MENAP Highlights

The economic outlook for the Middle East and North Africa region is mixed. Most of the region's oil-exporting countries are growing at healthy rates while the oil importers face subdued economic prospects.

The region's oil exporters are expected to post solid growth in 2012, largely on account of Libya's better-than-expected postwar recovery. In the countries of the Gulf Cooperation Council (GCC), growth remains robust, supported by expansionary fiscal policies and accommodative monetary conditions. For these countries, as for the region more broadly, the medium-term challenge is to generate enough jobs for a young and rapidly growing population.

The slowdown witnessed in 2011 in the region's oil importers persists. A moderate economic recovery is expected in 2013, but is subject to heightened downside risks. For the Arab countries in transition (ACTs), ongoing political transitions also weigh on growth. With policy buffers largely eroded, the need for action on both macroeconomic stabilization and growth-oriented reforms is becoming increasingly urgent. Countries will need to put in place safety nets to protect the poor and build consensus for some difficult and urgent fiscal choices, while people will need to feel that the burdens of economic reform are being borne equitably.

Oil Exporters: Increase Resilience and Create Private-Sector Jobs

The region's oil-exporting countries have been able to use the proceeds from booming oil prices to sustain growth in a weak global environment. For the group as a whole, growth is expected to rise to about 6½ percent in 2012 on the back of a strong, better-than-expected recovery in Libya, and is forecast to return to a rate of almost 4 percent in 2013. GCC growth continues to be robust, supported by accommodative monetary and fiscal conditions, but is expected to slow from 7½ percent in 2011 to 3¾ percent in 2013 as oil production reaches a plateau.

The price of oil is expected to remain above US$100 per barrel in 2012–13. As a result, the oil exporters' combined current account surplus is anticipated to remain near its historic high of about US$400 billion in 2012. However, these surpluses are sensitive to a change in the oil price: a 10 percent drop in oil prices would bring down that surplus by about US$150 billion.

In the context of booming oil prices and growing social demands, government expenditure on wages and salaries has been rising dramatically in most oil exporters in recent years. This stepped-up spending means that fiscal breakeven prices have risen faster than the actual oil price and are expected to continue to rise, increasing the vulnerability to a negative oil price shock. Although many countries have the buffers to withstand short-run oil price volatility, a sustained drop in oil prices resulting from a further slowdown in global economic activity remains a key risk.

To boost resilience to oil price declines and achieve greater intergenerational equity, fiscal policy can gradually shift to bolstering national savings. Some low-income oil exporters face constrained budgets and immediate difficult trade-offs. The GCC countries, where the expansionary fiscal stance has been appropriate in the absence of overheating pressures, could ease the pace of government spending, especially on hard-to-reverse expenditures like public-sector hiring, which tends to crowd out private-sector employment.

Broader structural reforms, including reduced restrictions on international trade in services and measures to reduce skills mismatches, would also help generate private-sector jobs and inclusive growth.

Oil Importers: Restore Macroeconomic Sustainability and Accelerate Growth

In recent months, most ACTs have made progress in implementing political reforms. Newly elected governments have maintained macroeconomic stability, but fiscal and external balances have deteriorated. With uncertainty over the medium-term policy agendas in many countries, investors are holding back. Meanwhile, international food and fuel prices have continued to rise, and economic activity in trading partners—most notably in Europe, with which many oil importers have important economic links—has deteriorated. As a result, the region's oil importers have witnessed a marked decline in exports in 2012 while their import bills continue to grow. In addition, tourism arrivals are recovering only slowly from the large decline in 2011, and foreign direct investment inflows remain subdued. Consequently, these countries continue to face an economic slowdown in 2012, with growth of about 2 percent. For 2013, a recovery to about 3¼ percent growth is foreseen—a rate far below what is required to address chronic and growing unemployment.

In response to social demands and rising food and fuel prices, governments have significantly expanded spending on subsidies. Budget revenues have also fallen, with the consequence that fiscal balances across the region have deteriorated by a cumulative 2¼ percent of GDP over the past two years. Although expansionary fiscal policies have helped mitigate the downturn, they have had only a modest impact on economic activity: a large increase in generalized subsidies and wages has been partially offset by a decrease in public investment, thereby reducing the positive impact of stimulus. In addition, government reliance on domestic bank financing has reduced the availability of private-sector credit.

There is limited room for additional fiscal stimulus. With average public debt at more than 70 percent of GDP, fiscal vulnerabilities are high, and any significant fiscal slippages, slower-than-projected growth, or higher interest rates could put debt on an unsustainable path.

At the same time, external current account deficits have widened from already high levels. Together with weak capital inflows, these have resulted in a sharp decline in official international reserves, raising concerns about reserve adequacy and leaving diminished buffers and limited policy space for addressing a downturn. Although temporary factors are playing a role, external current account deficits are structural in some countries. Moving away from the use of exchange rates as a nominal anchor can allow for more flexible monetary policy to help restore and maintain price stability and competitiveness.

Stronger growth is urgently needed to spur job creation and provide the population with tangible benefits. To that end, it is important that governments embark on policies to restore macroeconomic sustainability and structural reforms aimed at improving competitiveness, laying the foundations for a more inclusive economic model. It is equally important that both stabilization measures and the design of structural reforms are done in a way that minimizes adverse impacts on the poor and vulnerable. Building consensus for these measures through a proactive communication strategy will be key to gaining the broad support required for their successful implementation. The leadership for this effort clearly lies with the countries themselves, but they will need to be supported by the international community through finance, technical support, and better access to export markets.

MENAP Region: Selected Economic Indicators, 2000–13

(Percent of GDP, unless otherwise indicated)

	Average 2000–06	2007	2008	2009	2010	2011	Projections 2012	2013
MENAP[1]								
Real GDP (annual growth)	5.4	5.8	4.4	2.6	4.8	3.3	5.1	3.6
Current Account Balance	9.2	13.1	13.7	2.0	7.0	13.2	11.2	9.7
Overall Fiscal Balance	3.1	6.2	6.6	-3.0	-0.4	1.5	1.5	0.4
Inflation, p.a. (annual growth)	5.9	9.9	14.3	7.3	7.3	10.3	10.9	9.5
MENAP oil exporters								
Real GDP (annual growth)	5.8	5.3	4.0	1.7	5.3	3.9	6.6	3.8
Current Account Balance	13.4	18.6	19.7	4.8	11.0	18.7	16.4	14.2
Overall Fiscal Balance	7.4	12.4	13.3	-1.8	2.5	5.9	6.1	4.4
Inflation, p.a. (annual growth)	6.7	11.5	15.0	5.7	6.6	10.4	11.5	9.7
***Of which:* Gulf Cooperation Council**								
Real GDP (annual growth)	5.7	5.3	6.3	-0.2	5.5	7.5	5.5	3.7
Current Account Balance	15.4	19.9	22.7	7.5	14.4	24.1	23.6	21.1
Overall Fiscal Balance	11.5	17.9	24.8	-0.7	4.5	12.7	14.6	11.2
Inflation, p.a. (annual growth)	1.6	6.6	11.0	3.0	3.2	3.6	3.5	3.6
MENAP oil importers								
Real GDP (annual growth)	4.9	6.8	5.3	4.2	4.0	2.0	2.1	3.3
Current Account Balance	-0.8	-2.5	-4.1	-4.8	-3.1	-3.5	-5.2	-4.4
Overall Fiscal Balance	-4.5	-5.2	-5.6	-5.0	-5.6	-7.0	-7.8	-7.4
Inflation, p.a. (annual growth)	4.5	7.1	13.0	10.2	8.5	9.9	9.7	9.2
MENA[1]								
Real GDP (annual growth)	5.5	5.7	4.5	2.6	5.0	3.3	5.3	3.6
Current Account Balance	10.0	14.5	15.3	2.6	7.7	14.2	12.2	10.6
Overall Fiscal Balance	3.9	7.7	8.4	-2.8	0.2	2.5	2.5	1.4
Inflation, p.a. (annual growth)	5.9	10.2	14.6	6.2	7.0	9.8	10.9	9.5
MENA oil importers								
Real GDP (annual growth)	4.7	6.7	6.1	4.9	4.3	1.4	1.2	3.3
Current Account Balance	-1.3	-1.8	-2.8	-4.6	-3.6	-5.2	-6.9	-5.8
Overall Fiscal Balance	-5.3	-5.1	-4.8	-5.2	-5.6	-7.5	-8.7	-7.7
Inflation, p.a. (annual growth)	4.2	6.7	13.6	7.3	8.0	7.9	9.0	8.8
Memorandum								
Arab countries in transition (excl. Libya)								
Real GDP (annual growth)	4.6	6.0	6.3	4.5	4.7	1.2	2.0	3.6
Current Account Balance	1.1	-1.1	-2.5	-3.9	-3.3	-4.9	-5.4	-4.6
Overall Fiscal Balance	-5.2	-5.5	-5.2	-5.7	-6.0	-8.0	-9.1	-8.0
Inflation, p.a. (percent)	4.7	7.1	14.0	7.7	8.4	7.9	7.8	8.6

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

[1]2011–13 data exclude Syrian Arab Republic.

MENAP: (1) Oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen; (2) Oil importers Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, and Tunisia; (3) Arab countries in transition: Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen.

MENA: MENAP excluding Afghanistan and Pakistan.

Note: Data refer to the fiscal year for the following countries: Afghanistan and Iran (March 21/March 20), Qatar (April/March), and Egypt and Pakistan (July/June).