

MENAP Oil-Importing Countries

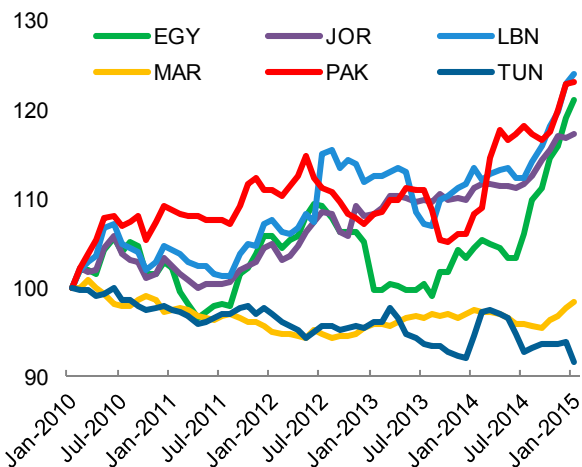
Turning a Corner: Sluggish Economic Activity Picking Up in 2015

Following the 2011 downturn, economic activity has been slow to recover in MENAP oil importers.³ Growth lingered at 3 percent in 2014, and unemployment remained close to 11 percent. Aspirations sprouting from the onset of political transitions in the Arab world have not yet been fulfilled, and populations await better access to job and business opportunities, education, and healthcare.

In 2014, economic activity was weighed down by disappointing export growth, security concerns, and unresolved supply-side bottlenecks. Exports were adversely affected by weak euro area growth (the Maghreb’s key trading partner) and deteriorating competitiveness. Real exchange rates appreciated (Figure 1) as nominal exchange rates appreciated against the euro, on the back of a strengthening U.S. dollar, against which some countries peg their currencies. Security risks discouraged tourism (Egypt,

Lebanon) and coupled with spillovers from regional conflicts (Iraq, Libya, Gaza, Syria) hurt confidence. Developments in Iraq and Syria also resulted in large refugee flows and trade disruptions in Jordan and Lebanon and exacerbated the political impasse in Lebanon. Electricity supply disruptions (Egypt, Lebanon, Pakistan) and limited access to bank credit added to headwinds from weak confidence, taking a toll on private sector sentiment. Lower oil prices, due to their appearance late in the year and slow pass-through to local fuel prices, had little effect on reducing production costs and increasing disposable incomes.

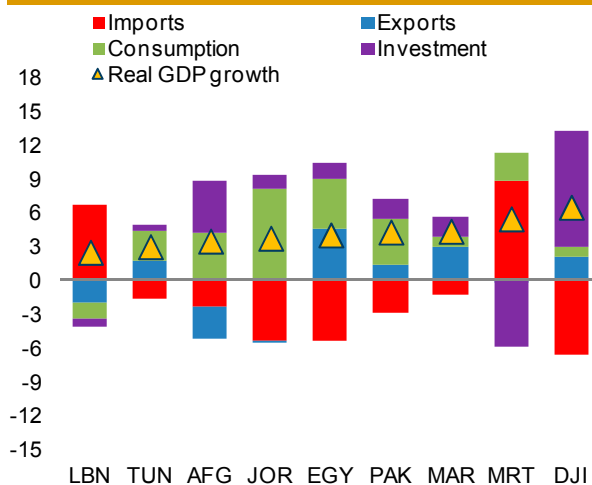
Figure 1.
Real Effective Exchange Rates
(Index, Jan. 2010=100)



Source: IMF INS database.

³ Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, and Tunisia.

Figure 2.
Drivers of Growth, 2015: Exports and Investment Complement Consumption
(Contributions to real GDP growth, percent)



Sources: National authorities; and IMF staff calculations.

Economic growth is projected to strengthen by 1 pp to 4 percent in 2015 (Figure 2). Exports are anticipated to rise in line with the gradual recovery expected in the euro area. Domestic demand growth is also likely to pick up owing to already initiated monetary easing (Jordan, Morocco), less drag from fiscal consolidation, and increased government spending on growth-enhancing investment in infrastructure, health, and education. Signs of improving confidence have emerged, including falling risk premiums, stock market gains, and a pick-up in credit growth.

Confidence is also benefitting from last year's advances in political transitions, through elections and new constitutions. Many governments—now backed by multiyear horizons—are undertaking difficult structural reforms. These should help reduce supply-side impediments (including energy shortages), further supporting investment and exports, and countering real exchange rate appreciation pressures. Lower oil prices are likely to support confidence by helping ease fiscal and external vulnerabilities. However, given the limited pass through to retail prices across the region as a whole, its direct impact on growth may be modest and offset by intensifying security risks and spillovers from conflicts. Consumption will continue being supported by remittance inflows, public wage spending, and, in some cases, subsidies.

Elevated Inflation Gradually Declining

Inflation is set to decline sharply in 2015—by 2½ pp to 7 percent—largely owing to lower food prices and still large negative output gaps. For most of the region, pass-through of lower international oil prices is weak and energy subsidy phase-outs and currency depreciation will exert some upward pressures. In some cases, the removal of energy subsidies, monetization of fiscal deficits, accommodative monetary policies, and last year's nominal exchange rate depreciation against the U.S. dollar (Sudan, Tunisia) could sustain inflationary pressures.

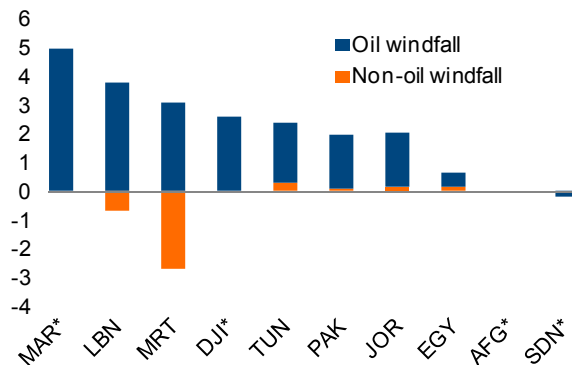
Risks Tilted to the Downside

Downside regional and domestic risks dominate. Intensified security and social tensions, accompanied by larger spillovers to neighboring countries and setbacks in political transitions and reform implementation could further undermine trade, confidence, and macroeconomic stability.

External risks are also tilted to the downside. Lower-than-expected growth in the euro area, the GCC, or emerging markets could slow tourism, exports, remittances, and financing support. Pass-through from expected increases in U.S. interest rates is estimated to be partial and slow because of MENAP oil importers' limited global financial integration. A weakening of competitiveness might lead to negative surprises in

export growth. On the upside, a greater-than-expected windfall from lower oil prices or a faster recovery in the euro area could bolster growth.

Figure 3.
External Gains from Lower Commodities Prices, 2015
(Percent of GDP)



Note: Data limitations preclude estimating non-oil commodities' windfall for countries indicated with asterisks. Non-oil windfall refers to gain/loss from changes in other commodity prices, including mining, metals, and agricultural products.

Sources: World Bank WITS database; Haver; IMF WEO; national authorities; and IMF staff calculations.

Cheaper Oil Reduces Vulnerabilities

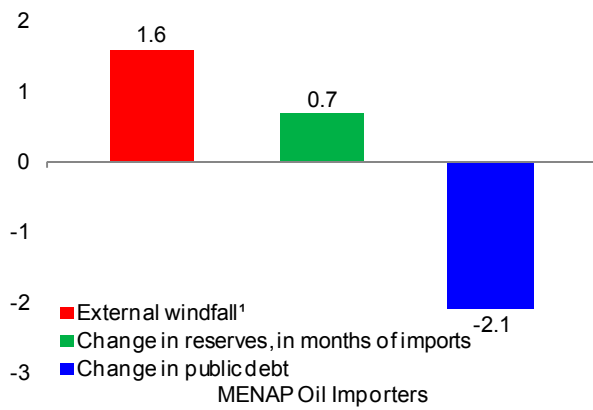
Lower oil prices are expected to help reduce external and fiscal vulnerabilities this year. Although benefits from reduced oil import bills are partially offset by declining nonoil commodity export prices (Figure 3), net external gains are still substantial, estimated at \$16 billion (1½ percent of GDP) for 2015.

These gains are expected to be mostly saved by the public and private sectors, improving current account balances by ½ pp of GDP and international reserves by ¾ months of imports in 2015 (Figure 4).

Where pass-through to domestic fuel prices is relatively strong and fast (Lebanon, Pakistan), precautionary saving in response to uncertainty about the duration of the oil price shock and uncertainties amid continuing political transitions, is likely to cause households and firms to save most of the income gains resulting from lower oil prices. The boost to private consumption and investment from the remaining gains across the region is expected to be offset by the negative confidence effects of intensifying security concerns and regional spillovers.

In countries where pass-through to local fuel prices is weak because of remaining subsidies or low competition, gains from lower oil prices will accrue mostly to state-owned energy enterprises. Like private firms, such enterprises are likely to save most of the gains, especially given deep-rooted weaknesses in their balance sheets. Budgetary savings from lower energy subsidies (estimated at ½ percent of GDP in 2015) will mainly benefit countries where subsidies remain in place (for instance, Egypt, Tunisia, Sudan). Reflecting the significance of such fiscal and quasi-fiscal savings, projections of public debt for 2015 have been lowered by 2 pp of GDP from the last October REO to 75 percent of GDP.

Figure 4.
External Windfall and Gains to Reserves and Public Debt, 2015
(Percent of GDP unless specified otherwise, revision between October 2014 REO and May 2015 REO update)



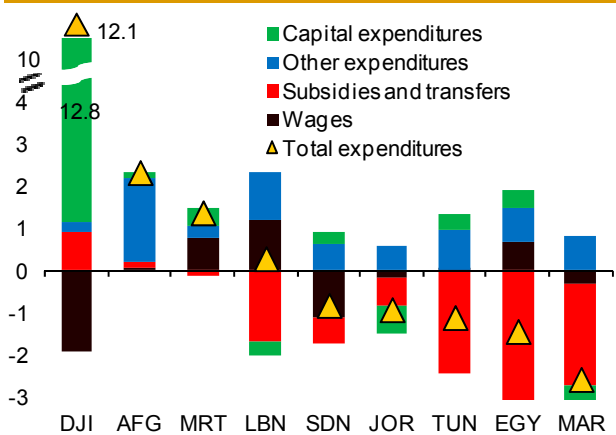
Sources: National authorities; and IMF staff calculations.
¹Based on 2015 oil price assumptions of \$58.14 (April 2015 WEO) compared to \$99.36 (October 2014 WEO).

Fiscal Consolidation Further Eases Vulnerabilities

Subsidy reforms have helped halt the deterioration of fiscal deficits, which declined by 1½ percentage points to just below 8 percent of GDP in 2014. The largest savings came from lower energy subsidy bills (Figure 5). Subsidy reforms created space for increasing targeted social assistance and transfers as well as spending on education and healthcare. Wage bills and capital spending were broadly unchanged,

except in Egypt where increases in both categories were financed largely by GCC grants. Fiscal consolidation, along with lower energy bills in the last quarter of 2014, helped narrow current account deficits and strengthen external buffers. International reserves rose by 12 billion dollars from 4½ months of imports to more than 5 months of imports in 2014. Nonetheless, reserves coverage remains low – around three months of imports – in the region’s largest economies, Egypt and Pakistan.

Figure 5.
Change in Expenditure¹
(Percent of GDP, 2013–15)



Sources: National authorities; and IMF staff calculations.
¹ Due to insufficient data, Pakistan is not included.

Governments are expected to continue to consolidate their fiscal positions in 2015, with a new focus on revenue measures. Fiscal deficits are expected to decline by another 1 percentage point of GDP to 7 percent of GDP this year. Increased revenues will complement ongoing spending cuts. A new policy emphasis on tax revenue measures—including eliminating exemptions, addressing loopholes, strengthening administration, and introducing income tax reforms (Jordan) and a VAT (Egypt)—will contribute. Lebanon and Pakistan have also raised taxes on fuel products. In some cases higher revenues and savings from energy subsidy reforms⁴ will be partly channeled into higher spending on infrastructure, education, and healthcare. Progress in consolidation, including by saving part of the windfall

⁴ See details of recent reforms in the October 2014 REO.

from lower oil prices, should help bolster confidence and increase the availability of bank credit for private investment, offsetting some of its drag on growth.

Despite declining fiscal deficits, government financing continues to burden the banking system. High concentration of bank loans among the government and state-owned enterprises presents a risk to banking stability, even though banks are generally well-capitalized, profitable, and liquid, and high non-performing loans have broadly stabilized.

Macroeconomic Policy to Balance Growth and Stability Objectives

Since fiscal and external sustainability remains a concern across the region, gains from lower oil prices should largely be used to strengthen buffers and reduce public debt. Lower oil prices also provide an opportunity to bolster these efforts with further removal of costly and inefficient energy subsidies—

which benefit the rich (Egypt, Tunisia, Sudan)—and introduction of automatic fuel price adjustment mechanisms. In cases where buffers are already strong, the windfall and savings from subsidy reforms should be used to support growth-enhancing spending which would also boost domestic demand. However, given uncertainty over the persistence of low oil prices, countries should avoid entering into irreversible spending commitments such as increases in public sector wage spending.

Rising international reserves and declining inflation create favorable conditions to increasing exchange rate flexibility and easing monetary policy to support the recovery. Accommodative monetary policies would also soften the adverse impact of fiscal consolidation on domestic demand growth. However, prudence is needed when applied in conjunction with exchange rate depreciation or when inflation remains in double digits.

MENAP Region: Selected Economic Indicators, 2000–16*(Percent of GDP, unless otherwise indicated)*

	Average 2000–10	2011	2012	2013	2014	Projections	
						2015	2016
MENAP¹							
Real GDP (annual growth)	5.3	4.4	4.8	2.4	2.6	2.9	3.8
Current Account Balance	9.1	13.0	12.3	9.8	6.4	-1.9	-0.1
Overall Fiscal Balance	3.5	1.9	3.0	0.4	-2.3	-7.9	-5.2
Inflation, p.a. (annual growth)	7.0	9.3	10.1	10.0	6.9	6.1	6.3
MENAP oil exporters							
Real GDP (annual growth)	5.5	5.3	5.7	2.1	2.4	2.4	3.5
Current Account Balance	13.2	18.1	18.2	14.7	10.0	-1.0	1.7
Overall Fiscal Balance	7.7	6.0	8.1	5.0	0.3	-8.4	-5.0
Inflation, p.a. (annual growth)	7.2	8.9	10.4	10.4	5.8	5.8	6.1
Of Which: Gulf Cooperation Council							
Real GDP (annual growth)	5.5	8.8	5.4	3.6	3.6	3.4	3.2
Current Account Balance	15.8	23.6	24.4	20.6	16.5	2.8	5.4
Overall Fiscal Balance	12.4	12.4	15.1	12.1	4.6	-7.9	-3.6
Inflation, p.a. (annual growth)	2.9	3.0	2.4	2.8	2.6	2.1	2.5
MENAP oil importers							
Real GDP (annual growth)	5.0	2.4	2.9	3.1	3.0	4.0	4.4
Current Account Balance	-1.6	-3.4	-6.2	-5.1	-4.0	-4.3	-4.5
Overall Fiscal Balance	-5.0	-7.1	-8.3	-9.5	-7.9	-7.0	-5.6
Inflation, p.a. (annual growth)	6.5	10.2	9.3	9.1	9.4	6.9	6.5
MENA¹							
Real GDP (annual growth)	5.4	4.5	4.9	2.3	2.4	2.7	3.7
Current Account Balance	9.9	14.0	13.4	10.7	7.0	-2.0	0.0
Overall Fiscal Balance	4.4	3.0	4.3	1.5	-2.0	-8.4	-5.4
Inflation, p.a. (annual growth)	6.9	8.8	10.0	10.3	6.7	6.3	6.5
MENA oil importers							
Real GDP (annual growth)	5.1	1.7	1.9	2.7	2.5	3.9	4.3
Current Account Balance	-2.0	-5.2	-8.4	-7.2	-5.5	-5.8	-6.0
Overall Fiscal Balance	-5.5	-7.4	-8.6	-10.5	-9.8	-8.5	-6.8
Inflation, p.a. (annual growth)	6.0	8.5	8.6	10.1	10.0	8.2	7.7

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

¹2011–16 data exclude Syrian Arab Republic.

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.

Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Non-GCC oil-exporting countries: Algeria, Iran, Iraq, Libya, and Yemen.

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

MENA: MENAP excluding Afghanistan and Pakistan.

MENAP Oil Exporters: Selected Economic Indicators

	Average 2000–10	2011	2012	2013	2014	Projections	
						2015	2016
Real GDP Growth	5.5	5.3	5.7	2.1	2.4	2.4	3.5
<i>(Annual change; percent)</i>							
Algeria	3.9	2.8	3.3	2.8	4.1	2.6	3.9
Bahrain	5.5	2.1	3.4	5.3	4.7	2.7	2.4
Iran, I.R. of	5.3	3.7	-6.6	-1.9	3.0	0.6	1.3
Iraq	...	7.5	13.9	6.6	-2.4	1.3	7.6
Kuwait	4.8	9.6	6.6	1.5	1.3	1.7	1.8
Libya	4.6	-62.1	104.5	-13.6	-24.0	4.6	17.7
Oman	3.6	4.1	5.8	4.7	2.9	4.6	3.1
Qatar	12.7	13.0	6.0	6.3	6.1	7.1	6.5
Saudi Arabia	5.1	10.0	5.4	2.7	3.6	3.0	2.7
United Arab Emirates	4.8	4.9	4.7	5.2	3.6	3.2	3.2
Yemen	4.5	-12.7	2.4	4.8	-0.2	-2.2	3.6
Consumer Price Inflation	7.2	8.9	10.4	10.4	5.8	5.8	6.1
<i>(Year average; percent)</i>							
Algeria	3.3	4.5	8.9	3.3	2.9	4.0	4.0
Bahrain	1.6	-0.4	2.8	3.3	2.5	2.1	1.5
Iran, I.R. of	14.5	21.5	30.5	34.7	15.5	16.5	17.0
Iraq	20.7	5.6	6.1	1.9	2.2	3.0	3.0
Kuwait	3.1	4.9	3.2	2.7	2.9	3.3	3.6
Libya	3.8	15.9	6.1	2.6	2.8	2.2	4.4
Oman	2.6	4.0	2.9	1.2	1.0	1.0	2.6
Qatar	5.0	1.9	1.9	3.1	3.0	1.8	2.7
Saudi Arabia	1.8	3.7	2.9	3.5	2.7	2.0	2.5
United Arab Emirates	5.1	0.9	0.7	1.1	2.3	2.1	2.3
Yemen	11.0	19.5	9.9	11.0	8.2	8.1	7.5
General Gov. Overall Fiscal Balance	7.7	6.0	8.1	5.0	0.3	-8.4	-5.0
<i>(Percent of GDP)</i>							
Algeria	5.2	-1.2	-4.1	-1.8	-6.8	-12.9	-10.0
Bahrain ¹	0.4	-1.5	-3.2	-4.3	-5.7	-9.9	-6.2
Iran, I.R. of ²	2.5	-1.3	-1.9	-2.2	-1.8	-2.7	-2.3
Iraq	...	4.7	4.1	-5.8	-3.0	-10.0	-6.3
Kuwait ¹	27.6	33.9	35.5	34.9	25.5	6.2	12.9
Libya	14.0	-15.9	27.8	-4.0	-43.5	-68.2	-43.3
Oman ¹	9.6	9.4	4.7	3.2	-1.5	-14.8	-11.6
Qatar	9.2	10.2	14.2	20.5	14.5	5.6	1.9
Saudi Arabia	10.8	12.0	14.7	8.7	-0.5	-14.2	-8.1
United Arab Emirates ³	11.6	6.3	10.9	9.9	6.0	-3.0	0.0
Yemen	-2.2	-4.5	-6.3	-6.9	-4.1	-5.3	-5.1
Current Account Balance	13.2	18.1	18.2	14.7	10.0	-1.0	1.7
<i>(Percent of GDP)</i>							
Algeria	14.5	9.9	5.9	0.4	-4.3	-15.7	-13.2
Bahrain	5.9	11.2	7.2	7.8	5.3	-2.1	-0.7
Iran, I.R. of	5.4	10.5	6.3	7.4	3.8	0.8	1.2
Iraq	...	12.0	6.7	1.3	-3.5	-9.6	-3.6
Kuwait	30.7	42.7	45.2	39.6	35.3	15.7	19.3
Libya	25.4	9.1	29.1	13.6	-30.1	-52.8	-30.9
Oman	8.7	13.2	10.3	6.6	2.2	-15.0	-13.0
Qatar	19.1	30.6	32.6	30.8	25.1	8.4	5.0
Saudi Arabia	15.6	23.7	22.4	17.8	14.1	-1.0	3.7
United Arab Emirates	11.7	14.7	18.5	16.1	12.1	5.3	7.2
Yemen	0.7	-3.0	-1.7	-3.1	-1.6	-2.2	-1.5

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

Note: Variables reported on a fiscal year basis for Iran (March 21/March 20) and Qatar (April/March).

¹Central government.

²Central government and National Development Fund excluding Targeted Subsidy Organization.

³Central and state governments. Central government includes budgetary central government, extra-budgetary funds, and social security funds.

MENAP Oil Importers: Selected Economic Indicators

	Average					Projections	
	2000–10	2011	2012	2013	2014	2015	2016
Real GDP Growth	5.0	2.4	2.9	3.1	3.0	4.0	4.4
<i>(Annual change; percent)</i>							
Afghanistan, Rep. of	...	6.5	14.0	3.7	1.5	3.5	4.9
Djibouti	3.5	4.5	4.8	5.0	6.0	6.5	7.0
Egypt ¹	5.0	1.8	2.2	2.1	2.2	4.0	4.3
Jordan	6.1	2.6	2.7	2.8	3.1	3.8	4.5
Lebanon	5.1	0.9	2.8	2.5	2.0	2.5	2.5
Mauritania	4.5	4.4	6.0	5.7	6.4	5.5	6.7
Morocco	4.6	5.0	2.7	4.4	2.9	4.4	5.0
Pakistan	4.5	3.6	3.8	3.7	4.1	4.3	4.7
Sudan ²	7.3	-1.2	-3.5	3.7	3.4	3.3	3.9
Syrian Arab Republic ³	4.3	...	...	...	...	...	...
Tunisia	4.4	-1.9	3.7	2.3	2.3	3.0	3.8
West Bank and Gaza ⁴	3.3	11.2	6.9	1.9	-0.8	0.9	4.2
Consumer Price Inflation	6.5	10.2	9.3	9.1	9.4	6.9	6.5
<i>(Year average; percent)</i>							
Afghanistan, Rep. of	...	11.8	6.4	7.4	4.6	3.7	5.5
Djibouti	3.5	5.1	3.7	2.4	2.9	3.0	3.5
Egypt ¹	7.9	10.1	7.1	9.5	10.1	9.8	10.1
Jordan	3.8	4.2	4.5	4.8	2.9	1.2	2.5
Lebanon	2.6	5.0	6.6	4.8	1.9	1.1	2.8
Mauritania	6.3	5.7	4.9	4.1	3.5	4.5	4.6
Morocco	1.8	0.9	1.3	1.9	0.4	1.5	2.0
Pakistan	7.4	13.7	11.0	7.4	8.6	4.7	4.5
Sudan ²	9.1	18.1	35.5	36.5	36.9	19.0	10.5
Syrian Arab Republic ³	4.9	...	...	...	...	...	...
Tunisia	1.5	3.5	5.1	5.8	4.9	5.0	4.1
West Bank and Gaza ⁴	4.0	2.9	2.8	1.7	1.7	1.6	2.6
General Gov. Overall Fiscal Balance	-5.0	-7.1	-8.3	-9.5	-7.9	-7.0	-5.6
<i>(Percent of GDP)</i>							
Afghanistan, Rep. of ⁵	...	-0.6	0.2	-0.6	-2.2	-0.1	-0.6
Djibouti	-2.1	-1.0	-2.6	-5.4	-12.0	-13.1	-12.5
Egypt ¹	-7.3	-9.8	-10.5	-14.1	-13.6	-11.8	-9.4
Jordan ⁵	-4.2	-5.7	-8.9	-11.1	-10.3	-2.9	-1.5
Lebanon ⁵	-12.7	-5.9	-8.4	-8.7	-7.1	-9.1	-8.6
Mauritania ^{5,6}	-3.4	0.0	2.5	-0.9	-3.6	-1.3	-1.4
Morocco ⁵	-3.7	-6.7	-7.4	-5.2	-4.9	-4.3	-3.5
Pakistan ⁷	-3.9	-6.9	-8.4	-8.1	-4.7	-4.7	-3.8
Sudan ²	-1.2	0.2	-3.3	-2.3	-1.0	-1.5	-1.4
Syrian Arab Republic ³	-2.7	...	...	...	...	...	...
Tunisia ⁸	-2.4	-3.2	-4.8	-6.0	-3.8	-5.1	-3.4
West Bank and Gaza ⁴	-27.6	-15.8	-15.1	-12.5	-12.1	-15.1	-14.0
Current Account Balance	-1.6	-3.4	-6.2	-5.1	-4.0	-4.3	-4.5
<i>(Percent of GDP)</i>							
Afghanistan, Rep. of	...	6.4	6.3	7.5	5.7	3.1	0.5
Djibouti	-6.2	-13.7	-20.3	-23.3	-27.4	-28.7	-23.2
Egypt ¹	0.9	-2.6	-3.9	-2.4	-0.8	-3.3	-4.3
Jordan	-4.5	-10.2	-15.2	-10.3	-7.0	-7.6	-6.6
Lebanon	-13.9	-15.1	-24.3	-26.7	-24.9	-22.2	-21.7
Mauritania	-13.1	-6.0	-26.5	-24.8	-27.6	-14.6	-21.9
Morocco	0.1	-8.0	-9.7	-7.6	-5.9	-4.2	-4.0
Pakistan	-1.3	0.1	-2.1	-1.1	-1.2	-1.3	-1.4
Sudan ²	-5.3	-0.4	-9.3	-8.6	-5.1	-4.0	-3.6
Syrian Arab Republic ³	-0.4	...	...	...	...	...	...
Tunisia	-3.0	-7.4	-8.2	-8.3	-8.9	-6.4	-5.2
West Bank and Gaza ⁴	-19.0	-19.8	-16.2	-13.0	-19.9	-19.7	-20.6

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.

¹Projections do not incorporate the potential impact of the investment agreements reached at the March 2015 Economic Development Conference.

²Data for 2011 exclude South Sudan after July 9. Data for 2012 and onward pertain to the current Sudan.

³2011–16 data exclude Syria due to the uncertain political situation.

⁴West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

⁵Central government. For Jordan, includes transfers to electricity company.

⁶Includes oil revenue transferred to the oil fund.

⁷Fiscal balance includes grants.

⁸Includes bank recapitalization costs and arrears payments.