MENAP Regional Economic Outlook

May 2, 2017
Global growth is gaining momentum

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>U.S.</th>
<th>Euro Area</th>
<th>Emerging markets</th>
<th>China</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3.1</td>
<td>1.6</td>
<td>1.8</td>
<td>4.1</td>
<td>6.7</td>
<td>-0.2</td>
</tr>
<tr>
<td>2017</td>
<td>3.5</td>
<td>2.3</td>
<td>1.7</td>
<td>4.5</td>
<td>6.6</td>
<td>1.4</td>
</tr>
<tr>
<td>2018</td>
<td>3.6</td>
<td>2.5</td>
<td>1.6</td>
<td>4.8</td>
<td>6.2</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Upward revisions to growth relative to October 2016 WEO are highlighted in green; downward revisions are highlighted in red.
Bringing firmer commodity prices ... but uncertainty remains high

Commodity Prices
(Index, 2005=100)

- Crude Oil (petroleum) 1/
- Metals 2/
- Agricultural Products 3/

World GDP Growth
(Percent change)

1 Simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh.
2 Includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium Price Indices.
3 Includes Timber, Cotton, Wool, Rubber, and Hides Price Indices.
Existing stocks and new debt flows make global financial conditions a challenge

**Gross Public Debt**
(Percent of GDP & non-oil GDP for oil importers and exporters, respectively)

**Interest Payments on Public Debt**
(Percent of revenues & non-oil revenues for oil importers and exporters, respectively)
Regional conflicts continue to weigh on the outlook, with an added risk of famine in Somalia and Yemen.

**Refugees Hosted in MENAP Countries**

- Registered refugees (in thousands, LHS)
- As a share of population (in percent, RHS)

**Economic Transmission Channels from Conflict**

- Deaths, Internal Displacement and Refugees
- Damage to Physical Capital and Infrastructure
- Weakening Confidence and Security
- Weakening Social Cohesion and Institutional Quality

Graph showing the greatest effect in In Conflict, followed by Neighbors and Rest of World, with the least effect in greatest effect.
Implications for the region?

- Global growth momentum represents an opportunity
  - Prospects for key trading partners have firmed
  - Reforms needed to diversify the economy, boost productivity, enhance competitiveness, generate employment

- But elevated levels of risk need further mitigation
  - Continued focus on rebuilding buffers
  - Address fiscal and financial vulnerabilities
Some pick-up in underlying growth but medium-term prospects remain subdued

Total, Oil, and Non-Oil Real GDP Growth
(Percent change)

- Contribution of Non-Oil Sector
- Contribution of Oil Sector
- Overall Growth
- 2000-10 average overall growth

<table>
<thead>
<tr>
<th>Year</th>
<th>GGC+Algeria</th>
<th>Iran</th>
<th>MENAP Oil Importers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.4%</td>
<td>1.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2017</td>
<td>1.8%</td>
<td>0.4%</td>
<td>0.6%</td>
</tr>
<tr>
<td>2018-22</td>
<td>2.2%</td>
<td>1.6%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

2016 17 18-22
Some pick-up in inflation in oil importers this year, and GCC oil exporters next year

**Consumer Price Index**
*(Percent change, year-on-year)*
Roadmap

The Context

The Outlook for the Region

Key Themes

What the IMF is doing to help
Critical mass of structural reforms needed, with many common priority areas

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<td>DJI, SDN, YEM</td>
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<td>AFG, SDN</td>
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<td>LIDC</td>
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<td>EM</td>
<td></td>
<td></td>
<td>UAE</td>
<td>DZA, LBY, QAT, UAE</td>
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<td>Income Level</td>
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- **LIDC**: Least Developed Countries
- **EM**: Emerging Markets
Economic transformation needed to absorb new labor market entrants and reduce unemployment

GDP Growth and Unemployment Rate in MENAP Oil Importers (Percent)

Projected Labor Force Increase (Millions, cumulative)

1/ Simple average for Egypt, Morocco, Pakistan, Sudan, and Tunisia.
Debt needs monitoring in oil exporters, but is an even more pressing priority for oil importers.
Important fiscal progress in oil exporters, but more is needed and ambitious plans need to be implemented.
Adjustment is taking place through both revenue and expenditure reforms

<table>
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<tr>
<th>Year</th>
<th>Non-oil Revenues</th>
<th>Expenditures</th>
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<tbody>
<tr>
<td>2015</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>2016</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>2017</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>2018-22</td>
<td>25</td>
<td>35</td>
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**Public Expenditures and Non-oil Revenues in Oil Exporters**
(In percent of Non-oil GDP)

- **Capital**
- **Wages**
- **Other Current**
- **Interest**
Trends in oil importers are also encouraging, but energy-subsidy gains are declining.
In oil importers, continued fiscal adjustment over the medium-term is warranted.

Public Debt and Fiscal Adjustment
(Percent of GDP)

Less adjustment
Program countries in bold

More adjustment

Level of public debt, 2016
Change in primary fiscal balance, 2016 -22
Emerging vulnerabilities need close monitoring and, in some cases, action.
Roadmap

The Context

The Outlook for the Region

Key Themes

What the IMF is doing to help
Partnering on the Reform Journey

- Reform is a long and complex process
  - Needs sustained commitment
  - Building public support is key
  - The vulnerable need to be protected

- IMF is providing support
  - Tailored program design and policy advice
  - Technical assistance
  - Facilitating dialogue with peers
  - Analytical work
  - Catalyzing support from partners
Summary of Key Messages

- Improved global outlook represents an opportunity, but risks remain elevated
- Reforms are critical to secure resilience and generate higher and more inclusive growth
- Fiscal adjustment continues to be needed
  - Though pace and design will differ depending on country circumstances
- Financial sector vulnerabilities need to be monitored and addressed
  - With the need to address them acute in some countries
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