

## 2. MENAP Oil Importers: Growth Trending Up, but More Reforms Needed to Create Jobs

*The recovery in the region is gaining strength thanks to progress toward political stability, economic reforms, lower oil prices, and improvement in euro area growth—with growth rising to 4 percent in 2015 and 2016, broadly in line with May 2014 Regional Economic Outlook projections. However, greater momentum is being held back by continued spillovers from conflicts—including mounting numbers of refugees—and by security risks and social tensions, while supply-side bottlenecks and strong currency valuations continue to hamper competitiveness and productivity growth. In a climate of persistently high unemployment, low living standards, and limited inclusiveness, strong reform initiatives—especially in the areas of business, trade, and labor and financial markets—are imperative for fostering private sector expansion and job creation. Greater exchange rate flexibility and gradual fiscal consolidation—which would achieve sustainable debt profiles and strengthen buffers for dealing with adverse shocks—are also critical.*

### Strengthening Recovery

Over the past five years, MENAP oil-importing economies have experienced lackluster growth. The global financial crisis dampened external demand and financial inflows. Political transitions triggered by the Arab Spring uprisings, social upheavals, and regional conflicts displacing thousands of people (Box 2.1) are weighing on confidence. Stagnant 3 percent growth, limited in its inclusiveness, resulted in persistently high unemployment of 11½ percent, with youth unemployment averaging 17 percent across the region.

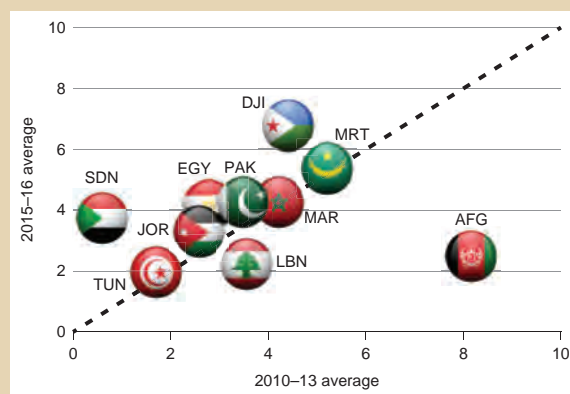
The recovery is finally starting to gain momentum owing to budding confidence, improved external demand, and lower oil prices. MENAP oil importers' economic growth is expected to rise to 4 percent in 2015 and 2016 (Figure 2.1). Progress in the political transitions initiated in 2010 has resulted in governments with the multiyear horizons needed to enact economic reforms—though the challenges of building strong public consensus mean implementation will be gradual. Greater political stability and recent economic initiatives have fostered confidence, which, together with higher euro area growth and lower oil prices

Prepared by Pritha Mitra with input from Inutu Lukonga and research assistance from Mark Fischer.

Figure 2.1

### Breaking Free of Stagnant Growth?

(Real GDP annual growth, percent)



Sources: National authorities; and IMF staff estimates.

Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

(notwithstanding the risks discussed later), has strengthened investment and export growth. Remittances (largely from Europe and the GCC, Box 2.2) and a large public wage bill continue to support consumption, the main driver of economic growth (Figure 2.2).

The revival in confidence reflects a reduction of fiscal vulnerabilities, improvements in the business environment, and easing of financing constraints (Figure 2.3). Most governments are reining in fiscal deficits—which are set to decline

## Box 2.1

**Policy Implications of the Growing Refugee Crisis**

Deepening conflicts and the rise of violence, including by non-state actors such as the Islamic State of Iraq and the Levant (ISIL), have caused a sharp increase in the number of refugees in the MENA region. UNHCR puts the official count of refugees from MENA countries (excluding Palestinian refugees) at 9.2 million, twice as many as a decade ago and more than 60 percent of the world's total. This figure excludes the millions of internally displaced people. Most of the registered refugees have come from Syria (nearly 4 million), Afghanistan, and Iraq. Most (5.2 million) have so far fled to neighboring countries, such as Iran, Jordan, Lebanon, Pakistan, and Turkey. In addition, Tunisia hosts a large number of Libyan nationals who had moved following the country's political crisis, while Djibouti and Somalia have started to absorb people fleeing the crisis in nearby Yemen. Europe has also been receiving refugees from the region at an accelerating rate in recent months. The associated changes in the level and composition of the populations in countries hosting refugees can be significant. In Lebanon and Jordan, for instance, refugees now account for about one-quarter and one-fifth of the total populations, respectively.

The refugee crisis inflicts massive humanitarian costs on the refugees themselves. It also has significant economic consequences for home and host countries alike.

- For home countries, large outflows of working-age people imply a dramatic decline in human capital. This cost is higher when refugees include the better educated and skilled. Accordingly, home countries face permanent reductions in growth potential, on top of the physical destruction. The loss of human capital partially explains why it typically takes countries a very long time to recover from conflict, especially when conflicts are protracted (for example, with an average growth rate of 3 percent, it would take Syria about 20 years to regain its 2010 GDP level). Over the medium term, home countries may benefit from renewed remittance flows.
- For host countries, large inflows of refugees affect their economies through a variety of channels. First, fiscal pressures increase in line with government outlays on housing and basic services such as health, schooling, and security. This is already a stark reality for host countries within the region, in addition to disruptions in trade flows, lower investment, and tourism. For example, for Jordan and Lebanon, the direct budgetary costs of refugee inflows are estimated to be about 1 percent of GDP per year (USAID for Jordan, World Bank for Lebanon). Large refugee inflows have also increased pressure on food, labor, and real estate markets, and access to public infrastructure, which could disproportionately affect each country's poorest. These developments can strain host countries' social fabric and give rise to political instability, particularly where governments already face the challenges of significant social exclusion and high unemployment, notably among the youth. Host countries outside the region, including in Europe, are beginning to face similar economic challenges in absorbing refugees, though as yet on a much lower scale than many in the Arab world. Moreover, these host countries—and especially those with aging populations—stand to gain long-term benefits from integrating refugees.

The protracted nature of the conflicts makes a quick resolution of the current refugee crisis in the region unlikely. Affected countries and their external partners can help mitigate the most urgent pressures and provide adequate services to refugees. Over time, only security and better living conditions in the home countries will help address the root causes of the refugee crisis.

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Prepared by Davide Lombardo, Gaëlle Pierre, and Björn Rother.

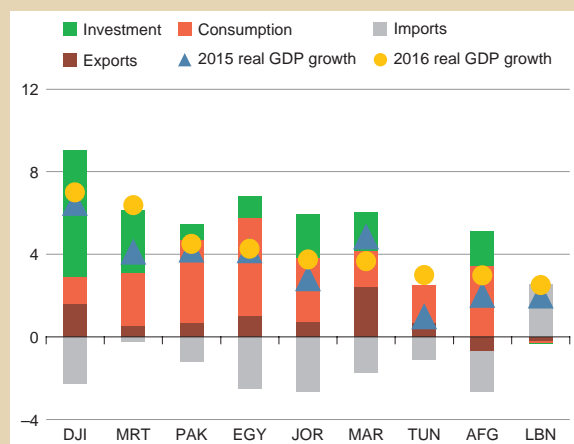
Box 2.1 (continued)

- Home countries need to focus on preventing economic collapse and maintaining macroeconomic stability as much as possible. Host countries should focus on addressing the immediate and longer-term needs of refugees, without compromising macroeconomic stability and social peace.
- External partners can play a key role. By remaining engaged with home countries, they can help them maintain macroeconomic stability and, once the security situation has been restored, rebuild economic infrastructure and institutions by providing financing and capacity building assistance. They should also support the host countries with sufficient financing to enable them to provide adequate care for their incoming refugee populations. This is especially the case for host countries within the region, where pressures have been the greatest so far and fiscal positions are not strong enough to allow them to shoulder the refugee-related challenges on their own.
- More broadly, across the entire MENAP region, conflicts and refugee flows underline the importance of making progress with inclusive growth reforms. This can help to address the deep-seated economic inequities that contribute to conflicts.

Figure 2.2

**Contributions to Growth: Exports and Investment Join Consumption**

(Percent, average 2015–16)



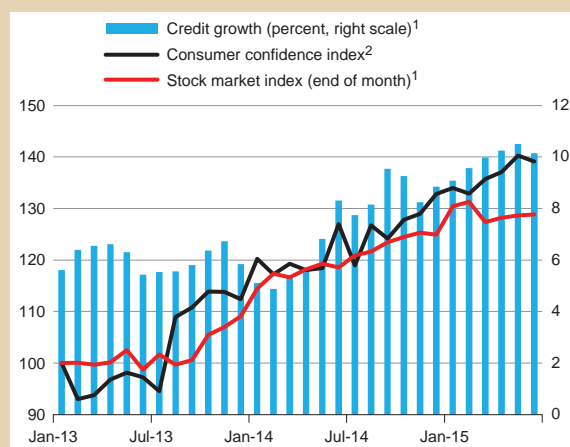
Sources: National authorities; and IMF staff estimates.  
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

by 2 percentage points on average during 2015–16 to about 6 percent of GDP—and stabilizing public debt ratios below 65 percent for half the region, in part owing to lower oil prices. Reforms to the business environment, including the regulatory framework and investor protection (Egypt, Morocco, Pakistan), are also boosting business

Figure 2.3

**Growing Confidence**

(Index, January 2013 = 100)



Sources: Bloomberg, L.P.; national authorities; and IMF staff estimates.  
<sup>1</sup>Includes Egypt, Jordan, Lebanon, Morocco, Pakistan, and Tunisia.  
<sup>2</sup>Includes Egypt, Lebanon, and Pakistan.

and consumer confidence. Nevertheless, poor transport infrastructure, and electricity, fuel, and water shortages still hamper economies in the region. Monetary policy easing (Jordan, Lebanon) is supporting credit growth for both consumption and investment. The region’s banks remain, on average, well capitalized, profitable, and liquid.

Box 2.2

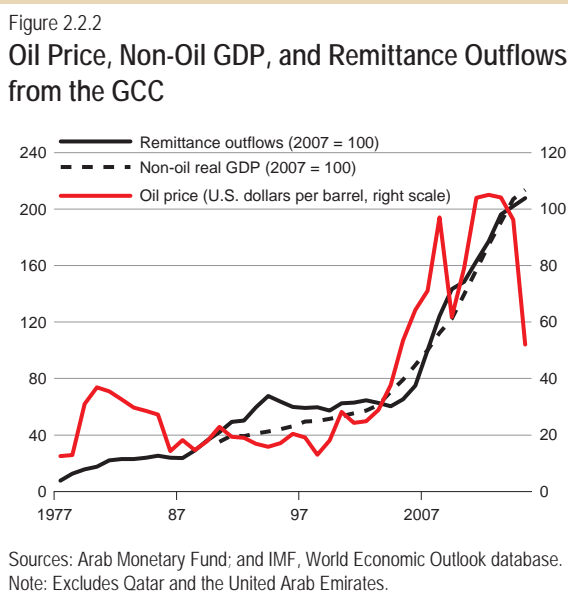
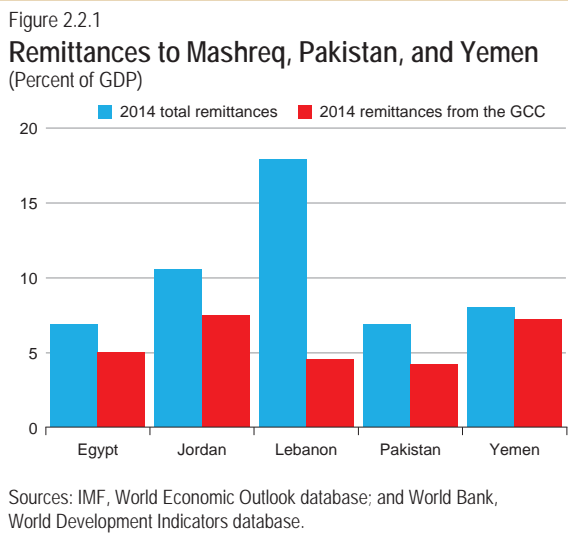
**Oil Prices and Remittances from the GCC to the Mashreq, Pakistan, and Yemen**

Remittances from the GCC are an important source of income for Egypt, Jordan, Lebanon, Pakistan, and Yemen. The Gulf region is one of the largest sources of migrant remittances in the world. Some 29 million foreign workers sent home more than \$100 billion in remittances in 2014, about one-third of which was sent to the Mashreq, Pakistan, and Yemen. These countries are highly dependent on remittances and especially on those from the GCC (Figure 2.2.1). For example, Egypt and Jordan receive about 70 percent of their total remittances from the GCC—equivalent to 5 percent and 7½ percent of their GDPs, respectively. Following tepid growth during most of the 1990s, remittance flows from the GCC accelerated at the turn of the century, in tandem with a rapid rise in oil prices and non-oil GDP (Figure 2.2.2).

Historically, remittances have been much less volatile than oil prices. An analysis of past large oil price declines (in 1986, 1991, 1998, 2001, and 2009) shows that remittance flows to the Mashreq, Pakistan, and Yemen fell only modestly (by 3 percent on average) following large declines in oil prices (30 percent on average) and recovered quickly in line with oil prices. This is mainly because the GCC countries accumulated large buffers, which allowed them to maintain their fiscal spending, even in periods of temporary declines in oil prices. Moreover, government spending tends to drive non-oil economic activity in the GCC, particularly construction and services, where demand for migrant workers is high. Based on historical trends, a 1 percent decline in real non-oil GDP in the GCC is estimated to reduce remittance flows to the Mashreq, Pakistan, and Yemen by ½–¾ percent annually.

How are remittances from the GCC likely to be affected by the current oil price decline? Over the near term, the impact is likely to be modest because real non-oil GDP growth is projected to decline only moderately to about 3.8 percent per year in 2015–16, compared to 5.9 percent in 2012–14. Over the medium term, the impact will depend on the pace of fiscal adjustment in the GCC in response to the lower oil prices. Faster fiscal adjustment than is currently envisaged, or the introduction of a special tax on remittances, which has been proposed in the GCC, could slow remittance flows further.

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Nonperforming loans (NPLs) are high but have broadly stabilized.

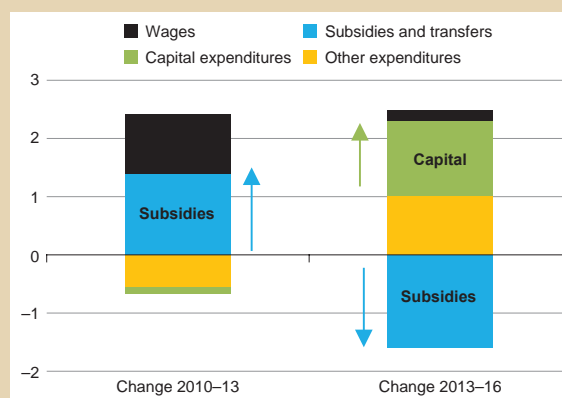
The fiscal space created by fiscal consolidation and lower oil prices has helped to increase growth-enhancing investment. Consolidation has mainly relied on energy subsidy reforms (Egypt, Jordan, Morocco, Pakistan, Sudan; see the *Regional Economic Outlook: Middle East and Central Asia*, October 2014) and, to some extent, privatization of state-owned enterprises (SOEs—Pakistan). Adverse growth effects have been partly offset by the increased availability of private sector bank credit (though it is still limited for small and medium enterprises) and the channeling of some savings toward increased infrastructure spending, targeted social assistance, education, and health care (Figure 2.4, Box 2.3). In 2016, substantial investments in electricity infrastructure (Djibouti, Egypt, Pakistan) are expected to ease production bottlenecks across industries. In Egypt, government reform plans are triggering large-scale public and private investment projects. Wage spending is contained in most countries but has expanded in Tunisia.

External factors are also playing a role in supporting exports and raising confidence. Strengthened euro area activity is raising export demand, tourism, and remittances for the Maghreb (Figure 2.5). Though lower than expected a year ago, GCC growth is still solid and continues to support remittances to the Mashreq, even as export demand from the GCC is slowing—and partly offsetting the gains from lower oil prices. Lower oil prices have reduced net energy import bills (on average 1¼ percent of GDP in 2015–16; see Box 4.3), supporting international reserves coverage at about five months of imports. For those countries yet to complete energy subsidy reforms, savings to government budgets (however limited; Box 4.3) or SOEs (particularly in the electricity sector) are being applied toward public debt stabilization. A better external environment, coupled with domestic reforms, is also attracting more foreign investment (Morocco). The pass-through of expected increases in U.S. interest rates is likely to be partial and slow, given MENAP oil importers’

Figure 2.4

### Subsidy Reforms and Lower Oil Prices Create Space for Growth-Enhancing Spending

(Change in expenditure components, percent of GDP)



Sources: National authorities; and IMF staff estimates.

Note: Includes Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, and Tunisia.

limited financial integration and weak monetary policy transmission mechanisms (see Box 1.3).

After a sharp decline, inflation is stabilizing (Figure 2.6). In 2015, persistently large negative output gaps and low food prices reduced inflation by almost 3 percentage points to 6½ percent—raising households’ real disposable incomes. These pressures were partly offset by energy subsidy phase-outs and, in some cases, currency depreciation, monetization of fiscal deficits, and accommodative monetary policies. A further, albeit small, decline in inflation for 2016 is projected, in line with continuing—but slower—food price declines. An anticipated continuation of weak pass-through of lower international oil prices, owing to remaining subsidies and/or low competition, implies little near-term benefit for firms’ production costs and household incomes (except in Jordan, Lebanon, Morocco, and Pakistan).

## Serious Headwinds Holding Back Faster Recovery

Domestic and external headwinds are holding back greater economic momentum. Bigger rebounds in domestic investment and production, trade,

## Box 2.3

## Public Investment as an Engine of Growth

The usefulness of public investment in boosting lackluster emerging market growth is under debate. Public investment can raise output and jobs, in the short term by increasing demand, and in the long term by improving supply—particularly by raising productivity and crowding-in private investment. However, empirical analysis finds limited impact on growth in emerging markets owing to inefficiencies in public investment administration and financing that crowds out private investment (Warner 2014). The short-term impact of public investment also depends on the degree of economic slack and monetary accommodation (*Regional Economic Outlook: Middle East and Central Asia*, October 2014).

In MENAP and the CCA, the correlation between public investment and growth is mild. The ratio of public investment to GDP tends to be positively associated with growth three to five years after the initial increase in investment. In oil exporters, ties to growth are also very strong in the near term, reflecting the importance of public spending as an engine of growth in these economies. Oil importers' near-term correlation is negative but it then reverses over the medium term to be stronger than in oil exporters—reflecting recent targeting of supply-side infrastructure bottlenecks (Figure 2.3.1).

Given large infrastructure gaps across MENAP and the CCA, it is worrying that public investment has declined sharply in MENAP (except the GCC) and is at low levels in the CCA (*Regional Economic Outlook: Middle East and Central Asia*, October 2014). The reasons are multiple, ranging from the global financial crisis and Arab Spring political transitions to conflicts and geopolitical tensions. Lower public investment has contributed to a marked slowdown in medium-term economic growth prospects in the region (Mitra and others 2015). Although most GCC countries have announced ambitious public infrastructure programs many times their annual economic output, public investment in the GCC could slow in the coming years because of persistently low oil prices. With declining public investment growth, structural reforms are needed to strengthen public investment's impact on economic growth over the medium term.

Potentially, more than \$60 billion of output per year could be gained if MENAP and the CCA public investment ratios reach emerging market and developing country levels, supported by the following structural reforms:

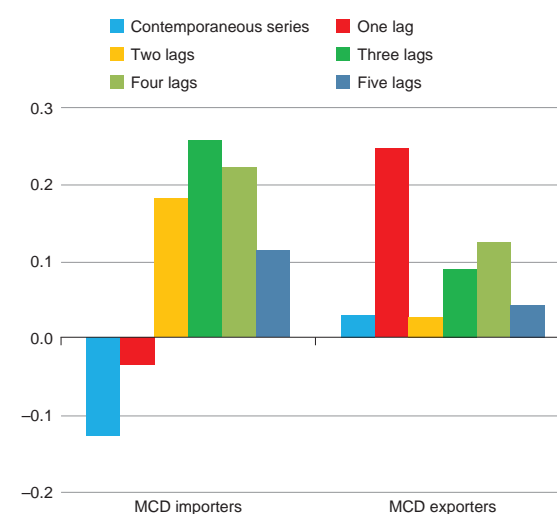
- Raising public investment efficiency (*Regional Economic Outlook: Middle East and Central Asia*, October 2014), including through better project appraisal and selection, centralized independent reviews, rigorous cost-benefit analysis, risk costing, zero-based budgeting principles, and improved project execution.
- Maximizing synergies with private investment through focused infrastructure investment that eliminates energy and water shortages and raises the availability and quality of communication infrastructure, roads, and public transport to global standards.

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Figure 2.3.1

### Correlation between Annual Real GDP Growth and Annual Change in Public Investment

(GDP growth in percent; investment in percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
 Note: Oil importers include Armenia, Egypt, Georgia, Jordan, Lebanon, Morocco, Pakistan, Sudan, and Tunisia. Oil exporters include Algeria, Azerbaijan, Bahrain, Iran, Kazakhstan, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

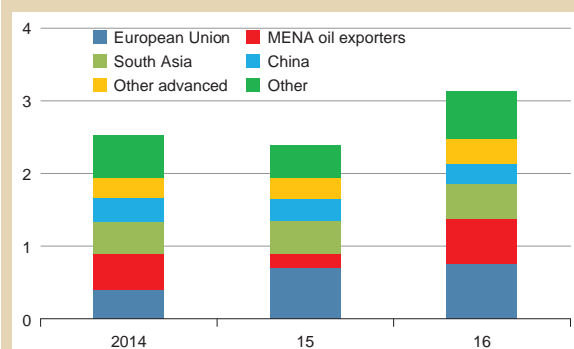
## Box 2.3 (continued)

- Improving the business environment, raising access to credit for small and medium enterprises, improving the quality of education, increasing the use of modern technology, and increasing trade openness to maximize private sector benefits from better infrastructure, building public investment management capacity, and increasing absorptive capacity; and
- Diversifying public investment financing across domestic and international sources to reduce crowding out. Strategies include sovereign bond issuance (either conventional or the increasingly popular financing option of Sukuk) and public-private partnerships applied with high fiscal transparency to reduce risks. Reducing other types of spending (for example, energy subsidies) to create room for greater public investment would also help reduce crowding-out effects.

Figure 2.5

**Strengthening External Demand**

(Export-weighted partner country non-oil real GDP growth, percent)

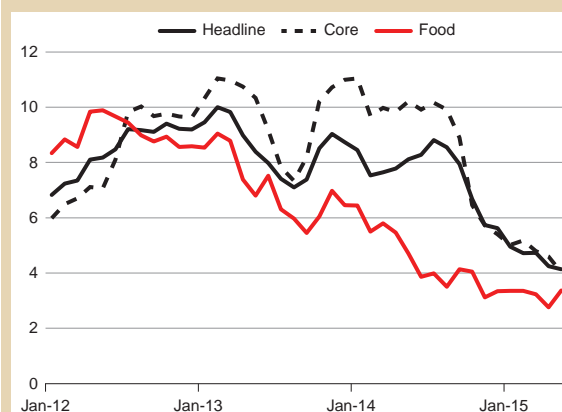


Sources: IMF, Direction of Trade Statistics database; national authorities; and IMF staff estimates.

Figure 2.6

**Sharp Drop in Inflation Follows Low Food Prices**

(Inflation, year-over-year percent change)



Sources: National authorities; and IMF staff calculations.

and tourism are obstructed by continued security risks, social tensions, and spillovers from regional conflicts (Egypt, Jordan, Lebanon, Pakistan, Tunisia; see Box 1.2 in Chapter 1). In particular, there are additional fiscal spending pressures to accommodate growing numbers of refugees (see Box 2.1), and the security situation is deteriorating as a result of increased terror activities by the Islamic State of Iraq and the Levant (ISIL) and its affiliates across North Africa and the Mashreq, and by the Taliban in Afghanistan. Continued supply-side bottlenecks also pose serious challenges. Despite recent reform initiatives in some countries, production is still hampered by electricity supply disruptions (Djibouti, Egypt, Lebanon, Pakistan) and social unrest (Tunisia). These challenges are

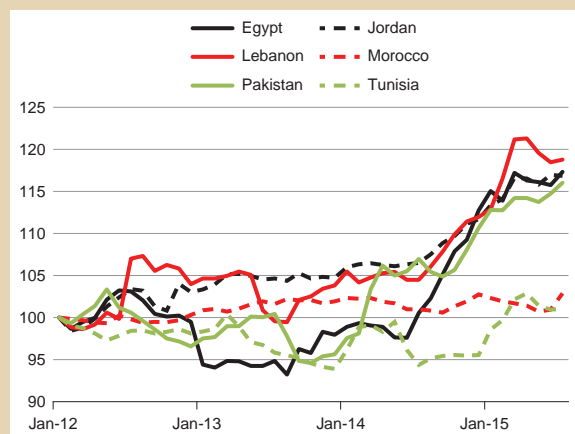
compounded by limited access to credit, especially for small and medium enterprises, and by heavy bank financing of perennially large government and SOE deficits. High public sector loan concentrations also pose risks to banking stability. In addition, the region's competitiveness is deteriorating as real exchange rates appreciate—a product of nominal exchange rate appreciation against the euro on the back of a strengthening U.S. dollar, to which some countries informally peg their currencies (Figure 2.7).

Even with recent improvements, vulnerabilities remain large and impede greater confidence. Public debt has recently stabilized but remains high (ranging between 90 percent and 140 percent

Figure 2.7

### Competitiveness Challenged by Appreciating Real Effective Exchange Rates

(Real effective exchange rate index, January 2012 = 100)



Sources: IMF, Information Notice System database; national authorities; and IMF staff calculations.

in Egypt, Jordan, and Lebanon), deterring some investors, imposing high servicing costs on the budget, and burdening the economy with large financing needs. Lackluster tax revenues, spending rigidities (especially in public wage bills), large interest payments, and loss-making SOEs encumber public debt reduction. In Egypt, Pakistan, and Sudan, international reserves coverage, though improving, remains low, weighing on confidence. The sharp drop in Sudan's remittances due to de-risking (global banks' scaling back or terminating foreign correspondent relations and their reduction of trade financing activities in certain regions in response to enhanced implementation of global regulatory standards and economic and trade sanctions) has increased pressure on reserves.

Risks to the outlook remain to the downside. A worsening of domestic and external headwinds, especially security conditions and spillovers from regional conflicts, as well as setbacks to political transitions and implementation of reforms, could further undermine trade, tourism, confidence, and, ultimately, macroeconomic stability. Normalization of U.S. monetary policy

could tighten financing conditions more than presently envisaged, especially if it sparks financial market volatility or, for countries that peg to the U.S. dollar, if interest rate pass-through strengthens.

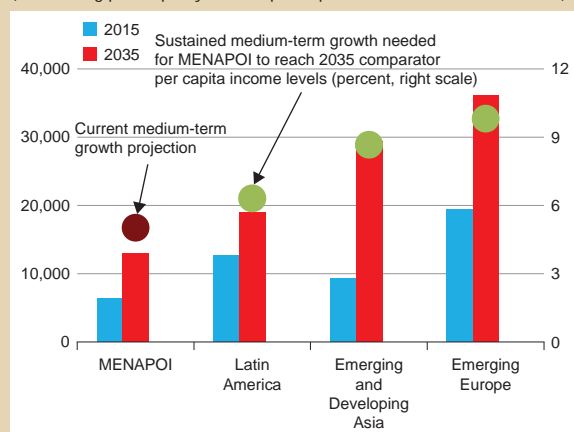
A rising concern is a sharper-than-expected slowdown in China, which would reduce infrastructure financing, especially in the energy sector (Egypt, Pakistan), although the direct effect on trade is likely to be small (see Figure 1.4 in Chapter 1). Increased risk aversion and volatility in global financial markets could raise external borrowing costs and feed into higher domestic interest rates. A further decline in oil prices, caused by China's larger-than-expected slowdown, would support growth, but declines in other commodity prices could weaken economic activity and international reserves in commodity exporters (Mauritania, Pakistan). If China's slowdown spills over to other emerging markets, the euro area and, through oil prices, the GCC, it could have a larger impact on the region owing to reduced exports, tourism, remittances (see Box 2.2), and financing support. This is especially true for the Mashreq, which has the strongest ties to the GCC (*Regional Economic Outlook: Middle East and Central Asia*, November 2013, Annex 2). Over the longer term, these factors could slow potential growth further.

Looking ahead, much higher growth is needed to create enough jobs and significantly raise living standards. Current medium-term growth projections of 5 percent are insufficient to make a dent in unemployment, which is anticipated to only decline by 2¼ percentage points to 9¼ percent by 2020. In an environment of large downside risks, reducing it to the emerging market and developing country (EMDC) average of 6 percent, and raising per capita income levels to those of other EMDCs, would require medium-term growth of more than 7 percent (Figure 2.8). To this end, ramping up the momentum of recently initiated reforms will be critical for raising growth, creating jobs, and tackling fiscal and external headwinds and vulnerabilities.

Figure 2.8

**Striving for Higher Growth**

(Purchasing power parity income per capita, constant 2012 U.S. dollars)



Sources: IMF, World Economic Outlook database; national authorities; World Bank, World Development Indicators database; and IMF staff estimates. Note: OI = oil importers.

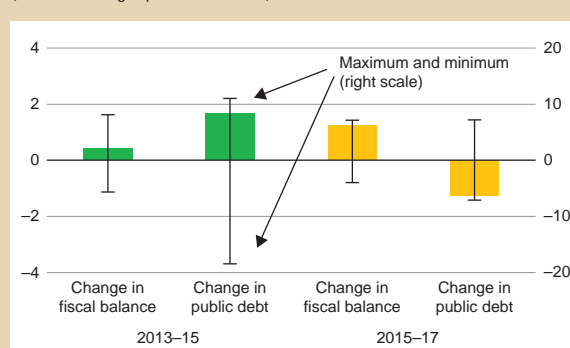
## Fiscal, Monetary, and Structural Reforms

Fiscal policy is at a crossroads. Fiscal consolidation has secured macroeconomic stability and bolstered confidence (Figure 2.9). At this stage, the risks of reform fatigue and/or further spending cuts reversing the nascent recovery, as well as the relief provided by persistently lower oil prices, are arguments in favor of a change in policies. However, sustaining these recent gains necessitates further consolidation, especially in countries with high public debt; given the region's challenging domestic and international environments, public debt ratios need to be not only stabilized but reduced. For example, having largely reduced on-budget energy subsidies—and against a backdrop of sustained low oil prices—it is time to advance automatic pricing mechanisms for all energy products, aiming to reduce SOE losses and move the economy away from energy-intensive industries and toward more efficient labor-intensive industries, while also making growth more inclusive. Raising the quality and efficiency of public spending can also relieve pressures on the budget and possibly reduce the need for consolidation.

Figure 2.9

**Increased Confidence from Fiscal Consolidation**

(Median change, percent of GDP)



Sources: National authorities; and IMF staff estimates.

The choice of spending and revenue measures can balance the conflicting fiscal objectives of growth and stability. Revenues will rise with economic growth, but revenue measures targeting higher-income segments of the population would boost consolidation and equity (Jewell and others 2015), with less of an adverse effect on growth. Critical tax measures already being considered by governments include eliminating exemptions (Pakistan), addressing loopholes, introducing income tax reforms (Jordan), raising excises, introducing or raising taxes on high-value property, and strengthening administration. In Egypt, however, top income tax rates were recently reduced and capital gains taxes postponed, although the upcoming value-added tax is expected to substantially raise revenues. Continuing to partially channel subsidy reform savings, along with higher tax revenues, toward efficient growth-enhancing spending on education, health care, and infrastructure will help offset the drag on growth. To this end, strong evaluation, prioritization, and implementation of public investment projects will be important. More active labor market policies would help reduce unemployment. For energy-related SOEs (especially where the losses are significant, as in Pakistan), savings from lower oil prices could also be applied toward investment. Gradual public sector workforce rationalization, through

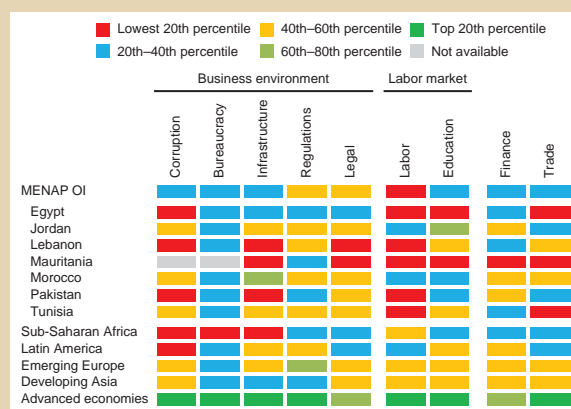
comprehensive civil service reforms, would reduce fiscal deficits and spending rigidities.

These measures, coupled with financing reforms, also benefit the business environment. Revenue measures to broaden the tax base (as discussed) will level the playing field across sectors and firms. A shift in public sector debt financing policies toward more regular domestic bond issuance with longer maturities, market-determined yields, and a broader investor base would reduce rollover risks and deepen financial markets. Plans for further international sovereign bond issuance (Egypt, Morocco, Pakistan, Tunisia) would enhance financial integration with the rest of the world, support reserve accumulation, raise the availability of private sector credit, and reduce risks associated with banks' loan concentration.

Greater exchange rate flexibility would enhance growth and competitiveness. Several countries recently allowed their nominal exchange rates to depreciate, against a backdrop of real exchange rate appreciation (see Figure 2.7), weaker financing flows from oil exporters, stable international reserves, and low inflation. However, more flexibility—coupled with structural reforms—is needed to regain competitiveness and, in some cases, reduce large external vulnerabilities. Continued accommodative monetary policy will complement fiscal consolidation by supporting domestic demand. However, pass-through of higher U.S. interest rates will result in tighter monetary conditions for countries pegged to the U.S. dollar. Key reforms include expansion of interbank markets and active liquidity management.

Targeted structural reforms are critical to higher and more inclusive growth, and to better living standards. Cornerstone areas include reforms to the business environment, labor and financial markets, and trade openness (Figure 2.10; *Regional Economic Outlook: Middle East and Central Asia*, October 2014, Annex 1; Mitra and others forthcoming). Addressing poor investor protection and burdensome regulations, and improving infrastructure quality and efficiency (Albino-War and others 2014) will reduce the cost of doing business and ease supply-side bottlenecks.

Figure 2.10  
Cornerstones for a Higher Growth Path



Sources: World Bank; World Economic Forum; PRS Group; and IMF staff calculations.  
Note: OI = oil importers.

Curtailling the economic dominance of SOEs could reduce perceptions of corruption and meaningfully enhance job-rich growth. Regulatory reforms that facilitate hiring and skills building would make labor allocation more efficient and raise compensation and job creation. Governments can work with private firms to reform vocational training and align skills with job market needs. The establishment and use of credit bureaus would ease access to credit, especially for small and medium enterprises—ultimately facilitating business expansion, job creation, and more inclusive growth. Deeper international trade integration, combined with the reforms outlined above, can open the door for vertical integration in global manufacturing supply chains, resulting in more jobs and positive spillovers to productivity growth.

## International Support

The region's economic stability, higher and more inclusive growth, and better living standards would all benefit from international support. When combined with both a strong reform strategy and strong implementation, bilateral and multilateral official financing can help alleviate fiscal pressures and catalyze additional private financing. In the current environment of intensifying regional

conflicts, it will be particularly important to assemble greater donor support, especially for helping refugees (now one-quarter of Lebanon's population and one-fifth of Jordan's).

However, absent sound reforms, financing only delays the inevitable unwinding of underlying imbalances—which may be abrupt and more painful in the future. Recent IMF arrangements in MENAP oil-importing economies—committing more than US\$15 billion in Jordan, Morocco

(a credit line against external shocks), Pakistan, and Tunisia—aim to support countries' reform efforts and macroeconomic adjustment. These arrangements have been flexible in responding to unexpected shocks with adaptive program conditionality, especially in Jordan and Tunisia. The international community can also provide support through technical advice, other capacity-building initiatives, and enhanced access to export markets for the region's products and services.

## MENAP Oil Importers: Selected Economic Indicators

	Average				Projections	
	2000–11	2012	2013	2014	2015	2016
<b>Real GDP Growth</b>	<b>4.8</b>	<b>2.9</b>	<b>3.1</b>	<b>2.9</b>	<b>3.9</b>	<b>4.1</b>
<i>(Annual change; percent)</i>						
Afghanistan, Republic of	...	14.0	3.9	1.3	2.0	3.0
Djibouti	3.6	4.8	5.0	6.0	6.5	7.0
Egypt	4.7	2.2	2.1	2.2	4.2	4.3
Jordan	5.8	2.7	2.8	3.1	2.9	3.7
Lebanon	4.8	2.8	2.5	2.0	2.0	2.5
Mauritania	4.5	6.0	5.5	6.9	4.1	6.4
Morocco	4.7	3.0	4.7	2.4	4.9	3.7
Pakistan	4.4	3.8	3.7	4.0	4.2	4.5
Sudan <sup>1</sup>	6.6	-3.4	3.9	3.6	3.5	4.0
Syrian Arab Republic <sup>2</sup>	4.3	...	...	...	...	...
Tunisia	3.9	3.7	2.3	2.3	1.0	3.0
West Bank and Gaza <sup>3</sup>	3.9	6.3	2.2	-0.4	2.9	3.9
<b>Consumer Price Inflation</b>	<b>6.8</b>	<b>9.3</b>	<b>9.1</b>	<b>9.4</b>	<b>6.6</b>	<b>6.6</b>
<i>(Year average; percent)</i>						
Afghanistan, Republic of	...	6.4	7.4	4.7	-1.9	2.8
Djibouti	3.6	3.7	2.4	2.9	3.0	3.5
Egypt	8.1	7.1	9.5	10.1	9.5	10.0
Jordan	3.8	4.5	4.8	2.9	0.2	3.1
Lebanon	2.8	6.6	4.8	1.9	0.1	1.5
Mauritania	6.2	4.9	4.1	3.5	3.6	4.2
Morocco	1.8	1.3	1.9	0.4	1.5	2.0
Pakistan	8.1	11.0	7.4	8.6	4.5	4.7
Sudan <sup>1</sup>	9.8	35.5	36.5	36.9	19.8	12.7
Syrian Arab Republic <sup>2</sup>	4.9	...	...	...	...	...
Tunisia	1.6	5.1	5.8	4.9	5.0	4.0
West Bank and Gaza <sup>3</sup>	3.9	2.8	1.7	1.7	1.6	2.6
<b>General Government Overall Fiscal Balance</b>	<b>-5.1</b>	<b>-8.4</b>	<b>-9.5</b>	<b>-7.9</b>	<b>-7.3</b>	<b>-5.8</b>
<i>(Percent of GDP)</i>						
Afghanistan, Republic of <sup>4</sup>	...	0.2	-0.6	-1.7	-0.3	-0.2
Djibouti	-1.9	-2.7	-5.9	-10.5	-11.5	-13.2
Egypt	-7.5	-10.5	-14.1	-13.6	-11.7	-9.4
Jordan <sup>4</sup>	-4.4	-8.9	-11.1	-10.3	-3.0	-2.4
Lebanon <sup>4</sup>	-12.2	-8.4	-8.7	-6.0	-10.0	-8.0
Mauritania <sup>4,5</sup>	-3.1	2.5	-0.9	-3.6	-1.0	-4.7
Morocco <sup>4</sup>	-3.8	-7.3	-5.2	-4.9	-4.3	-3.5
Pakistan	-4.1	-8.6	-8.4	-4.9	-5.3	-4.2
Sudan <sup>1</sup>	-1.1	-3.3	-2.3	-1.1	-1.8	-1.3
Syrian Arab Republic <sup>2</sup>	-2.7	...	...	...	...	...
Tunisia <sup>6</sup>	-2.4	-4.8	-6.0	-3.7	-5.7	-4.0
West Bank and Gaza <sup>3</sup>	-25.4	-15.1	-12.6	-12.4	-12.2	-13.8
<b>Current Account Balance</b>	<b>-2.0</b>	<b>-6.2</b>	<b>-5.2</b>	<b>-4.2</b>	<b>-4.2</b>	<b>-4.2</b>
<i>(Percent of GDP)</i>						
Afghanistan, Republic of	...	6.0	7.4	6.1	4.7	2.4
Djibouti	-6.8	-20.3	-23.3	-25.6	-31.4	-26.8
Egypt	0.6	-3.9	-2.4	-0.8	-3.7	-4.5
Jordan	-5.0	-15.2	-10.3	-6.8	-7.4	-6.5
Lebanon	-14.0	-24.3	-26.7	-24.9	-21.0	-19.3
Mauritania	-12.5	-26.6	-24.4	-28.9	-18.3	-25.6
Morocco	-2.5	-9.5	-7.9	-5.5	-2.3	-1.6
Pakistan	-1.2	-2.1	-1.1	-1.3	-0.8	-0.5
Sudan <sup>1</sup>	-4.9	-9.3	-8.9	-7.7	-5.8	-5.6
Syrian Arab Republic <sup>2</sup>	-0.4	...	...	...	...	...
Tunisia	-3.4	-8.2	-8.3	-8.8	-8.5	-7.0
West Bank and Gaza <sup>3</sup>	-17.9	-16.2	-12.3	-10.9	-11.1	-12.0

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

Note: Variables reported on a fiscal year basis for Afghanistan (March 21/March 20 until 2011, and December 21/December 20 thereafter), and Egypt and Pakistan (July/June), except inflation.

<sup>1</sup>Data for 2011 exclude South Sudan after July 9. Data for 2012 and onward pertain to the current Sudan.

<sup>2</sup>2011–17 data exclude Syria due to the uncertain political situation.

<sup>3</sup>West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

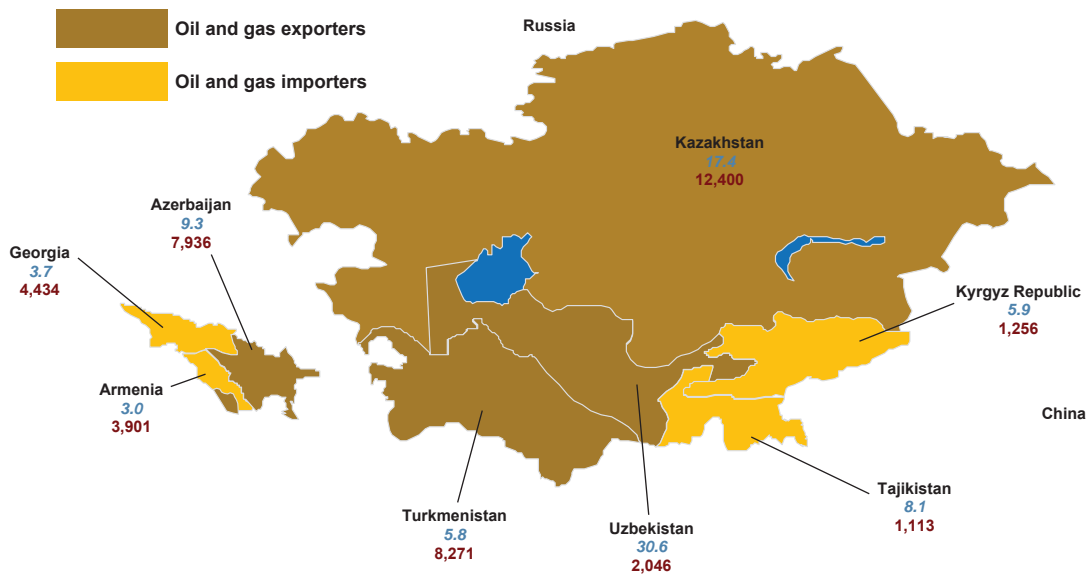
<sup>4</sup>Central government. For Jordan, includes transfers to electricity company.

<sup>5</sup>Includes oil revenue transferred to the oil fund.

<sup>6</sup>Includes bank recapitalization costs and arrears payments.

# Caucasus and Central Asia

Population, millions (2014)  
GDP per capita, U.S. dollars (2014)



Sources: IMF, Regional Economic Outlook database; and Microsoft Map Land.

Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

