



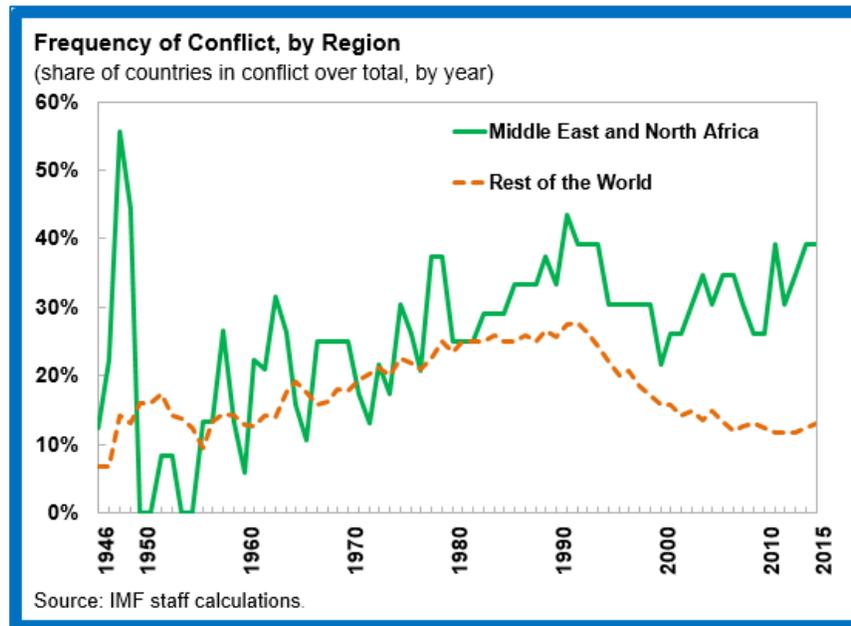
2016 Year in Review: IMF's Policy Analysis for the Middle East, North Africa Region

December 20, 2016

This year the Middle East and North Africa region continued to face two of the world's most pressing economic and geopolitical concerns: the intensification of conflicts and the steep drop in global oil prices over the past two years. The combination of these two forces is having a profound effect on the short and long-term growth outlooks for this region. To help explain this impact, we take a look back at the IMF's research from this past year and have highlighted the key takeaways and policy recommendations for the Middle East and North Africa region moving forward.

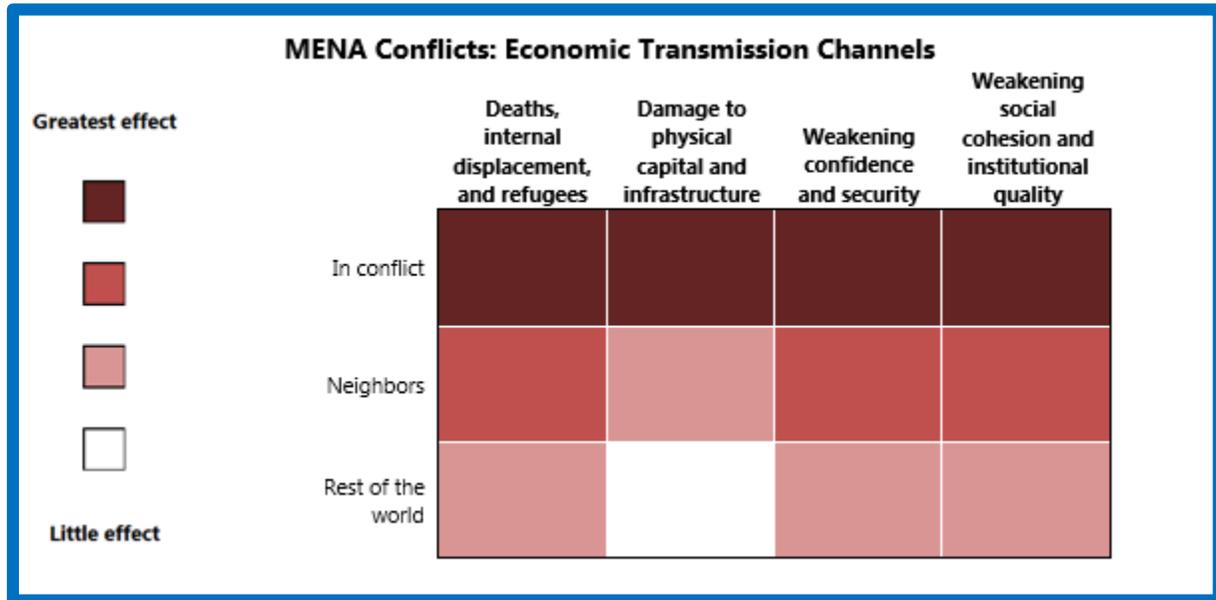
Massive costs of conflict calls for international assistance

A major challenge for the Middle East and North Africa are the costs of the large-scale conflicts. The region experienced more frequent and severe conflicts than any other part of the world, exacting a devastating human toll. Violent non-state actors have emerged as significant political and military powers, holding large areas of territory (see chart below).



For example, more than 20 million people are displaced, and a further 10 million are refugees—a scale not seen since the end of World War II. Humanitarian costs that these conflicts inflict are difficult to grasp. In terms of the outlook, GDP in Syria in 2015 accounted for less than half of its pre-conflict level in 2010. Yemen lost 25–35 percent of its GDP in 2015, while in Libya—where dependence on oil has made GDP growth extremely volatile—GDP fell by 24 percent in 2014 as violence picked up.

Ongoing conflict has also exacerbated already high levels of poverty, unemployment, erasing previous development gains. Syria school dropout rates reached 52 percent in 2013 and life expectancy fell to 56 years from 76 years before the conflict. Neighboring countries also affected (See table below on spillovers).



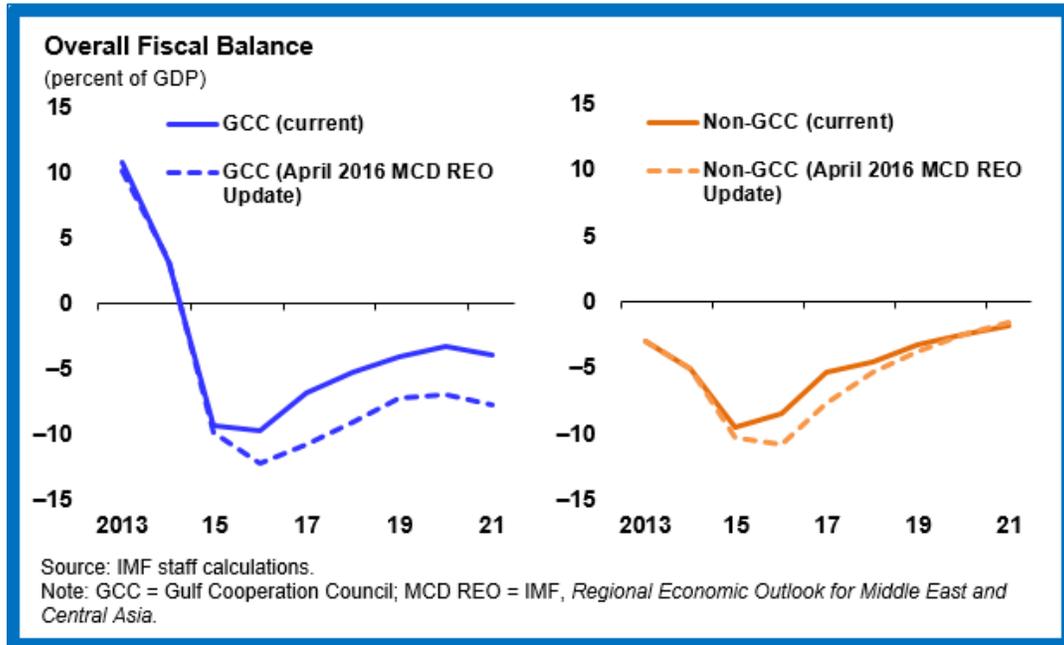
To limit the immediate impact of conflicts, economic institutions need to be protected, and creating budget space that will serve the basic needs of the public should be prioritized. Monetary and exchange rate policies can also be used to shore up confidence.

Furthermore, the international community must do more to [support countries in conflict and their neighbors](#). External partners, including the IMF, have supported countries' efforts to contain the fallout. These partners can help scale-up humanitarian aid to meet the immediate needs of people affected by the violence, both in conflict zones and in countries hosting large numbers of refugees, such as Jordan and Lebanon. Second priority involves developmental aid to help rebuild infrastructure, and, more broadly, strengthen economic and social resilience across the Middle East and North Africa region.

Read more on this issue: IMF's research on the [Economic Impact of Conflict and the Refugee Crisis in the Middle East and North Africa](#) and read the [blog](#) from IMF Managing Director Christine Lagarde.

An ongoing development for the region is the impact of the low oil prices

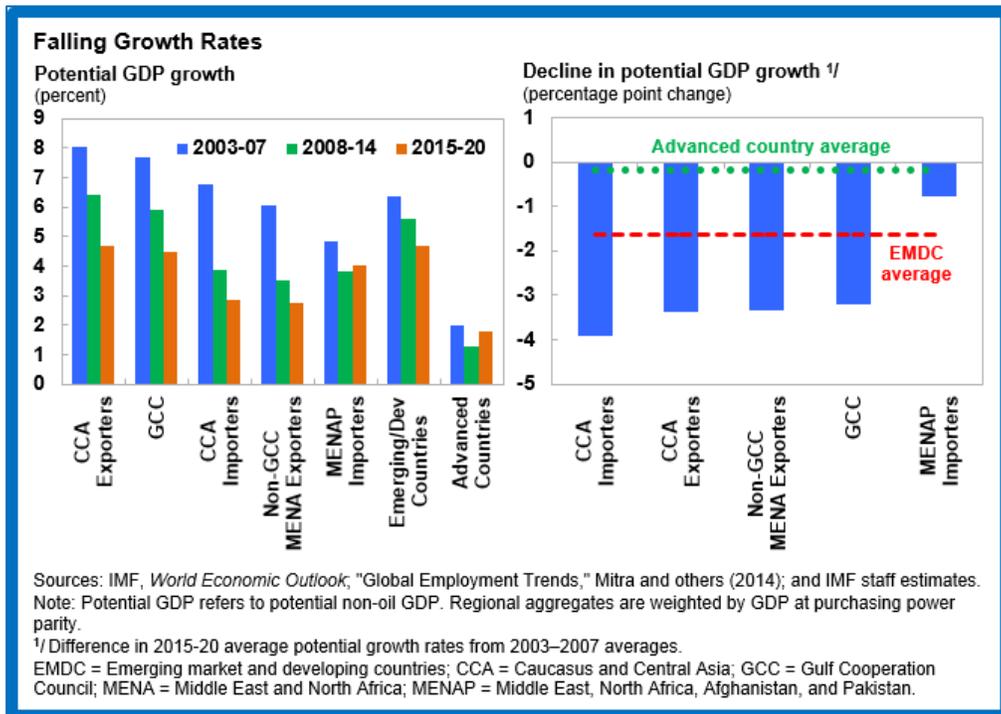
Another ongoing development for the region is the economic impact of oil prices. Currently, the price of oil is on the rebound, but adjustment will need to continue. The oil exporters in the Middle East and North Africa region are facing an exceptionally challenging policy environment. These lower oil prices have reduced growth, opened up large budget and external deficits, and increased financial stability risks. Ongoing fiscal adjustment is encouraging, but more remains to be done. Diversification plans should be implemented (see chart below).



Read more on these issues and IMF’s policy recommendations in the following: IMF’s paper [Learning to Live with Cheaper Oil](#) and related [blog](#) and structural reform priorities for the [Gulf Cooperation Council \(GCC\)](#).

How to implement much needed reforms to promote inclusive growth

As the populations of these countries continue to grow rapidly, people are getting frustrated with the lack of economic opportunity, and with persistent high levels of inequality (see chart below).



Growth can be achieved through policies aimed at raising productivity and physical capital. Closing gaps with their global peers in critical structural reform areas underlying these drivers of growth could raise growth potential in the Caucasus and Central Asia (CCA) oil exporters by 1 percentage point, in the Gulf Cooperation Council (GCC) by 1.5 percentage points, and double growth in the non-GCC MENAP oil exporters and importers, as well as the CCA oil importers.

Read more on this issue: IMF's research—[Avoiding the New Mediocre: Raising Long-Term Growth in the Middle East and Central Asia](#) and read the [News Article](#) and blog on [Leveraging Diasporas](#).

And, demographics can help too

The Middle East and North Africa region has a young and growing population. Sixty percent of the population is under 30, making it the world's second-youngest region after sub-Saharan Africa. This large cohort of young people is beginning to mature, placing the region in a critical demographic window that could bring faster economic growth, but also lead to greater frustration and unrest. In the next five years, the working-age population for the region—excluding the Gulf Cooperation Council countries—is expected to increase by nearly 40 million, or by about 10 percent, according to central estimates from the United Nations' Population Division (see chart below).

