MENAP Region Highlights

Economic developments in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) continue to reflect the diversity of conditions prevailing across the region. Most high-income oil exporters, primarily in the GCC, continue to record steady growth and solid economic and financial fundamentals, albeit with medium-term challenges that need to be addressed. In contrast, other countries—Iraq, Libya, and Syria—are mired in conflicts with not only humanitarian but also economic consequences. And yet other countries, mostly oil importers, are making continued but uneven progress in advancing their economic agendas, often in tandem with political transitions and amidst difficult social conditions. In most of these countries, without extensive economic and structural reforms, economic prospects for the medium term remain insufficient to reduce high unemployment and improve living standards.

Oil Exporters: Different Cyclical Positions, Weakening Fiscal Balances

In the MENAP oil exporters as a group, growth is expected to edge up to 2½ percent in 2014 (a downward revision of ¾ of a percentage point from the May 2014 REO Update) and strengthen further next year. However, risks are tilted to the downside, especially for 2015, and economic performance varies considerably across countries. Conflicts and security problems continue to disrupt economic activity in Iraq, Libya, and Yemen, although some recovery in oil production in these countries is expected to improve the outlook for the next year, assuming that the security situation stabilizes. By contrast, growth remains steady in the GCC countries on the strength of public spending on infrastructure and private sector credit expansion in many countries. And Iran's economy is moving from contraction to modest growth.

Geopolitical risks have increased, yet oil price risks remain balanced. Further deterioration in security conditions in Iraq, Libya, or Yemen could deepen disruptions in oil supply in these countries and derail the projected recovery in oil production next year. If the rapprochement between Iran and the P5+1 (the permanent UN Security Council members and Germany) were to break down, intensified sanctions could further reduce Iran's oil exports. However, Saudi Arabia maintains significant spare capacity and could at least partially compensate for any unexpected supply shortages elsewhere. By contrast, a permanent agreement between Iran and the P5+1, and an improvement in Iraq's and Libya's security situation, could raise oil supply from these countries. Higher-than-expected oil supply from other regions (for example, the United States, which continues to surprise on the upside) or lower global oil demand, owing to weaker global economic growth, could also ease oil markets. Oil prices, as well as regional security conditions, are also important sources of risk for activity in the non-oil economy.

Fiscal positions in most oil exporters are weakening. Rising government spending amid broadly stable oil prices is expected to reduce the fiscal surplus to 2 percent this year and 1¼ percent in 2015. In most countries, fiscal balances are insufficient to set aside an equitable amount of oil wealth for future generations, and imply a significant exposure to oil price risks. Most oil exporters thus need to strengthen their fiscal positions. GCC countries can use the current period of economic strength to save more of their oil windfall. Many other countries, hit by oil revenue and other shocks, face the immediate task of supporting demand with limited resources, but need to rebuild buffers once cyclical conditions allow.

Most oil exporters also need to adapt their economic model for more sustained, inclusive, and diversified growth. The economic model has been dependent on the growth of government spending supported by increases in oil prices. Transitioning to a more diversified, private sector–driven model requires significant reform. In the GCC countries, the business environment is generally favorable and infrastructure gaps are small. In these countries, reform priorities center on improving the quality of education and its relevance for private sector needs; reducing distortions that lead to reliance on foreign labor, thereby increasing private sector job opportunities for nationals; and encouraging efficient production of tradable goods and services rather than activity in nontradable sectors with low productivity growth. In the non-GCC countries, improving the political and business environment, addressing infrastructure bottlenecks, and enhancing access to finance are important prerequisites for raising investment, productivity, and sustained growth.

Oil Importers: Slow Recovery and Job Creation

Economic activity in the MENAP oil-importing countries has remained lackluster this year at about 3 percent, but growth is expected to pick up to 4 percent in 2015 (broadly unchanged from the May 2014 REO Update). Deep-rooted sociopolitical tensions, as well as spillovers from intensifying regional conflicts, have been holding back growth. A gradual improvement in confidence is expected to support domestic demand as political uncertainty eases. Exports, tourism, and foreign direct investment are also projected to edge upward, helped by recovery in Europe and steady growth in the GCC. These gradual improvements are unlikely to reduce high unemployment.

Risks to this outlook are to the downside. Setbacks in political transitions, intensified social and security tensions, and spillovers from regional conflicts, as well as lower-than-expected growth in key trading partners, could undermine the recovery.

Countries are starting to rein in their high budget deficits, which will allow them to gradually rebuild buffers and strengthen their resilience to shocks. In many countries, savings accrue from gradual reforms of inefficient generalized subsidies (including Egypt, Jordan, Mauritania, Morocco, Pakistan, Sudan, and Tunisia), with some of the savings also being channeled into targeted social protection for the poor, and into higher spending on infrastructure, health care, and education. Nonetheless, the oil importers' debt-to-GDP ratio is still rising, and gross external financing needs are expected to reach US$100 billion next year.

With growth projected to improve next year, a continued gradual reduction in budget deficits can help further improve confidence and economic resilience. The priority will need to be fiscal measures that minimize the drag on near-term economic growth, foster job creation, contain the negative impact on the poor, and reduce social inequities. In the context of fiscal consolidation amid still-wide output gaps, greater exchange rate flexibility, in some cases, would enhance growth and competitiveness.

Medium-term growth prospects in the MENAP oil importers have been weakening faster than in other regions of the world, and remain insufficient to make a dent in the region's persistently high unemployment, especially among the youth and women. Deep economic reforms are therefore needed to increase medium-term growth and create jobs. Structural rigidities, lack of openness to trade and competition, and institutional weaknesses underlie the current outlook for low medium-term growth. Bold yet credible national reform agendas are needed to address these obstacles. Improvements in the business environment, governance, and financial market development can support investment and productivity. Labor market reforms that facilitate hiring and skills-building can lead to more efficient labor allocation, higher compensation, and more rapid job creation. Deepening trade integration would help strengthen countries' participation in global value chains.

Support from the international community—scaled-up financing, enhanced trade access, policy advice, and capacity building—will be necessary to allow for more gradual and less painful macroeconomic adjustment and to support countries' medium-term reform agendas.

MENAP Region: Selected Economic Indicators, 2000–17

(Percent of GDP, unless otherwise indicated)

	Average 2000–10	2011	2012	2013	Projections 2014	2015	2016	2017
MENAP[1]								
Real GDP (annual growth)	5.3	4.4	4.8	2.5	2.7	3.9	4.5	4.4
Current Account Balance	8.7	13.2	12.7	10.0	7.8	6.2	5.1	4.2
Overall Fiscal Balance	3.1	1.7	2.6	0.0	–1.0	–1.4	–1.6	–2.1
Inflation, p.a. (annual growth)	7.0	9.3	10.0	9.9	8.0	8.1	7.4	7.3
MENAP Oil Exporters								
Real GDP (annual growth)	5.5	5.3	5.7	2.2	2.5	3.9	4.5	4.4
Current Account Balance	12.7	18.4	18.4	14.8	11.6	9.8	8.5	7.4
Overall Fiscal Balance	7.2	5.7	7.6	4.4	2.0	1.2	0.7	0.0
Inflation, p.a. (annual growth)	7.2	8.8	10.3	10.2	7.0	7.5	7.2	7.2
***Of Which*: Gulf Cooperation Council**								
Real GDP (annual growth)	5.4	8.1	5.8	4.1	4.4	4.5	4.5	4.5
Current Account Balance	14.8	23.8	24.6	20.9	17.9	15.9	14.0	12.3
Overall Fiscal Balance	11.2	11.7	14.2	10.9	7.9	5.3	3.9	2.5
Inflation, p.a. (annual growth)	2.9	3.0	2.4	2.8	2.8	3.1	3.4	3.6
MENAP Oil Importers								
Real GDP (annual growth)	5.0	2.5	2.9	3.0	3.1	3.9	4.3	4.5
Current Account Balance	–1.7	–3.5	–5.6	–4.5	–3.5	–4.4	–4.6	–4.5
Overall Fiscal Balance	–4.9	–7.1	–8.4	–9.5	–7.5	–6.9	–6.6	–6.4
Inflation, p.a. (annual growth)	6.6	10.3	9.4	9.1	9.9	9.6	7.9	7.5
MENA[1]								
Real GDP (annual growth)	5.4	4.5	4.8	2.3	2.6	3.8	4.5	4.4
Current Account Balance	9.5	14.2	13.8	10.9	8.6	6.8	5.7	4.8
Overall Fiscal Balance	4.0	2.7	3.9	1.0	–0.6	–1.0	–1.4	–1.9
Inflation, p.a. (annual growth)	6.9	8.8	9.9	10.2	7.9	8.2	7.5	7.4
MENA Oil Importers								
Real GDP (annual growth)	5.1	1.8	2.0	2.6	2.6	3.7	4.2	4.4
Current Account Balance	–1.9	–5.1	–7.5	–6.2	–4.7	–5.9	–5.7	–5.5
Overall Fiscal Balance	–5.5	–7.4	–8.7	–10.5	–9.3	–8.5	–8.5	–8.3
Inflation, p.a. (annual growth)	6.2	8.6	8.6	10.1	10.8	10.6	8.6	8.3
Arab Countries in Transition (excluding Libya)								
Real GDP (annual growth)	4.9	1.0	2.5	2.7	2.5	3.8	4.2	4.3
Current Account Balance	–0.3	–5.0	–6.1	–4.8	–3.2	–4.5	–4.5	–4.4
Overall Fiscal Balance	–5.7	–8.2	–9.1	–11.3	–9.9	–8.9	–9.0	–8.7
Inflation, p.a. (annual growth)	6.6	8.4	6.1	7.8	8.3	10.1	8.8	8.7

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

Notes: Data refer to the fiscal year for the following countries: Afghanistan (March 21/March 20 until 2011, and December 21/December 20 thereafter), Iran (March 21/March 20), Qatar (April/March), and Egypt and Pakistan (July/June).

MENAP oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen.

MENAP oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, and Tunisia.

MENA: MENAP excluding Afghanistan and Pakistan.

Arab countries in transition (excluding Libya): Egypt, Jordan, Morocco, Tunisia, and Yemen.

[1] 2011–17 data exclude Syrian Arab Republic.