Outline

Global Outlook

MENAP: Regional Themes, Outlook, and Risks

• Oil Exporters
• Oil Importers
An uneven global recovery continues

Real GDP Growth Projections
(Percent change from a year earlier)

<table>
<thead>
<tr>
<th></th>
<th>World</th>
<th>U.S.</th>
<th>Euro Area</th>
<th>Emerging markets</th>
<th>China</th>
<th>Russia</th>
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<td>2014</td>
<td>3.3</td>
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<td>4.4</td>
<td>7.4</td>
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Source: IMF, World Economic Outlook, October 2014.
Downside risks have increased since last spring

- Geopolitical risks (Middle East, Russia-Ukraine)
- Slower growth in emerging markets
- Lower potential growth and secular stagnation in advanced economies
- Financial market volatility in response to normalization of monetary policy in advanced economies
Oil prices have declined considerably, yet risks are high in both directions.

Brent Crude Oil Price¹
(U.S. dollars per barrel)

Sources: Bloomberg; and IMF Research Department staff calculations.

¹Derived from prices of futures and options on October 15, 2014.
Deepening regional conflicts with substantial spillovers

- 11 million refugees and internally displaced persons
- Sectarian violence and political spillovers
- Disruptions to bilateral and transit trade
- Setbacks for tourism and investment
Recent developments, outlook, and risks

MENAP oil exporters

- Algeria
- Libya
- Iraq
- Kuwait
- Saudi Arabia
- Bahrain
- Qatar
- Oman
- United Arab Emirates
- Yemen
- Iran
GCC growth steady, conflicts push down growth projections for non-GCC

Real GDP Growth (Percent)

Sources: National authorities; and IMF staff calculations.
Growth remains steady in most GCC countries

GCC Countries: Real GDP Growth
(Percent)
Non-GCC outlook is highly uncertain, contingent on oil recovery in Libya and Iraq

**Hydrocarbon\(^1\) Production**

*(Change relative to previous year, millions of barrels per day)*

Sources: national authorities; and IMF staff calculations.

\(^1\) Crude oil, natural gas, natural gas liquids, condensates, refined products, and other hydrocarbons.
Lower oil prices are putting pressure on government budgets

Fiscal Breakeven Oil Price, 2014
(U.S. dollars per barrel)

Libya 317
Yemen
Bahrain
Iran
Algeria
Iraq
Saudi Arabia
Oman
UAE
Kuwait
Qatar

Sources: National authorities; and IMF staff calculations.
Rising domestic energy consumption is reducing external surpluses

**Current Account Balance**
(MENAP oil exporters: percent of GDP)

- Surplus to decline by $265 billion in 6 years, between 2012 and 2018

**Oil and Gas Demand Growth, 2000-19**
(Percent)

- Middle East: 197
- World: 59
- Middle East: 109
- World: 28

Sources: National authorities; and IMF staff calculations.

Source: International Energy Agency
Sizeable energy subsidies are a key reason behind weakening fiscal and external positions.

**MENA Oil Exporters: Pre-Tax Energy Subsidies (Percent of GDP)**

- **Average decline in subsidy bills:** 1.2 percentage point of GDP

Sources: Staff estimates, OECD, IEA, Deutsche Gesellschaft für Internationale Zusammenarbeit, WEO, and World Bank.

Notes: Latest data available (2011). Includes petroleum, electricity, natural gas, and coal subsidies. Impact of lower oil prices calculated on gasoline and diesel only.
Sustaining private sector growth without government spending increases

Government Spending and Non-Oil GDP Growth

(Percent, three-year moving average)

Sources: National authorities; and IMF staff calculations.
Significant structural reforms are needed, particularly outside the GCC.

<table>
<thead>
<tr>
<th>Category</th>
<th>Bahrain</th>
<th>Kuwait</th>
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Sources: World Bank; World Economic Forum; PRS Group; and IMF staff calculations.
MENAP Oil Exporters: Takeaways

• Robust growth in the GCC, uncertain outlook for non-GCC countries.

• The recent slide in oil prices has accelerated the weakening of fiscal and current account positions, leading to the following policy recommendations:
  • Use available buffers in the short run.
  • Develop credible medium-term fiscal consolidation plans, which has now become more urgent.

• The current growth model based on expanding government spending is not sustainable. The private sector needs to drive the economy.
Recent developments, outlook, and risks

MENAP oil importers

- Egypt
- Sudan
- Djibouti
- Somalia
- Mauritania
- Morocco
- Tunisia
- Lebanon
- Syria
- Jordan
- Afghanistan
- Pakistan
Immediate fiscal pressures are easing, and international reserves are gradually improving.

**Fiscal Deficit**
(Percent of GDP)

**Reserves**
(Months of imports)

Sources: Haver Analytics; and national authorities.
Subsidy reforms are expected to save governments 1 percentage point of GDP on average in 2014 and 2015.

Change in Expenditure\(^1\)
(Percent of GDP)

Sources: National authorities; and IMF staff calculations.

\(^1\)Excludes Pakistan.
A 20 percent drop in oil prices could improve fiscal balances by as much as 1 percentage point of GDP

Change in Fiscal Balance, 2015
(Percent of GDP)

Sources: National authorities; and IMF staff calculations.
Note: Impact of lower oil prices calculated on gasoline and diesel only.
Exports are starting to recover, albeit unevenly

**Exports of Goods**

(Index; 3-month moving average, 2009=100)

- **Egypt**
- **Morocco**
- **Pakistan**
- **Other MENAPOI¹**

Sources: Haver Analytics; and national authorities.

¹Afghanistan, Djibouti, Jordan, Lebanon, Mauritania, Sudan, and Tunisia.
The outlook is for a weak recovery and persistent unemployment

Real GDP Growth and Unemployment (Percent)

Sources: National authorities; and IMF staff calculations.
Downside risks to a pickup in exports and investment remain high.

Contributions to Real GDP Growth

(Percentage points)

Sources: National authorities; and IMF staff calculations.
Room for countercyclical policy is limited, making it difficult to navigate the challenging environment.

### Policy Buffers

<table>
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<tr>
<th></th>
<th>Public debt</th>
<th>Reserves</th>
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<tbody>
<tr>
<td></td>
<td>Percent of GDP, 2014</td>
<td>Months of imports, 2014</td>
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<tr>
<td>Egypt</td>
<td>above 80% of GDP</td>
<td>above 3 m of imports</td>
</tr>
<tr>
<td>Jordan</td>
<td>60% to 80% of GDP</td>
<td>3-5 m of imports</td>
</tr>
<tr>
<td>Lebanon</td>
<td>40% to 60% of GDP</td>
<td>above 5 m of imports</td>
</tr>
<tr>
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</tr>
<tr>
<td>Tunisia</td>
<td>40% to 60% of GDP</td>
<td>above 5 m of imports</td>
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All data for 2014

Sources: National authorities; and IMF staff calculations.
External financing needs remain large

External Financing
(Billions of U.S. dollars and percent share)

2014
$85 billion

FDI, $20.1, 21%
Official, $26.4, 28%
Private, $48.1, 50%
Other, $0.7, 1%

2015
$100 billion

Official, $16.2, 13%
FDI, $23.4, 20%
Private, $79, 67%

Sources: National authorities; and IMF staff calculations.
Note: Reserves accumulation of $10 bil. in 2014 and $15 bil. in 2015 is excluded from the pie chart.
Medium-term growth is too weak to substantially reduce unemployment and improve living standards.

Real GDP Growth
*(Annual percentage change)*

- **Baseline growth 5%**
- **Unemployment declines by 1 pp to 11% (3 mil. new jobs)**
- **Per capita GDP rises by $285 (10%) by 2020**

**Growth reaches 8%**
- The income gap with peers closed by half
- **Historical rates 6%, Double improvement in jobs and incomes**

Sources: *World Economic Outlook*; national authorities; and IMF staff calculations.
Closing the shortfall in infrastructure investment of $15b per year can temporarily raise growth by 1½ pp

WEO Infrastructure GAP Estimates

<table>
<thead>
<tr>
<th>(Percent)</th>
<th>MENAOI</th>
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<tbody>
<tr>
<td>Electricity generating capacity</td>
<td>-80</td>
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<tr>
<td>Road</td>
<td>-60</td>
</tr>
<tr>
<td>Telephone line</td>
<td>-40</td>
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Public Investment and Infrastructure Needs, 2014-19

<table>
<thead>
<tr>
<th>(Percent of GDP)</th>
<th>MENAOI</th>
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<tbody>
<tr>
<td>Public capital expenditure</td>
<td>16</td>
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<tr>
<td>Physical infrastructure spending¹</td>
<td>12</td>
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<tr>
<td>Needs</td>
<td>8</td>
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</table>

Sources: IMF WEO database, Ianchovichina et al (2013), the MDB Working Group on Infrastructure (2011), and staff estimates.

Source: Staff calculations.
Wide-ranging structural reforms – rising above the world’s bottom 40th quintile – are critical to avoid “the new mediocre”

Sources: World Bank; World Economic Forum; PRS Group; and IMF staff calculations.
MENAP Oil Importers: Takeaways

• Recovery remains weak and uneven.
• Improving fiscal and external positions still vulnerable, calling for more fiscal consolidation and sometimes greater exchange rate flexibility.
• Medium-term prospects are too weak to improve employment, living standards and inclusiveness. Deep structural reforms are imperative.
Thank you!

To download the latest IMF’s *Regional Economic Outlook* for the Middle East and Central Asia, please visit