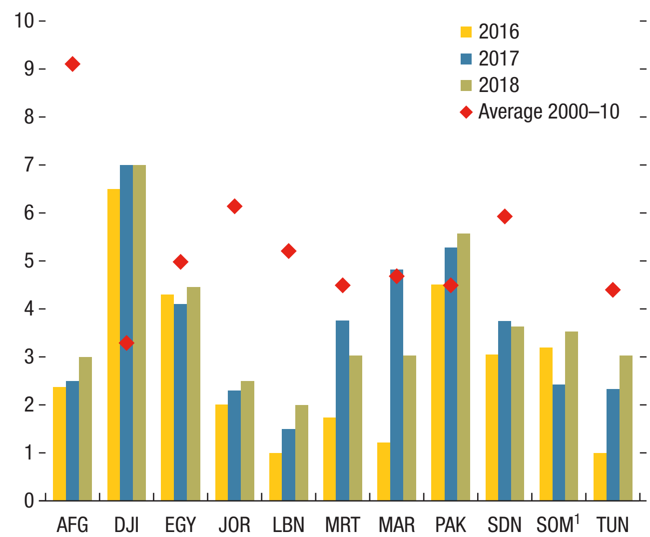
2. MENAP Oil Importers: Securing Resilience and Inclusive Growth

Growth in oil importers in the Middle East, North Africa, Afghanistan, and Pakistan region (MENAP) is projected to increase to 4.3 percent in 2017, supported by strengthening domestic demand and a cyclical recovery of the global economy. This positive momentum is expected to persist into the medium term, lifting growth further to 4.4 percent in 2018 and 5.3 percent during 2019–22. However, even at this pace, growth will remain below what is needed to effectively tackle the unemployment challenge facing the region. The balance of risks to the regional outlook remains tilted to the downside. To leverage the global upswing and secure resilience, policy priorities continue to include growth-friendly fiscal consolidation and stronger monetary policy frameworks in countries transitioning to more flexible exchange rates. Structural reforms need to accelerate to improve the business environment, create jobs, fully take advantage of the global growth momentum, and boost inclusive growth.

Figure 2.1. Real GDP Growth Recovers but Remains below Historical Average
(Percent change)



Sources: National authorities; and IMF staff calculations and projections.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]Somalia's data begin in 2013.

Gradual Recovery Underway

Economic activity in MENAP oil importers is projected to expand by 4.3 percent in 2017, well above the 3.6 percent outturn for 2016 and stronger than anticipated in the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*. This expansion is expected to be broad-based, with growth forecast to accelerate in most oil importers (Figure 2.1), supported by domestic demand and exports (Figure 2.2).[1]

Economic activity in key trading partners strengthened during the first half of this year leading to higher remittances; an uptick in exports (Morocco, Pakistan); an increase in foreign direct investment (Egypt, Morocco); and, while still significantly below the 2010 highs, a pickup in tourist arrivals (Egypt, Jordan, Morocco, Tunisia; Figure 2.3). Egypt's investment and exports rose due to resolution of foreign exchange shortages and currency depreciation following the floating of the pound. In parallel, international fuel and food prices continue to remain subdued, bolstering domestic private consumption.

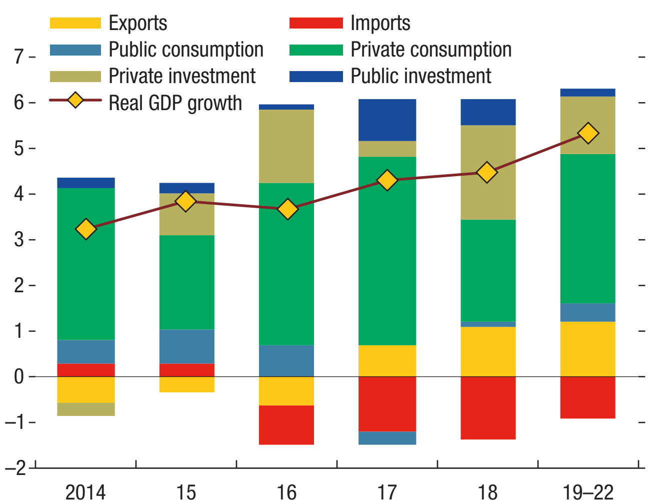
Growth is also being supported by a number of idiosyncratic factors. Stronger mining and an increase in exports are projected to nudge Jordan's growth up to 2.3 percent this year. In Morocco, favorable weather conditions for agriculture, a rebound in services and manufacturing, expanded mining capacity, and higher prices of phosphates will help accelerate growth to 4.8 percent. Large mining and infrastructure investments in Mauritania are expected to push growth to 3.8 percent, while increased port infrastructure

Prepared by Boaz Nandwa. Research assistance was provided by Gohar Abajyan and Sebastian Herrador.

[1]Growth is reported on a fiscal year basis for Afghanistan (December 21 to December 20), and Egypt and Pakistan (July to June). Syria is excluded from the analysis for lack of sufficient data.

Figure 2.2. Projected Growth Supported by Domestic Demand and Higher Exports

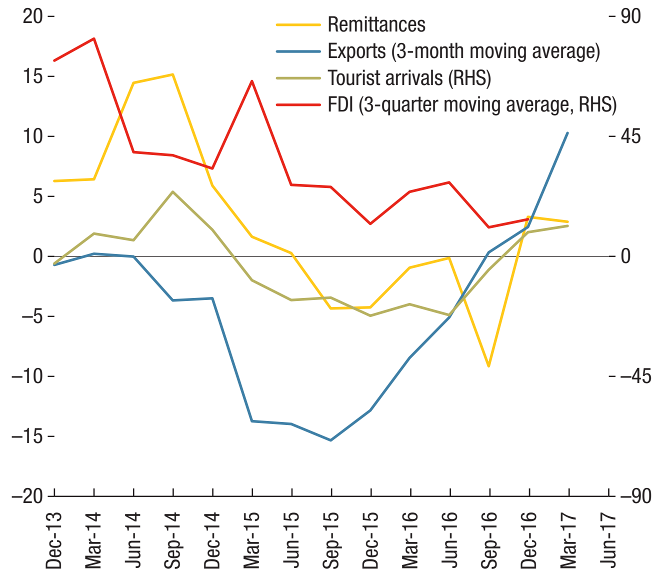
(Percent change and percentage point contribution to growth, 2014–22[1])



Sources: National authorities; and IMF staff calculations and projections.
[1]MENAP aggregate excludes Sudan. Private investment includes inventories and statistical discrepancy.

Figure 2.3. A Rebound in the External Sector

(Percent change, year over year)



Sources: National authorities; and IMF staff calculations.
Note: FDI = foreign direct investment; RHS = right scale.

projects and transshipment activity in Djibouti are expected to lift growth to 7.0 percent. Growth in Tunisia will pick up gradually to 2.3 percent amid stronger growth in Europe, its key export market, supportive structural reforms, and an uptick in tourism following an improvement in security. After restrained activity in 2016, Sudan's growth will edge up to 3.7 percent this year reflecting a gradual increase in private and public consumption. The recent lifting of economic sanctions by US is envisaged to boost private investment and trade. In Pakistan, the increase in growth to 5.3 percent is underpinned by rising investment related to the China-Pakistan Economic Corridor infrastructure project (Box 2.1) and strengthening credit growth.

In Egypt, growth remained broadly unchanged at 4.3 percent in FY2017, but significantly stronger than projected in the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*, reflecting policies to address macroeconomic imbalances in the context of the authorities' program supported by an IMF arrangement. High-frequency indicators suggest a pickup in momentum. Afghanistan's near-term growth prospects have weakened relative to May and are expected to remain lethargic, undermined by heightened security challenges. Similarly, Lebanon will post a sluggish pace of growth this year, also weaker than anticipated in May, reflecting the impact of the protracted conflict in Syria on the traditional drivers of tourism, real estate, and construction. Growth in Somalia will weaken to 2.4 percent this year, down from 3.2 percent in 2016, as severe drought weighs on the agricultural sector (Box 2.2).

In the medium term, growth in MENAP oil importers is projected to continue improving gradually, reaching 4.4 percent in 2018 and averaging 5.3 percent during 2019–22. Favorable country-specific factors are expected to boost growth in Djibouti, Egypt, Morocco, Pakistan, and Tunisia. However, growth is envisaged to remain largely subdued in Jordan, Lebanon, Mauritania, Somalia, and Sudan. Overall, this pace of growth will be insufficient to generate enough jobs to absorb those who are currently unemployed, as well as the millions of job seekers who will enter the labor market over the period.[2] Continued high unemployment could hinder efforts to build the consensus required to advance fundamental reforms needed to boost growth and increase its inclusiveness.

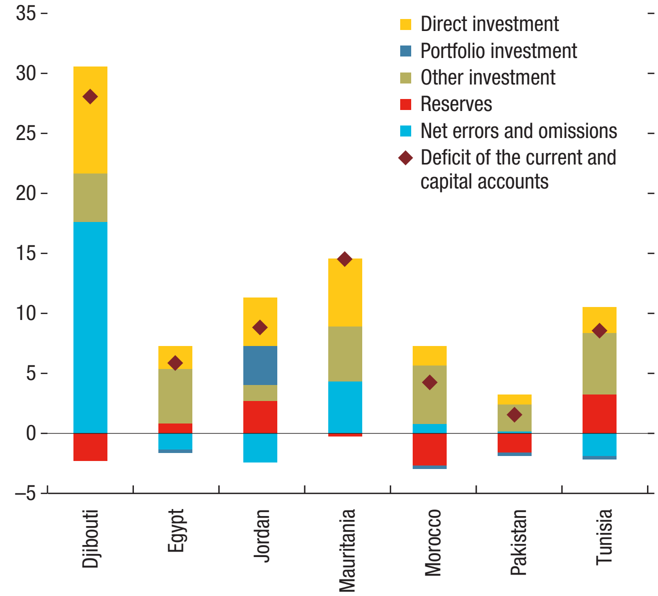
Receding External Sector Vulnerabilities

External sector performance was weak in 2016, with the current account deficit of MENAP oil importers widening by about 1 percentage point of GDP to 5.3 percent. At the country level, Djibouti and Mauritania continued to post elevated current account deficits of above 10 percent of GDP (Figure 2.4). This reflected the impact of large infrastructure projects on imports in Djibouti and Mauritania, as well as spillovers from ongoing security pressures from Syria on trade in Lebanon (Rother and others 2016).

External balances are gradually improving. Although the current account deficit is projected to remain stable at 5.3 percent of GDP this year—reflecting somewhat higher oil prices and continued imports of capital goods (Djibouti, Mauritania, Pakistan), it is expected to narrow to 4.8 percent of GDP in 2018, supported by positive spillovers from the stronger global economy, including tourist arrivals and remittances. A pickup in commodity prices—iron ore (Mauritania), gold (Mauritania, Sudan), phosphates (Jordan, Morocco), and cotton (Pakistan)—will also improve the terms of trade for these countries. Foreign reserves have been reinforced in some countries by, in part, international bond issuance in the first half of 2017 (Egypt), capital inflows (Djibouti, Egypt, Morocco, Tunisia), an uptick in exports and remittances, and disbursements from IMF program arrangements.[3] This trend is also

Figure 2.4. External Positions Vary across the Region

(2016, Percent of GDP)[1]



Sources: National authorities; and IMF staff calculations.
[1]Stacked bars represent net flows (+ = inflow).

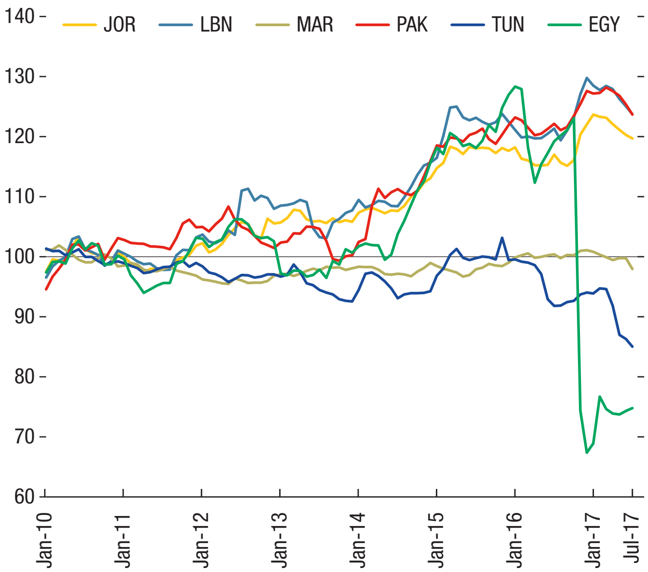
contributing to the stabilization of currencies in some countries.

Other country-specific factors are also supportive of an improved external sector outlook. In Egypt, the floating of the exchange rate, lifting of foreign currency restrictions, and implementation of the industrial licensing and investment laws are expected to attract more foreign direct investment and promote exports. Jordan's exports will benefit from higher mining output coupled with the improved price of phosphates and re-opening of the border with Iraq, while Afghanistan's exports are receiving a boost from the start of direct flights to India and completion of the railway line to Chabahar Port. However, the appreciation of real effective exchange rates could pose challenges in some countries, pointing to the need for a well-calibrated policy mix to avoid a buildup of external vulnerabilities (Figure 2.5).

[2]Historically, a substantial decrease in unemployment has been associated with growth of at least 5.5 percent (for example, October 2013 *Regional Economic Outlook: Middle East and Central Asia*).

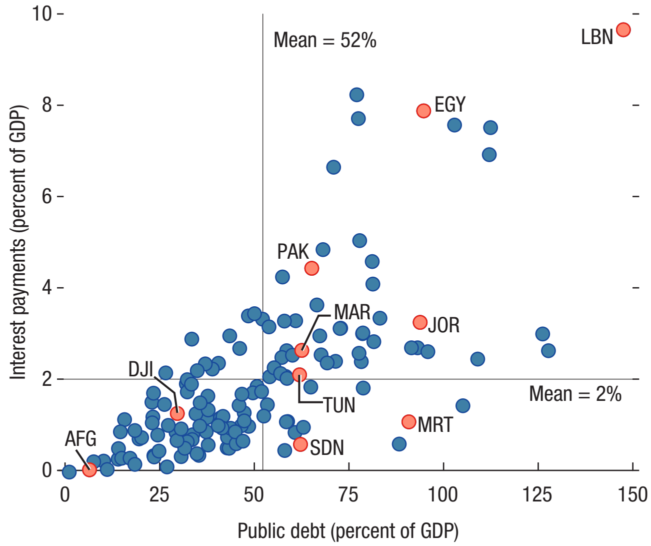
[3]The IMF's total financial commitment to MENAP oil-importing countries (Afghanistan, Egypt, Jordan, Morocco, Tunisia) at the end of August 2017 was SDR 13.7 billion; SDR 3.4 billion has been drawn, including SDR 1.2 billion over the first half of 2017. Morocco has not drawn on its Precautionary and Liquidity Line.

Figure 2.5. Diverse Trends in Real Effective Exchange Rate
(Index, 2010 average = 100)



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

Figure 2.6. Elevated Public Debt Highlights the Need for Further Fiscal Consolidation



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Note: Averages over 2015–17. Sample of 153 emerging market and developing economies (EMDEs). Country abbreviations are International Organization for Standardization (ISO) country codes. Orange dots denote MENAP oil importer countries. Blue dots denote other EMDEs.

Rebuilding Fiscal Space

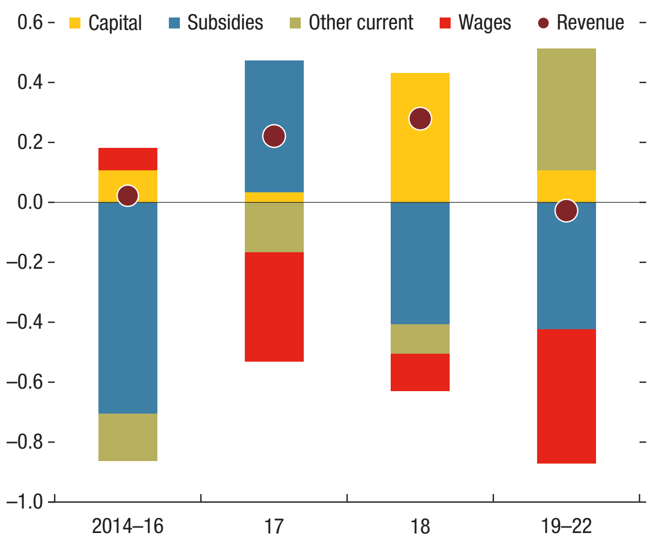
The average fiscal deficit in MENAP oil-importing countries is expected to edge down from 6.8 percent of GDP in 2016 to 6.6 percent in 2017, and dip further to 5.6 percent in 2018. This projected fiscal consolidation will help narrow the current account deficit, mitigate exchange rate pressures, and help build buffers. This improvement reflects further measures to contain costly energy subsidies that are planned or in progress (Egypt, Tunisia), and to limit nonpriority current expenditures (Morocco, Tunisia). It also reflects efforts to strengthen public financial management at the local level as part of fiscal decentralization, reduce special tax regimes in free zones (Djibouti), remove exemptions from the general sales tax and customs duties, pursue initiatives to tackle tax evasion and broaden the tax base (Egypt, Jordan, Sudan, Tunisia), and wage restraint (Djibouti, Egypt).

Nevertheless, significant vulnerabilities persist given the legacies of weak domestic revenue mobilization and high current expenditures (subsidies and wages) that, for most countries, have pushed public debt to more than 50 percent of GDP (Figure 2.6). This trend has been exacerbated by the impact of valuation changes owing to currency depreciation, rising interest payments, and lackluster growth. Other factors that could heighten debt vulnerabilities include the buildup of arrears (Somalia, Sudan), state guarantees (Pakistan), and large infrastructure projects funded by external borrowing (Djibouti, Mauritania, Pakistan; Box 2.1). At the end of 2016, average gross public debt stood at about 80 percent of GDP, with Lebanon's debt close to 149 percent of GDP, despite a modest primary surplus in 2016.

Sustained fiscal consolidation and reforms are required to address debt vulnerabilities. Debt levels are expected to fall by 2022 in most countries given anticipated consolidation, which should include carefully targeting current expenditures to protect social spending and improving the efficiency of public investment to mitigate the

Figure 2.7. Fiscal Consolidation Composition Supportive of Medium-Term Growth

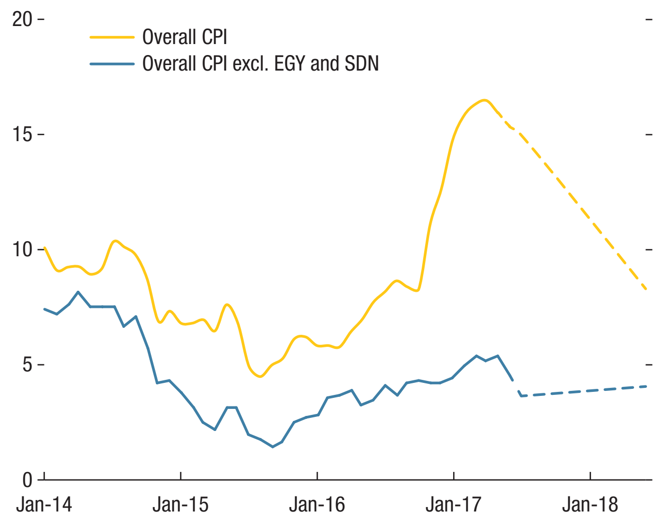
(Percent of GDP, change from prior year, simple average across countries)



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

Figure 2.8. Inflation Reflecting One-off Factors

(Consumer prices; period average, annual percentage change)



Sources: Haver Analytics; National authorities; and IMF staff calculations and projections.
Note: CPI = consumer price inflation. Overall CPI excludes Djibouti, Mauritania, and Syria due to lack of recent data. EGY = Egypt; SDN = Sudan.

contractionary effect on growth (Figure 2.7). To reduce borrowing pressures, boosting domestic revenue mobilization is imperative. Strengthening public financial management, including to improve transparency and accountability, would support this effort and could generate additional fiscal space. The anticipated increase in public investment (Mauritania, Morocco, Pakistan, Tunisia), in part facilitated by continued reduction in current expenditures, will help support the envisaged firming of medium-term growth. To strengthen the safety net and support structural reforms, countries are also recalibrating and improving the targeting of their social assistance (Egypt, Jordan, Morocco), while curbing nonpriority current spending (Morocco, Tunisia). A new model for public wage bill management is needed that emphasizes good diagnostics, complementarities with other reforms to boost inclusive growth and fiscal sustainability, and supportive institutions (Tamirisa and others, forthcoming).

Strengthening Monetary Policy Framework to Support More Flexible Exchange Rates

Overall, inflation in MENAP oil importers is expected to increase from 7.7 percent in 2016 to a peak of 15.0 percent in 2017, before receding to 8.3 percent in 2018 (Figure 2.8). This year's inflationary spike is largely driven by one-off factors in Egypt and Sudan. Pass-through of a large exchange rate depreciation in Egypt coupled with reducing fuel subsidies, introduction of a value-added tax (VAT), and an increase in the price of utilities has pushed Egypt's overall inflation close to 30 percent. In Sudan, steep depreciation of the parallel exchange rate and monetization of the fiscal deficit are expected to push up overall inflation to above 25 percent.

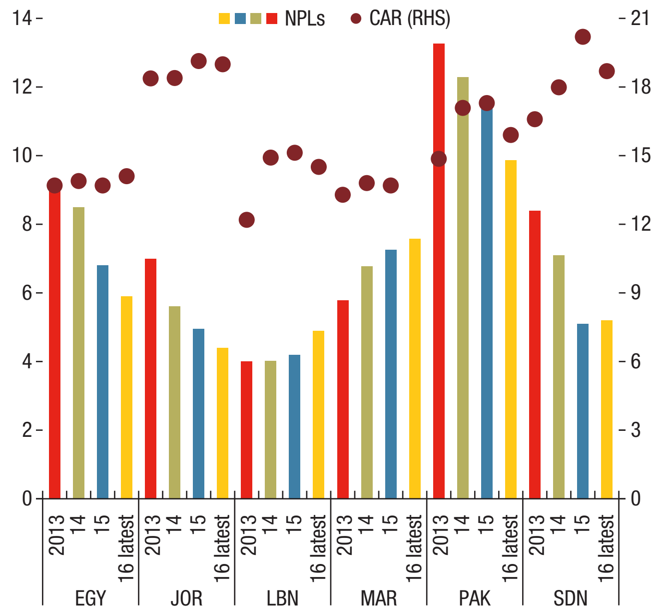
Inflation has also increased in Afghanistan and Somalia reflecting higher imported food prices and drought, respectively. In Tunisia, the reapplication of the fuel price adjustment mechanism and a slight depreciation of the dinar are expected to nudge up prices. In contrast, inflation remains broadly benign in some countries as a result of the lagged effects of some nominal effective exchange rate appreciation (Lebanon), easing international food prices (Morocco, Pakistan), and receding one-off effects of price liberalization (Jordan). Inflation is forecast to return to moderate levels during 2018–22, reflecting anticipated monetary policy responses in some countries, dissipating effects from previous currency depreciations, and easing of domestic supply-side constraints on account of structural reforms and infrastructure investment.

MENAP oil importers will need to strengthen and modernize their monetary policy frameworks to bolster transmission mechanisms, improve the communication and transparency of policy intentions, and enhance analytical tools. For countries that have recently made the transition to a floating exchange rate regime (Egypt, Tunisia), the adoption of a full-fledged inflation-targeting regime over time would be desirable (Cabral, Carneiro, and Mollick 2016). In this context, strengthening of central bank independence will be critical to establish credibility and help anchor inflation expectations. Policymakers in some countries will also need to pay attention to challenges posed by financial dollarization.

Steady Financial Sector amid Recovery in Credit Growth

The financial sector remains broadly sound. As of the end of 2016, banks were generally well capitalized, liquid, and relatively profitable. However, although nonperforming loans continue to decline from high levels in Pakistan and Sudan, they are trending up in Morocco (Figure 2.9). Banking sector regulatory reforms are progressing, with several countries strengthening their resolution frameworks, including by introducing deposit insurance (Pakistan). More constrained correspondent banking relationships continue to weigh on remittances, affecting deposits and credit expansion (Djibouti, Somalia, Sudan).

Figure 2.9. Stable Financial Sector Indicators
(Percent)



Sources: National authorities; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. CAR = capital adequacy ratio; NPLs = nonperforming loans; RHS = right scale.

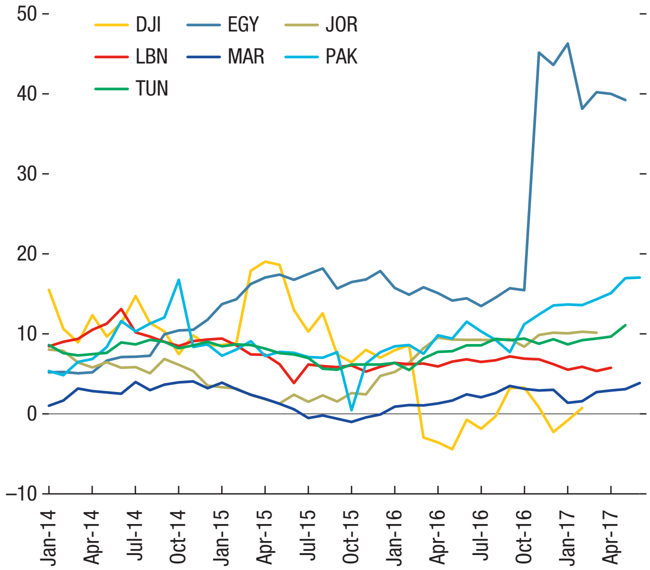
Since the beginning of 2017, private sector credit growth rates in Morocco and Pakistan have risen because of accommodative monetary policy, but have edged lower in Jordan following monetary policy tightening (Figure 2.10). This continued credit expansion should be accompanied by continued monitoring of financial system soundness, robust supervision of individual institutions, and the implementation of appropriately targeted macroprudential policies. Across the region, policymakers need to be mindful of both the opportunities and challenges related to the rapid expansion of technological innovations in the financial sector (Chapter 5).

Sustained Structural Reforms to Support Job Creation and Foster Inclusive Growth

MENAP oil importers need to seize the anticipated pickup in growth to accelerate bold

Figure 2.10. Private Credit Growth Expansion Supportive of Growth

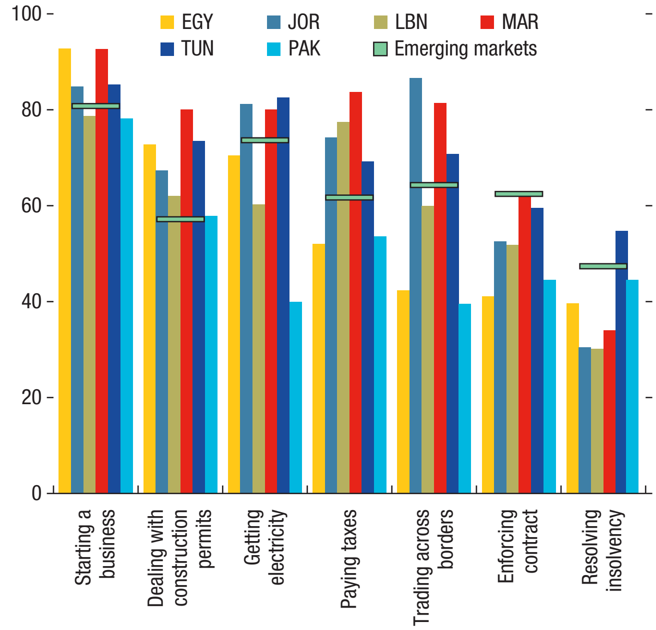
(Percent change, year over year)



Sources: National authorities; and IMF staff calculations.
Note: Egypt's credit growth expressed in local currency was boosted, in part, by a large exchange rate depreciation in late 2016. Country abbreviations are International Organization for Standardization (ISO) country codes.

Figure 2.11. Stepped-Up Effort Needed to Enhance Business Climate

(Distance to frontier score: the higher the better)



Sources: World Bank, Doing Business database, 2017; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

structural reforms to enhance private sector activity and foster a more dynamic, competitive, and inclusive economy. Implementing a critical mass of reforms is imperative to signal governments' commitment to reform and help further boost confidence and economic resilience (Dabla-Norris, Ho, and Kyobe 2016; Mitra and others 2016):

- Improving the business environment will be critical to boost private sector–led investment and growth, while enabling the MENAP region to benefit further from the ongoing global recovery (Figure 2.11). Enhanced governance and transparency, strengthened accountability, and improved government efficiency would bolster private sector confidence (World Bank 2017). Some countries are making progress in resolving constraints to the expansion of the private sector. Egypt made strides in improving its business climate in 2017 by enacting industrial and investment laws that streamlined business registration and operations.

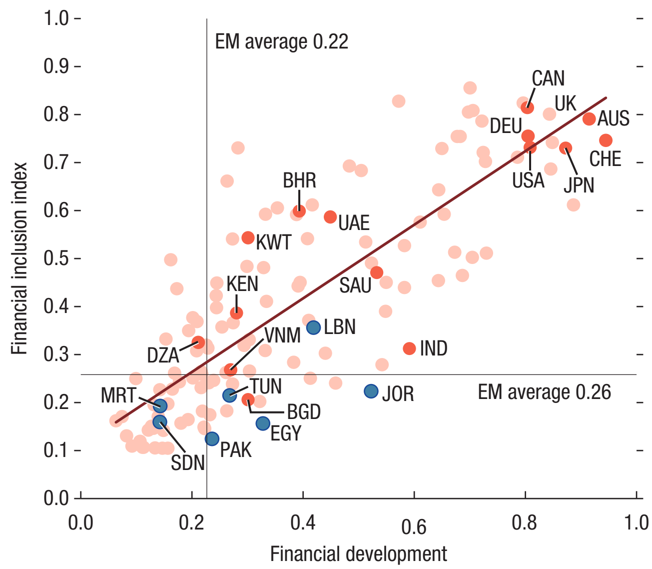
- In most MENAP oil importers, insufficient and low-quality infrastructure (especially in the energy and transportation sectors) remains a binding constraint to private sector–led growth (Sethi 2015; Estache and others 2013). The recently established Compact with Africa presents an opportunity to identify and address these impediments by promoting private investment in Africa with a specific focus on increasing infrastructure development (Box 2.3). Reducing infrastructure gaps would allow new productive sectors to develop, generate jobs, and foster integration into global value chains (Chapter 4; Cheng and others 2015). Improved global and intraregional integration would encourage further development of these supply chains and broaden export opportunities, allowing countries to leverage their comparative advantages in labor-intensive manufacturing sectors (IMF, forthcoming). Innovative public-private partnerships could be pursued to fund infrastructure projects, although policymakers should remain cognizant of the attendant fiscal risks.

- Persistently high unemployment, notably youth unemployment, and low labor force participation—especially by women—call for more labor market flexibility, less reliance on government jobs, and improvements in educational systems to reduce skill mismatches in the private sector (OECD 2016). Efforts targeted at removing the persistent gender gaps in education could simultaneously generate more equitable growth and make available a new source of higher-skilled labor. Overall, improving productivity and unleashing the region's labor potential will reinforce the resilience and inclusiveness of growth (Mitra and others 2016).

- Agriculture absorbs more than 80 percent of the labor force in Afghanistan and more than 40 percent in Morocco and Pakistan. Reforms to raise agricultural productivity, and therefore rural incomes, could play a major role in alleviating poverty and inequality (Bustos, Garber, and Ponticelli 2016; Farole and Pathikonda 2016). Increased access to irrigation, training on better farming methods, use of high-yield crop varieties, and improved market access would boost productivity. Encouraging diversification through labor-intensive agribusiness activities (such as food processing) and by fostering greater value-added agricultural production could create job opportunities and enhance inclusive growth.

- Continued focus on expanding access to finance—especially for small and medium enterprises—would help broaden financial inclusion and lower the cost of borrowing (Demirgüç-Kunt and Singer 2017; Naceur and others 2017; Figure 2.12; Chapter 5).

Figure 2.12. The Region Lags in Financial Inclusion and Financial Development



Sources: National authorities; Sahay and others 2015; World Bank World Development Indicators; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. MENAP oil importers are denoted by the blue dots. EM = emerging market.

More broadly, developing domestic capital markets in the region would improve access to finance and catalyze entrepreneurship. Regular issuance of government debt to establish a yield curve would help diversify financing channels for businesses and facilitate bank liquidity management.

Risks Tilted to the Downside

The balance of risks to the outlook remains tilted to the downside, largely owing to risks and vulnerabilities stemming from the region itself:

- Regional conflicts and security risks could become more protracted or escalate, leading to further human loss, destruction of infrastructure, outward migration, disruption of regional trade routes and cross-border investments, and shrinking tourism, including in neighboring countries.

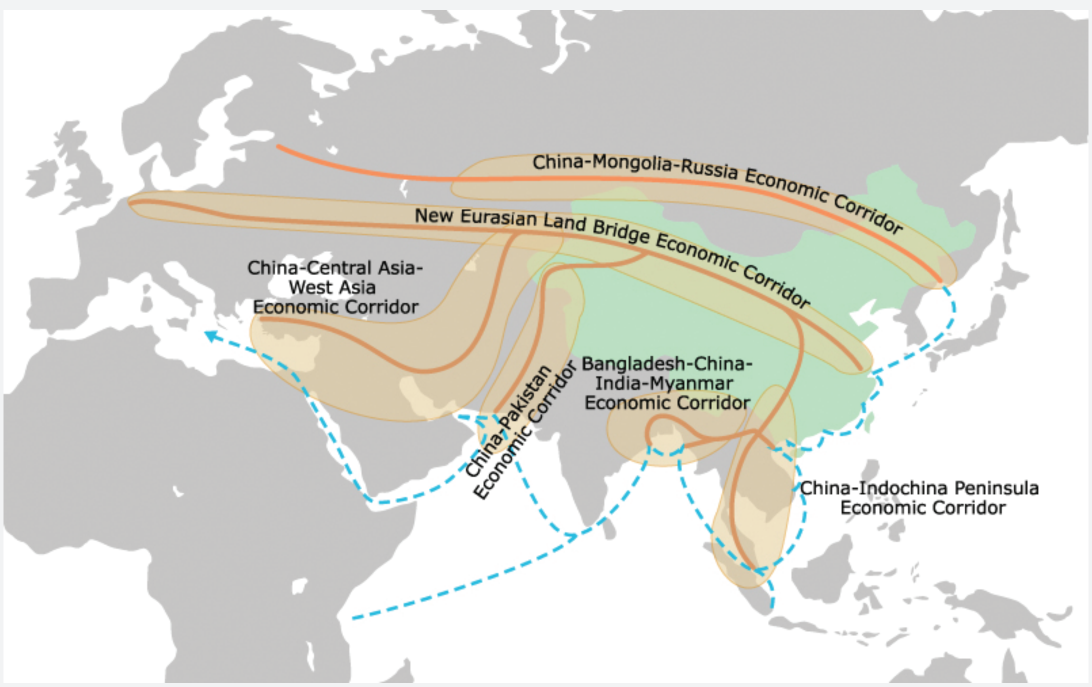
- The risk of social tensions and reform fatigue may increase if growth remains subdued and unemployment high, undermining the impetus for much-needed fiscal and structural reforms.
- Agricultural activity remains vulnerable to weather and price developments (Morocco, Pakistan, Somalia). Furthermore, a decline in commodity prices would lower government revenues and export receipts and widen current account deficits in Mauritania (iron ore, gold, copper), Morocco (phosphates, wheat, vegetables), Pakistan (cotton), and Sudan (oil, gold).
- As for the risks from the global environment, a more rapid tightening of global financial conditions (including due to faster-than-anticipated normalization of monetary policy in the United States), could push up financing costs (including domestic financing costs), increase fiscal pressures, and reduce private investment. Furthermore, such US monetary policy normalization could lead to a stronger US dollar, which would amplify debt vulnerabilities in countries with a significant share of debt in foreign currency (Pakistan, Tunisia). There is also the risk that advanced economies could pursue inward-looking policies, hurting export prospects for the broader MENAP region. On the upside, a stronger-than-expected pickup in activity in the euro area and other trading partners would help lift regional growth.

Box 2.1. The Belt and Road Initiative and Central and Southwest Asia and the Middle East

China's huge Belt and Road Initiative (BRI) offers Central and Southwest Asia and the Middle East new opportunities to address infrastructure needs, strengthen economic and financial connectivity, and support diversification and job growth. To capitalize on these opportunities, projects should be well designed and managed and future costs should be fully recognized. Open and competitive business climates will help countries maximize gains and spread benefits.

China launched the BRI in 2013, with the aim of strengthening its connections with Europe and Africa by way of Central and Southwest Asia and the Middle East (Figure 2.1.1). The number of countries now engaged in the BRI stands at nearly 70 and may reach 100 or more. Focus areas are infrastructure development and trade facilitation, financial connectivity and integration, policy coordination, joint research, and people-to-people exchange. There are six BRI corridors—the New Eurasian Land Bridge, the China-Mongolia-Russia Corridor, the China-Central Asia-West Asia Corridor, the China-Pakistan Corridor, the China-Indochina Peninsula Corridor, and the Bangladesh-China-India-Myanmar Corridor—plus the Twenty-First Century Maritime Silk Road Economic Belt. Cumulative investment in the corridors could reach $1 trillion over 10 years. Financing will be provided—largely on market terms—through the Asian Infrastructure Investment Bank, China Development Bank, Export-Import Bank of China, and Silk Road Fund. Complementary investments from other official and private sources, in China as well as other countries, may also emerge.

Figure 2.1.1. The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe, and Africa



Source: Hong Kong Trade Development Council.

This box was prepared by Mark Horton.

Box 2.1 *(continued)*

For Central and Southwest Asia and the Middle East, infrastructure, industrial, and utility projects under the BRI, together with financial connectivity efforts and people-to-people exchanges, could help close infrastructure gaps, increase regional economic and financial integration, and support diversification and employment. Countries involved from the Caucasus and Central Asia (CCA) and the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) include Afghanistan, Armenia, Azerbaijan, Djibouti, Georgia, Iran, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

Major BRI projects include the following:

- Investments in Pakistan in the energy sector and rail, road, and port infrastructure totaling $55 billion over the next decade.
- Railway, highway, and port projects across Kazakhstan to Europe via Russia, and to Iran and Turkey via Kazakhstan and Turkmenistan.
- A railway to Uzbekistan via the Kyrgyz Republic, a railway to Afghanistan via Uzbekistan, and a railway from an upgraded port in Djibouti to Ethiopia and South Sudan.
- Oil and gas pipelines connecting China with Central Asia and Azerbaijan, and with Europe via the Black Sea and Turkey.
- Power, natural resources and mining, manufacturing, and agriculture and agro-processing projects across the region.

Positive effects are likely from construction, increased energy supply, improved connectivity, technology transfer, and greater trade. BRI projects should help diversify and boost exports and employment, while utility projects should reduce or eliminate energy shortages. Financial connectivity, trade integration, and research and exchange programs promise potential benefits through inclusion in global supply chains, catalyzing greater private investment, and growth of production, exports, value added, and employment (see Chapter 4). This is particularly encouraging given high transportation costs, relatively low openness, and sizable infrastructure gaps across the region.

Notwithstanding these potential benefits, the BRI comes with challenges, including project implementation and management across multiple jurisdictions and in some cases in complex geographic, political economy, or ecological settings. BRI projects are likely to exert pressure on fiscal, debt, and external positions across the region, especially in those MENAP and CCA economies with limited room for larger budget deficits or higher public debt. The projects may also crowd out spending in other development areas. Financial flows may also put pressure on exchange rates. In addition, while potentially supporting future tax revenues and export receipts, BRI projects will create future budgetary claims for operational and maintenance costs, as well as balance of payments obligations for loan repayments, interest payments, profit repatriation, and fuel imports. Where BRI projects benefit from tax exemptions, gains to national budgets will be lower.

Accordingly, stronger medium-term fiscal and budgetary frameworks, together with enhanced capacity to assess and manage project costs, financial terms, and risks (including from tax incentives), will be critical. BRI projects should be well designed and commercially viable, with execution that is effective and closely monitored. Transactions should be as concessional as possible in low-income countries, transparent, and target spillovers to local employment and inputs (equipment, materials, machinery). Joint projects with international financial institutions would be welcome because they would take advantage of established project assessment and monitoring mechanisms and may benefit from additional concessional financing.

Box 2.1 *(continued)*

Finally, to facilitate spillovers to local economies, business climates across the region need to be open and competitive. Such an environment will enable entrepreneurs in noncommodity sectors (services, logistics, manufacturing) to benefit from better physical and financial infrastructure, lower costs, and easier access to global and key bilateral markets. Local transport and utility enterprises and banks should be sufficiently strong to participate, and utility and transport tariffs should enable cost recovery. It will be important for the economies of BRI countries and their trading partners to be open to support integration and exports under the initiative.

The IMF's mandate to support multilateral cooperation, strengthen global and economic stability, and promote sustainable, inclusive growth fits well with BRI priorities. The IMF engages its member countries through provision of policy advice, technical assistance, and training in areas that will help countries better assess and manage investment projects, including those under the BRI. The Infrastructure Policy Support Initiative, a new IMF endeavor, aims to support member countries through such tools as public investment management assessments, public-private partnership fiscal risk assessments, debt-investment-growth assessments, debt-sustainability assessments, and guidance on medium-term debt-management strategies.

Box 2.2. Somalia: Rebuilding after Decades-Long Civil War

The end of the civil war in Somalia provides an important opportunity to rebuild the country's economy. International partners, including the IMF, are providing technical assistance that is yielding tangible results. The staff-monitored program (SMP) with the IMF will facilitate future financial support by establishing a track record of policy and reform implementation, supported by IMF policy advice.

Somalia's decades-long civil war caused extensive damage to the country's economic and social infrastructure, resulting in very weak institutions and widespread poverty. The country's per capita GDP during 2014–16 was only $426, far below regional peers (Table 2.2.1). However, the end of the civil war in the late 2000s, and national elections in February 2017—only the second since 1991—present an opportunity for Somalia to turn the corner.

Table 2.2.1. Selected Economic and Social Indicators, 2014–16
(Average)

	Somalia	LIC[1]
	2014–16 (average)	
Population, Total (million)	13.9	642.0
GDP per Capita (current US$)	426.0	632.3
Net ODA Received (% of GNI)	22.2	8.7
Life Expectancy at Birth, Total (years)	55.5	61.5
Labor Force Participation Rate, Rotal (% of total population ages 15+)[2]	54.3	76.2
Labor Force Participation Rate, Female (% of female population ages 15+)[2]	33.2	70.0
Labor Force Participation Rate, Male (% of male population ages 15+)[2]	75.9	82.6
Time Required to Register Property (days)	188.0	78.8

Sources: World Bank, World Development Indicators: and IMF staff calculations.
Note: GNI = gross national income; ODA = official development assistance.
[1]Low-income countries.
[2]International Labour Organization modeled estimate.

Somalia has already achieved some important milestones in rebuilding its economy, which is currently sustained by donor grants, remittances, and foreign direct investment (mostly from the Somali diaspora). Somalia's partners have been providing significant peacekeeping, institution building, and humanitarian support. Since the recognition of the Federal Government of Somalia by the international community in 2012, Somalia has received intensive technical assistance. Somalia is one of the largest beneficiaries of IMF technical assistance, which is delivered through a multi donor trust fund and closely coordinated with other partners. This technical assistance has yielded tangible results in the areas of economic management and macroeconomic and financial data reporting. Significant progress has also been achieved in rebuilding the institutional capacity to prepare and monitor an annual budget and implement national currency reform, and in strengthening central bank governance.

The IMF is also providing policy advice to the government as it designs its economic policies and reforms. Since resuming its engagement in Somalia in 2013, the IMF has concluded two Article IV consultations. To help support economic reconstruction efforts and establish a track record of policy and reform implementation, the Somali government entered into a 12-month SMP with the IMF in May 2016 that has now been completed. A new SMP covering May 2017–April 2018 has been approved by IMF management. Although arrears mean Somalia cannot currently benefit from IMF financial support, continued successful completion of this SMP and subsequent ones will help strengthen institutions and economic policies, paving the way for eventual future debt relief.

This box was prepared by Lukas Pender Kohler, Sebastien Walker, and Issouf Samake. In this *Regional Economic Outlook*, the IMF is publishing Somalia's macroeconomic data for the first time since the early 1990s.

Box 2.2 *(continued)*

Despite these advances, Somalia still faces significant challenges. The security situation remains fragile, aggravated by high youth unemployment and a drought that is severely affecting economic activity and endangering humanitarian conditions. The government's fiscal position is weak, partly because of still-poor fiscal management, a weak tax collection system, and a heavy external debt burden, with no capacity to repay. Both the central bank and the financial sector are nascent, and widespread counterfeiting has diminished confidence in the national currency. Going forward, further sustained and broad-based reform efforts to reconstitute Somalia's institutions—and economic, financial, and social data to help guide policymaking—will be critical.

Box 2.3. The G20 Compact with Africa Initiative: Boosting Private Investment

The Group of 20 (G20) Compact with Africa aims to help countries seize their potential for sustained and inclusive growth by promoting investment and improving infrastructure in Africa. The IMF is supporting the initiative by increasing support for capacity development, providing policy advice, and incorporating related reforms in the design of IMF-supported programs with participating countries.

The G20 Compact with Africa aims to promote private investment in Africa through compacts (or agreements) between interested African governments, international organizations, and development partners, with a specific focus on increasing infrastructure development.[1] The initiative was launched under the German presidency by G20 finance ministers and central bank governors in March 2017. Compacts for each country identify the actions that participants in the initiative will undertake to boost private investment flows, namely, the following:

- Participating African countries will identify reforms to create a more enabling environment for private investment, improve domestic revenue and finance mobilization, and create space to scale up critically needed public investment in infrastructure while ensuring debt sustainability.
- The G20 and other partner countries will promote the initiative and encourage their business sectors to invest in participating African countries, including through regular investor roundtables and high-level events (such as the recent Investing in a Common Future conference in Berlin), and will support the provision of related technical assistance.
- International organizations will provide technical assistance, policy advice, and financial support to help ensure sound macroeconomic, business, and financing frameworks for the initiative.
- The G20, other partner countries, and international organizations will coordinate more closely, including on technical assistance; provide greater support for early-stage project preparation for infrastructure; and increase investment by the private arms of multilateral and bilateral development institutions.

The African countries that are participating—Côte d'Ivoire, Ethiopia, Ghana, Morocco, Rwanda, Senegal, and Tunisia—are in the process of completing their compacts. Others that have expressed interest or may consider joining include Algeria and Egypt. This initiative could make an important contribution to addressing the challenge of boosting growth and creating high-quality jobs for the young populations of these African countries, in particular by helping to maintain macroeconomic stability, improve the business climate, and strengthen financial markets.

The IMF has supported the launch and implementation of the initiative, including in the context of active programs with several participating countries. The IMF's policy dialog and program content will incorporate the reforms that underpin the compacts while protecting macroeconomic resilience and public debt sustainability. The IMF is also stepping up capacity-development efforts in its areas of expertise to support implementation of the compact, including through the Africa Regional Technical Assistance Centers and the Middle East Technical Assistance Center.

To ensure the sustainability and success of the initiative, a G20 investment finance group will help carry forward and oversee the Compact with Africa work program over the medium term. The program will be monitored through in-country dialogue and biannual reports to the G20.

This box was prepared by Gaëlle Pierre.
[1]See the initiative's website at https://www.compactwithafrica.org/.

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MENAP Oil Importers: Selected Economic Indicators

	Average 2000–13	2014	2015	2016	Projections 2017	Projections 2018
Real GDP Growth	**4.5**	**3.2**	**3.9**	**3.6**	**4.3**	**4.4**
(Annual change, percent)						
Afghanistan	. . .	2.7	1.3	2.4	2.5	3.0
Djibouti	3.8	6.0	6.5	6.5	7.0	7.0
Egypt	4.4	2.9	4.4	4.3	4.1	4.5
Jordan	5.4	3.1	2.4	2.0	2.3	2.5
Lebanon	4.5	2.0	0.8	1.0	1.5	2.0
Mauritania	4.7	5.6	0.9	1.7	3.8	3.0
Morocco	4.6	2.7	4.5	1.2	4.8	3.0
Pakistan	4.3	4.1	4.1	4.5	5.3	5.6
Somalia	2.0	3.6	3.6	3.2	2.4	3.5
Sudan[1]	4.7	1.6	4.9	3.0	3.7	3.6
Syria[2]	4.3	. . .	. . .	. . .	. . .	. . .
Tunisia	3.8	2.3	1.1	1.0	2.3	3.0
West Bank and Gaza[3]	4.1	–0.2	3.4	4.1	3.1	3.0
Consumer Price Inflation	**6.0**	**9.4**	**6.7**	**7.7**	**15.0**	**8.3**
(Year average, percent)						
Afghanistan	. . .	4.7	–0.7	4.4	6.0	6.0
Djibouti	3.6	2.9	2.1	2.7	3.0	3.0
Egypt	3.8	10.1	10.4	13.8	29.9	13.0
Jordan	4.0	2.9	–0.9	–0.8	3.3	1.5
Lebanon	3.2	1.9	–3.7	–0.8	3.1	2.5
Mauritania	6.0	3.8	0.5	1.5	2.1	3.7
Morocco	1.7	0.4	1.5	1.6	0.9	1.6
Pakistan	8.8	8.6	4.5	2.9	4.1	4.8
Somalia	. . .	. . .	. . .	. . .	. . .	. . .
Sudan[1]	13.6	36.9	16.9	17.8	26.9	19.0
Syria[2]	4.9	. . .	. . .	. . .	. . .	. . .
Tunisia	3.3	4.9	4.9	3.7	4.5	4.4
West Bank and Gaza[3]	3.6	1.7	1.4	-0.2	0.5	1.6
General Gov. Overall Fiscal Balance	**–5.5**	**–7.3**	**–7.3**	**–6.8**	**–6.6**	**–5.6**
(Percent of GDP)						
Afghanistan[4]	. . .	–1.7	–1.4	0.1	0.4	0.2
Djibouti	–2.1	–9.6	–21.7	–18.2	–1.6	–0.7
Egypt	–7.8	–11.8	–11.4	–10.9	–9.5	–7.3
Jordan[5]	–5.2	–10.3	–5.3	–3.2	–2.5	–0.4
Lebanon[4]	–11.6	–6.3	–7.6	–9.3	–9.9	–10.3
Mauritania[4,6]	–2.4	–4.5	–3.4	–0.3	–0.6	–1.8
Morocco[4]	–4.1	–4.8	–4.2	–4.1	–3.5	–3.0
Pakistan[7]	–4.7	–4.9	–5.3	–4.4	–5.7	–5.4
Somalia	. . .	. . .	. . .	. . .	. . .	. . .
Sudan[1]	–1.3	–1.4	–1.9	–1.8	–2.4	–2.6
Syria[2]	. . .	. . .	. . .	. . .	. . .	. . .
Tunisia[8]	–3.2	–3.7	–5.3	–5.9	–5.9	–5.3
West Bank and Gaza[3]	–22.8	–12.5	–11.4	–8.0	–8.4	–7.8

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.

[1]Data for 2011 exclude South Sudan after July 9. Data for 2012 and onward pertain to the current Sudan.

[2]2011–17 data exclude Syria.

[3]West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

[4]Central government. For Jordan, includes transfers to electricity company.

[5]Overall fiscal balance includes transfers to the electricity company NEPCO until the end of 2014. In 2015 transfers were stopped.

[6]Includes oil revenue transferred to the oil fund.

[7]Includes grants.

[8]Includes bank recapitalization costs and arrears payments.

(continues)

MENAP Oil Importers: Selected Economic Indicators *(continued)*

	Average 2000–13	2014	2015	2016	Projections 2017	Projections 2018
Current Account Balance	**–2.4**	**–4.2**	**–4.4**	**–5.3**	**–5.3**	**–4.8**
(Percent of GDP)						
Afghanistan	. . .	5.7	3.0	7.1	4.7	1.6
Djibouti	–8.0	–25.1	–31.8	–30.4	–21.0	–18.2
Egypt	–0.5	–0.8	–3.6	–6.0	–5.9	–3.8
Jordan	–6.1	–7.3	–9.1	–9.3	–8.4	–8.3
Lebanon	–15.6	–26.4	–18.7	–18.6	–18.0	–16.8
Mauritania	–13.4	–27.3	–19.7	–14.9	–14.2	–9.6
Morocco	–3.3	–5.9	–2.1	–4.4	–4.0	–2.9
Pakistan	–1.3	–1.3	–1.0	–1.7	–4.0	–4.9
Somalia	–4.8	–6.3	–7.2	–10.1	–11.1	–10.7
Sudan[1]	–5.5	–7.1	–8.0	–5.6	–1.9	–2.0
Syria[2]	–0.4	. . .	. . .	. . .	. . .	. . .
Tunisia	–4.1	–9.1	–8.9	–9.0	–8.7	–8.4
West Bank and Gaza[3]	–17.4	–16.9	–16.3	–9.9	–13.1	–13.2

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.
[1]Data for 2011 exclude South Sudan after July 9. Data for 2012 and onward pertain to the current Sudan.
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[6]Includes oil revenue transferred to the oil fund.
[7]Includes grants.
[8]Includes bank recapitalization costs and arrears payments.