



MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

Middle East and North Africa Regional Economic Outlook

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REO Themes

Global trends make policy efforts more urgent and more challenging

- **Fiscal space is shrinking**

Lower growth and oil prices, high debt, and rising interest rates constrain policy space

- **Monetary and exchange rate policies can be supportive**

Underdeveloped policy frameworks and weak communication hinder effectiveness

- **Structural reforms are more urgent**

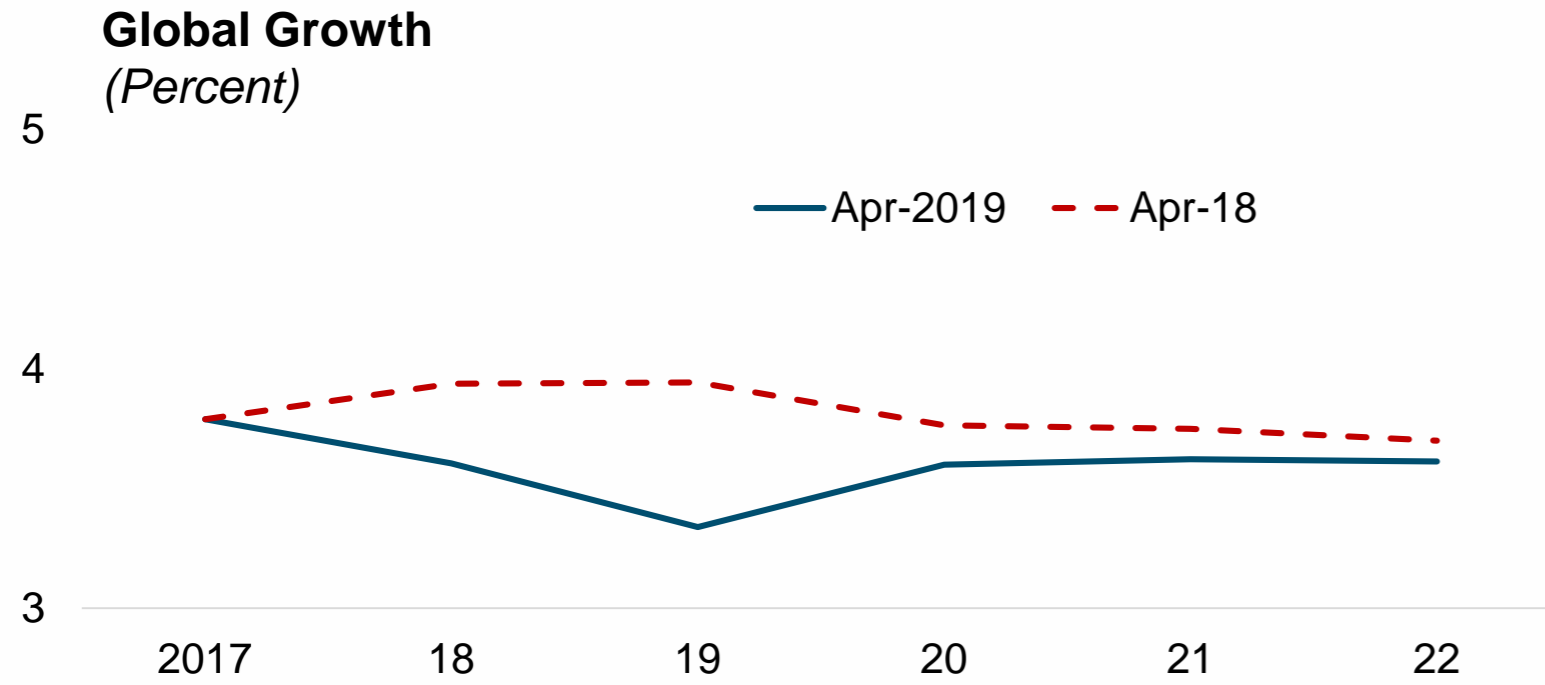
Private sector development and improved governance are critical for higher inclusive growth

Global Trends

“A delicate moment for global economy”

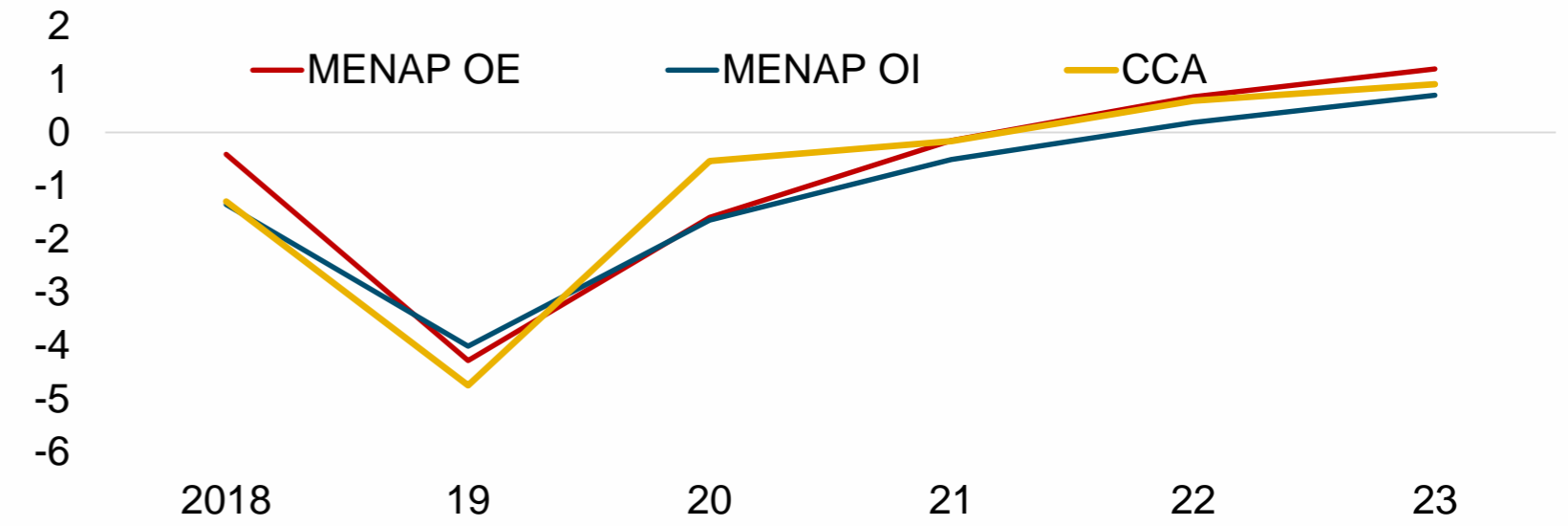
Global trends

Global growth has slowed



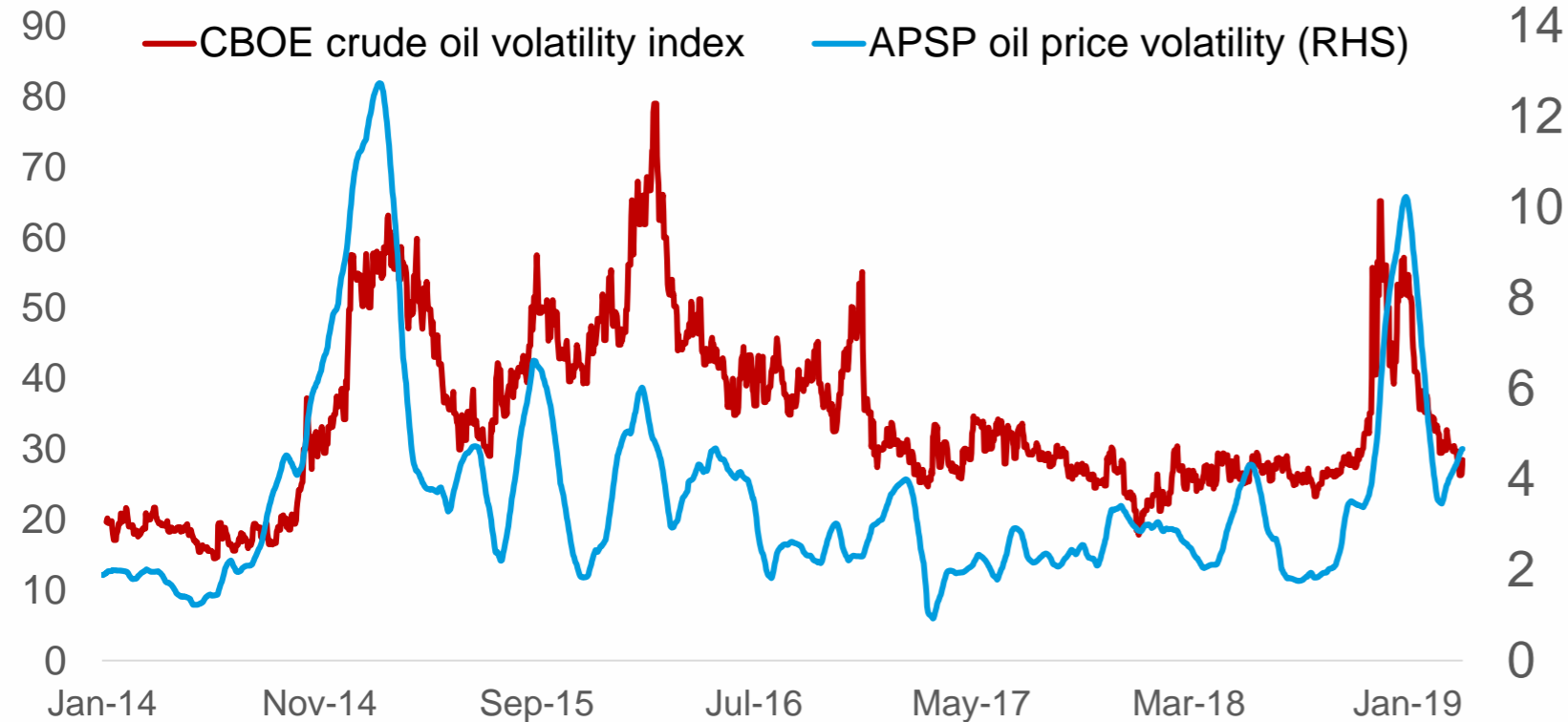
External demand is lower

Top 10 Trading Partners: Revisions to Import Growth (Percentage points)



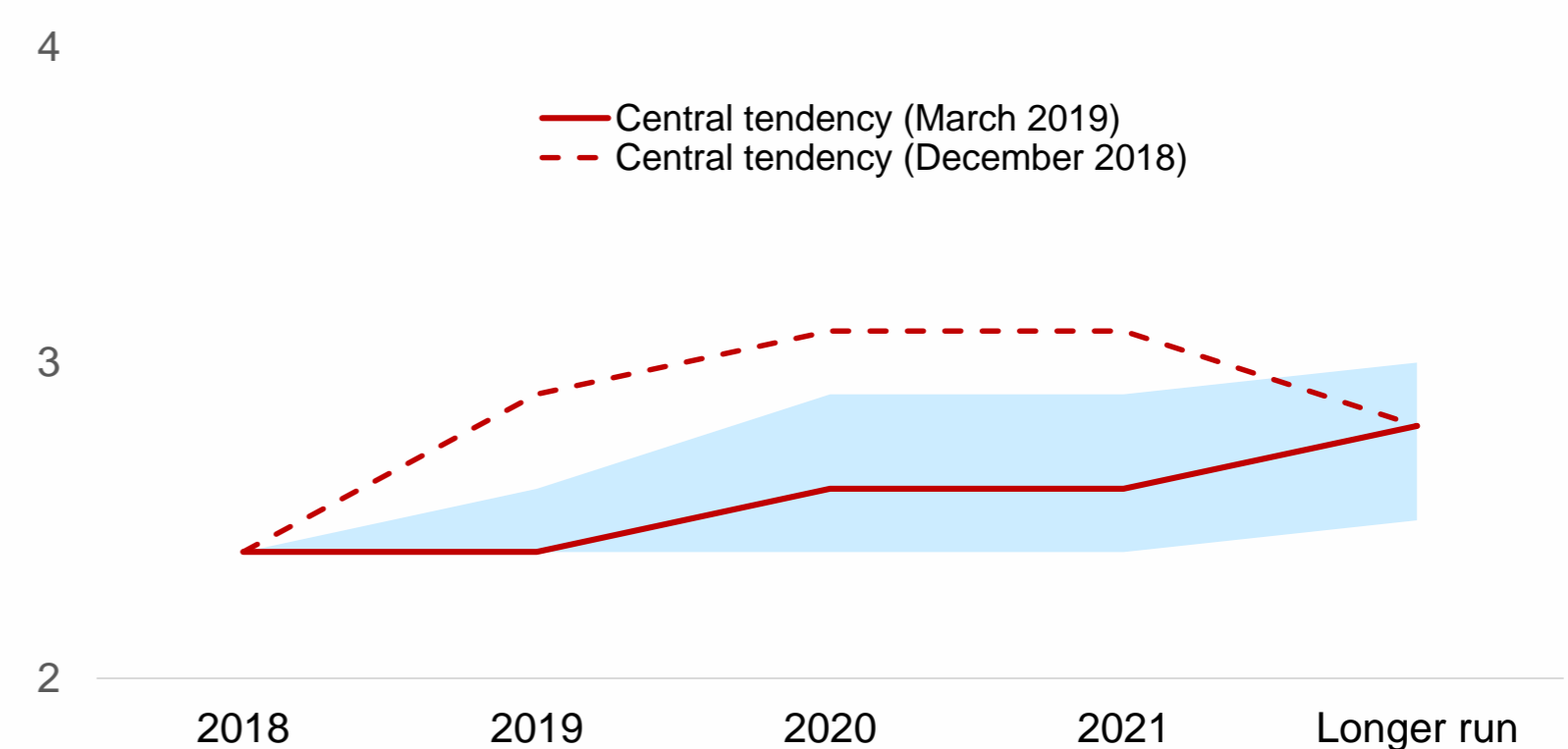
Oil prices are lower and more volatile

APSP Oil Price Volatility and CBOE Crude Oil Volatility



Global financial conditions are uncertain

Federal Reserve Funds Rate

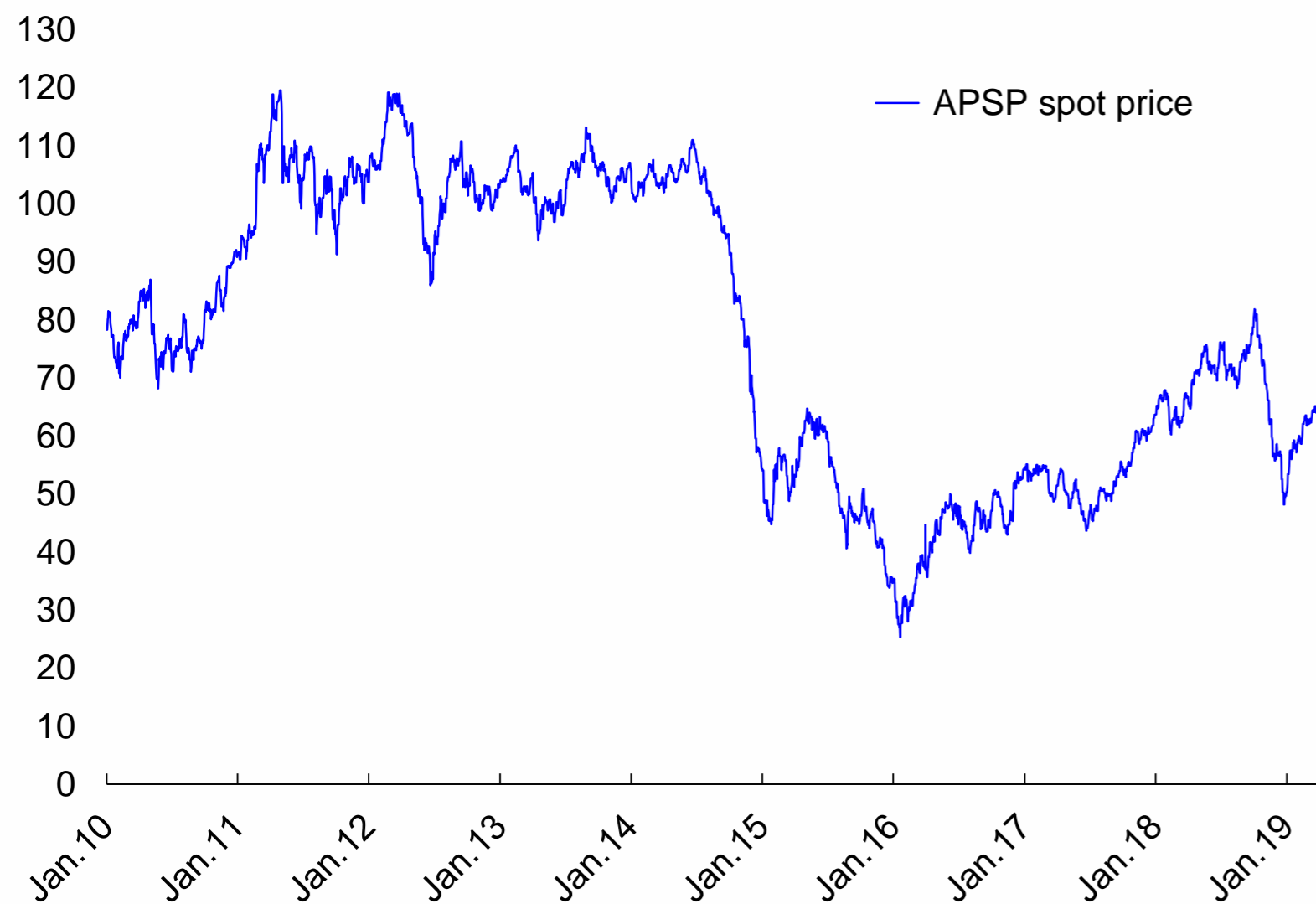


Ongoing uncertainty in oil markets

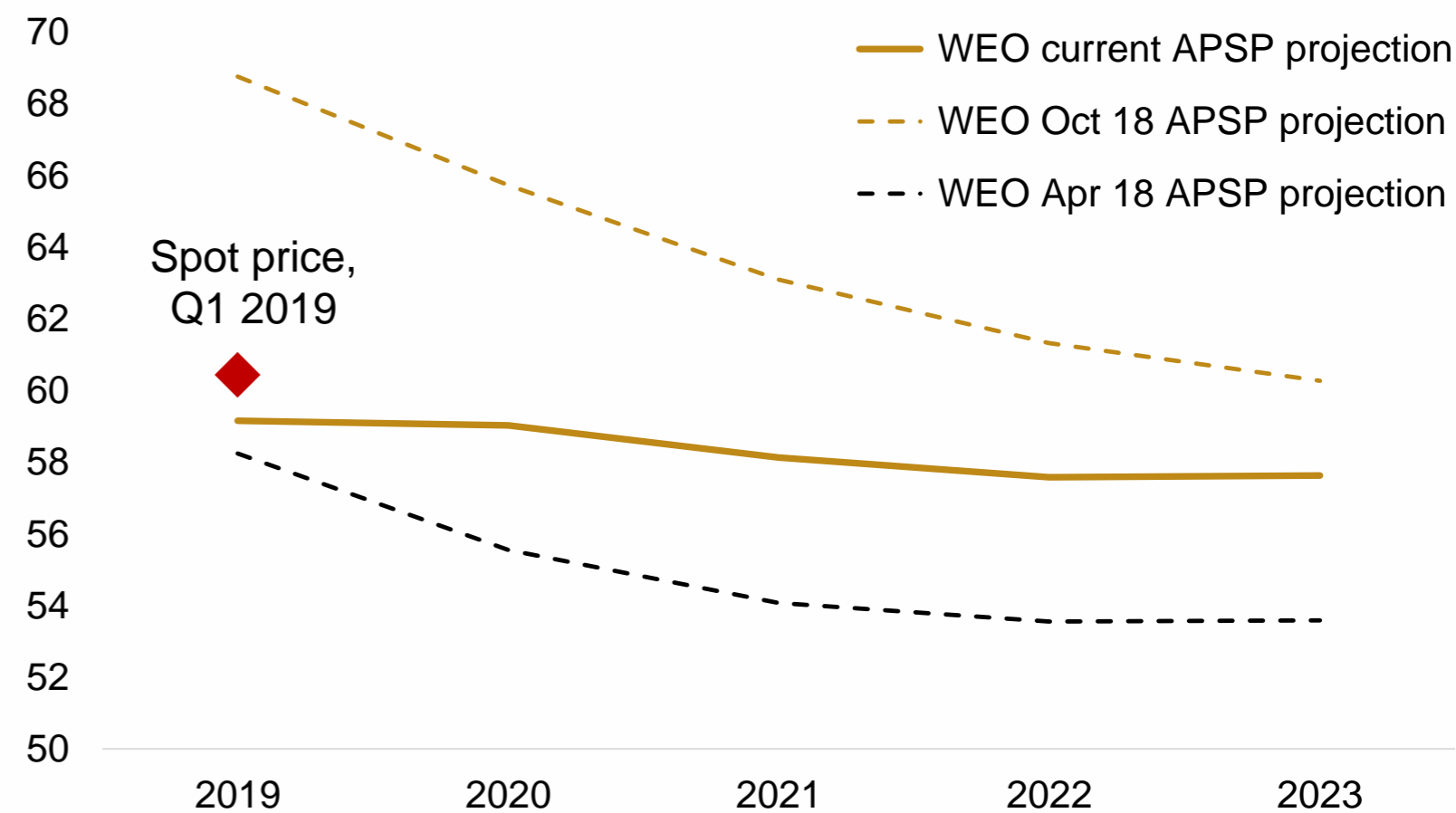
Oil prices have recovered recently...

... but are projected to trend lower

APSP¹ Crude Oil
(US dollars per barrel)



APSP¹ Crude Oil Projections
(US dollars per barrel)



Sources: Haver Analytics; and IMF staff calculations..

¹ The average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

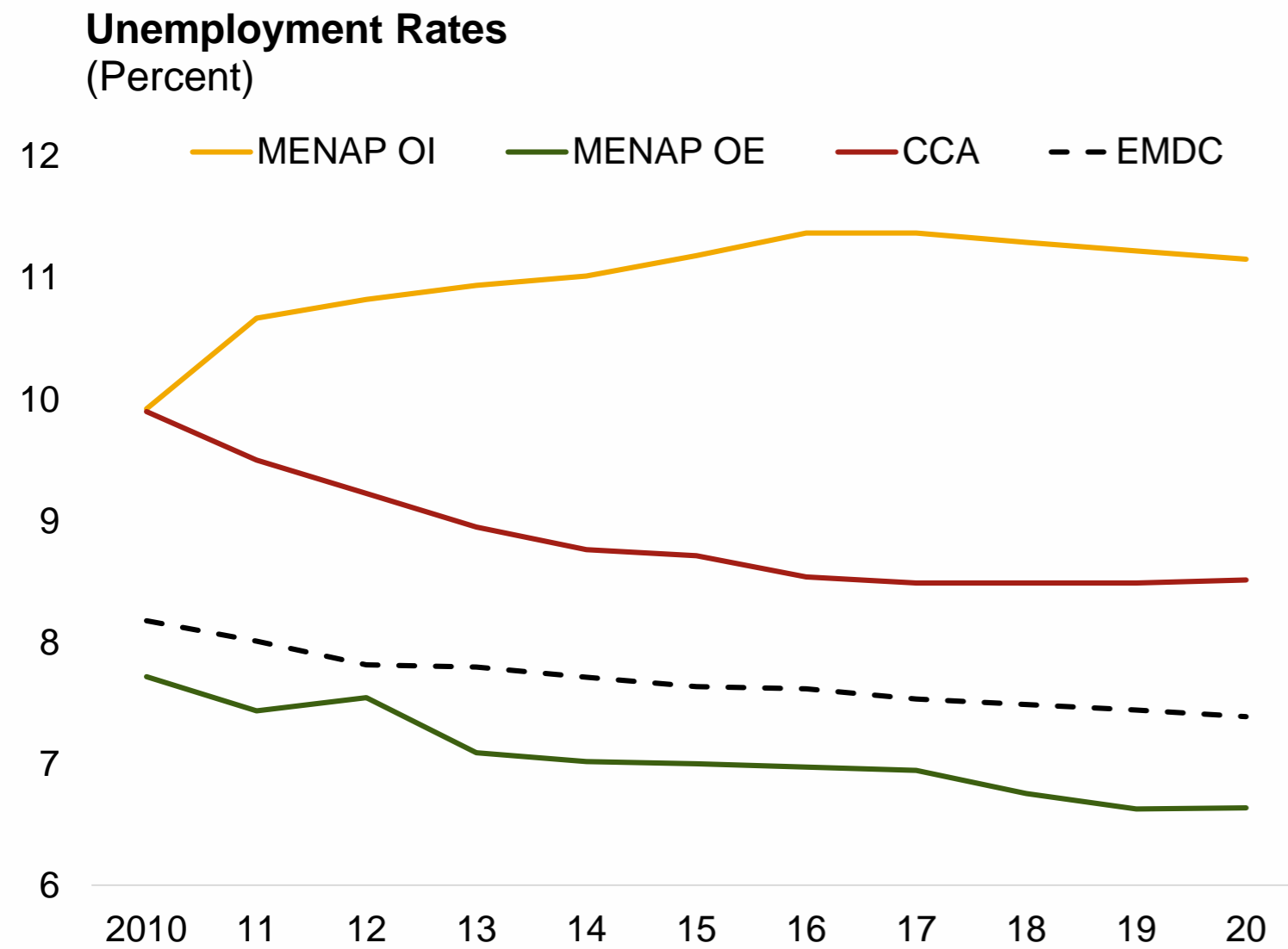
Sources: Haver Analytics; and IMF staff calculations.

Note: APSP = average price of spot prices;

¹ The average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

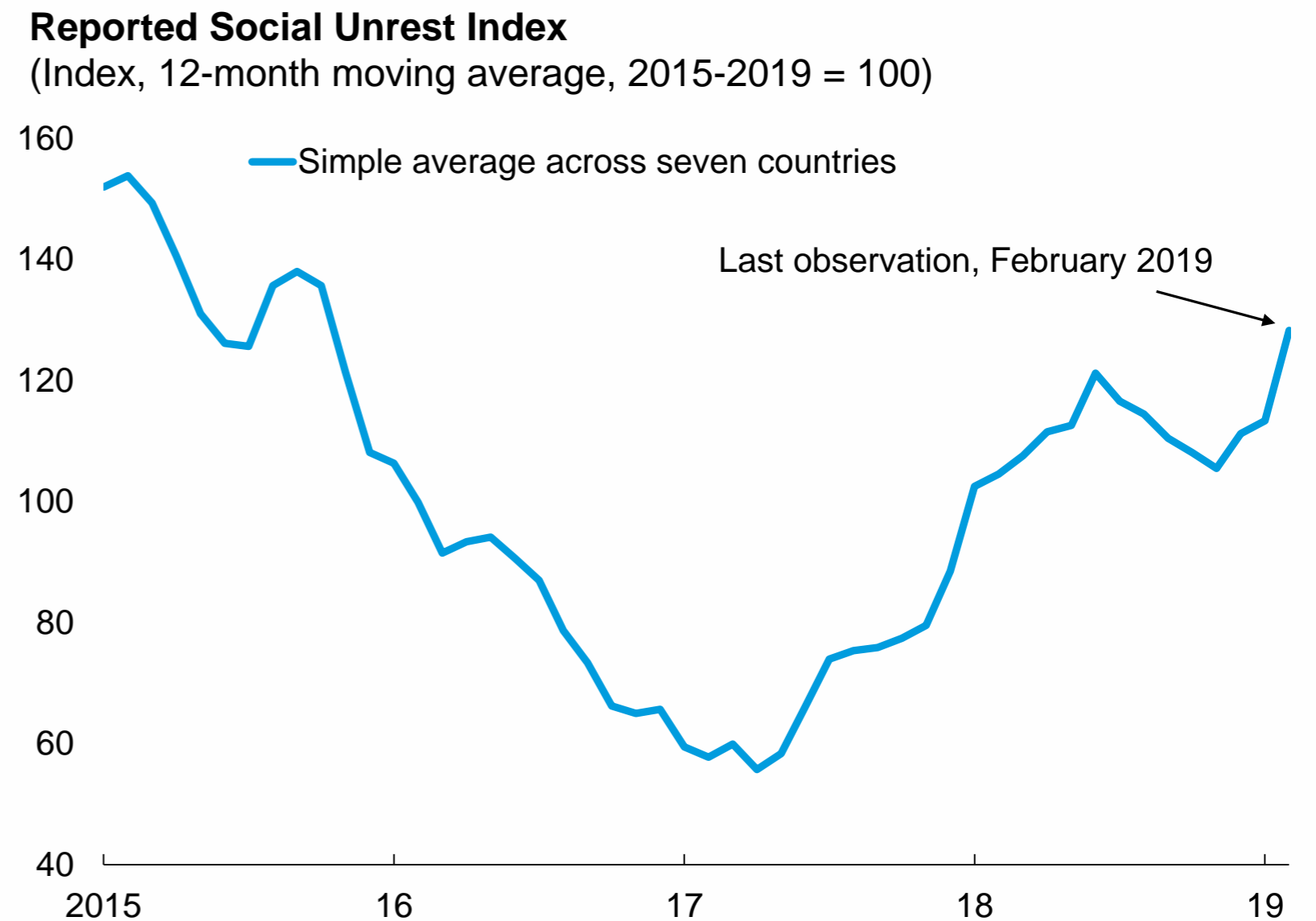
Pressure for change

Slow progress since 2011 ...



Sources: ILO: Key Indicators of the Labour Market (KILM); and IMF staff calculations.

... has fueled rising discontent



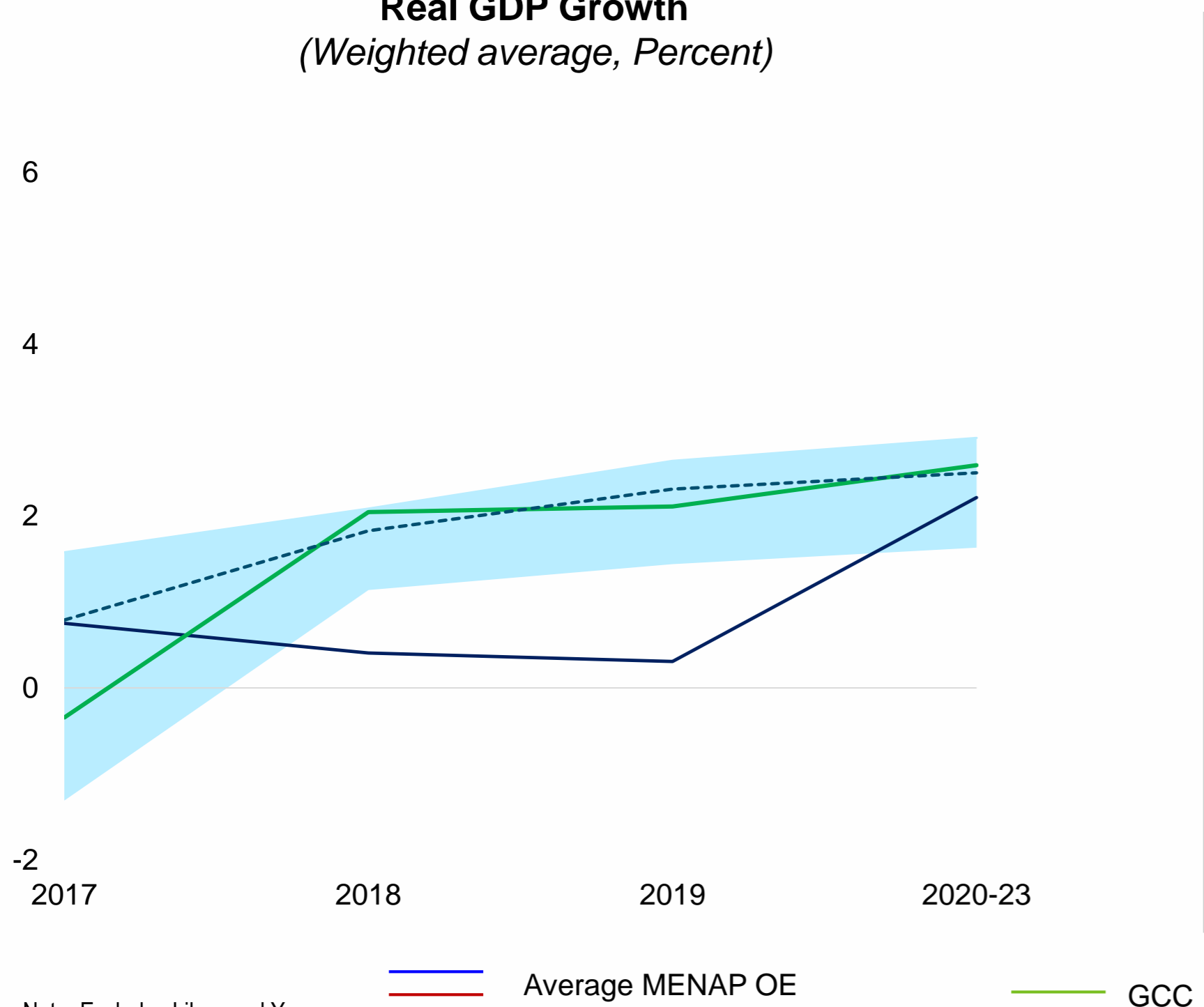
Sources: Factiva; and IMF staff calculations.

Oil Exporters

“Acclimating to lower and more volatile oil prices”

Sluggish growth recovery

Real GDP Growth
(Weighted average, Percent)

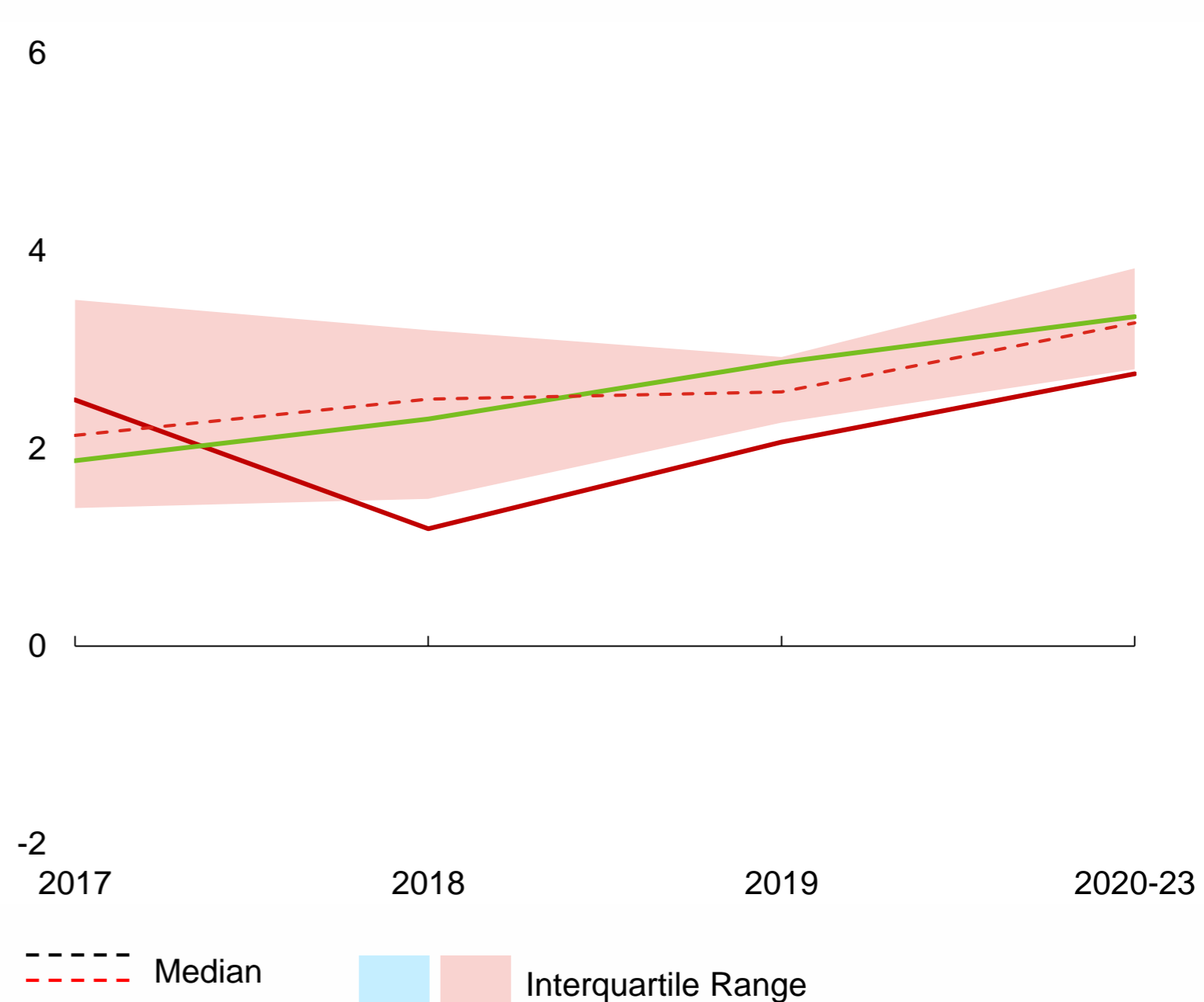


Note: Excludes Libya and Yemen.

— Average MENAP OE

— GCC

Non-Oil Real GDP Growth
(Weighted average, Percent)



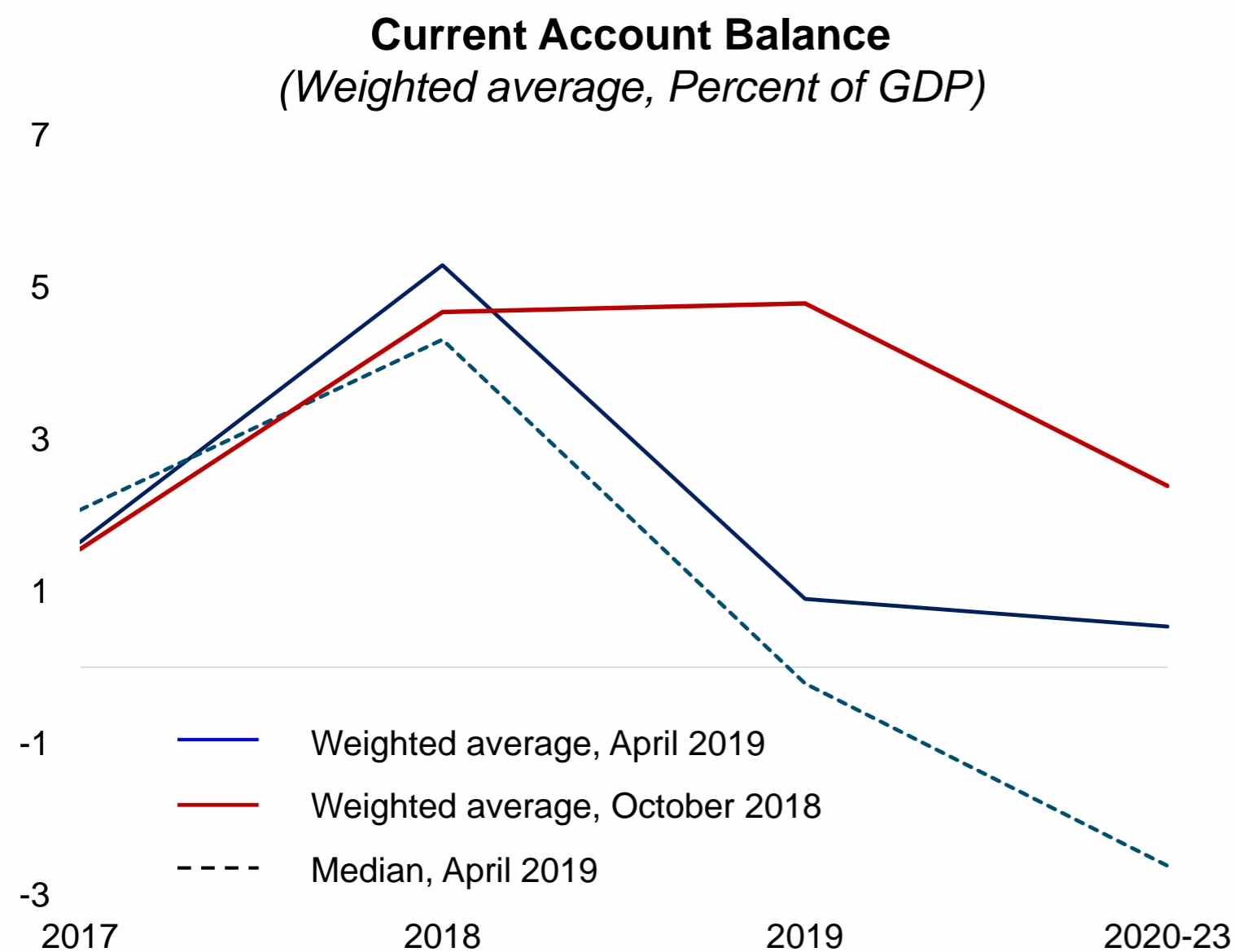
Note: Excludes Libya.

- - - Median

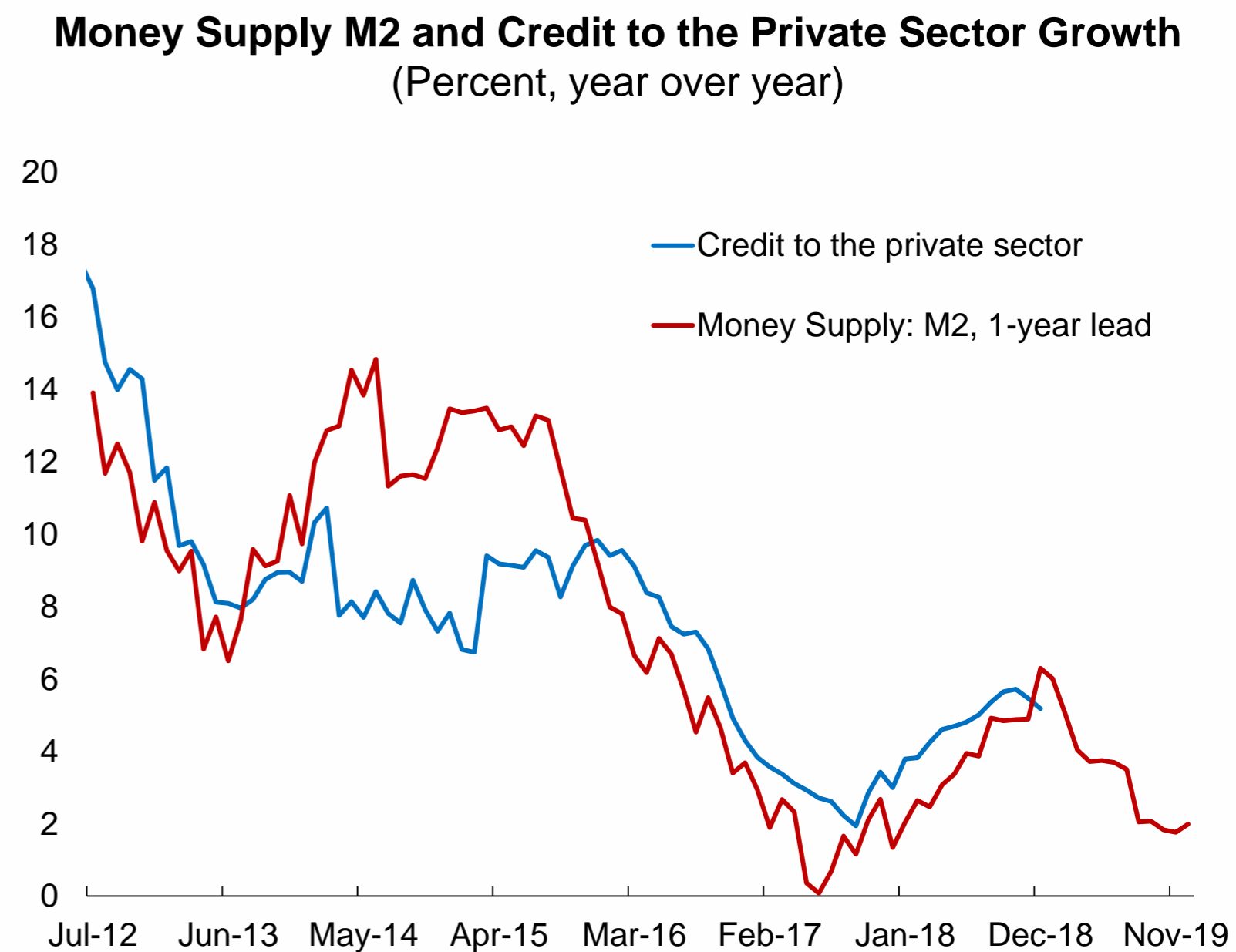
■ Interquartile Range

External Pressures

Current account balance declining...



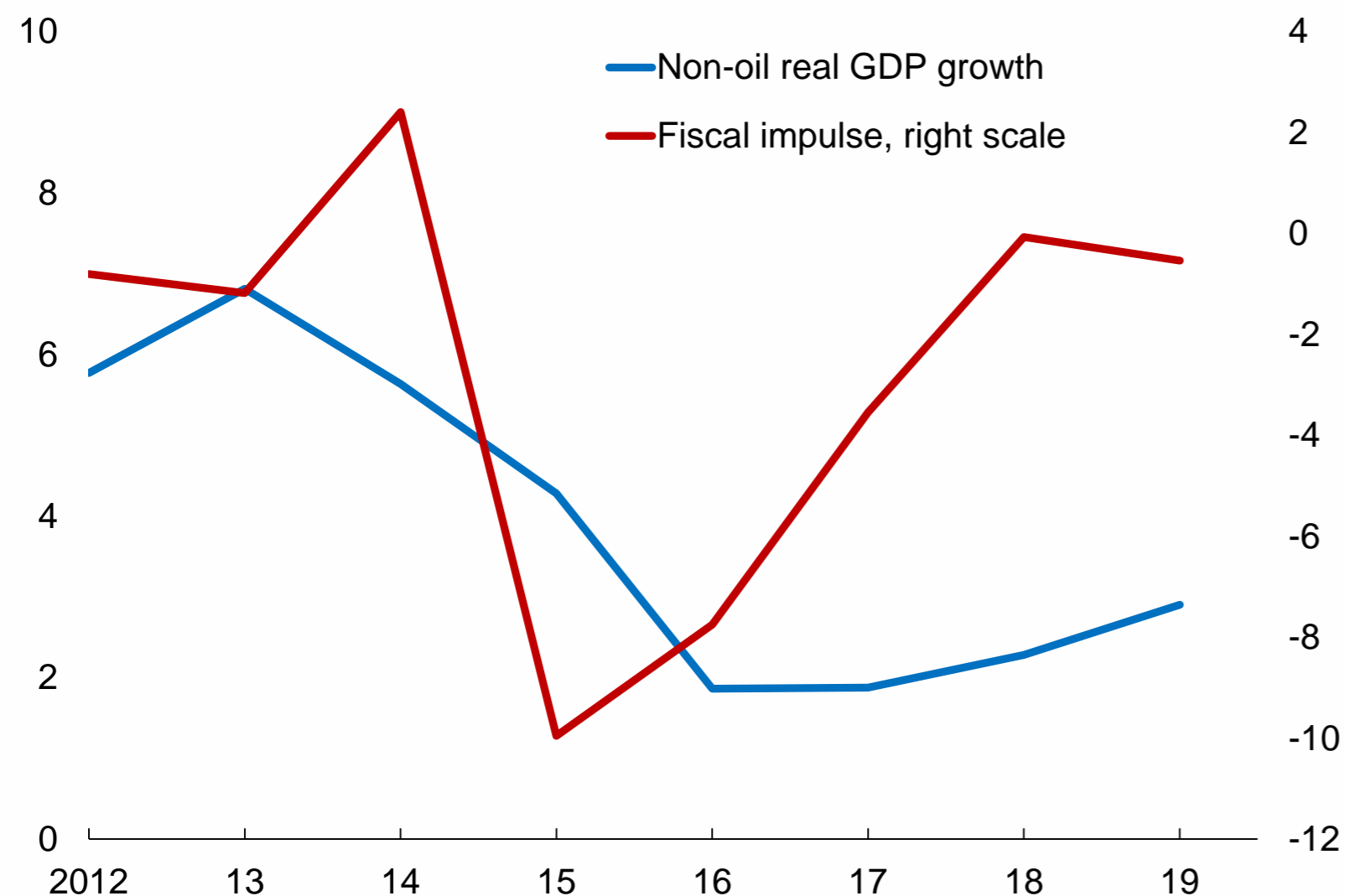
... and credit growth slowing



Fiscal policy challenges

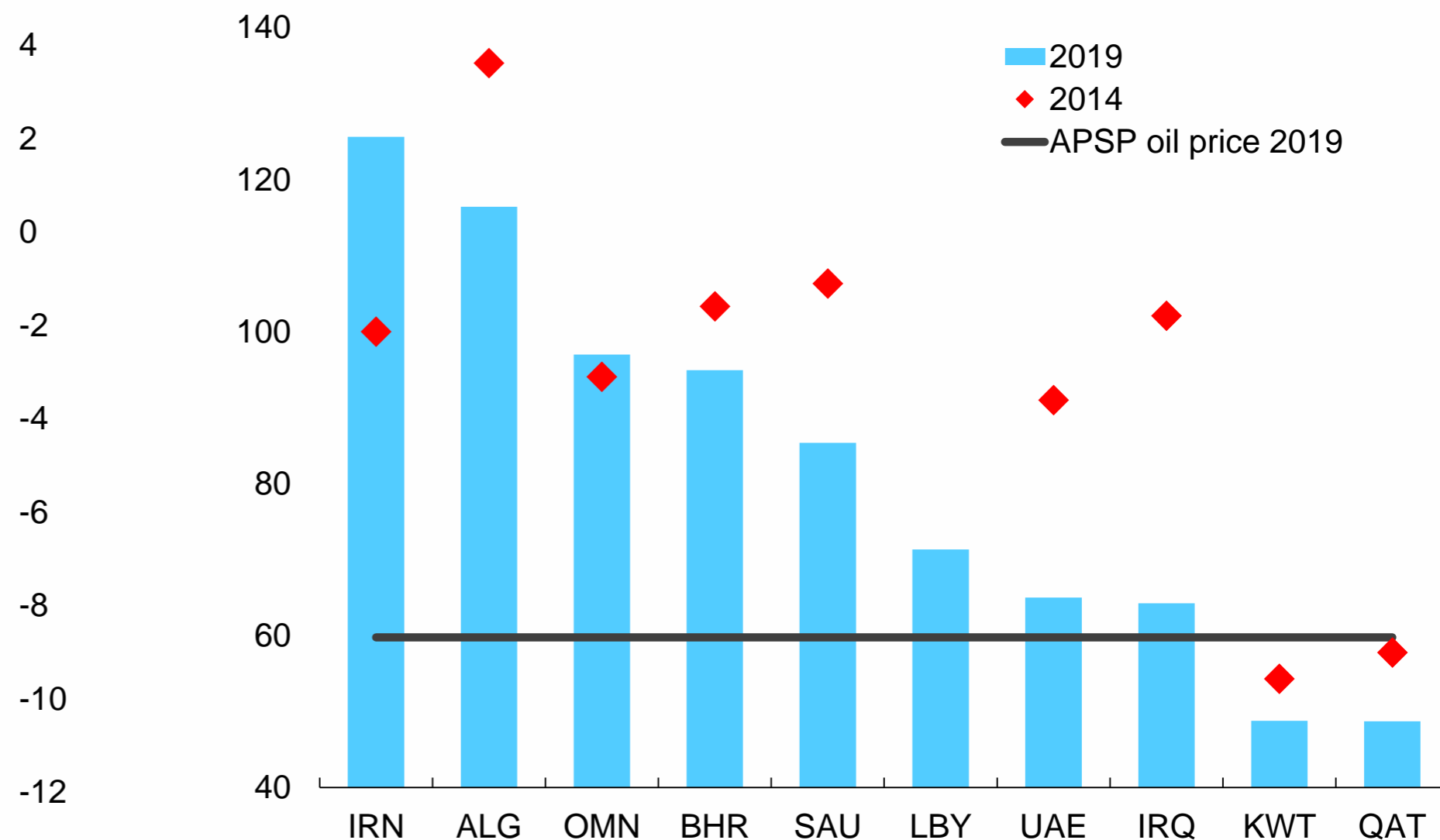
Reduced impact on growth ...

GCC: Non-Oil Real GDP Growth and Fiscal Impulses
(Percent and percent of non-oil GDP, weighted averages)



... and spending still above affordable levels

Fiscal Breakeven Oil Prices
(US\$ per barrel)



Policy advice: Deeper reforms needed to revive growth

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Fiscal

- Resume gradual consolidation
- Requires both expenditure cuts and revenue mobilization
- Insulate economy from oil shocks
- Anchor in credible medium-term framework
- Strengthen fiscal institutions

Structural

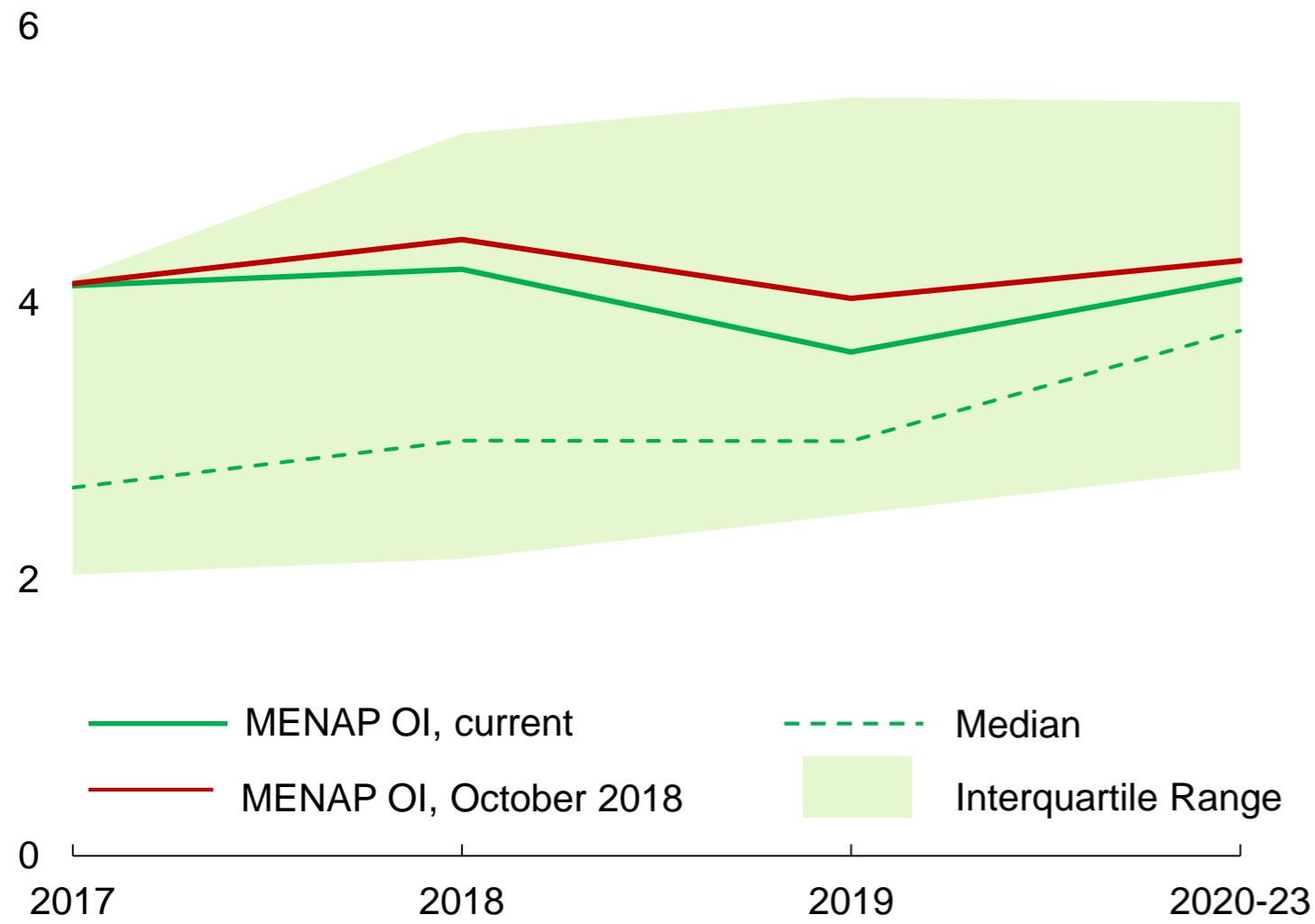
- Strengthen business environment and governance
- Improve SME access to finance
- Invest in human and physical capital

Oil Importers

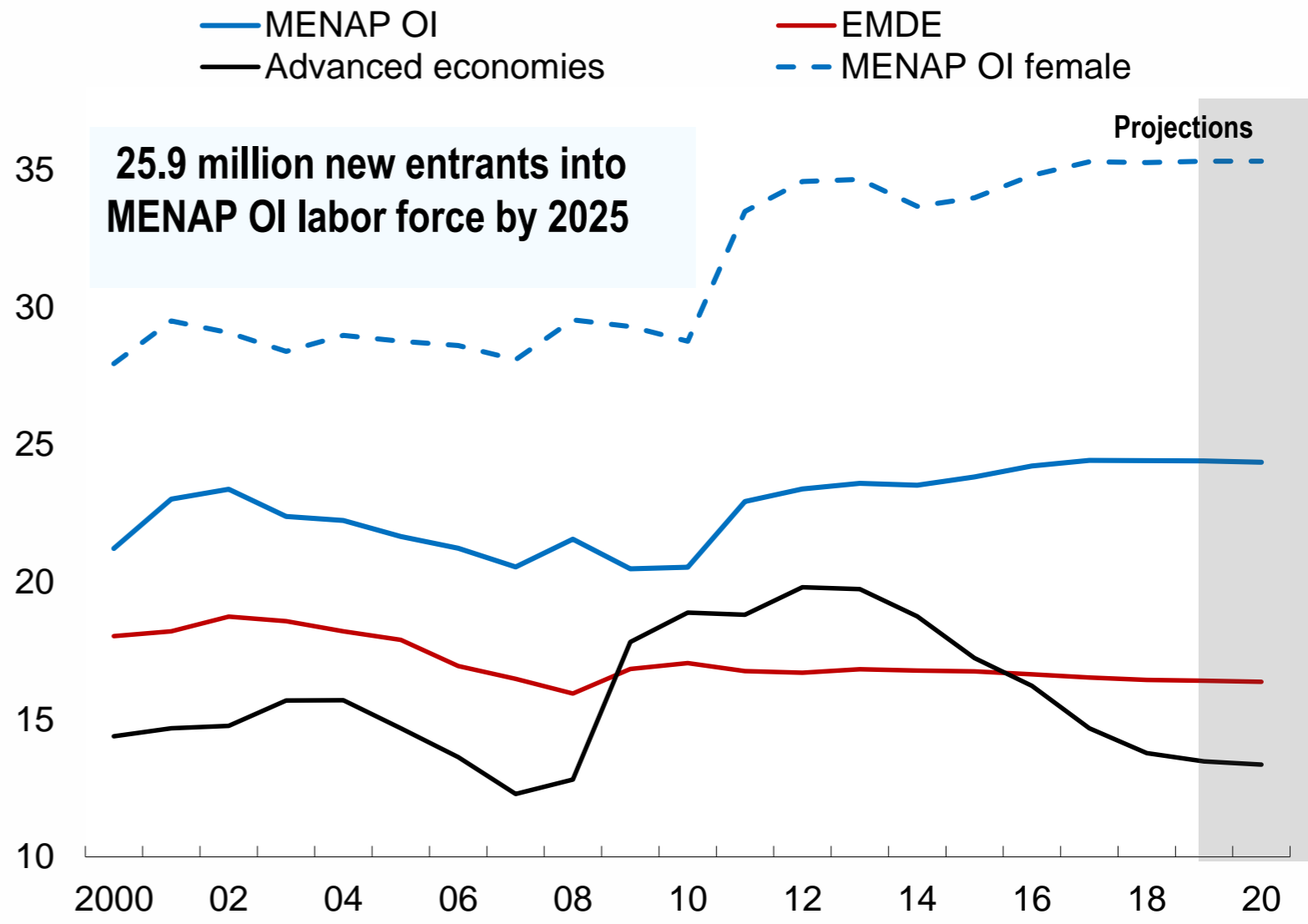
“Managing vulnerabilities in an uncertain outlook”

Modest growth and elevated unemployment

Real GDP Growth
(Weighted average, Percent)



Youth Unemployment Rate
(Percent of labor force)



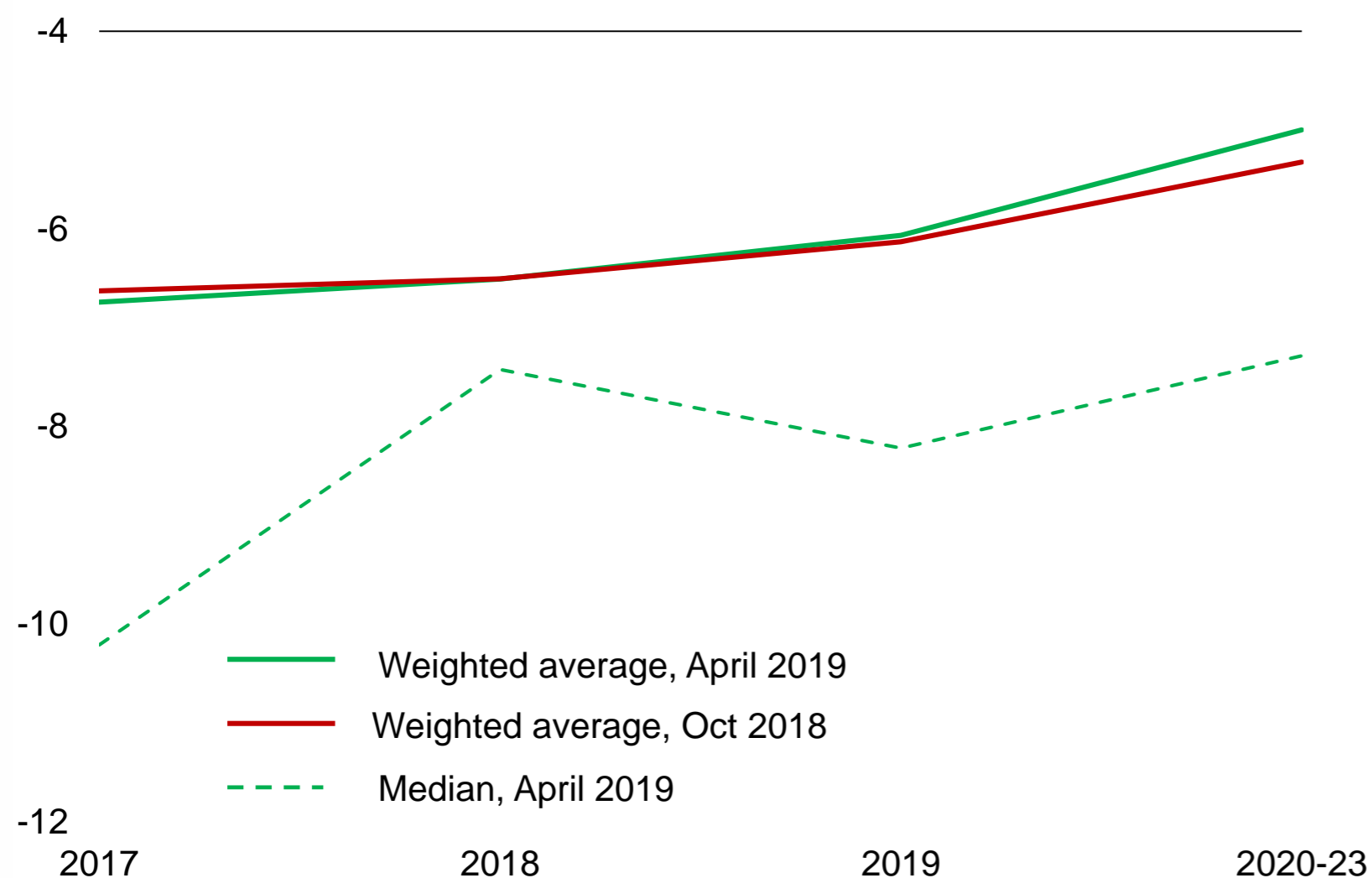
Sources: International Labour Organization: Key Indicators of the Labour Market; and IMF staff calculations.
Note: EMDE = emerging market and developing economies. MENAP OI = Middle East, North Africa,

External vulnerabilities persist

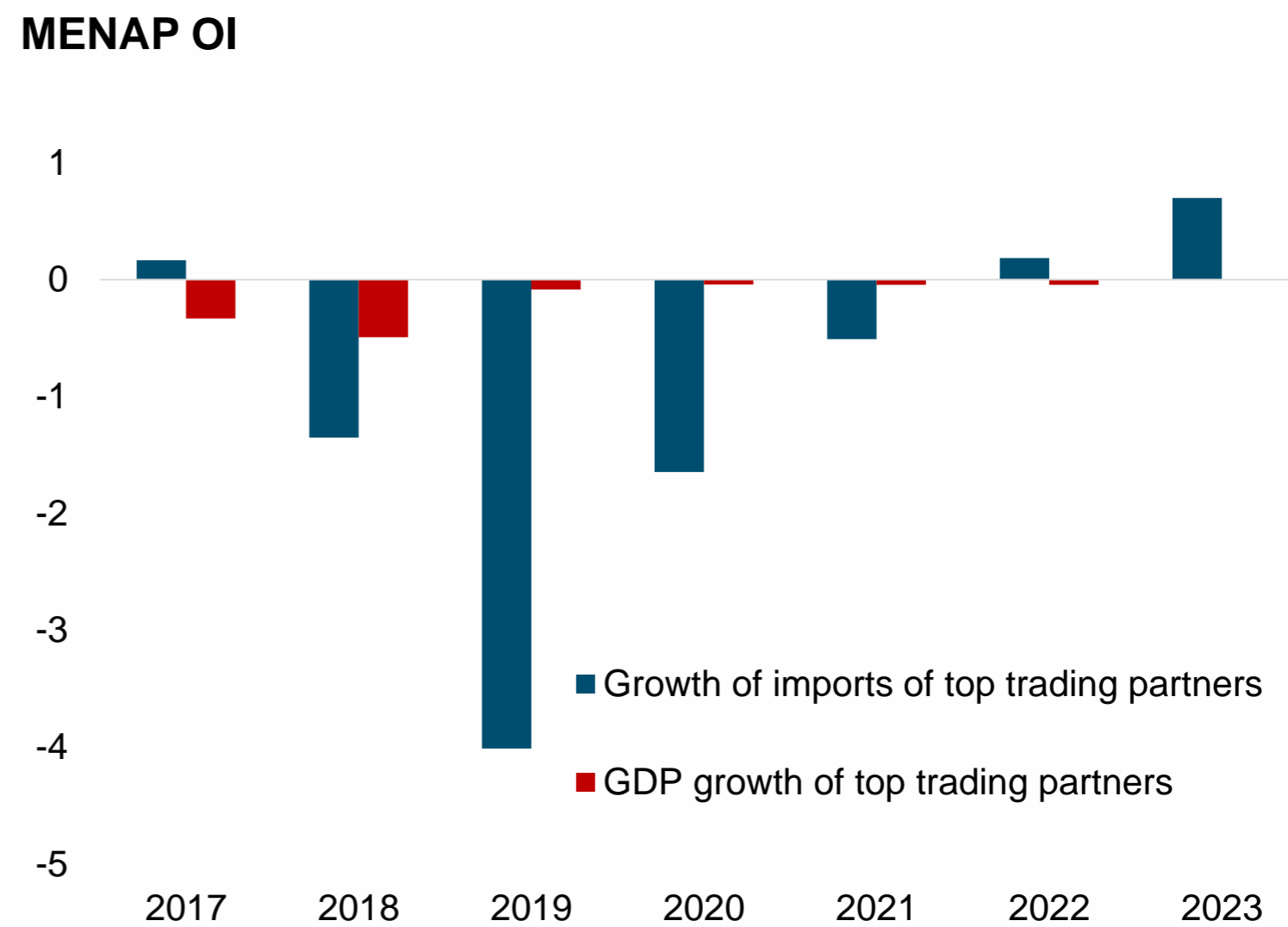
Reduced current deficits from lower oil prices ...

... but external conditions challenging

Current Account Balance
(Weighted average, Percent of GDP)



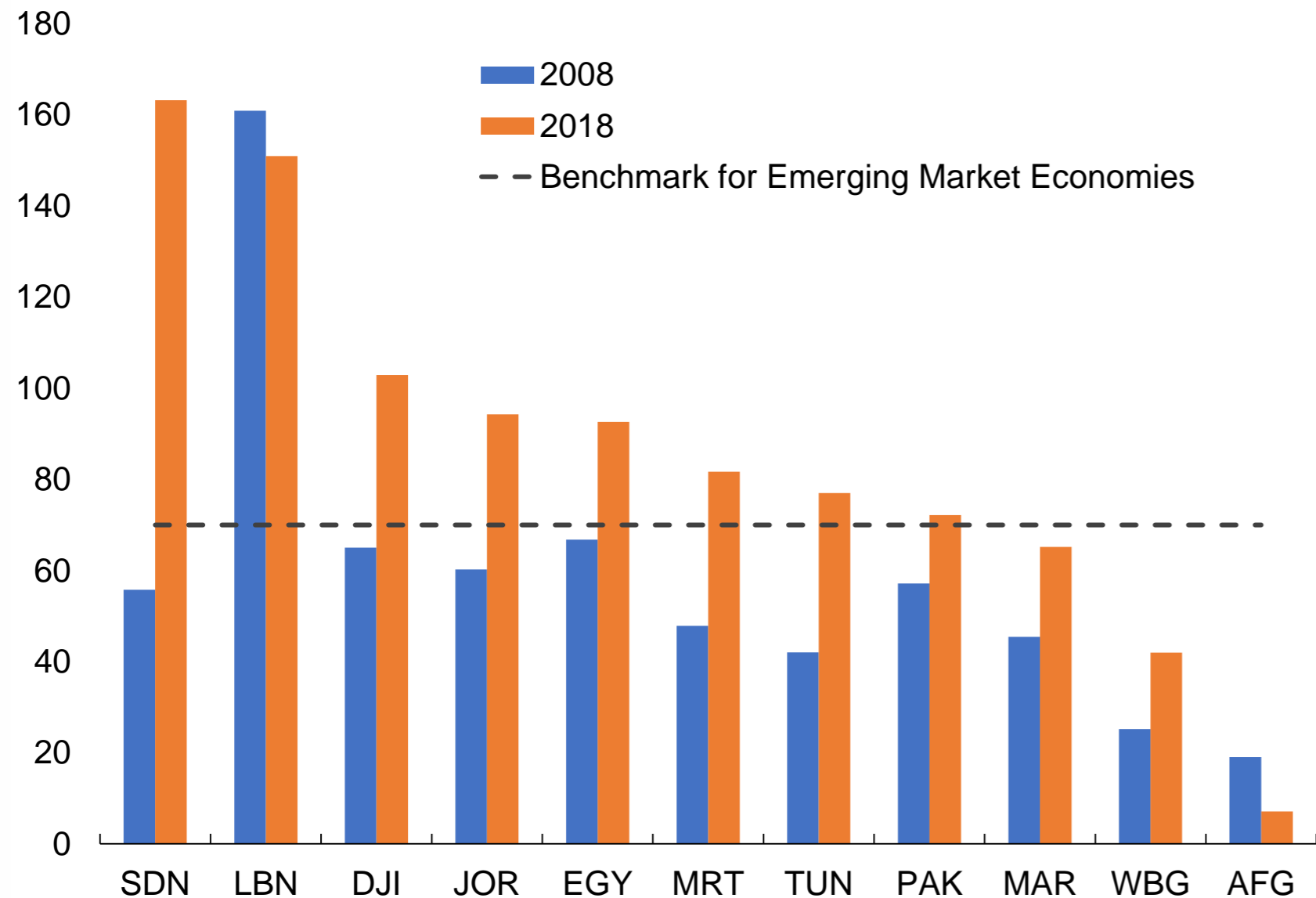
Top 10 Trading Partners, Revisions from April 2018



Elevated public debt limits fiscal space

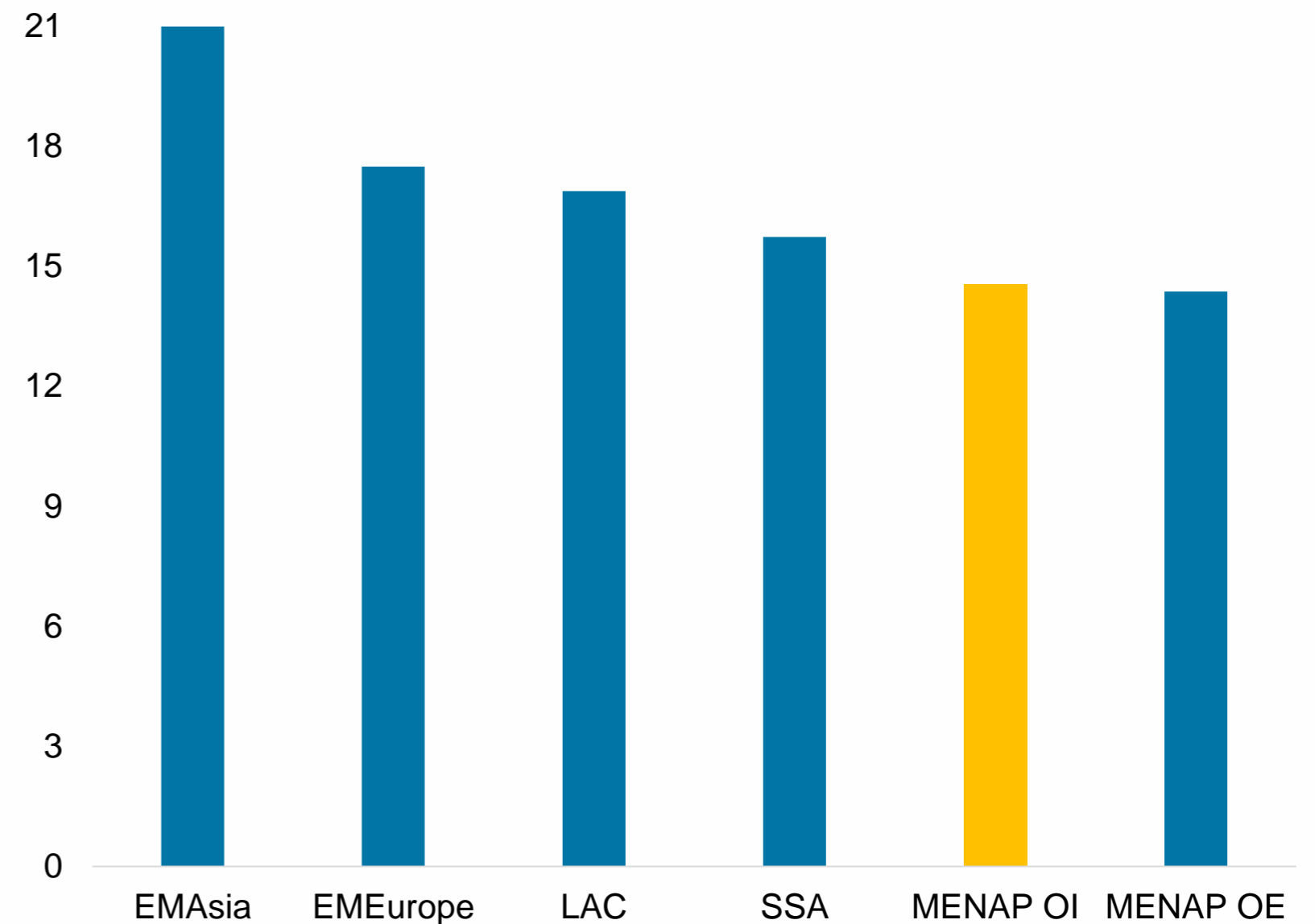
Fiscal policy can no longer drive growth ...

Gross Government Debt (Percent of GDP)



... but a rejuvenated private sector could

Private Investment Ratios by Regions (2000–18 average, percent of GDP)



Policy advice: Balance near-term vulnerabilities and medium-term challenges

Fiscal

- Limited space means consolidation essential
- But must be growth-friendly
- Targeted social transfers, restructuring SOEs, digitization

Monetary

- Limited scope for policy support
- Greater exchange rate flexibility needed

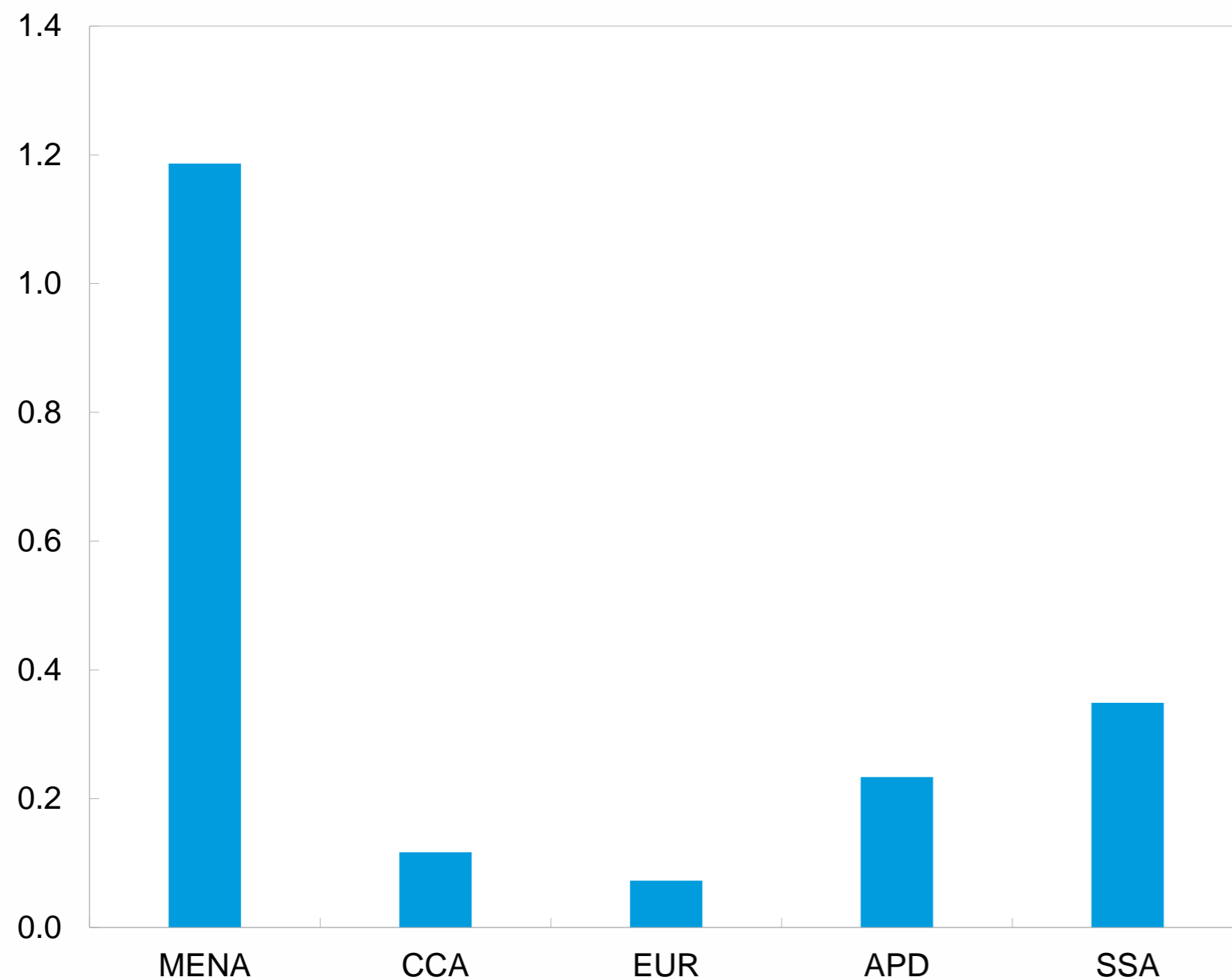
Structural

- Improve access to credit
- Improve governance and business environment
- Product and labor market reforms

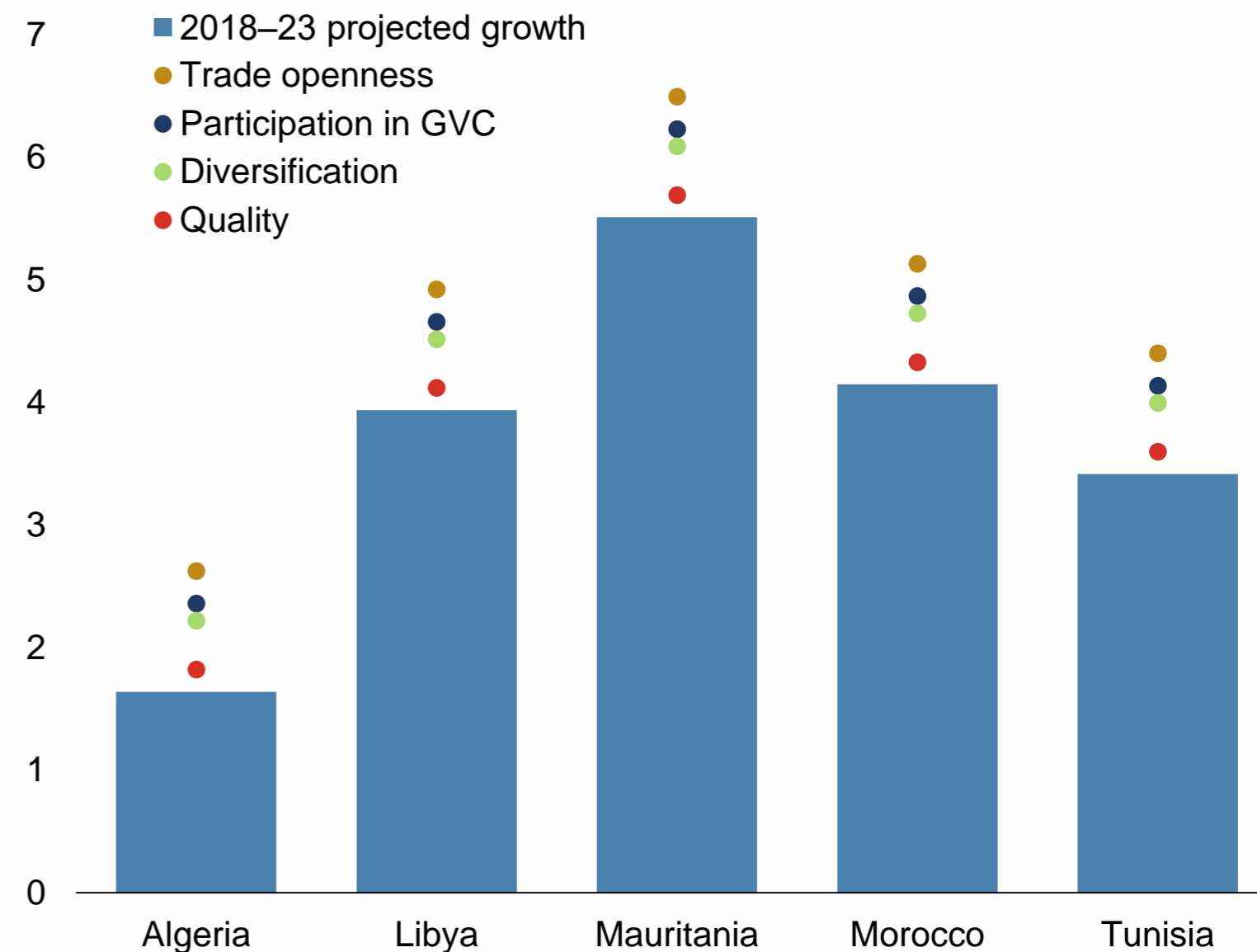
Dealing with cross-cutting issues and risks
“Supporting inclusive growth in the region”

IMF Goal for the Region: Higher inclusive growth

Growth Benefits from Closing the SME Financial Inclusion Gap
(Percentage points)



Growth Gains from Trade Integration in the Maghreb
(Percent)



Source: IMF 2017b; and staff calculations. Note: GVC = Global Value Chain. The growth increase is conditional on an increase in the given trade measure equal to the best historical period-over-period improvement observed in the Middle East and North Africa region in the past 20 years. For trade openness: 7.7 percentage points; for global value chain: 4 percentage points; for diversification: 2.4 percentage points; for quality: 1.5 percentage points.

IMF Policy Agenda

Inclusive growth

- “Enhancing the Role of SMEs in the Arab World” (Forthcoming)
- “Financial Inclusion of Small and Medium-Sized Enterprises in the Middle East and Central Asia” (February 2019)
- “Opportunity for All: Promoting Growth and Inclusiveness in the Middle East and North Africa” (July 2018)

Integration

- “Economic Integration in the Maghreb : An Untapped Source of Growth” (February 2019)
- “Opening Up in the Caucasus and Central Asia : Policy Frameworks to Support Regional and Global Integration” (February 2019)
- “Fintech, Inclusive Growth and Cyber Risks in MENAP and CCA” (September 2018)

Structural Reform Agenda

- “Governance and Corruption” (Forthcoming)
- “Trade and Foreign Investment: Keys to Diversification and Growth in the GCC” (December 2018)
- “Public Wage Bills in the Middle East and Central Asia” (January 2018)

Address “Conflicts and Fragility” Issues

- “Assessing oil and non-oil GDP from space” (Forthcoming)
- “Macroeconomic Policy Challenges in Conflict Countries and Fragile States: Experience from the Middle East” (February 2019)
- “Conflict in the Middle East and Central Asia: Costs and Economic Policy Priorities” (October 2018 REO)

REO Summary

Global trends make policy efforts more urgent and more challenging

Fiscal policy

- ▶ Lower growth increases the motive for fiscal expansion
- ▶ But low oil prices, high debt and interest rate uncertainty constrain policy space

Monetary policy

- ▶ Strengthen frameworks and enhance communication

Structural reforms

- ▶ With limited alternatives, structural reforms are essential for sustainable inclusive growth
 - ◆ MENAPOE: Better access to finance, especially for SMEs. Invest in human and public capital; better governance
 - ◆ MENAPOI: Product and labor market reforms to unleash the private sector; strengthen governance

THANK YOU