Middle East and Central Asia Regional Economic Outlook

Learning To Live With Cheaper Oil Amid Weaker Demand

January 2015 Update

Outline

- Recent Global Developments and Implications for the Region
- Middle East and North Africa (MENAP): Oil Exporters
- MENAP: Oil Importers
- Caucasus and Central Asia (CCA)
Three global factors have significantly affected the regional outlook since last October:

- Sharp drop in oil prices
- Conflicts
- Weaker-than-expected external demand growth
- Transitions
- Significant movements in key exchange rates
The slump in oil prices is the most important change for oil exporters

Weaker growth in the euro area and Russia weigh on MENAP and CCA exports and remittances

<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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</thead>
<tbody>
<tr>
<td>2014</td>
<td>3.3</td>
<td>2.4</td>
<td>0.9</td>
<td>4.4</td>
<td>7.4</td>
<td>0.6</td>
</tr>
<tr>
<td>2015</td>
<td>3.5</td>
<td>3.6</td>
<td>0.9</td>
<td>4.4</td>
<td>6.8</td>
<td>-3.0</td>
</tr>
<tr>
<td>Revision from Fall 2014</td>
<td>-0.3</td>
<td>0.5</td>
<td>-0.2</td>
<td>-0.6</td>
<td>-0.3</td>
<td>-3.5</td>
</tr>
<tr>
<td>2016</td>
<td>3.7</td>
<td>3.3</td>
<td>1.5</td>
<td>4.7</td>
<td>6.3</td>
<td>-1.0</td>
</tr>
<tr>
<td>Revision from Fall 2014</td>
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<td>0.3</td>
<td>-0.3</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-2.5</td>
</tr>
</tbody>
</table>

Sources: National authorities; and IMF staff calculations.
Real exchange rates have appreciated in MENAP and CCA

**Real Effective Exchange Rate**
*(Index, January 2013=100)*

- U.S. Dollar
- Russian Ruble
- CCAOE
- CCAOI
- GCC
- Non-GCC
- MENAPOI

Source: IMF INS database.

The regional outlook has weakened mainly because of lower oil prices and spillovers from Russia

<table>
<thead>
<tr>
<th></th>
<th>Middle East and North Africa</th>
<th>Caucasus and Central Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Oil Exporters</td>
</tr>
<tr>
<td>2014</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>2015</td>
<td>3.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Revision from Fall 2014</td>
<td>-0.6</td>
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</tr>
<tr>
<td>Revision from Fall 2014</td>
<td>-0.5</td>
<td>-0.9</td>
</tr>
</tbody>
</table>

Sources: National authorities; and IMF staff calculations.
A large decline in oil prices will lead to substantial losses in export revenues in MENAP oil exporters.

**Net Oil Exports, 2015**

(Percent of Total Exports)

<table>
<thead>
<tr>
<th>Country</th>
<th>Net Oil Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Libya</td>
<td>10%</td>
</tr>
<tr>
<td>Iraq</td>
<td>20%</td>
</tr>
<tr>
<td>Algeria</td>
<td>40%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>60%</td>
</tr>
<tr>
<td>Qatar</td>
<td>80%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>100%</td>
</tr>
<tr>
<td>Oman</td>
<td>20%</td>
</tr>
<tr>
<td>Iran</td>
<td>40%</td>
</tr>
<tr>
<td>Bahrain</td>
<td>60%</td>
</tr>
<tr>
<td>UAE</td>
<td>80%</td>
</tr>
<tr>
<td>Yemen</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Oil Export Revenue Losses, 2015**

(Bars are losses in percent of GDP; adjacent numbers are losses in USD bn)

<table>
<thead>
<tr>
<th>Country</th>
<th>Oil Export Revenue Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuwait</td>
<td>$50</td>
</tr>
<tr>
<td>Qatar</td>
<td>$44</td>
</tr>
<tr>
<td>Iraq</td>
<td>$46</td>
</tr>
<tr>
<td>Oman</td>
<td>$15</td>
</tr>
<tr>
<td>Libya</td>
<td>$10</td>
</tr>
<tr>
<td>Algeria</td>
<td>$47</td>
</tr>
<tr>
<td>UAE</td>
<td>$20</td>
</tr>
<tr>
<td>Iran</td>
<td>$3</td>
</tr>
<tr>
<td>Bahrain</td>
<td>$16</td>
</tr>
<tr>
<td>Yemen</td>
<td>$0.4</td>
</tr>
</tbody>
</table>

GCC: $300 bil. 21 pp of GDP
Non-GCC: $90 bil. 10 pp of GDP

Sources: National authorities; and IMF staff calculations.
Most MENAP oil exporters need oil prices above $60 to cover government spending

Fiscal Breakeven Prices, 2015
(U.S. dollars per barrel)

Sources: National authorities; and IMF staff calculations.

Most MENAP oil exporters have significant buffers that allow them to avoid sharp cuts in gov. spending

Fiscal Balances, 2014 and 2015
(Percent of GDP)

Sources: National authorities; and IMF staff calculations.
The impact of lower oil prices on growth will be contained over the near term in most countries.

Real GDP Growth, 2015

- GCC: 3.4% (3.6% in 2014), -1 pp revision
- Non-GCC: 2.4% (1.5% in 2014) -0.7 pp revision

Sources: National authorities; and IMF staff calculations.

To the extent that the shock persists, a larger fiscal adjustment will be needed over the medium term.

Fiscal Balance, MENAP Oil Exporters, 2012-19

Sources: National authorities; and IMF staff calculations.
Energy prices remain significantly below international levels

Fuel Subsidies, 2015¹
(Percent of GDP)

Sources: National authorities; and IMF staff estimates.
¹Size of subsidy bill is estimated using 2013 data. Calculations are based on a price-gap analysis following IMF Board paper (SM/13/29) and MCD departmental paper (14/3).

Policy Implications for MENAP Oil Exporters

• The recent slide in oil prices has accelerated the weakening of fiscal and current account positions.

• In the short run, countries can use available buffers and financing to avoid sharp cuts in spending and limit impact on nonoil growth.

• The ensure intergenerational equity and rebuild buffers, countries need to put in place medium-term fiscal consolidation plans: slowing growth of current spending (wage bills and energy subsidies), prioritizing capital expenditures, and raising nonoil revenues.

• Diversification needs to support fiscal consolidation, aiming for the private sector to replace oil and government spending as the key drivers of the economy.
Recent Global Developments and Implications for the Region

Middle East and North Africa (MENAP): Oil Exporters

MENAP: Oil Importers

Caucasus and Central Asia (CCA)

Lower oil prices provide a welcome relief to MENAP oil importers

External Windfall Gains From Lower Oil Prices¹

- External Gains From Lower Oil Prices (Percent of GDP)
- Net Oil Imports (Percent of Total Imports) - RHS

MENAP: $16 billion or 1½ pp of GDP

¹External gains from lower oil prices are calculated as the projected difference in the U.S. dollar value of net oil exports in 2015, using the 2015 oil price assumptions in the January 2015 REO Update and the October 2014 REO, and the volume of net oil exports in the October 2014 REO, with adjustments for idiosyncratic country-specific factors.
Lower oil prices reduce subsidy bills

Impact of Lower Oil Prices on Pre-tax Fuel Subsidies, 2015¹
(Percent of GDP)

- Egypt
- Tunisia
- Sudan

Before Oil Price Fall
After Oil Price Fall

Sources: Authorities; and staff estimates.
¹Size of subsidy bill is estimated using 2013 data. Calculations are based on a price-gap analysis following IMF Board paper (SM/13/29) and MCD departmental paper (14/3).

Weaker demand and non-oil commodity price declines offset gains from lower oil prices for growth

Shares of Remittance Inflows from Europe and GCC
(Percent)

- Maghreb
- Mashreq

2005
2012

GCC
Europe

Sources: World Bank; and IMF staff calculations.

Share of Exports to Europe
(Percent, period averages)

- Maghreb
- Mashreq

1998-2002
2007-11

Sources: UN, Comtrade; and IMF staff calculations.
Windfall gains are expected to be mostly saved

External Gains from Lower Oil Prices and Revisions in Fiscal and Current Account Balances
(Percent of GDP, revision between October 2014 WEO and January 2015 REO Update)

-1 -0.5 0 0.5 1 1.5 2
-1 -0.5 0 0.5 1 1.5 2

External windfall\(^1\) Change in current account balance Change in fiscal balance

MENAP Oil Importers

Sources: National authorities; and IMF staff calculations.

\(^1\) Based on 2015 oil price assumptions of $57.00 (January 2015 WEO update) compared to $99.36 (October 2014 WEO).

Policy Implications for MENAP Oil Importers

- The positive effect of lower oil prices on growth will be offset by concurrent adverse domestic and external shocks.
- Where fiscal sustainability is a concern, windfall gains should be saved to strengthen buffers and reduce public debt.
- Given uncertainty about persistence of the oil price shock and implications for financing, countries should avoid entering into irreversible spending commitments.
- Lower oil prices create favorable conditions for continuing subsidy reforms and stepping up structural reforms to raise potential growth and make it more inclusive.
Outline

Recent Global Developments and Implications for the Region

Middle East and North Africa (MENAP): Oil Exporters

MENAP: Oil Importers

Caucasus and Central Asia (CCA)

Lower oil prices will have the opposite effects on CCA oil exporters and importers

<table>
<thead>
<tr>
<th>Oil Exporters: External Losses from Lower Oil Prices, 2015</th>
<th>Oil Importers: External Gains from Lower Oil Prices, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>Kazakhstan</td>
</tr>
<tr>
<td>-16</td>
<td>-10</td>
</tr>
</tbody>
</table>

Sources: National authorities; and IMF staff calculations.
CCA oil exporters also need prices above $60 to balance their budgets

**CCA Oil Exporters: Fiscal Breakeven Prices, 2015**
(U.S. dollars per barrel)

January 2015 REO Update Baseline for 2015
$5³

Sources: National authorities; and IMF staff calculations.
³APSP oil prices.

Large spillovers from Russia because of close linkages through remittances, exports and FDI

**Shares of Remittance Inflows by Remitting Region**
(Percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>CCAOE</th>
<th>CCAOI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>2012</td>
<td>70</td>
<td>30</td>
</tr>
</tbody>
</table>

Sources: World Bank; and IMF staff calculations.

**Share of Non-oil Exports by Destination**
(Percent, period averages)

<table>
<thead>
<tr>
<th>Year</th>
<th>CCAOE</th>
<th>CCAOI</th>
</tr>
</thead>
<tbody>
<tr>
<td>98-02</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>07-11</td>
<td>30</td>
<td>70</td>
</tr>
</tbody>
</table>

Sources: UN, Comtrade; and IMF staff calculations.
CCA currencies have come under pressure in tandem with the ruble

Exchange Rate Index
(National currency per USD, indexed to Jan 1, 2014)

Twin shocks of Russia’s recession and lower oil prices have weakened the CCA outlook

Real GDP Growth
(Percent)

Sources: Bloomberg; and IMF staff calculations.

Sources: National authorities; and IMF staff calculations.
### Policy Implications for CCA countries

#### In the Short Run:
- Faced with adverse spillovers from Russia, countries should implement countercyclical fiscal policy if fiscal space allows and financing is available.
- Increased exchange rate flexibility would facilitate adjustment of economies to adverse shocks.
- Tightening of monetary policy would help address signs of inflationary pressures and help limit exchange rate pressures.

#### Over the Medium Term:
- Oil exporters would need to reassess medium-term spending plans to the extent that the oil price decline is persistent. Oil importers should resume fiscal consolidation to rebuild buffers as soon as cyclical conditions allow.
- Stepped up structural reform efforts are needed to diversify economies and improve the business climate.

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**Thank you!**