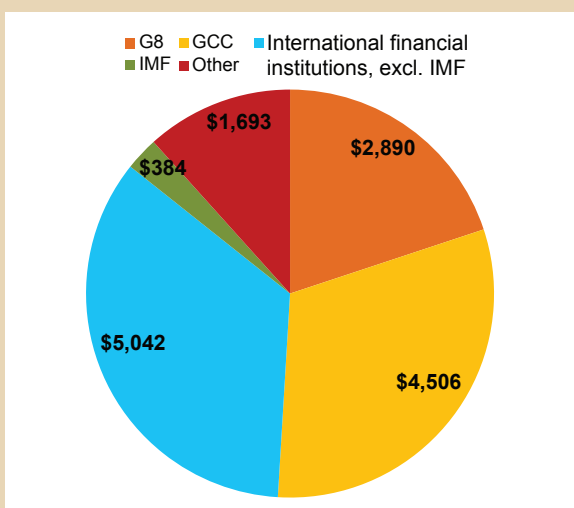
Source: Dealogic.

¹Includes issuance from Egypt, Jordan, Lebanon, Morocco, Pakistan, and Tunisia.

in other emerging markets (Figure 2.8). Meanwhile, bilateral and multilateral external official financing from the GCC countries, the G-8, the IMF, and other international financial institutions has helped support reserve buffers in Egypt, Jordan, Morocco, and Tunisia, but has fallen short of meeting financing needs (Figure 2.9).

Figure 2.9

Official Financing Disbursed since Arab Awakening¹
(Millions of U.S. dollars)

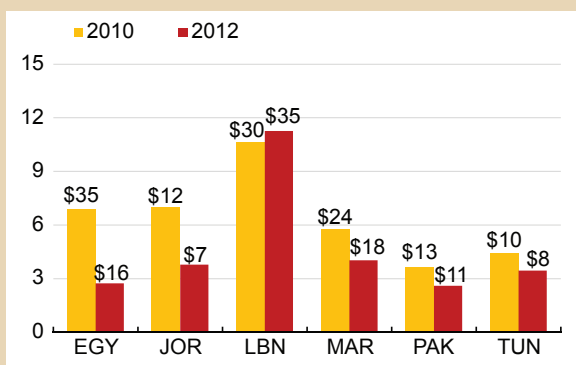


Source: National authorities.

¹Received through August 2012 or latest available. Includes Egypt, Jordan, Morocco, and Tunisia.

Figure 2.10

Gross International Reserves Declining
(Months of imports and billions of U.S. dollars)



Sources: National authorities, and IMF staff calculations.

Despite support from official sources, official international reserves have continued their sharp decline in many countries in 2012. The cumulative decline in reserves since end-2010 is about 60 percent in Egypt, 47 percent in Jordan, 36 percent in Tunisia, 29 percent in Morocco, and 20 percent in Pakistan.

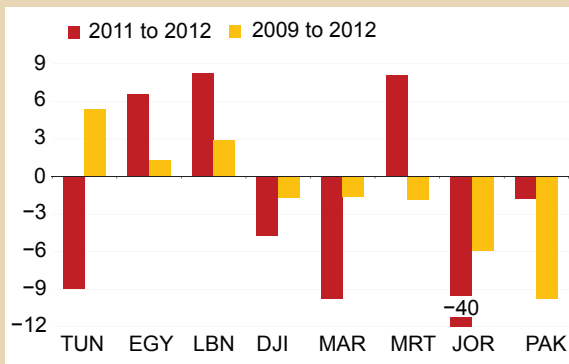
The decline in reserve buffers has raised concerns regarding their adequacy in many countries. Various measures are used to assess reserve adequacy, including months of imports, percent of short-term debt, and percent of broad money; based on these traditional metrics, reserve adequacy is a concern in Egypt and Pakistan, whereas Jordan, Morocco, and Tunisia would be considered as having broadly adequate reserves for now, but with limited space for further losses (Figure 2.10).

Need for Greater Exchange Rate Flexibility

Widening external current account deficits in many countries since 2004 may reflect a need for adjustment in relative prices to help reduce structural external imbalances. These deficits are, in part, a result of the temporary decline in exports and tourism that resulted from domestic and regional political unrest but, in some cases, are also due to longer-term factors, such as large fiscal deficits and adverse terms-of-trade shocks

Figure 2.11

Terms of Trade Deteriorating in Many Countries
(Percent change; increase = improvement)



Sources: National authorities; and IMF staff calculations.

(Figure 2.11). Empirical evidence indicates that reducing the fiscal deficit can help depreciate the real exchange rate and decrease the current account deficit. In addition, countries faced with negative terms-of-trade shocks fare better when they allow the real exchange rate to depreciate.

For countries where the deterioration in external balances is considered temporary and real exchange rates are broadly in line with fundamentals, it would be helpful to mobilize external finance and limit exchange rate movements to maintain price stability. In countries where the issue is more structural, delaying an adjustment in exchange rates while reserves continue to decline could erode the credibility of monetary authorities and increase the risk of an eventual disorderly movement. Policymakers need to consider that currency devaluation can not only increase inflation and the budgetary cost of subsidies, but also have valuation effects on external liabilities. Early action—while reserve buffers remain adequate to support a managed transition to greater exchange rate flexibility—assisted by careful communication with markets, can help minimize these risks. To the extent that MENAP oil importers’ tightly managed exchange rate regimes are considered essential to price stability, a sizable fiscal consolidation would instead be needed to achieve the required adjustment in relative prices. However, this may prove more costly in terms of

output and welfare than allowing greater exchange rate flexibility.

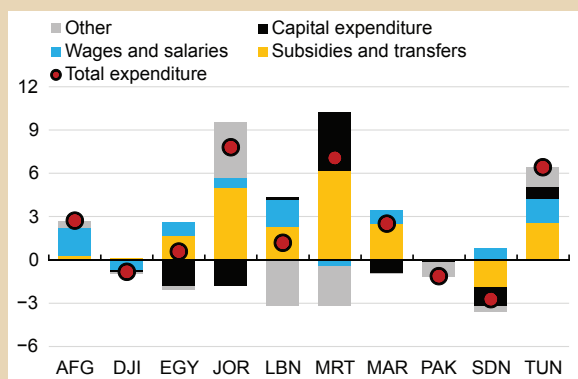
Rising Subsidies, Deteriorating Fiscal Positions

Since 2010, growing pressures for social spending in response to political unrest and higher international food and fuel prices have led to a large increase in current government expenditure (in percent of GDP). To a large extent, this increase has not been targeted to the poor. Energy and food subsidies and public-sector wage bills account for most of the increased spending in Egypt, Jordan, Lebanon, Mauritania, Morocco, and Tunisia (Figure 2.12), although some measures to reduce untargeted subsidies have been implemented recently in Jordan, Mauritania, Morocco, and Tunisia. Except in Lebanon, Mauritania, and Tunisia, capital expenditures (in percent of GDP) have been cut to offset some of the increased current spending. Revenues in percent of GDP have also decreased in Egypt, Jordan, Morocco, and Pakistan, due to the operation of automatic stabilizers during the downturn, the granting of tax exemptions and tax breaks, and social unrest.

The average deterioration in the overall fiscal balance for MENAP oil importers, relative to 2010, is nearly 2¼ percent of GDP. Most countries in the region maintained a countercyclical fiscal stance in 2011;

Figure 2.12

Increase in Government Expenditure
(Percent of GDP, 2012 versus 2010)



Sources: National authorities; and IMF staff calculations.

in 2012, policymakers in Jordan, Morocco, Pakistan, and Sudan have withdrawn stimulus to varying degrees and adopted a procyclical policy stance owing to financing constraints and debt sustainability concerns. The loss of oil revenues in Sudan and the decline in donor aid in the West Bank and Gaza (Box 2.4) have also played an important role.

In recent years, governments in many MENAP oil-importing countries have relied on domestic banks to finance fiscal deficits, given their sovereign rating downgrades and rising bond spreads in international financial markets. Growth in credit to government from commercial banks has significantly outpaced growth in deposits, reducing the availability of credit for the private sector (Figures 2.13 and 2.14) and pushing up domestic treasury bill rates in Egypt and Jordan.

Rising Debt Levels, Consolidation Necessary

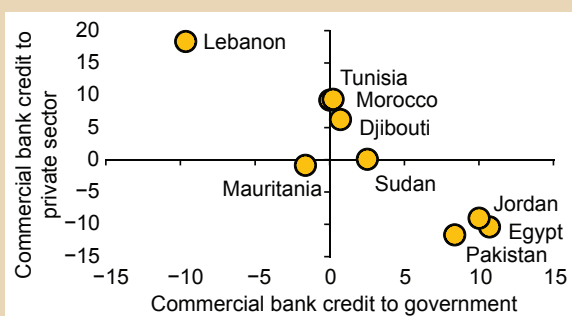
Debt levels have risen in most countries. At end-2010, average gross public debt among MENAP oil importers (excluding Syria) was about 68 percent, with debt in Lebanon exceeding 100 percent of GDP. Tunisia had a lower level of debt, near 40 percent of GDP. Valuation changes owing to currency depreciation in Sudan, rising borrowing costs, widening fiscal deficits, and the decline in growth rates, have resulted in a large increase in average gross public debt, which is expected to reach nearly 73 percent of GDP by end-2012.

Reducing public-sector debt in the medium term could prove a challenge. Under current policies, average public debt is expected to remain at more than 60 percent of GDP in the medium term, even with the sizable fiscal consolidation that is planned in some countries in 2013–14, and a continuing favorable interest rate–growth differential likely arising from domestic financial repression (Figure 2.15). Here, the cyclically adjusted primary deficit (CAPD) is the underlying primary deficit, obtained after eliminating the impact of business cycle output variation on fiscal revenues and expenditures.²

Figure 2.13

Private-Sector Credit Squeezed

(Change from end-2008 to latest available, percent of GDP)

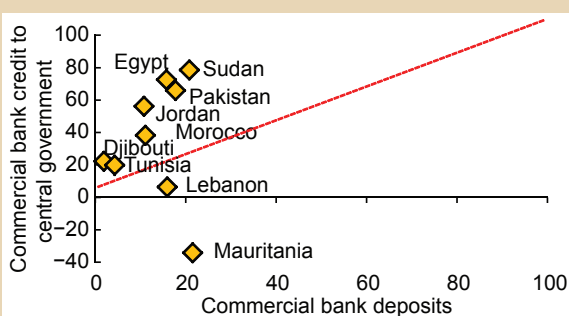


Sources: National authorities; and IMF staff calculations.

Figure 2.14

Fiscal Financing Outpacing Deposit Growth

(Percent change since end-2010)

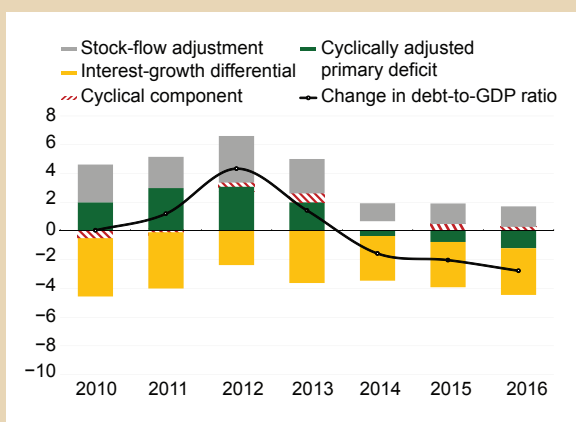


Sources: National authorities; and IMF staff calculations.

Figure 2.15

Contribution to Debt Accumulation

(Percent, 2010–16)



Sources: National authorities; and IMF staff calculations.

²The cyclical component of the primary deficit is the difference between the primary deficit and the CAPD.

Box 2.4

West Bank and Gaza: Moving Beyond Crisis Management

Following a substantial decline in donor aid, the Palestinian Authority (PA) has been facing severe financing difficulties since early 2011, culminating in a fiscal crisis in summer 2012. During 2008–10, the PA made major strides in institution-building and prudent fiscal management, which enabled a reduction in its recurrent aid needs from US\$1.8 billion to US\$1.1 billion. However, starting in 2011, aid has fallen significantly short of the amounts needed to finance the PA's already tight budgets. These problems have been compounded by revenue shortfalls resulting from the slowdown in economic growth and lower-than-expected tax collection. This has led to a rapid buildup of domestic payments arrears and borrowing up to domestic commercial banks' limits.

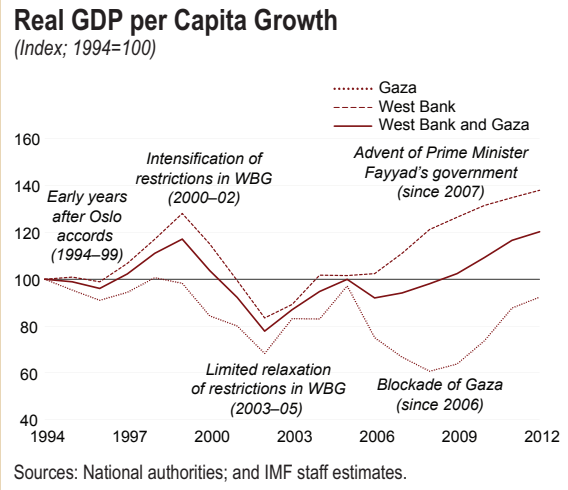
Unless promptly addressed, the persistence of the PA's financing difficulties will have severe adverse consequences. Given the limited scope for further arrears and debt accumulation, the PA would be forced to cut public-sector wages and core operating expenditures. This would prevent it from functioning normally and could erode the institutional gains of recent years. There have already been repeated delays in the payment of public-sector wages, which were resolved only after revenue advances from Israel. In addition, there is a risk that assistance targeted to the needy would be curtailed, thus potentially fueling social tensions. Finally, the buildup of domestic arrears is bound to weaken private-sector confidence in the government's ability to meet its payment obligations.

Concerted actions by the PA, Israel, and donors are needed to address the immediate fiscal crisis and help support a lasting recovery in Palestinians' living standards:

First, it is important for the PA to prepare for the possibility of continued aid shortfalls by containing the deficit. Several measures have already been announced, including tight controls on public-sector employment and better targeting of employee allowances. Other expenditures should continue to be prioritized and cash management strengthened to ensure that nonessential spending takes the brunt of the cuts. Tax administration should continue to be enhanced by widening the tax base and improving compliance. It is also important to press ahead with civil service and pension reforms, and to strengthen the legal framework facing businesses.

Second, recent understandings between the PA and Israel on measures to enhance clearance revenue collection and reduce leakages are an important step in bilateral economic cooperation, given that clearance revenue represents the bulk of the PA's revenue. A broadening of that cooperation to include an easing of restrictions on external trade and movement of goods and people would help expand private-sector growth and employment, and substantially reduce the PA's reliance on aid. Over the past two decades, real GDP per capita has been substantially influenced by the extent of such restrictions (see figure).

Finally, it is critical that the PA's efforts be complemented by the prompt disbursement of additional aid to prevent a further buildup of arrears and debt to commercial banks, and prevent a serious disruption of the PA's core operations. Timely disbursement of aid is essential to sustain an orderly path of fiscal adjustment and institution-building toward a self-reliant Palestinian state.



Prepared by Oussama Kanaan, Udo Kock, and Mariusz Sumlinski. For a detailed discussion, see Kanaan, Kock, and Sumlinski (2012).

As Figure 2.15 illustrates, under current policies, the CAPD turns negative (that is, becomes a surplus) by 2014 with a planned adjustment of 1–2 percent of GDP annually in 2013–14, and relatively little thereafter. On this path, fiscal vulnerabilities remain high over the medium term—any fiscal slippage, increase in global interest rates (from their current low levels) that puts pressure on domestic interest rates, or a slower growth path, would exacerbate an already difficult situation.

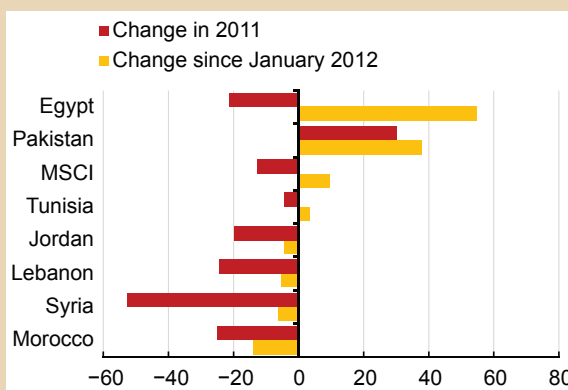
Financial Sector: Mixed Performance

Backward-looking financial sector indicators show a limited impact from the global and regional economic downturn so far. The weakening in underlying asset quality may be masked in the near term by increased financing of government and regulatory forbearance in some countries. Still, based on reported data, nonperforming loans have risen as a share of total loans in Djibouti, Jordan, Sudan, and Tunisia over the past year.

Despite close links to European banks in some countries, direct financial spillovers in the form of deleveraging are likely to remain limited in MENAP oil-importing countries (Box 2.5). In Lebanon, bank exposure to Syria through assets of subsidiaries and cross-border loans could act as a channel for potential adverse spillovers.

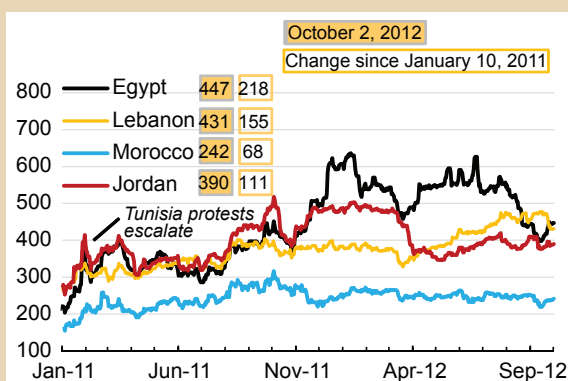
Reflecting their forward-looking nature, stock markets in some MENAP oil importers have recouped part of their 2011 losses. Stock markets in Egypt and Pakistan have gained the most in 2012, followed by Tunisia (Figure 2.16). In contrast, stock market slides in Jordan, Lebanon, and Morocco have continued. Sovereign bond spreads have eased recently for Egypt and Jordan (owing to reduced political uncertainty), but have increased for Lebanon, owing to rising risks and spillovers from Syria since May 2012 (Figure 2.17).

Figure 2.16
Stock Market Indices Lower in Some Countries, Higher in Others
(Percent; data through October 2, 2012)



Source: Bloomberg.

Figure 2.17
Sovereign Bond Spreads Higher
(Basis points)



Sources: Bloomberg; and Markit.

Downside Risks Are Elevated

Although growth remains weak and policy buffers have been drastically diminished, the region faces significant downside risks, most notably continued political uncertainty. Many governments in the region are still transitional. As policy buffers have wound down, a re-escalation of social unrest and political instability could have a large adverse

impact on economic sentiment and policy implementation. Evidence indicates that when governments implement reforms following an episode of political instability, they see better growth outcomes and a lower risk of recurrence of political instability and domestic conflict (Box 2.2). Avoiding recurrence of political

instability in the ACTs will require—in addition to political and social reforms—economic reforms to improve standards of living and promote sustainable and inclusive growth. Another large downside risk stems from the potential spread of the Syrian conflict to the broader subregion.

Box 2.5

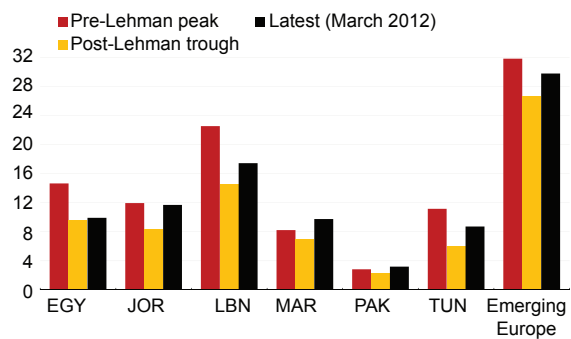
Euro Area Financial Spillovers to MENAP Oil Importers

Global banks have increased their exposure to key oil importers from the low points reached in the immediate aftermath of the collapse of Lehman Brothers in 2008 (Figure 1). Among oil importers, Lebanon has been the most dependent on lending by global banks, reflecting banks’ holding of the government’s international bonds. Attractive U.S. dollar yields have supported demand, but spillovers from Syria could weaken this support. Lending to Jordan, Morocco, and Pakistan is already close to or in excess of levels that prevailed before the onset of the global financial crisis. The recoveries in cross-border lending to Jordan and Tunisia have been less pronounced, but are broadly similar to those observed in emerging Europe (the region arguably most concerned by European bank deleveraging). Global banks were significant holders of Egyptian government local currency debt, and rapidly exited in early 2011. Accordingly, exposure to Egypt is at a low, consisting mostly of loans rather than bonds.

Countries in the region are host to smaller local operations of European banks than in emerging Europe (Figure 2). French banks in Morocco are an exception: local operations (accounting for one-fifth of the banking system) are generally funded by local deposits, with the residual representing capital and minimal parent funding. Although subsidiaries in emerging markets are usually more profitable than home market operations, the contributions to group profits by subsidiaries in the MENAP region are small.

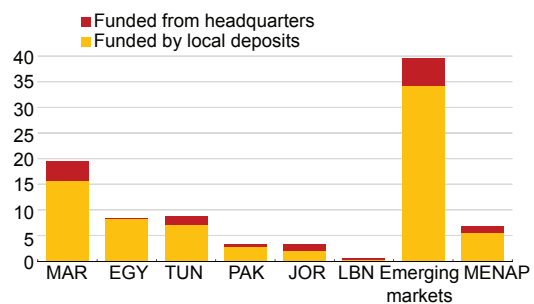
Prepared by Gabriel Sensenbrenner and Jaime Espinosa Bowen.

Figure 1
Selected Oil Importers and Emerging Europe: Lending by Global Banks
(Percent of 2008 GDP)



Source: Bank for International Settlements; and IMF staff estimates.

Figure 2
Size of European Banks’ Local Operations in Key Countries
(Data as of March 2012; percent of GDP)



Sources: Bank for International Settlements; and IMF staff calculations.

In addition to political risks, further increases in global food and fuel prices would have large real sector effects on output, fiscal and external balances, and inflation (Annex 2.1). As a first-round effect, for instance, a 10 percent increase in food prices is estimated to increase MENAP oil importers' external current account and fiscal deficits by 0.3 percent and 0.2 percent of GDP, respectively. A similar 10 percent increase in oil prices would increase both external current account and fiscal deficits by 0.4 percent of GDP. Inflation pressures would also come into play. Although financial sector linkages with the euro area are limited, real sector linkages through trade and remittance channels are important for several countries; a further intensification of the euro area crisis would have a severe adverse impact on the MENAP region (Annex 1.2; Box 3.3).

In terms of upside risks, actions to define and implement a medium-term macroeconomic policy framework and reform agenda could lead to improved economic and political outcomes. Stronger-than-expected growth in the euro area and any dissipation of the risk premium in oil prices could also boost economic activity.

Need to Restore Macroeconomic Sustainability

The near-term economic outlook is difficult not only for the ACTs, but also more broadly for the MENAP oil importers (except Djibouti and Mauritania). Significant external and fiscal vulnerabilities, and limited external official financing—notwithstanding recent IMF financing/insurance arrangements for Jordan and Morocco—have made the restoration of macroeconomic sustainability essential for maintaining macroeconomic stability.

Any macroeconomic stabilization program will involve fiscal consolidation, which, if sustained,

will not only improve public debt and external sustainability, but is also likely to increase the availability of private-sector credit and decrease real exchange rate misalignment. To achieve these goals, clear communication with the public and careful implementation of consolidation plans will be critical. Fiscal adjustment over the medium term is already planned by authorities in several countries and is being supported by IMF arrangements in Jordan and Morocco. More external official financing is needed to facilitate and smooth adjustment.

Macroeconomic stabilization will also require greater exchange rate flexibility to reduce structural external imbalances in some countries. Moving away from the use of exchange rates as a nominal anchor can allow for a more flexible monetary policy to help restore and maintain price stability and competitiveness. In this regard, early action to allow greater exchange rate flexibility and expand the monetary policy toolkit—supported by careful communication with markets—can help anchor inflation expectations and minimize the associated risks.

Minimizing the Growth and Social Impact of Fiscal Consolidation

Rebalancing the composition of expenditures and revenues can help achieve fiscal consolidation, while diminishing its contractionary effect on output (Box 2.6) and its adverse impact on the poor. Reducing generalized subsidies should be an important component of consolidation. These are an inefficient way of boosting economic activity and protecting the poor; they generate costly distortions, and should be replaced by targeted social safety nets. Subsidies have decreased recently in Jordan, Mauritania, Morocco, and Sudan, but more needs to be done to develop targeted social safety nets. Some of the freed resources can be used to increase infrastructure spending and improve public services to spur growth and reduce income inequality. Public investment in many oil

Is There Scope for Growth-Friendly Fiscal Consolidation in MENAP Countries?

Fiscal consolidation can be designed to minimize its contractionary effects. Revenue-based fiscal consolidation, if sustained, is generally preferable to expenditure-based fiscal consolidation. Estimates for advanced economies indicate that short-term fiscal multipliers are higher for expenditure measures than for revenue measures, so that raising revenue is likely to prove more “growth-friendly” than a commensurate cut in expenditures.

Rebalancing the composition of revenues and expenditures can also prove growth-friendly. Figures 1 and 2 show selected taxation and public expenditure measures in MENAP oil importers, ranked by their short-term effect on output.¹ The rankings are based on estimated fiscal multipliers calculated using model-based simulations for advanced economies.² As to taxation, property and sales taxes are the most growth-friendly instruments for raising revenues, whereas trade taxes and income taxes are the least growth-friendly. Similarly, on the expenditure side, expenditures on social benefits and subsidies are the least growth-friendly, whereas investment spending tends to be the most growth-friendly instrument.

Afghanistan, Egypt, and Pakistan are among those MENAP oil-importing economies with the greatest scope to rebalance taxes toward more growth-friendly instruments; Djibouti, Jordan, and Morocco are among those with less scope. Countries facing competitiveness problems can benefit from such “fiscal devaluations” whereby there is a shift from labor taxation to consumption (or property) taxation as a way to mimic the effects of a nominal exchange rate devaluation. As to the composition of expenditures, spending on subsidies is largest in Egypt, Jordan, Lebanon, Morocco, and Tunisia, suggesting that there is scope to lower such spending as a growth-friendly instrument for fiscal consolidation. In contrast, relatively productive spending on gross capital formation is smallest for Lebanon, Sudan, and Tunisia, suggesting that there is space to raise such spending.

Figure 1
Composition of Selected Taxation Items
(Percent of GDP, 2011 or latest year)

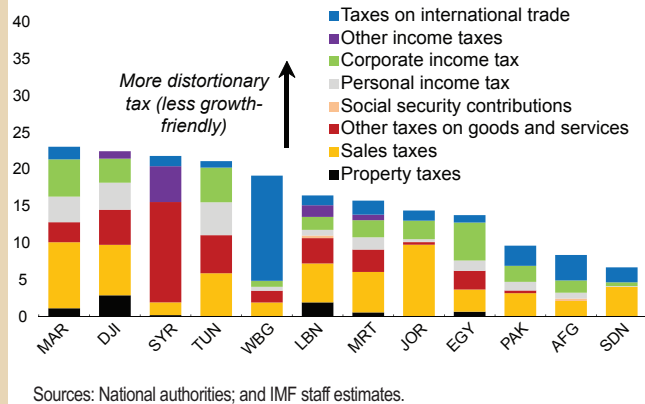
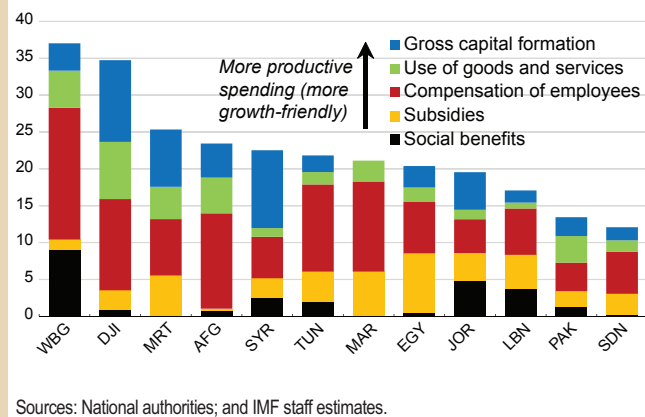


Figure 2
Composition of Selected Expenditure Items
(Percent of GDP, 2011 or latest year)



Prepared by Paul Cashin, Paul Zimand, and Padamja Khandelwal.

¹ The total of taxation and expenditure items does not reflect aggregate revenue and aggregate expenditure for each country, as several items are not included.

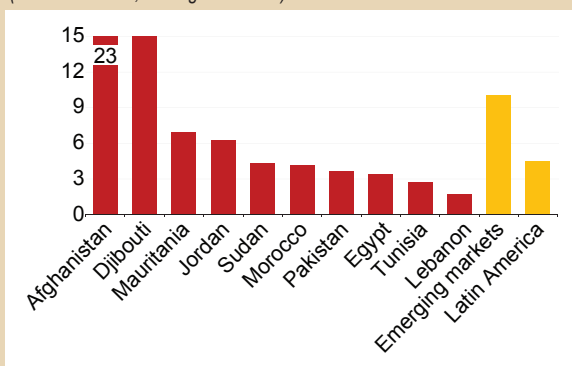
² Although it is not known whether the exact values of the advanced-economy fiscal multipliers are applicable to MENA countries, the MENA ranking of the revenue and expenditure multipliers is likely to be invariant to the value of the multipliers. See also OECD (2010).

importers is low relative to other emerging markets (Figure 2.18) and has fallen in 2011–12. Moreover, the quality of public investment is lower than it is in other regions, reflecting inefficiencies in project appraisal and implementation (Figure 2.19). Increasing public investment while improving its quality can help maximize the benefits of growth for the poor.

Figure 2.18

Public Investment Is Low

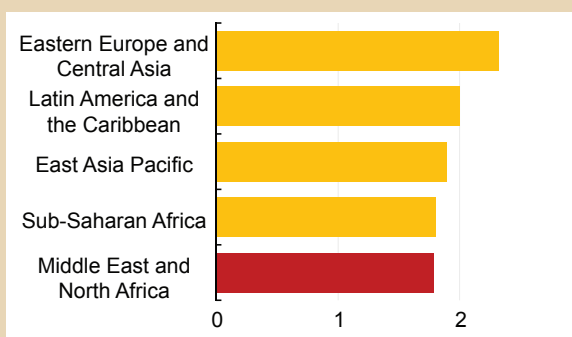
(Percent of GDP, average 2007–12)



Sources: National authorities; and IMF staff calculations.

Figure 2.19

Public Investment Project Implementation Is Weak



Note: Calculations based on Dabla-Norris and others (2011). The public investment project implementation index evaluates the degree of competition for contracts, the procurement complaints mechanism, payment processes, and the effectiveness of internal controls. Ratings are from 0 to 4, with a higher score reflecting better project implementation.

Structural Reforms Needed to Enhance Inclusive Growth

The events that began in early 2011 have created an anticipation of bold economic reforms to fulfill the aspirations of a young population. So far, the exigencies of political transition have meant that the focus has been on political reforms, while unemployment rates have continued to increase from already high levels. Estimates prepared in 2010 (IMF, 2010b) indicate that 18 million new jobs are needed over this decade to absorb the unemployed and new labor force entrants in Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia alone. Creating the requisite jobs in the private sector will require a large and permanent increase of about 2 percent in long-term trend growth rates. This increase will not occur without continued macroeconomic stability and structural reforms to improve competitiveness (Box 2.7).

Although their strategies are likely to vary, reflecting different starting points and goals, MENAP oil-importing countries will need to aim for higher, sustained, private sector–led growth, supported by greater private investment and higher productivity. Reforms will be needed to establish a business environment conducive to private sector–led growth. Labor market and education reforms can promote skill-building and protection for workers, and reforms to business regulation and governance can help ensure simple, transparent, and evenhanded treatment for businesses, and limit the scope for rent-seeking. Furthermore, improving access to finance can help catalyze entrepreneurship and private investment (Box 2.7; and IMF, 2011d, Annexes 2.1 and 2.2). The outstanding reform agenda is complex and will take time to implement. It is important for authorities to press ahead to help to realize the aspirations and potential of the region’s youth, deliver higher standards of living, and improve access to economic opportunities over the medium and long term.

Box 2.7

Arab Countries in Transition: Economic Reforms to Foster Growth and Employment

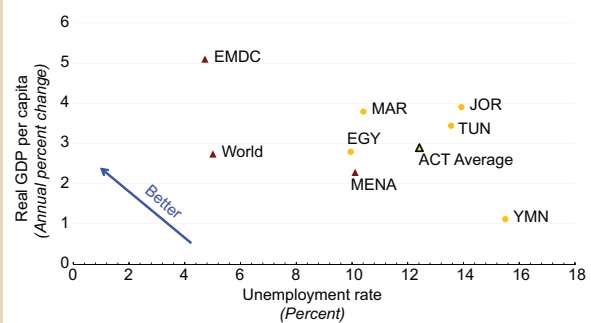
As the political transitions in the ACTs are progressing, countries need to begin laying out road maps for structural economic reform that will guide their economic transitions and tackle structural unemployment. The task at hand is enormous in light of the complex structural transformation challenges, but there is also a vast dividend to be reaped in the form of higher, more inclusive growth and employment. Although strategies will differ, they need to be broadly anchored in a vision to achieve higher, sustained, private sector-led growth. Governments should strive to engineer improvements in labor markets, business regulation and governance, and access to finance, thereby enabling the economy to shift from rent-seeking models to the creation of economic value and jobs. The ACTs themselves will naturally drive these transition agendas, but it will be crucial that the international community support them with adequate financing, improved access to key export markets, and policy advice.

The ACTs have long faced important structural challenges. They have witnessed high unemployment and low labor force participation, symptoms of their economies' lack of dynamism. They have not been able to generate per capita growth on par with other emerging market developing countries, and in addition, the responsiveness of employment to growth has been among the most sluggish in the world (Figure 1). While many ACTs had moved over time from state-led economies to systems relying more on private sector-led growth, public-sector employment has remained much larger than in other regions in the world, and the ACTs were unable to unleash the same economic dynamism that helped lead the economic transformation in emerging markets and developing countries in other regions (Figure 2).

To unlock the ACTs' vast potential, many factors need to come into play, and these will vary across countries. This box explores three key areas: i) labor market and education reforms will be important to ensure adequate skill-building and worker protection; ii) business regulation and governance reforms are needed to ensure simple, transparent, and evenhanded treatment for companies; and iii) improving access to finance will help catalyze entrepreneurship and private investment.

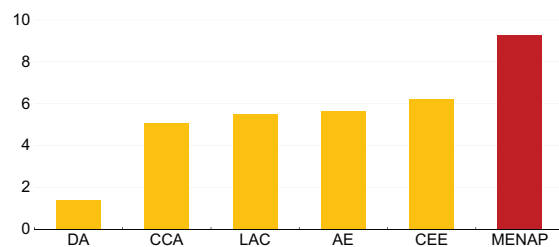
Labor markets in the ACTs are faced with substantial problems. These countries' high rates of unemployment are compounded by significant demographic pressures as more of the young population enters the labor market. Youth unemployment is high, ranging from 18 percent to 30 percent in Egypt, Jordan, Morocco, and Tunisia, and women face particular problems in securing employment. Demographic pressures are substantial: from the start of the transitions through 2015, 8½ million jobs would

Figure 1
Unemployment and Real GDP per Capita, 2001–10
(Percent)



Sources: IMF World Economic Outlook database; World Bank World Development Indicators; and United Nations International Labor Organization.

Figure 2
Public Administration Employment as a Share of Total Employment
(2008–11, percent)¹



Sources: National authorities; International Labor Organization; IMF World Economic Outlook database; and IMF staff calculations.

¹ AE: Advanced economies; CEE: Central and Eastern Europe; DA: Developing Asia; LAC: Latin America and the Caribbean.

Prepared by Harald Finger.

Box 2.7 (continued)

need to be created in these four countries to absorb the unemployed and new entrants into the labor market. Empirical estimates show that, on current growth projections, less than half of the required number of jobs will be created, leaving more than 4½ million people unemployed.

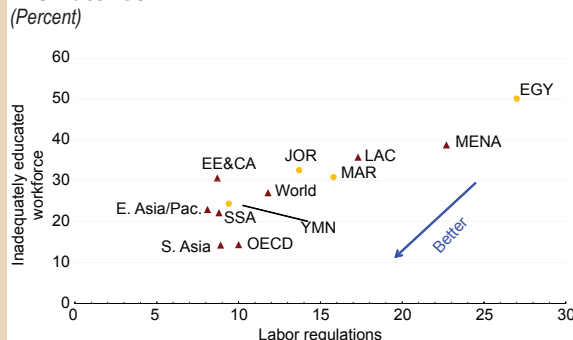
Although the roots of the problems vary across countries, there are some common factors. Labor regulations in the MENA region are perceived as a major constraint that discourages firms from hiring and directs job seekers to the informal sector, where workers do not enjoy the same level of protection as in the formal economy (Figure 3). The (implicit and explicit) employment guarantees in government hiring, and mismatched salary expectations resulting from comparatively generous civil-service pay scales and benefits, have led to market segmentation and excess demand for public-sector jobs. The education system's strong focus on formal qualifications for entry into the civil service has meant that labor market entrants often do not have the right mix of skills for today's job markets. Enterprise surveys show that the share of firms in MENA identifying an inadequately educated workforce as a major constraint (39 percent) is the highest among the world's regions (Figure 3).

Solutions to these problems will vary among countries, but should generally be centered on five areas: reviewing labor market regulation to reduce disincentives for hiring while maintaining adequate worker protection; revisiting public-sector hiring practices and compensation policies to reduce the public sector's labor market dominance and bias; reforming the education system, aligning it better with the needs of private employers; pursuing active labor market policies to make quicker inroads in lowering unemployment; and placing particular emphasis on policies promoting youth and female employment.

The ACTs are also faced with a legacy of complex and burdensome business regulations, with often lengthy, expensive, and complicated procedures to start and operate businesses. Nearly 30 percent of firms in the MENA region perceive business licensing and permits as a major constraint to their activities, by far the highest share among the world's regions, though the share is substantially lower in Egypt and Morocco (Figure 4). Corruption is also a major issue, with more than one-half of firms in the MENA region having experienced bribe payment requests—a much higher share than in any other region in the world.¹

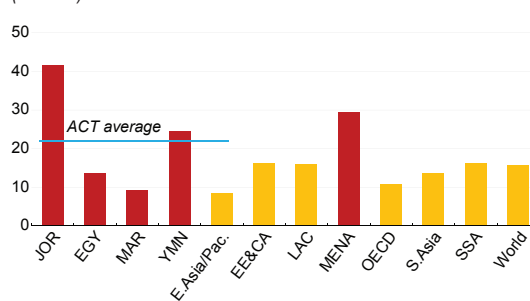
Although countries have already taken action, continued and intensified efforts are needed. To improve the chances for lasting success, it will be

Figure 3
Excess Labor Regulations and Education Mismatches¹
(Percent)



Source: World Bank Enterprise Surveys 2006–11.
¹Percent of firms identifying each item as a major constraint.
Note: EE & CA = Eastern Europe and Central Asia; SSA = Sub-Saharan Africa.

Figure 4
Business Licensing and Permits as Major Constraints¹
(Percent)



Source: World Bank Enterprise Surveys 2006–11.
¹Percent of firms identifying business licensing and permits as a major constraint.

¹ World Bank Enterprise Surveys.

Box 2.7 (concluded)

essential to insulate key national and regional institutions from excessive discretion and nontransparent intervention by creating systems of checks and balances. The experience of East Asia, for example, shows that countries that were effective in creating accountable, rules-based institutions were significantly more successful at generating economic growth than countries where institutions remained subject to arbitrary intervention by political leaders and public officials.

Although countries differ in their reform needs, strategies to reform business regulation should focus on removing the barriers to entry and exit. Entry requirements—such as sector-ministry approval, which give substantial discretion to officials over which investors to favor or exclude—should be reviewed and based on clear and transparent rules. Similarly, high minimum capital requirements and restrictions to foreign ownership should be relaxed, unless they reflect a particular regulatory concern. In addition, the focus of reform efforts should be on removing difficulties to exit, including modern bankruptcy codes that decriminalize business failure.

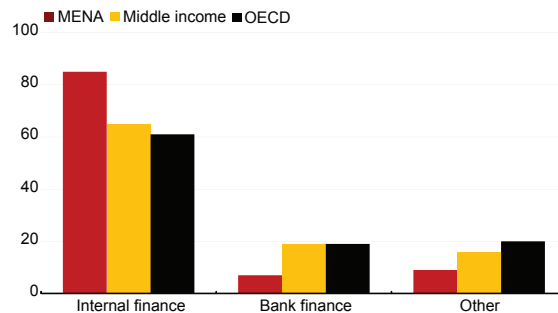
Access to finance is also a major constraint in the ACTs. Only 10 percent of firms use banks to finance investment in the MENA region, by far the lowest share among the world's regions, and 36 percent of firms in the MENA region identify access to finance as a major constraint, surpassed only by sub-Saharan Africa.² Small and medium-sized enterprises, in particular, remain deprived of bank credit and have to rely on internal resources for their investment plans (Figure 5). Strategies for improving access to finance will differ among the ACTs in light of their differing economic starting points, but will center on the areas of developing or strengthening alternatives to bank financing, improving the financial infrastructure, and strengthening competition.

² Ibid.

Figure 5

Sources of Investment Finance: Small and Medium-Sized Enterprises

(2005–10, percent)



Source: Rocha, Arvai, and Farazi (2011).

Annex 2.1. MENAP and CCA Countries: Highly Vulnerable to Food Price Hikes

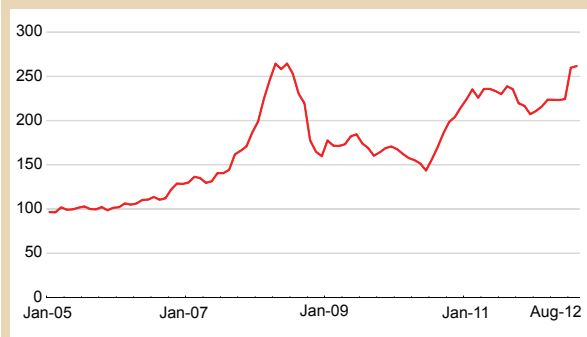
Global food prices are spiking in 2012, raising fears of an escalation in inflation, as during the global food crisis of 2007–08. The current surge in crop prices is centered largely on corn (maize) and soybeans, while wheat and rice prices have also risen sharply in recent months. The major driver of these price increases has been a supply shortfall arising from adverse weather shocks in Australia, the Black Sea region, and North America. Although grain supplies were also affected by export restrictions by major food exporters during the 2007–08 global food crisis, this has not occurred in 2012.

Global food prices (particularly grain prices) have risen rapidly in 2012 and have returned to levels last observed during the global food crisis of 2007–08 (Figure 1). Many of the countries in the Middle East and Central Asia regions are vulnerable to high and rising food prices. This vulnerability arises for those countries that have low grain stocks, high dependence on imported grains for the bulk of their consumption demand, and a large share of food in national consumption baskets.

Many MENAP and CCA countries—particularly Azerbaijan, Iran, Syria, Tunisia, Turkmenistan, and Yemen—have relatively limited wheat stocks, with stock-to-use ratios even lower than those observed in 2007–08 (Figure 2). Given the fragile stock position of many countries, any further disruption of supplies from major commodity exporters could put significant upward pressure on global food and grain prices. Food imports are large in many MENAP and CCA countries, with levels (as a share of GDP) considerably above world averages. In particular, Iraq, the Kyrgyz Republic, Mauritania, and Yemen are dependent on global grain supplies (Figure 3). This dependence is also reflected in the large weight of food in national consumption baskets, so any spike in food prices has the capacity to drastically diminish household purchasing power (Figure 4).

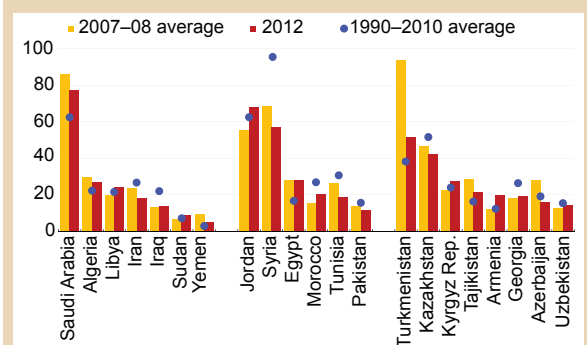
How vulnerable are MENAP and CCA countries to rising food prices? According to a “vulnerability

Figure 1
IMF Food Price Index
(2005=100, January 2005 to August 2012)



Source: IMF, Commodity Price System.
Note: Food index is an average of corn, rice, soybean, and wheat prices.

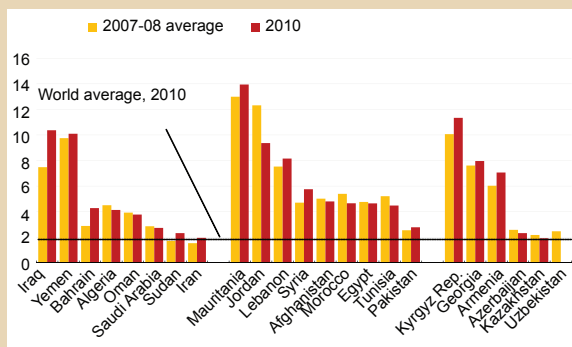
Figure 2
Stock-to-Use Ratio for Wheat
(Percent of domestic consumption)



Source: U.S. Department of Agriculture.

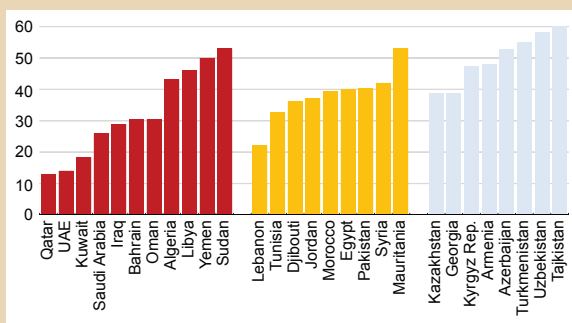
Prepared by Leandro Medina and Paul Cashin with support from Marina Rousset.

Figure 3
Food Imports as a Share of GDP
(Percent)



Sources: National authorities; and IMF staff calculations.

Figure 4
Weight of Food in the Consumer Price Index, 2010
(Percent)

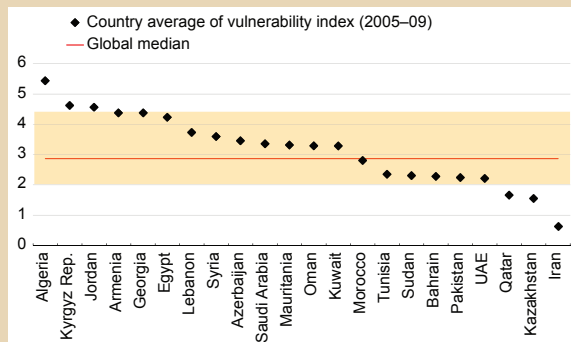


Sources: IMF staff; OECD StatExtracts; and Eurostat.

to food shocks index” developed by IMF staff,¹ almost two-thirds of MENA and CCA countries lie above the world median (higher index denotes higher vulnerability), and six countries (Algeria, Armenia, Egypt, Georgia, Jordan, the Kyrgyz

¹The vulnerability index is a weighted combination of: the ratio of food imports to total household consumption (as an indicator of food dependency); the ratio of food imports to total merchandise imports (as an indicator of the burden of food imports); and the inverse of the level of the GDP per capita (which indicates the capacity to provide food safety nets for domestic consumers). See Combes and others (2012). Because of missing data, the index could not be calculated for Afghanistan, Djibouti, Iraq, Libya, Tajikistan, Turkmenistan, Uzbekistan, and Yemen.

Figure 5
Vulnerability to Food Price Shocks, 1980–2009
(Shaded area represents spread between 25th and 75th percentile of the distribution)



Sources: Combes and others (2012); and IMF staff calculations.

Note: The index has been scaled so that it ranges between zero (low vulnerability) and ten (high vulnerability), with higher values indicating high vulnerability. Calculation of the index is made for the period 1980–2009, using World Bank Development Indicators data on 145 countries (including 22 MENA and CCA countries).

Republic) are extremely vulnerable, with index values above the 75th percentile of the distribution of the vulnerability index (Figure 5). This illustrates that many countries in these regions are particularly vulnerable to food price shocks, not only in absolute terms, but also compared with other countries across the world.

What are some of the macroeconomic consequences of rising food prices? Higher food prices mean higher headline inflation, which erodes household purchasing power. Fiscal and external balances of food-importing countries will also be adversely affected through larger commodity subsidies/social safety net measures and elevated commodity import bills. Rising food prices can also diminish food security at national and household levels, which in turn can engender domestic political discontent and destabilize fragile postconflict/transitional political systems. Indeed, food insecurity has been shown to be the leading cause of social tensions and conflict in the Arab world in recent decades.²

² See Breisinger and others (2012) and Arezki and Bruckner (2011).

How should the regions' policymakers take these vulnerabilities into account?

Monetary policymakers in emerging and developing countries—which are characterized by large and inelastic shares of food in national consumption baskets and important second-round effects of food inflation on nonfood inflation—are beginning to question the conventional wisdom of focusing on core measures of inflation that exclude food prices. Instead, for many emerging and developing countries, a focus on headline inflation in their policy deliberations—while not ignoring core inflation as a key indicator of domestic inflation—may be more appropriate in ensuring that surging food prices do not unhinge inflation expectations.

Moreover, in an economic environment where many domestic households are credit-constrained, ignoring food price developments can harm

the purchasing power of households and adversely affect the distribution of income.³ To ameliorate food price vulnerability in MENAP and CCA countries, other reforms are needed: not only policies aimed at boosting agricultural production and productivity in countries where food production is below potential (through land reforms, land aggregation, and better access to credit for the agriculture sector), but also those aimed at scaling up well-targeted social safety nets/income transfers for the poor and a time-bound reduction in taxes/tariffs on food (where sustainable fiscal space exists). Generalized price subsidies (or controls) should be avoided, and pressures for public-sector wage increases resisted. On the external side, food-importing countries could also allow greater real exchange rate flexibility and draw upon external finance to support their balance of payments positions.

³ See also IMF (2011d), Annex 3.1.

MENAP Oil Importers: Selected Economic Indicators

	Average						Projections	
	2000–06	2007	2008	2009	2010	2011	2012	2013
Real GDP Growth	4.9	6.8	5.3	4.2	4.0	2.0	2.1	3.3
<i>(Annual change; percent)</i>								
Afghanistan, Rep. of	...	13.7	3.6	21.0	8.4	5.8	5.2	6.5
Djibouti	2.8	5.1	5.8	5.0	3.5	4.5	4.8	5.0
Egypt	4.4	7.1	7.2	4.7	5.1	1.8	2.0	3.0
Jordan	6.3	8.2	7.2	5.5	2.3	2.6	3.0	3.5
Lebanon	3.0	7.5	9.3	8.5	7.0	1.5	2.0	2.5
Mauritania	4.8	1.0	3.5	-1.2	5.1	4.0	5.3	6.9
Morocco	4.9	2.7	5.6	4.9	3.7	4.9	2.9	5.5
Pakistan	5.1	6.8	3.7	1.7	3.1	3.0	3.7	3.3
Sudan	8.2	12.2	2.3	4.6	2.2	-4.5	-11.2	0.0
Syrian Arab Republic ¹	4.0	5.7	4.5	5.9	3.4	...	...	...
Tunisia	4.6	6.3	4.5	3.1	3.1	-1.8	2.7	3.3
Consumer Price Inflation	4.5	7.1	13.0	10.2	8.5	9.9	9.7	9.2
<i>(Year average; percent)</i>								
Afghanistan, Rep. of	...	8.6	30.5	-8.3	0.9	13.8	9.1	5.0
Djibouti	2.3	5.0	12.0	1.7	4.0	5.1	4.7	2.4
Egypt	5.1	9.5	18.3	11.7	11.4	9.9	9.7	11.4
Jordan	2.7	4.7	13.9	-0.7	5.0	4.4	4.5	3.9
Lebanon	1.3	4.1	10.8	1.2	4.5	5.0	6.5	5.7
Mauritania	6.5	7.3	7.5	2.1	6.3	5.7	5.9	6.1
Morocco	1.7	2.0	3.9	1.0	1.0	0.9	2.2	2.5
Pakistan	5.0	7.8	10.8	17.6	10.1	13.7	11.0	10.4
Sudan	7.6	8.0	14.3	11.3	13.0	18.3	28.6	17.0
Syrian Arab Republic ¹	3.8	4.7	15.2	2.8	4.4	...	...	...
Tunisia	2.9	3.4	4.9	3.5	4.4	3.5	5.0	4.0
General Gov. Overall Fiscal Balance	-4.5	-5.2	-5.6	-5.0	-5.6	-7.0	-7.8	-7.4
<i>(Percent of GDP)</i>								
Afghanistan, Rep. of	...	-2.0	-4.0	-1.3	0.9	-0.9	-0.8	-0.6
Djibouti	-1.9	-2.6	1.3	-4.6	-0.5	-0.7	0.4	0.8
Egypt	-6.8	-7.5	-8.0	-6.8	-7.8	-9.9	-11.1	-9.8
Jordan ²	-3.0	-5.7	-5.5	-8.9	-5.6	-5.7	-6.5	-5.5
Lebanon ²	-14.6	-10.8	-9.5	-8.3	-7.7	-6.1	-7.9	-8.3
Mauritania ^{2,3}	...	-1.6	-6.5	-5.1	-1.5	-1.5	-2.4	-2.3
Morocco ²	-5.0	-0.1	0.7	-1.8	-4.4	-6.9	-6.1	-5.3
Pakistan	-2.8	-5.5	-7.3	-5.0	-5.9	-6.4	-6.4	-7.2
Sudan	-0.9	-2.5	-0.1	-4.2	-0.4	-1.3	-4.0	-3.9
Syrian Arab Republic ¹	-1.9	-3.0	-2.9	-2.9	-4.8	...	...	...
Tunisia	-2.7	-2.8	-0.7	-2.6	-0.9	-3.1	-6.4	-5.3
Current Account Balance	-0.8	-2.5	-4.1	-4.8	-3.1	-3.5	-5.2	-4.4
<i>(Percent of GDP)</i>								
Afghanistan, Rep. of	...	5.8	5.1	1.6	3.9	3.3	2.1	0.5
Djibouti	-2.0	-21.4	-24.3	-9.1	-5.8	-12.6	-12.2	-12.5
Egypt	1.6	1.7	0.5	-2.3	-2.0	-2.6	-3.4	-3.3
Jordan	0.2	-17.2	-9.3	-4.9	-7.1	-12.0	-14.1	-9.9
Lebanon	-13.8	-6.8	-9.2	-9.8	-9.6	-14.0	-16.2	-15.6
Mauritania	-16.3	-17.2	-14.8	-10.7	-8.7	-7.5	-23.6	-13.9
Morocco	2.2	-0.1	-5.2	-5.4	-4.3	-8.0	-7.9	-5.4
Pakistan	0.8	-4.8	-8.5	-5.7	-2.2	0.1	-2.0	-1.7
Sudan	-5.7	-5.9	-2.0	-10.0	-2.1	-0.5	-7.8	-6.6
Syrian Arab Republic ¹	-1.8	-0.2	-1.3	-3.6	-3.3	...	...	...
Tunisia	-2.8	-2.4	-3.8	-2.8	-4.8	-7.3	-7.9	-7.7

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

¹ 2011–13 data exclude Syria due to the uncertain political situation.

² Central government.

³ Includes oil revenue transferred to the oil fund.