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The analysis in this report was coordinated under the general supervision of Masood Ahmed (Director of MCD). The project was directed by Aasim Husain (Deputy Director in MCD), Natalia Tamirisa (Chief of MCD's Regional Studies Division), and Martin Sommer (Deputy Chief of MCD's Regional Studies Division). The primary contributors to this report were Inutu Lukonga, Pritha Mitra, Saad Quayyum, and Bruno Versailles.

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Assumptions and Conventions

A number of assumptions have been adopted for the projections presented in the *Regional Economic Outlook: Middle East and Central Asia*. It has been assumed that established policies of national authorities will be maintained, that the price of oil[1] will average US$51.6 a barrel in 2015 and US$50.4 in 2016, and that the six-month London interbank offered rate (LIBOR) on U.S.-dollar deposits will average 0.4 percent in 2015 and 1.2 percent in 2016. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The 2015 and 2016 data in the figures and tables are projections. These projections are based on statistical information available through early September 2015.

The following conventions are used in this publication:

- In tables, ellipsis points (. . .) indicate "not available," and 0 or 0.0 indicates "zero" or "negligible." Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2011–12 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2011/12) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY 2012).
- "Billion" means a thousand million; "trillion" means a thousand billion.
- "Basis points (bps)" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

As used in this publication, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

The boundaries, colors, denominations, and any other information shown on the maps do not imply, on the part of the International Monetary Fund, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

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[1] Simple average of prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil.

Country Groupings

The October 2015 *Regional Economic Outlook: Middle East and Central Asia* (REO), covering countries in the Middle East and Central Asia Department (MCD) of the IMF, provides a broad overview of recent economic developments in 2015 and prospects and policy issues for 2016. To facilitate the analysis, the 31 MCD countries covered in this report are divided into two groups: (1) countries of the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)—which are further divided into oil exporters and oil importers; and (2) countries of the Caucasus and Central Asia (CCA). The country acronyms and abbreviations used in some figures are included in parentheses.

MENAP oil exporters comprise Algeria (ALG), Bahrain (BHR), Iran (IRN), Iraq (IRQ), Kuwait (KWT), Libya (LBY), Oman (OMN), Qatar (QAT), Saudi Arabia (SAU), the United Arab Emirates (UAE), and Yemen (YMN).

MENAP oil importers[1] comprise Afghanistan (AFG), Djibouti (DJI), Egypt (EGY), Jordan (JOR), Lebanon (LBN), Mauritania (MRT), Morocco (MAR), Pakistan (PAK), Somalia (SOM), Sudan (SDN), Syria (SYR), and Tunisia (TUN).

MENA comprises Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

MENA oil importers comprise Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan, Syria, and Tunisia.

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

The **Non-GCC** oil-exporting countries are Algeria, Iran, Iraq, Libya, and Yemen.

The **Maghreb** comprises Algeria, Libya, Mauritania, Morocco, and Tunisia.

The **Mashreq** comprises Egypt, Jordan, Lebanon, and Syria.

The **ACTs** (Arab Countries in Transition) are Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen.

The **Arab World** comprises Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

CCA countries comprise Armenia (ARM), Azerbaijan (AZE), Georgia (GEO), Kazakhstan (KAZ), the Kyrgyz Republic (KGZ), Tajikistan (TJK), Turkmenistan (TKM), and Uzbekistan (UZB).

CCA oil exporters comprise Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

CCA oil importers comprise Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

The **CIS** (Commonwealth of Independent States) comprises Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Georgia, Mongolia, and Turkmenistan, which are not members of the CIS, are included in this group for reasons of geography and similarities in economic structure.

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[1] Somalia is excluded from all regional aggregates owing to a lack of reliable data. For Sudan, data for 2012 onward exclude South Sudan. Because of the uncertain economic situation, Syria is excluded from the projection years of REO aggregates.

World Economic Outlook[1]

Global growth remains moderate and uneven. Growth is projected at 3.1 percent in 2015, somewhat lower than last year, and is expected to accelerate to 3.6 percent in 2016. Prospects across the main countries and regions continue to vary:

- While the dynamism of advanced economies is still muted by postcrisis legacies, growth is projected to pick up modestly this year and next year. This year's developments reflect primarily a strengthening of the modest recovery in the euro area and a return to positive growth in Japan, supported by declining oil prices, accommodative monetary policy, and, in some cases, currency depreciation. In the United States, the recovery is more entrenched, but underlying productivity gains remain weak. The pickup in advanced economies is hampered by a decline in growth in commodity exporters—particularly Canada and Norway—and in Korea.

Overview of the *World Economic Outlook* Projections
(Annual percent change)

		Projections	
	2014	2015	2016
World output	**3.4**	**3.1**	**3.6**
Advanced economies	1.8	2.0	2.2
Of which: United States	2.4	2.6	2.8
European Union	1.5	1.9	1.9
Emerging market and developing economies	4.6	4.0	4.5
Of which: MENAP	2.7	2.5	3.9
CCA	5.3	3.7	4.0
Commonwealth of Independent States	1.0	–2.7	0.5
Of which: Russia	0.6	–3.8	–0.6
World trade volume (goods and services)	**3.3**	**3.2**	**4.1**
Commodity prices			
Oil[1]	–7.5	–46.4	–2.4
Nonfuel[2]	–4.0	–16.9	–5.1

Sources: IMF, *World Economic Outlook* (October 2015) and *Regional Economic Outlook: Middle East and Central Asia* (October 2015).
[1] Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $96.25 in 2014; the assumed price based on future markets is $51.62 in 2015 and $50.36 in 2016.
[2] Average (measured in U.S. dollars) based on world commodity export weights.

- Growth prospects in emerging markets vary significantly across countries, but the outlook is generally weakening given lower growth in oil and other commodity exporters, a slowdown in China reflecting lower reliance on investment, adjustment in the aftermath of credit and investment booms, and geopolitical tensions and security challenges in some countries. Growth should rebound in 2016 owing to a partial normalization of conditions in countries currently in economic distress (Russia, Brazil and some other countries in Latin America, and some in the Middle East), spillovers from stronger activity in advanced economies, and the easing of sanctions on Iran. China is projected to slow further, albeit gradually.

Downside risks to growth have risen, particularly for emerging market and developing countries, reflecting highly volatile financial markets. Lower prices for oil and other commodities could provide some upside to demand in commodity importers, but complicate the outlook for commodity exporters, especially emerging markets already facing strained conditions. Increased financial market volatility can pose financial stability challenges in advanced economies, with important spillovers to emerging markets, including through tighter financial conditions and a reversal in capital flows. Emerging markets also remain vulnerable in the short term to a sharp appreciation of the U.S. dollar, which could exacerbate strains on corporate balance sheets in some countries. Over the medium term, the main risk for advanced economies is near stagnation, particularly if global demand falters. In emerging markets, spillovers from a stronger slowdown of growth in China remain a concern. Escalation of geopolitical tensions, with increased disruptions in global trade and financial transactions and commodity markets, are also a risk.

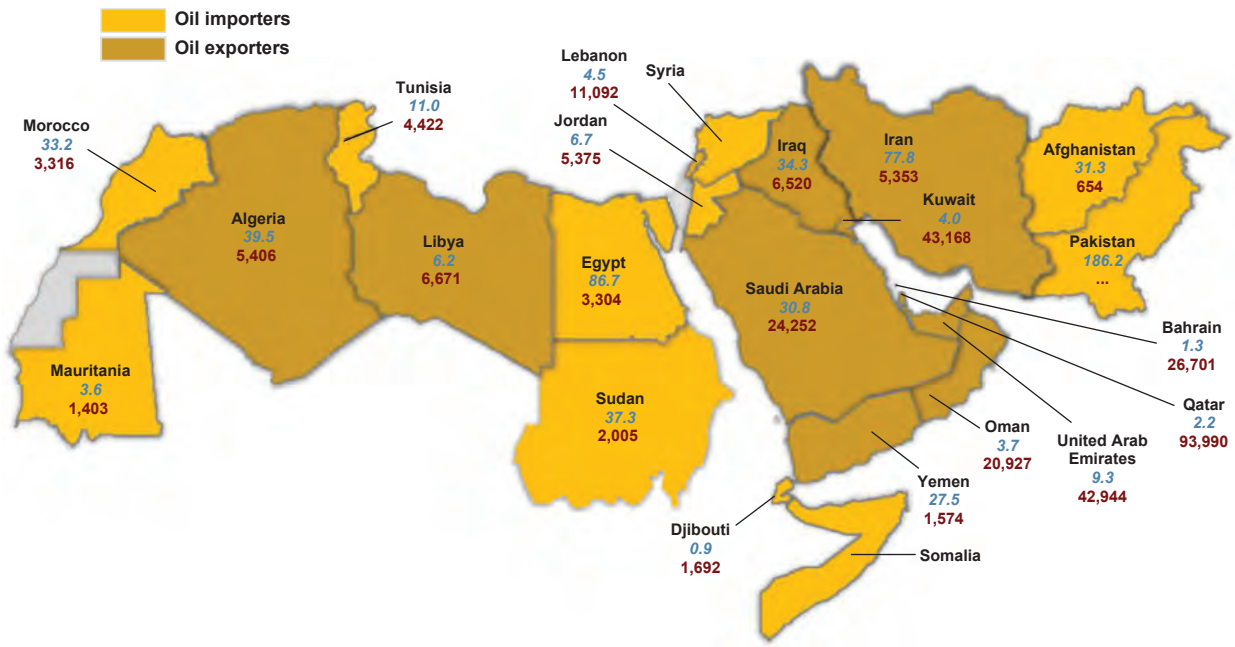
[1] See IMF, *World Economic Outlook*, *Global Financial Stability Report*, and *Fiscal Monitor* (all October 2015) for more information.

Boosting growth through a combination of demand support and structural reforms continues to be the key policy priority:

- In advanced economies, accommodative monetary policy remains essential, alongside macroprudential policies to contain financial sector risks as needed. In countries with fiscal space and sizable economic slack, the near-term fiscal stance should be eased, especially through higher infrastructure investment. Structural reforms should aim to strengthen labor market functioning to create new jobs and boost labor market participation, increase competition in product markets, and tackle debt overhang.
- Many emerging markets face a difficult trade-off between supporting demand amid slowing growth and reducing vulnerabilities in a more difficult external environment. In oil importers, lower oil prices have reduced price pressures and external vulnerabilities, easing the burden on monetary policy. In oil exporters, lower oil revenue calls for fiscal consolidation, with the timing and pace of adjustment depending on policy space. Currency depreciation can help to offset the demand impact of terms-of-trade losses in countries with flexible exchange rate regimes, but sharp exchange rate changes could exacerbate vulnerabilities from high corporate leverage and foreign currency exposures in some countries. Structural reforms to raise productivity and remove bottlenecks to production are urgently needed in many cases.

Middle East, North Africa, Afghanistan, and Pakistan

Population, millions (2014)
GDP per capita, U.S. dollars (2014)



Sources: IMF Regional Economic Outlook database; and Microsoft Map Land.
Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

MENAP Region Highlights

The near-term outlook for the MENAP region is dominated by geopolitical and oil price developments. Regional uncertainties arising from the complex conflicts in Iraq, Libya, Syria, and Yemen are weighing on confidence. Low oil prices are also taking a toll on economic activity in the oil-exporting countries. Oil importers are benefiting from lower oil prices as well as economic reforms and improved euro area growth. Overall, MENAP growth this year will continue to be modest at 2½ percent, ½ percentage point below the IMF's May 2015 projections. Economic activity is projected to pick up to 4 percent next year, supported by improved prospects for Iran, some recovery in oil production and exports, and assumed easing of regional conflicts. However, there is considerable uncertainty about next year's projections. Moreover, raising economic prospects for the long term will require extensive structural reforms.

Oil Exporters: Grappling with Lower Oil Prices and Conflicts

Growth in the GCC region is slowing as countries initiate fiscal consolidation, while conflicts weigh on the prospects of other MENAP oil exporters. GCC growth is expected to slow to 3¼ percent this year and further to 2¾ percent next year from 3½ percent in 2014. Lower oil prices are reducing non-oil growth, including through fiscal adjustment or its expectations, although this is partly compensated by higher oil production, notably in Saudi Arabia. The conflict in Yemen and slowdown in Iran—which is yet to benefit fully from the recent breakthrough in P5+1 negotiations—are projected to reduce the growth of non-GCC oil exporters to a standstill this year. The assumed improvements in security conditions and easing of conflicts, combined with the prospective moderation of sanctions on Iran, could boost non-GCC growth to about 5 percent in 2016 and beyond.

These projections are surrounded by large uncertainties, stemming primarily from the future path of oil prices and progress in the resolution of regional conflicts. Regarding oil, downside risks to global growth have increased, in part because of the possibility of a larger slowdown in China and other emerging markets in the context of higher financial market volatility, while from the supply side, oil production prospects in North America, and even more so, in Iran, remain uncertain. If conflicts prove more persistent than expected, they would reduce growth in the affected countries, with adverse spillovers to the region and beyond. On the upside, post-sanctions Iran could see higher growth if policymakers initiate complementary reforms. Risks to financial sectors in MENAP oil exporters have increased as lower oil prices are slowing deposit and, in some cases, credit growth. The banking systems are generally well positioned to withstand these pressures, although pockets of weakness exist.

The oil price decline has increased the urgency for MENAP oil exporters to adjust their fiscal policies. Fiscal deficits are expected to be 13 percent of GDP in the GCC and 12 percent of GDP in non-GCC countries in 2015. Because the oil price drop is likely to be large and persistent, oil exporters will need to adjust their spending and revenue policies to secure fiscal sustainability, attain intergenerational equity, and gradually rebuild space for policy maneuvering. The speed of adjustment should depend on the availability of buffers and fiscal space, and the composition of fiscal consolidation should be designed so that the negative impact on growth is minimized. Adjustment plans in most MENAP oil exporters are currently insufficient to address the large fiscal challenge.

Lower oil prices will lead governments to slow public spending, underscoring the need for policies to support a diversified private sector. Some 10 million people are expected to enter the labor force in MENAP oil exporters by 2020, while cash-strapped governments will have limited room to create public sector jobs.

Further improvements in the business environment—enhancing incentives for nationals to work in the private sector and making workers' skills more relevant to the private sector by improving the quality of education—are crucial to support private sector–led job creation.

Oil Importers: Strengthening Recovery but More Reforms Needed to Create Jobs

Recovery in the MENAP oil-importing countries is gaining momentum. After five years of subdued growth of 3 percent, growth is expected to rise to 4 percent in 2015 and 2016. Progress toward political stability, economic reforms, lower oil prices, and improving euro area growth are beginning to support confidence, investment, and exports. However, a stronger rebound in economic activity is being held back by spillovers from the devastating conflicts in Iraq, Libya, and Syria that are also intensifying security and social tensions in neighboring countries, especially Lebanon. Supply-side bottlenecks and strong currency valuations continue to hamper competitiveness and productivity growth. Unemployment remains high at 11½ percent and large swathes of the population do not benefit from growth.

Several domestic and external downside risks cloud the outlook. Insufficient improvement in jobs and living standards risks aggravating sociopolitical frictions, and setbacks to political transitions and reform implementation could undermine the nascent recovery. Escalation of regional conflicts would intensify adverse spillovers. Intensification of recent financial market turmoil, or a larger slowdown in China, could reduce the availability of infrastructure financing. If China's slowdown spills over to other emerging markets, the euro area and, through a further decline in oil prices, the GCC, it could reduce exports, tourism, remittances, and financing support. If normalization of U.S. monetary policy sparks financial market volatility, financing conditions could tighten by more than expected. On the upside, a further decline in oil prices would be positive for growth.

In this challenging environment, stepping up the reform momentum is imperative. Gradual fiscal consolidation should continue so as to achieve sustainable debt profiles and strengthen buffers. The policy space created by lower oil prices can help increase growth-enhancing spending such as public investment, which remains below the levels typical in other emerging markets and developing countries. Deficit reduction can have a smaller, negative impact on growth if it focuses on targeted revenue measures—eliminating tax exemptions, making income taxes more progressive, and strengthening tax collection—as well as continued reprioritization of spending from general energy subsidies toward targeted social assistance, investment, education, and health care. Greater exchange rate flexibility would help enhance competitiveness. Structural reforms—especially in the areas of business, trade, and labor and financial markets—are needed to foster private sector expansion and job creation.

MENAP Region: Selected Economic Indicators, 2000–16

(Percent of GDP, unless otherwise indicated)

	Average 2000–11	2012	2013	2014	Projections 2015	Projections 2016
MENAP[1]						
Real GDP (annual growth)	5.3	5.0	2.3	2.7	2.5	3.9
Current Account Balance	9.0	12.0	10.2	5.6	–3.6	–4.3
Overall Fiscal Balance	2.8	2.4	–0.1	–3.0	–11.0	–9.4
Inflation, p.a. (annual growth)	7.2	10.1	10.0	6.9	6.2	5.6
MENAP Oil Exporters						
Real GDP (annual growth)	5.5	5.9	1.9	2.6	1.8	3.8
Current Account Balance	12.9	17.3	15.2	8.9	–3.4	–4.3
Overall Fiscal Balance	6.7	7.3	4.2	–0.8	–12.7	–11.1
Inflation, p.a. (annual growth)	7.4	10.4	10.4	5.8	6.0	5.1
***Of Which*: Gulf Cooperation Council**						
Real GDP (annual growth)	5.8	5.9	3.2	3.4	3.3	2.8
Current Account Balance	16.4	25.0	21.6	14.8	–0.2	–2.5
Overall Fiscal Balance	10.8	13.5	10.6	2.9	–13.2	–12.6
Inflation, p.a. (annual growth)	2.9	2.4	2.8	2.6	2.4	2.5
MENAP Oil Importers						
Real GDP (annual growth)	4.8	2.9	3.1	2.9	3.9	4.1
Current Account Balance	–2.0	–6.2	–5.2	–4.2	–4.2	–4.2
Overall Fiscal Balance	–5.1	–8.4	–9.5	–7.9	–7.3	–5.8
Inflation, p.a. (annual growth)	6.8	9.3	9.1	9.4	6.6	6.6
MENA[1]						
Real GDP (annual growth)	5.4	5.0	2.1	2.6	2.3	3.8
Current Account Balance	9.8	13.0	11.0	6.1	–4.0	–4.7
Overall Fiscal Balance	3.6	3.7	0.8	–2.8	–11.8	–10.1
Inflation, p.a. (annual growth)	7.1	10.0	10.3	6.7	6.4	5.8
MENA Oil Importers						
Real GDP (annual growth)	4.8	2.0	2.8	2.4	3.8	4.0
Current Account Balance	–2.6	–8.4	–7.3	–5.7	–5.9	–5.9
Overall Fiscal Balance	–5.7	–8.6	–10.4	–9.7	–8.6	–6.9
Inflation, p.a. (annual growth)	6.2	8.6	10.1	10.0	7.9	7.8

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

[1] 2011–16 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.

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

MENA: MENAP excluding Afghanistan and Pakistan.

أضواء على أهم الأحداث في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان

تهيمن تطورات الجغرافيا السياسية وأسعار النفط على آفاق المدى القريب لمنطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان (MENAP). ويتأثر مستوى الثقة تأثرا كبيرا بأوجه عدم اليقين الإقليمية الناشئة عن الصراعات المعقدة في العراق وليبيا وسوريا واليمن. كذلك تواصل أسعار النفط المنخفضة تأثيرها على النشاط الاقتصادي في البلدان المصدرة للنفط. أما البلدان المستوردة للنفط فهي تستفيد من عوامل انخفاض أسعار النفط وما أنجزته من إصلاحات اقتصادية وزيادة النمو الاقتصادي في منطقة اليورو. وسيظل النمو الكلي محدودا هذا العام في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان، حيث يُتوقع ألا يتجاوز 2.5%، بانخفاض قدره 0.5% عن توقعات صندوق النقد الدولي في مايو 2015. ومن المتوقع أن يتحسن النشاط الاقتصادي ليصل إلى 4% في العام القادم، بدعم من التحسن المرتقب في أداء الاقتصاد الإيراني، وبعض التعافي في إنتاج النفط وصادراته، مع افتراض التراجع في حدة الصراعات الإقليمية. غير أن هناك عدم يقين كبير بشأن توقعات العام القادم. وبالإضافة إلى ذلك، سيتعين إجراء إصلاحات هيكلية مكثفة لكي تتحسن الآفاق الاقتصادية على أساس دائم.

البلدان المصدرة للنفط: التصدي لانخفاض أسعار النفط وانتشار الصراعات

يشهد النمو تباطؤا في مجلس التعاون الخليجي مع بدء البلدان في ضبط أوضاع المالية العامة، بينما تلقي الصراعات بظلال كثيفة على الآفاق المتوقعة لمُصَدِّري النفط الآخرين في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان. ومن المتوقع أن يتراجع النمو في مجلس التعاون الخليجي ليبلغ 3.25% هذا العام ثم 2.75% في العام القادم، هبوطا من 3.5% في عام 2014. ويؤدي تراجع أسعار النفط إلى انخفاض النمو في القطاعات غير النفطية، بما في ذلك الانخفاض الناجم عن تصحيح أوضاع المالية العامة أو توقع حدوثه، رغم تعويض جانب من هذا الأثر من خلال زيادة الإنتاج النفطي، ولا سيما في المملكة العربية السعودية. وبالنسبة للبلدان المصدرة للنفط غير الأعضاء في مجلس التعاون الخليجي، وصل الاقتصاد إلى حالة من الجمود بسبب الصراع الدائر في اليمن وتباطؤ النشاط في إيران – التي لم تبدأ بعد في تحقيق الاستفادة الكاملة من الإنجاز الذي تحقق مؤخرا في مفاوضات "مجموعة الخمسة زائد واحد" (P5+1). وفي الفترة المقبلة، يمكن أن يزداد النمو في البلدان غير الأعضاء في مجلس التعاون الخليجي بفضل تحسن الأوضاع الأمنية وانخفاض حدة الصراعات، إلى جانب التخفيف المرتقب للعقوبات المفروضة على إيران، بحيث يصل النمو في هذه البلدان إلى نحو 5% في عام 2016 وما بعده.

وهناك قدر كبير من عدم اليقين يحيط بهذه التوقعات، الأمر الذي يرجع في الأساس إلى المسار المستقبلي لأسعار النفط ومدى التقدم في تسوية الصراعات الإقليمية. وبالنسبة لأسعار النفط، زادت مخاطر التطورات السلبية التي تواجه النمو العالمي، فيما يرجع جزئيا إلى احتمال زيادة التباطؤ الاقتصادي في الصين وغيرها من بلدان الأسواق الصاعدة في سياق ارتفاع التقلب في الأسواق المالية؛ وعلى جانب العرض، تظل احتمالات إنتاج النفط محاطة بعدم اليقين في أمريكا الشمالية، وبدرجة أكبر في إيران. وإذا طالت الصراعات عن الفترة المتوقعة، فسيؤدي ذلك إلى تخفيض النمو في البلدان المتأثرة بها، مع تداعيات سلبية على المنطقة وخارجها. وعلى جانب التطورات الإيجابية، يمكن أن تشهد إيران نموا أعلى من المتوقع بعد إلغاء العقوبات إذا ما شرع صناع السياسات في إصلاحات مكملة. وقد زادت المخاطر على القطاعات المالية في البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان حيث يتسبب انخفاض أسعار النفط في تباطؤ حركة الودائع، وتباطؤ نمو الائتمان في بعض الحالات.

ومع ذلك، لا تزال النظم المصرفية في وضع موات عموما يسمح لها بتجاوز هذه الضغوط، وإن كانت هناك بعض مواطن الضعف المتبقية.

ونظرا لانخفاض أسعار النفط، أصبح تعديل سياسات المالية العامة أكثر إلحاحا بالنسبة للبلدان المصدرة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان. فمن المتوقع أن يصل عجز المالية العامة في عام 2015 إلى 13% من إجمالي الناتج المحلي في دول مجلس التعاون الخليجي و12% من إجمالي الناتج المحلي في البلدان غير الأعضاء في المجلس. ولأنه من المرجح أن ينطوي هبوط أسعار النفط على عنصر مستمر كبير، فسيكون على البلدان المصدرة للنفط أن تجري تعديلات على سياسات الإنفاق والإيرادات لضمان استمرارية أوضاع المالية العامة، وتحقيق العدالة بين الأجيال، والتوصل بالتدريج إلى إعادة بناء الحيز المالي الذي يتيح للسياسات مجالا للمناورة. وينبغي أن تعتمد سرعة التعديل على توافر الاحتياطيات الوقائية والحيز المالي، كما ينبغي تصميم عملية الضبط المالي بصورة تحد من التأثير السلبي على النمو. ويُلاحَظ أن خطط تصحيح الأوضاع لدى معظم البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان لا تكفي حاليا لمعالجة التحدي الكبير الذي يواجه المالية العامة.

وسيؤدي انخفاض أسعار النفط إلى قيام الحكومات بتقليص الإنفاق العام، مما يؤكد الحاجة إلى سياسات تدعم وجود قطاع خاص متنوع. ومن المتوقع أن ينضم 10 ملايين نسمة إلى سوق العمل في البلدان المصدرة للنفط في المنطقة بحلول عام 2020، بينما سيكون الحيز المتاح لخلق وظائف في القطاع العام محدودا أمام الحكومات التي تعاني من نقص السيولة في الوقت الراهن. ولدعم عملية خلق الوظائف في القطاع الخاص، ينبغي إجراء مزيد من التحسينات في الحوافز الداعمة لمناخ الأعمال بما يعزز إقبال المواطنين على العمل في القطاع الخاص، كما ينبغي تسليح العاملين بمهارات أكثر توافقا مع احتياجات القطاع الخاص عن طريق تحسين جودة التعليم.

البلدان المستوردة للنفط: تعافٍ أفضل مع ضرورة القيام بإصلاحات إضافية لخلق فرص العمل

يكتسب التعافي زخما في البلدان المستوردة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان. فبعد خمس سنوات من النمو المتواضع بمعدل 3%، من المتوقع أن يرتفع إلى 4% في عامي 2015 و 2016. وقد بدأ تحسن مستوى الثقة والاستثمار والصادرات بفضل انخفاض أسعار النفط وتحسُّن النمو في منطقة اليورو والتقدم نحو الاستقرار السياسي والإصلاحات الاقتصادية. غير أن عودة النشاط الاقتصادي القوي تعوقها التداعيات الآتية من الصراعات المدمرة في العراق وليبيا وسوريا – وخاصة في حالة لبنان – والتي تتسبب في احتدام التوترات الأمنية والاجتماعية. ولا تزال اختناقات العرض وارتفاع تقييم العملات يعوقان التنافسية ونمو الإنتاجية. أما البطالة فلا تزال مرتفعة بمعدلها البالغ 11.5% وهناك شرائح سكانية عريضة لا تصل إليها ثمار النمو.

وهناك عدة مخاطر سلبية محلية وخارجية تخيم على الآفاق الاقتصادية المتوقعة. فعدم كفاية التحسن في خلق فرص العمل ومستويات المعيشة يهدد بتفاقم الاحتكاكات الاجتماعية/السياسية، كما أن النكسات التي تتعرض لها عمليات التحول السياسي وتنفيذ الإصلاحات يمكن أن تضر بالتعافي الوليد. ومن شأن تصاعد الصراعات الإقليمية أن يكثف التداعيات السلبية. كذلك يمكن أن يؤدي احتدام التقلبات في الأسواق المالية على النحو المشاهد مؤخرا أو حدوث مزيد من التباطؤ الاقتصادي في الصين إلى تقليص التمويل المتاح لمشروعات البنية التحتية. وإذا انتقلت تداعيات التباطؤ الاقتصادي من الصين إلى الأسواق الصاعدة

الأخرى ومنطقة اليورو، وكذلك مجلس التعاون الخليجي من خلال انخفاض إضافي في أسعار النفط، يمكن أن يتسبب ذلك في تخفيض الصادرات وعائدات السياحة وتحويلات العاملين في الخارج والدعم التمويلي. وإذا أدت عودة السياسة النقدية الطبيعية في الولايات المتحدة إلى زيادة تقلب الأسواق المالية، يمكن أن يزداد ضيق الأوضاع المالية عن المستوى المتوقع. وعلى جانب التطورات الإيجابية، يمكن أن يكون لزيادة انخفاض أسعار النفط أثر محفز للنمو .

وفي هذه البيئة المحفوفة بالتحديات، يصبح تعزيز زخم الإصلاح أمرا لازما. فينبغي مواصلة الضبط التدريجي لأوضاع المالية العامة حتى تصبح مستويات الديون في حدود يمكن تحملها وتزداد الاحتياطيات الوقائية. ومن خلال حيز المناورة المتاح للسياسات بفضل انخفاض أسعار النفط، يمكن زيادة الإنفاق الداعم للنمو، مثل الاستثمار العام الذي لا يزال دون المستويات المعتادة في الأسواق الصاعدة والبلدان النامية الأخرى. ويمكن تقليل الأثر السلبي الذي يقع على النمو بسبب تخفيض العجز إذا انصب التركيز على اتخاذ تدابير موجهة على صعيد الإيرادات – كإلغاء الإعفاءات الضريبية وزيادة تصاعدية ضرائب الدخل وتعزيز التحصيل الضريبي – بالإضافة إلى استمرار تعديل أولويات الإنفاق بتحويلها من دعم الطاقة المعمم إلى المساعدات الاجتماعية الموجهة والاستثمار في التعليم والرعاية الصحية. ومن شأن زيادة مرونة سعر الصرف أن تساعد على تعزيز التنافسية. وهناك حاجة إلى الإصلاحات الهيكلية – وخاصة في مجالات الأعمال والتجارة وأسواق العمل والأسواق المالية – لدعم توسع القطاع الخاص وخلق فرص العمل.

منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان: مؤشرات اقتصادية مختارة، 2000–2016

(% من إجمالي الناتج المحلي، ما لم يذكر خلاف ذلك)

	متوسط				توقعات	
	2011–2000	2012	2013	2014	2015	2016
منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان[1]						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	5.3	5.0	2.3	2.7	2.5	3.9
رصيد الحساب الجاري	9.0	12.0	10.2	5.6	3.6–	4.3–
رصيد المالية العامة الكلي	2.8	2.4	0.1–	3.0–	11.0–	9.4–
التضخم، متوسط سنوي (النمو السنوي)	7.2	10.1	10.0	6.9	6.2	5.6
البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	5.5	5.9	1.9	2.6	1.8	3.8
رصيد الحساب الجاري	12.9	17.3	15.2	8.9	3.4–	4.3–
رصيد المالية العامة الكلي	6.7	7.3	4.2	0.8–	12.7–	11.1–
التضخم، متوسط سنوي (النمو السنوي)	7.4	10.4	10.4	5.8	6.0	5.1
***منها:* دول مجلس التعاون الخليجي**						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	5.8	5.9	3.2	3.4	3.3	2.8
رصيد الحساب الجاري	16.4	25.0	21.6	14.8	0.2–	2.5–
رصيد المالية العامة الكلي	10.8	13.5	10.6	2.9	13.2–	12.6–
التضخم، متوسط سنوي (النمو السنوي)	2.9	2.4	2.8	2.6	2.4	2.5
البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	4.8	2.9	3.1	2.9	3.9	4.1
رصيد الحساب الجاري	2.0–	6.2–	5.2–	4.2–	4.2–	4.2–
رصيد المالية العامة الكلي	5.1–	8.4–	9.5–	7.9–	7.3–	5.8–
التضخم، متوسط سنوي (النمو السنوي)	6.8	9.3	9.1	9.4	6.6	6.6
منطقة الشرق الأوسط وشمال إفريقيا[1]						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	5.4	5.0	2.1	2.6	2.3	3.8
رصيد الحساب الجاري	9.8	13.0	11.0	6.1	4.0–	4.7–
رصيد المالية العامة الكلي	3.6	3.7	0.8	2.8–	11.8–	10.1–
التضخم، متوسط سنوي (النمو السنوي)	7.1	10.0	10.3	6.7	6.4	5.8
البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	4.8	2.0	2.8	2.4	3.8	4.0
رصيد الحساب الجاري	2.6–	8.4–	7.3–	5.7–	5.9–	5.9–
رصيد المالية العامة الكلي	5.7–	8.6–	10.4–	9.7–	8.6–	6.9–
التضخم، متوسط سنوي (النمو السنوي)	6.2	8.6	10.1	10.0	7.9	7.8

المصادر: السلطات الوطنية، وحسابات وتوقعات خبراء صندوق النقد الدولي.

[1] بيانات 2011–2016 لا تتضمن الجمهورية العربية السورية.

ملحوظة: تشير البيانات إلى السنوات المالية لكل من البلدان التالية: أفغانستان (21 مارس/20 مارس) حتى عام 2011، و21 ديسمبر/20 ديسمبر بعد ذلك، وإيران (21 مارس/ 20 مارس)، وقطر (إبريل/مارس)، ومصر وباكستان (يوليو/يونيو).

البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان تشمل: الجزائر والبحرين وإيران والعراق والكويت وليبيا وعُمان وقطر والمملكة العربية السعودية والإمارات العربية المتحدة واليمن.

البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان تشمل: أفغانستان وجيبوتي ومصر والأردن ولبنان وموريتانيا والمغرب وباكستان والسودان وسوريا وتونس.

(MENA): بلدان الشرق الأوسط وشمال إفريقيا، باستثناء أفغانستان وباكستان.

(MENAP): مجموعة البلدان التي تضم بلدان الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان.

Points saillants de la situation dans la région MOANAP

Les perspectives à court terme pour la région MOANAP sont dominées par des facteurs géopolitiques et l'évolution des cours du pétrole. Les incertitudes régionales engendrées par les conflits complexes en Iraq, en Libye, en Syrie et au Yémen pèsent sur la confiance. Le bas niveau des cours du pétrole freine aussi l'activité économique dans les pays exportateurs de pétrole. Quand aux pays importateurs de pétrole, ils bénéficient de la diminution des cours du pétrole et des réformes économiques ainsi que de l'amélioration de la croissance de la zone euro. Globalement, la croissance économique de la région MOANAP restera modeste cette année, puisqu'elle sera de 2½ %, taux inférieur de ½ point aux projections de mai 2015 du FMI. Selon les projections, la croissance économique devrait s'accélérer et atteindre 4 % l'année prochaine, grâce notamment à l'amélioration des perspectives pour l'Iran, à un redressement de la production et des exportations de pétrole, et à l'atténuation supposée des conflits régionaux. Cependant, une incertitude considérable entoure les projections pour l'an prochain. En outre, de vastes réformes structurelles seront indispensables pour améliorer durablement les perspectives économiques de la région.

Pays exportateurs de pétrole : plombés par la baisse des cours du pétrole et les conflits

L'assainissement des finances publiques engagé dans les pays du CCG ralentit leur croissance économique, tandis que les conflits en cours pèsent sur les perspectives des autres pays exportateurs de la région MOANAP. La croissance économique du CCG devrait descendre à 3¼ % cette année puis à 2¾ % l'année prochaine, contre 3½ en 2014. La baisse des cours du pétrole a pour effet de réduire la croissance économique du secteur non pétrolier, notamment en raison de l'ajustement budgétaire effectif ou attendu, même si cette évolution est compensée en partie par l'augmentation de la production, en particulier en Arabie saoudite. Parmi les pays exportateurs de pétrole hors CCG, le conflit au Yémen et le ralentissement de l'activité en Iran — qui ne bénéficie pas encore pleinement du déblocage des négociations P5+1 — ont conduit l'économie au point mort. L'amélioration supposée de la sécurité et l'apaisement des conflits, conjugués à l'atténuation prévue des sanctions contre l'Iran, pourraient faire monter la croissance économique en dehors du CCG à environ 5 % en 2016 et au-delà.

Ces projections sont entourées d'une grande incertitude qui tient essentiellement à l'évolution future des cours du pétrole et aux perspectives de règlement des conflits régionaux. En ce qui concerne le pétrole, les risques qui pèsent sur la croissance économique mondiale ont augmenté, en raison notamment de la possibilité que le ralentissement de l'activité en Chine et dans d'autres pays émergents s'accentue sur fond de volatilité accrue des marchés financiers, tandis que, du côté de l'offre, les perspectives de production pétrolière en Amérique du Nord, et encore plus en Iran, demeurent incertaines. Si les conflits devaient durer plus longtemps que prévu, ils ralentiraient la croissance dans les pays concernés, ce qui aurait des retombées négatives sur la région et au-delà. Du côté positif, avec la fin des sanctions, l'Iran pourrait enregistrer une croissance plus forte si les responsables politiques entreprennent des réformes complémentaires. Les risques pour les secteurs financiers des pays exportateurs de pétrole de la région MOANAP se sont accentués, car la baisse des cours du pétrole ralentit la croissance des dépôts et, dans certains cas, du crédit. Les systèmes bancaires sont en général bien armés pour résister à ces pressions, même si çà et là certaines déficiences existent.

La chute des cours du pétrole a rendu d'autant plus urgent pour les pays exportateurs de pétrole de la région MOANAP d'ajuster leurs politiques budgétaires. En 2015, les déficits budgétaires devraient être de l'ordre de 13 % du PIB dans les pays du CCG et 12 % dans les pays hors CCG. Étant donné que, selon toute

vraisemblance, la chute des cours du pétrole est due en grande partie à des facteurs persistants, les pays exportateurs de pétrole devront ajuster leurs politiques en matière de dépenses et de recettes pour maintenir la viabilité des finances publiques, assurer l'équité intergénérationnelle et reconstituer progressivement leur marge de manoeuvre. Le rythme de l'ajustement devrait dépendre de l'existence d'amortisseurs financiers et d'un espace budgétaire, et les mesures prises pour rééquilibrer les finances publiques devraient être conçues de manière à nuire le moins possible à la croissance économique. Les mesures d'ajustement envisagées actuellement dans la plupart des pays exportateurs de pétrole de la région MOANAP sont insuffisantes pour répondre aux grands enjeux budgétaires.

La baisse des cours du pétrole conduira les gouvernements à ralentir les dépenses publiques, ce qui rend d'autant plus nécessaire de prendre des mesures pour soutenir la diversification du secteur privé. À l'horizon 2020, environ 10 millions de personnes devraient arriver sur le marché du travail dans les pays exportateurs de pétrole de la région MOANAP, mais, disposant de ressources financières limitées, les gouvernements n'auront guère les moyens de créer des emplois dans le secteur public. Pour encourager la création d'emplois dans le secteur privé, il est indispensable d'améliorer encore le climat des affaires, en incitant davantage les nationaux à travailler dans le secteur privé et en améliorant la qualité de l'éducation afin que les compétences des travailleurs correspondent mieux aux besoins du secteur privé.

Pays importateurs de pétrole : la reprise se confirme mais d'autres réformes sont nécessaires pour créer des emplois

La reprise économique des pays importateurs de pétrole de la région MOANAP s'accélère. Après être restée au niveau modéré de 3 % pendant cinq ans, la croissance économique devrait atteindre 4 % en 2015 et 2016. La baisse des cours du pétrole, l'amélioration de la croissance dans la zone euro, les progrès de la stabilisation politique et les réformes économiques sont autant de facteurs qui commencent à avoir des effets positifs sur la confiance, l'investissement et les exportations. Cependant, le rebond de l'activité économique est freiné par les retombées des conflits dévastateurs en Irak, en Libye et en Syrie — cela est vrai en particulier pour le Liban —, qui se traduisent par l'intensification de l'insécurité et des tensions sociales. Les goulets d'étranglement de l'appareil productif et la vigueur des monnaies locales continuent de peser sur la compétitivité et la croissance de la productivité. Le chômage reste au niveau élevé de 11½ % et de larges segments de la population ne bénéficient pas de la croissance économique.

Plusieurs risques d'origine intérieure et extérieure assombrissent les perspectives. L'amélioration insuffisante de l'emploi et des niveaux de vie risque d'aggraver les frictions sociopolitiques, et des revers compliquant les transitions politiques et la mise en oeuvre des réformes pourraient compromettre la reprise naissante. L'aggravation des conflits régionaux amplifierait leurs retombées négatives. L'intensification des récentes turbulences sur les marchés financiers, ou un ralentissement plus prononcé de l'activité en Chine, pourrait se traduire par une diminution des ressources disponibles pour financer les infrastructures. Si le ralentissement de l'activité en Chine déborde sur d'autres pays émergents, la zone euro et, par le biais d'une nouvelle baisse des cours du pétrole, le CCG, les exportations, le tourisme, les envois de fonds et les soutiens financiers pourraient s'en ressentir. Si la normalisation de la politique monétaire aux États-Unis déclenche un accès de volatilité sur les marchés financiers, les conditions de financement pourraient se resserrer plus que prévu. Du côté positif, une nouvelle baisse des cours du pétrole aurait un effet bénéfique sur la croissance économique.

Dans ce contexte difficile, il est impératif de renforcer la dynamique de réforme. L'assainissement progressif des finances publiques devrait être poursuivi de manière à ce que la structure de la dette soit viable et à renforcer les amortisseurs financiers. La marge de manoeuvre créée par la baisse des cours du pétrole peut aider à accroître les dépenses de nature à stimuler la croissance, telles que l'investissement public, qui

reste inférieur aux niveaux généralement observés dans les autres pays émergents et en développement. La réduction du déficit peut avoir un effet négatif moindre sur la croissance économique si elle est ciblée sur certains types de recettes — suppression des exonérations fiscales, plus grande progressivité de l'impôt sur le revenu et meilleure perception de l'impôt — et si elle s'appuie durablement sur la réorientation des dépenses prioritaires en faveur d'une aide sociale ciblée, de l'investissement, de l'éducation et des soins de santé, plutôt que des subventions énergétiques généralisées. Une plus grande souplesse du taux de change contribuerait à rehausser la compétitivité. Des réformes structurelles — portant en particulier sur les entreprises, le commerce, le marché du travail et le marché financier — sont nécessaires pour encourager l'expansion du secteur privé et la création d'emplois.

Région MOANAP: Principaux indicateurs économiques, 2000–16

(Pourcentage du PIB, sauf indication contraire)

	Moyenne 2000–11	2012	2013	2014	Projections 2015	2016
MOANAP[1]						
PIB réel (croissance annuelle)	5.3	5.0	2.3	2.7	2.5	3.9
Solde extérieur courant	9.0	12.0	10.2	5.6	–3.6	–4.3
Solde budgétaire global	2.8	2.4	–0.1	–3.0	–11.0	–9.4
Inflation (progression annuelle)	7.2	10.1	10.0	6.9	6.2	5.6
Exportateurs de pétrole de la région MOANAP						
PIB réel (croissance annuelle)	5.5	5.9	1.9	2.6	1.8	3.8
Solde extérieur courant	12.9	17.3	15.2	8.9	–3.4	–4.3
Solde budgétaire global	6.7	7.3	4.2	–0.8	–12.7	–11.1
Inflation (progression annuelle)	7.4	10.4	10.4	5.8	6.0	5.1
***Dont:* Conseil de coopération du Golfe**						
PIB réel (croissance annuelle)	5.8	5.9	3.2	3.4	3.3	2.8
Solde extérieur courant	16.4	25.0	21.6	14.8	–0.2	–2.5
Solde budgétaire global	10.8	13.5	10.6	2.9	–13.2	–12.6
Inflation (progression annuelle)	2.9	2.4	2.8	2.6	2.4	2.5
Importateurs de pétrole de la région MOANAP						
PIB réel (croissance annuelle)	4.8	2.9	3.1	2.9	3.9	4.1
Solde extérieur courant	–2.0	–6.2	–5.2	–4.2	–4.2	–4.2
Solde budgétaire global	–5.1	–8.4	–9.5	–7.9	–7.3	–5.8
Inflation (progression annuelle)	6.8	9.3	9.1	9.4	6.6	6.6
MOAN[1]						
PIB réel (croissance annuelle)	5.4	5.0	2.1	2.6	2.3	3.8
Solde extérieur courant	9.8	13.0	11.0	6.1	–4.0	–4.7
Solde budgétaire global	3.6	3.7	0.8	–2.8	–11.8	–10.1
Inflation (progression annuelle)	7.1	10.0	10.3	6.7	6.4	5.8
Importateurs de pétrole de la région MOAN						
PIB réel (croissance annuelle)	4.8	2.0	2.8	2.4	3.8	4.0
Solde extérieur courant	–2.6	–8.4	–7.3	–5.7	–5.9	–5.9
Solde budgétaire global	–5.7	–8.6	–10.4	–9.7	–8.6	–6.9
Inflation (progression annuelle)	6.2	8.6	10.1	10.0	7.9	7.8

Sources: Autorités nationales; calculs et projections des services du FMI.

[1] Les données relatives à la période 2011–16 excluent la République arabe syrienne.

Notes: Les données se rapportent aux exercices indiqués pour les pays correspondants: Afghanistan (21 mars/20 mars) jusqu'en 2011 et 21 décembre /20 décembre par la suite, Iran (21 mars/20 mars), Qatar (avril/mars), et Égypte et Pakistan (juillet/juin).

Pays exportateurs de pétrole de la région MOANAP : Algérie, Arabie saoudite, Bahreïn, Émirats arabes unis, Iran, Irak, Koweït, Libye, Oman, Qatar et Yémen.

Pays importateurs de pétrole de la région MOAN: Afghanistan, Djibouti, Égypte, Jordanie, Liban, Maroc, Mauritanie, Pakistan, Soudan, Syrie et Tunisie.

MOAN: MOANAP moins l'Afghanistan et le Pakistan.

Pays arabes en transition (hormis la Libye): Égypte, Jordanie, Maroc, Tunisie et Yémen.

1. MENAP Oil-Exporting Countries: Grappling with Lower Oil Prices and Conflicts

Intensifying conflicts and depressed oil prices are weakening growth prospects and raising risks across the region, a situation compounded by the recent bout of global financial market volatility. Growth is expected to decelerate over the near term, but only moderately, as countries use fiscal buffers and financing options where possible. Faced with lower oil revenues, many countries have initiated fiscal consolidation, but the measures are unlikely to be adequate for ensuring medium-term fiscal sustainability and intergenerational equity, and for rebuilding the necessary buffers against future oil price shocks. Early formulation of comprehensive fiscal adjustment plans and good communication are necessary to maintain confidence. Fiscal pressures also highlight the need for private sector–led growth, job creation, and diversification. The prospective easing of sanctions on Iran is likely to have a mixed effect on other oil exporters in the region: some countries will face possible further declines in oil prices while benefiting from higher investment and non-oil trade.

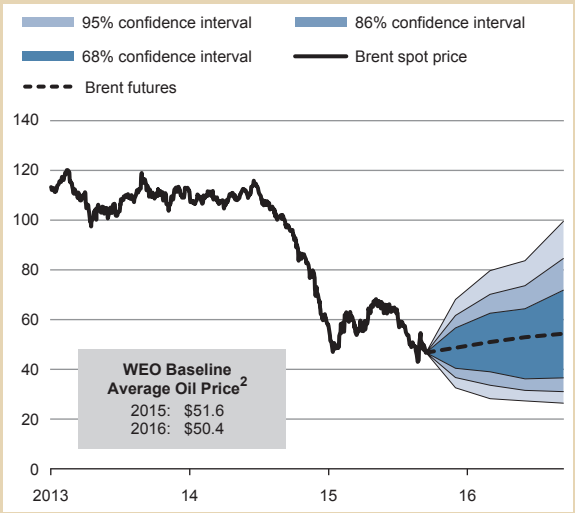
The New Environment: Lower Oil Prices

Oil prices fell dramatically in the second half of 2014, and again this summer.[1] Between July 2014 and January 2015, oil prices dropped from about $110 a barrel to less than $50 a barrel. They have remained volatile since then, initially rebounding to about $65 a barrel in the spring, but then falling back below $50 a barrel amid resilient supply and still weak demand (Figure 1.1).

Supply-side forces have contributed significantly to this new environment of lower oil prices. The shale revolution, the decision by the Organization of the Petroleum Exporting Countries (OPEC) to protect its market share, and the anticipated lifting of sanctions on Iran are all putting downward pressure on prices. Persistently weak global growth has also contributed to lower oil prices from the demand side, most recently amid concerns over slowing growth in China and emerging market vulnerabilities more generally (Husain and others 2015).

Markets expect oil prices to increase modestly over the medium term, but without recovering to the 2014 peaks. The 2015 oil price is expected to be $52 a barrel, increasing gradually to about $63 by 2020.[2] However, considerable uncertainty surrounds these figures. Risks to global growth remain tilted to the downside, not least because of the recent bout of financial market and exchange rate volatility. It is unclear how quickly Iran can ramp up production

Figure 1.1
Brent Crude Oil Price[1]
(U.S. dollars per barrel)



Sources: Bloomberg, L.P.; and IMF staff calculations.
[1] Derived from prices of futures and options on September 15, 2015.
[2] Average of WTI, Brent, and the Dubai Fateh spot prices.

Prepared by Bruno Versailles with input from Inutu Lukonga and research support from Brian Hiland.

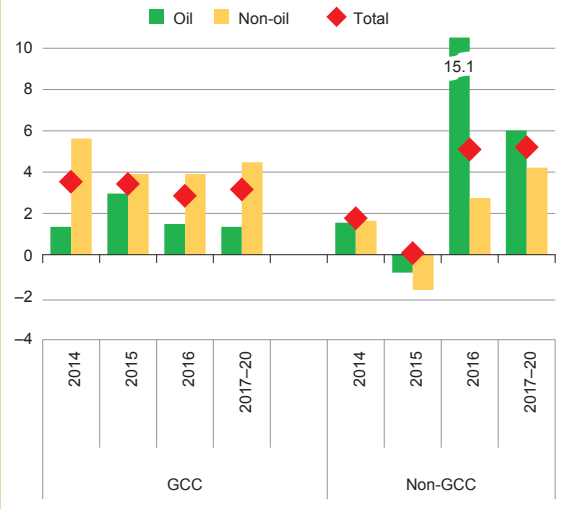
[1] Chapter 4 provides more details on the policy response of MENAP and CCA policymakers to lower oil prices.

[2] This reference is to the Average Petroleum Spot Price, a simple average of U.K. Brent, Dubai Fateh, and West Texas Intermediate.

(Chapter 5), while oil output in conflict-affected countries is likely to remain volatile.

Lower oil export revenue—by $360 billion for MENAP oil exporters as a whole in 2015—will sharply reduce the region's external surplus, turning it into a deficit. GCC countries will see their current account balance dwindle from a surplus of 15 percent of GDP in 2014 to a deficit of ¼ percent in 2015, while the current account deficit of non-GCC oil exporters will widen to 8¾ percent of GDP in 2015, compared with 1½ percent of GDP in 2014. Over the medium term, as oil prices recover somewhat and fiscal adjustment proceeds, the GCC current account position is expected to return to a surplus of 2 percent of GDP, while the non-GCC current account balance is projected to reach a surplus of about ¼ percent of GDP.

Figure 1.2
Oil, Non-Oil, and Total GDP Growth
(Percent)



Sources: National authorities; and IMF staff calculations.

Fiscal Consolidation and Conflict Weighing on the Economy

Growth in the GCC is expected to slow in the short term as countries initiate fiscal consolidation. Non-oil growth is projected at just below 4 percent for both 2015 and 2016, a reduction of 1¾ percent compared with 2014, as fiscal adjustment, or the anticipation thereof, begins to have effects, notably in Saudi Arabia and the United Arab Emirates (Figure 1.2). On average, non-oil primary balances are expected to improve by 1¼ percentage points (see below) in 2015. Slowing non-oil growth is partly offset by higher oil production, notably in Saudi Arabia. Over the medium term, continued fiscal consolidation could imply slightly slower overall growth (relative to 2014), despite a modest recovery in oil prices and anticipated payoffs from structural reforms.

In non-GCC MENAP oil exporters, 2015 GDP is expected to remain flat after growing by 1¾ percent in 2014. This is largely owing to the economic impact of the conflict in Yemen and the slowdown in Iran, which has exhausted the positive effect of the 2014 interim agreement and is yet to benefit fully from the recent breakthrough in P5+1 negotiations. In Iraq and Libya, growth has been driven by an increase in oil production, but the non-oil economy continues to suffer from ongoing conflict. In 2016 and beyond, an assumed normalization of the security situation in conflict-ridden countries, coupled with the easing of sanctions in Iran, is expected to help non-GCC growth accelerate to about 5 percent (Chapter 5).

Diverging Inflation Trends

Inflation in most countries of the region is moderating, with decelerating food price growth and the appreciating U.S. dollar, to which many countries effectively tie their currencies.[3] In the GCC region, inflation is expected to ease slightly from 2.6 percent in 2014 to 2.4 percent in 2015. In Iran, tighter monetary and fiscal policy helped to keep inflation steady at about 15 percent, after it reached an alarming 35 percent in 2013. Inflation accelerated in Algeria and especially in Yemen, driven by the large

[3] On average, the real effective exchange rates appreciated by 4 percent in GCC countries, and remained broadly stable in non-GCC oil exporters during the first half of 2015.

depreciation of the Algerian dinar vis-à-vis the dollar and by the conflict in Yemen.

Risks to the Outlook Remain Elevated

Large uncertainties surround these growth projections, stemming primarily from the future path of oil prices, which has important ties to the growth outlook in emerging markets including China (Husain and others 2015). Because oil prices are already low and most MENA governments are projected to post a budget deficit, a further drop in oil prices would accelerate fiscal adjustment, with adverse implications for growth (Box 1.1).

Box 1.1

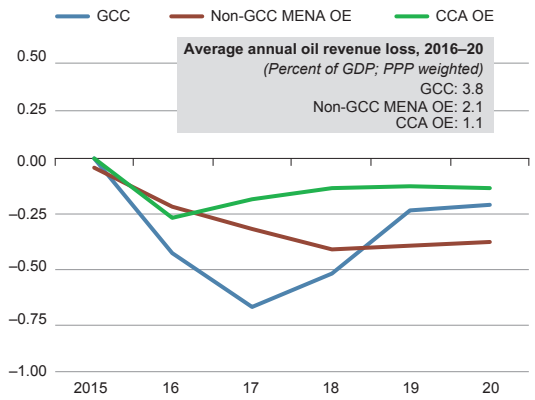
Growth Impact of Lower Oil Prices in MENA and CCA Countries

Lower oil prices reduce growth in countries that are highly dependent on hydrocarbon exports mainly through government spending (Husain, Tazhibayeve, and Ter-Martirosyan 2008). In the MENA and CCA regions, oil profits largely accrue to governments that, faced with lower revenues, may decide to cut back expenditures. Anticipating these cuts—or in response to them—consumers and companies are likely to hold back consumption and investment. In countries with flexible exchange rate regimes, currency depreciation could help ease the adverse impact of lower oil prices on government revenues expressed in domestic currency, thereby reducing needed public spending cuts, at least in nominal terms (see Chapter 4).

This box assesses the possible growth implications of oil prices falling $10 a barrel below the IMF baseline on a sustained basis during 2016–20. Almost all MENA and CCA oil exporters are expected to post budget deficits under the current baseline, which already envisages low oil prices; consequently, the revenue loss stemming from the $10 oil price drop is assumed to be gradually offset by new revenue and spending measures. As discussed in this chapter, many oil exporters have been able to use their financial buffers to postpone or avoid full fiscal adjustment. However, this box adopts more conservative fiscal policy assumptions to explore possible downside risks from very low oil prices. The growth impact was calculated by IMF country teams on the basis of so-called fiscal multipliers estimated in Cerisola and others (2015), Espinosa and Senhadji (2011), and other literature.

- In MENA oil exporters, growth would slow by ¼–½ percentage point in 2016, and the slowdown would deepen further to ½–¾ percentage point of GDP during 2017–18 as the contractionary fiscal response builds in. Over the medium term, growth would be lower by about ¼–½ percentage point than in the baseline as tighter fiscal policies continue to constrain growth (Figure 1.1.1).

Figure 1.1.1
Impact of Fiscal Consolidation on Real GDP Growth
(Percentage point deviation from the IMF baseline; GDP PPP weighted)



Source: IMF staff calculations.
Note: The scenario assumes a $10 per barrel reduction in oil prices below the IMF baseline during 2016–20. Fiscal policy is assumed to offset one-half of the revenue loss in 2016, with the offset gradually rising to 100 percent in 2020. OE = oil exporters; PPP = purchasing power parity.

Prepared by Martin Sommer and Bruno Versailles, with support from Brian Hiland.

Box 1.1 *(continued)*

- In the CCA oil exporters, growth reductions are smaller than in MENA, peaking at about ¼ percentage point of GDP annually. This result reflects generally lower reliance of budgets on oil revenues, greater flexibility of exchange rates, and—to a lesser degree—the expectation that some CCA countries would be more likely to consider raising non-oil revenues than MENA oil exporters where the fiscal adjustment would involve significant public investment cuts.

The actual impact on growth may differ substantially from these average estimates. Some governments, especially those with larger initial buffers and/or lower initial debt, could decide to continue offsetting the lost oil revenues only partially, and draw down assets or allow additional debt accumulation. In some countries, the negative growth impact could be exacerbated through financial channels—for instance, governments and oil companies may decrease their deposits in the banking system, reducing funding for loans, and sharp exchange rate depreciation would raise debt service on foreign currency obligations (see Chapter 6). In CCA countries, spillovers from Russia—an oil exporter and the region's key trading partner—could amplify the growth drag from domestic fiscal consolidation (see Chapter 7).

Finally, reducing public investment can be damaging for growth in countries with underdeveloped infrastructure. To minimize these adverse effects, the investment cuts need to be driven by prioritizing high-return projects and costs savings through a more transparent and competitive investment management process (Albino-War and others 2014). Energy pricing reform would be another option to make fiscal adjustment more growth friendly (see Box 4.3).

Within the region, the pace of fiscal consolidation poses a risk to GCC growth prospects, if the chosen mix of adjustment policies (see Chapter 4) leads to a larger-than-expected decline in domestic demand. Further risks relate to potential structural reform fatigue as the effects of the fiscal consolidation filter through to the wider economy.

Risks to growth projections for conflict-ridden countries are tilted downwards. Conflicts in Iraq, Libya, and Yemen could prove more persistent than assumed in these projections, reducing growth in these countries, and imparting negative spillovers to neighboring countries. Sustained conflicts could also have an important impact on region-wide confidence, further dimming growth prospects (Box 1.2). On the upside, post-sanctions Iran could well see a higher growth dividend than the baseline if the country initiates complementary domestic reforms, with spillovers to the region (see Chapter 5).

The prospective normalization of monetary conditions in advanced economies, particularly the United States, could be less gradual or orderly than markets currently expect. Funding costs could increase and access to markets could tighten for countries in the region, at a time when lower oil prices imply an increased need to tap the markets (Box 1.3). Improving U.S. economic prospects, relative to the rest of the world, could lead to persistent dollar strength, implying a procyclical tightening of monetary conditions in countries with exchange rates linked to the dollar.

Recent weak data from China have amplified global financial market volatility. Even though non-oil trade between China and MENAP oil exporters is relatively small (Figure 1.3), a larger-than-expected growth slowdown in China is likely to put further pressure on oil prices, reflecting China's important role in global oil demand; a slackening of demand in China could cause a further deterioration in fiscal and external balances for oil-exporting countries, with a negative impact on growth (Figure 1.4). Financial linkages with China are small and further declines in equity prices, or the value of the Chinese renminbi, are

Box 1.2

Estimating the Economic Costs of Conflicts

Conflicts are spreading and becoming more intense in the MENAP region. After receding during the 1990s, the scope and intensity of conflicts in the MENAP region increased in the early 2000s, bucking the downward trend in the rest of the world (Figures 1.2.1 and 1.2.2). Conflicts in the MENAP region have also, increasingly, been domestic, rather than inter-state, in nature. With the expanding role of non-state violent actors such as the Islamic State of Iraq and the Levant (ISIL), violence increasingly affects civilians, and has a particularly adverse effect on confidence and expectations, and consequently on economic activity.

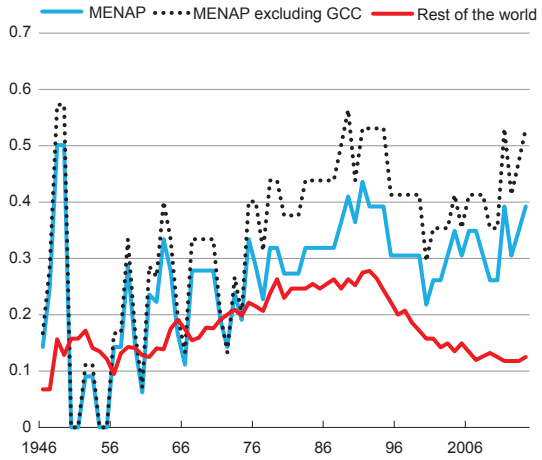
Conflicts can affect economic activity through multiple channels. They reduce the stock of human and physical capital through casualties, the massive displacement of people, and destruction of infrastructure, buildings, and plants. They can disrupt established production methods and trade routes. They create uncertainty, thus undermining confidence. Lower stocks of human and physical capital also reduce potential growth. The brunt of the burden of conflicts tends to fall on the poor and the most vulnerable, as new pressures on public budgets (for example, from increased security and military spending or—for neighboring countries—from tending to refugees) tend to crowd out social expenditure or lower the quality of public service.

To estimate these effects, we have used data on major episodes of political violence from the Center for Systemic Peace. These data cover episodes of internal and international conflict/violence for an unbalanced panel of countries (from 66 in 1946 to 167 in 2014), and provide an assessment of their intensity, on a scale ranging from 0 (no conflict) to 10 (total warfare).[1] For our purposes, we have used as a measure of the intensity of conflict the sum of the intensities of domestic and international major episodes of political violence. Thus, in theory this measure could range

Figure 1.2.1

Frequency of Conflict, by Region

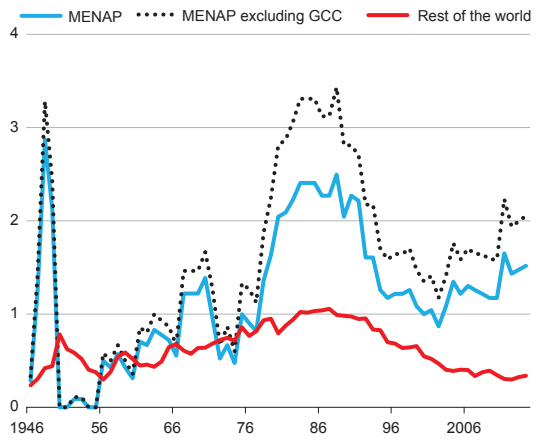
(Share of countries in conflict over total, by year)



Sources: Center for Systemic Peace; and IMF staff calculations.

Figure 1.2.2

Average Intensity of Conflict, by Region



Sources: Center for Systemic Peace; and IMF staff calculations.
Note: Intensity of conflicts is the sum of intensities of domestic and international major episodes of policial violence, as calculated by the Center for Systemic Peace.

Prepared by Davide Lombardo.

[1] Other studies have followed different approaches to quantifying the economic impact of conflicts. Some have focused on individual conflict cases, comparing post-conflict outturns against precrisis projections and/or counterfactuals (Meyersson 2015), or against comparator regions (Abadie and Gardeazabal 2003). Other studies use a more narrative approach (Sab 2014).

Box 1.2 *(continued)*

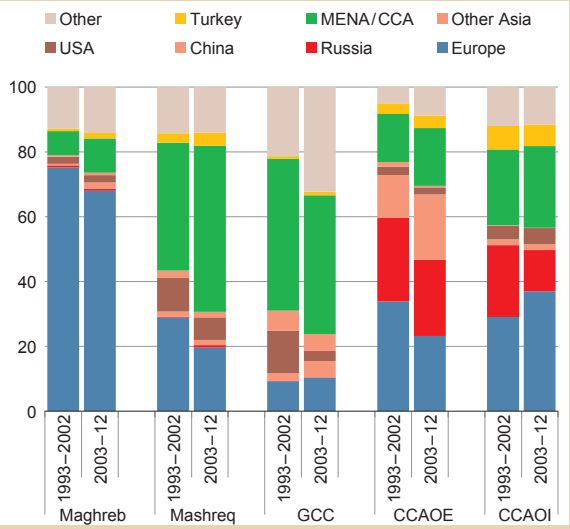
between 0 (no conflicts) and 20. In practice, however, its maximum value in the sample is 13 (observed in Iran during 1980–85 and in Iraq during 1990–91).

Our empirical analysis confirms that violent conflicts have significantly negative effects on macroeconomic performance. Thus, for example, countries that were in conflict during the past five years are estimated to have suffered an average output decline of 2¼ percentage points each year as a result. In addition:

- Even countries that have no conflicts of their own tend to have lower GDP growth if any of their neighboring countries experience violent conflicts.
- Conflicts also adversely affect inflation (typically after a one-year lag) and net foreign direct investment inflows, again both in directly affected countries and in their immediate neighbors.
- Finally, these effects tend to accumulate as conflicts persist.

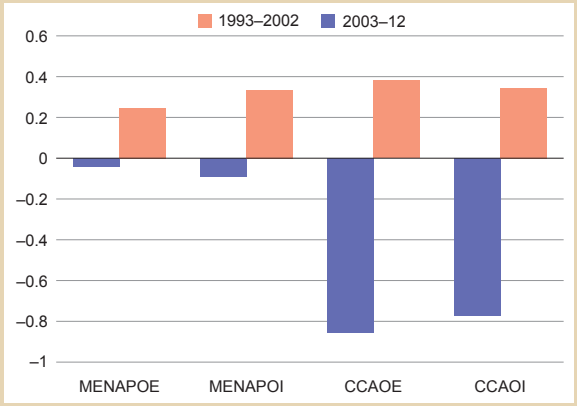
These results mean that conflicts are a force to be reckoned with for policymakers in the affected countries and for the international community. Besides exacting a tragic human toll, the rise of conflicts in the MENAP region is an increasingly pressing threat to the region's macroeconomic stability, with the potential for negative spillovers that reach well beyond the immediately affected areas.

Figure 1.3
Share of Non-Oil Exports by Destination
(Percent, period averages)



Sources: UN Comtrade; and IMF staff calculations.
Note: OE = oil exporters; OI = oil importers.

Figure 1.4
Average Growth Correlations with China



Sources: National authorities: and IMF staff calculations.
Note: OE = oil exporters; OI = oil importers.

unlikely to have a major impact on MENAP oil exporters, though regional equity markets dropped in response to the emerging market turmoil, especially in Oman, Saudi Arabia, and the United Arab Emirates.

Lower Oil Prices Call for Further Fiscal Consolidation

The decline in oil prices has led to a substantial deterioration in fiscal balances. Fiscal deficits are expected to be 13 percent of GDP in the GCC and 12 percent of GDP in non-GCC countries, before improving somewhat over the medium term (Figure 1.5). The recent drop in fiscal balances

Box 1.3

How U.S. Monetary Policy Normalization Would Affect the Middle East and Central Asia

In August 2015, expectations of an imminent rise in U.S. interest rates receded in response to increased concerns about emerging market growth, but normalization remains in the cards. When it takes place, it will create far-reaching spillovers. Normalization is expected to occur in response to an improving U.S. growth outlook and rising inflation pressures. Higher U.S. growth should support stronger global economic activity through trade, creating a tailwind for commodity prices.

However, as the increase in U.S. interest rates is transmitted across the world, it might cause capital outflows from emerging markets, depreciation of their currencies, and a tightening of domestic and external financing conditions. As the May–June 2013 "taper tantrum" showed, speculation over the timing and pace of U.S. interest rate increases can trigger financial market volatility. Overall, emerging markets are likely to gain from higher global growth, but these gains may be partly offset by tighter financing conditions and changes in commodity prices. The net impact on individual countries will depend on whether they export or import commodities and the pattern of their international linkages.

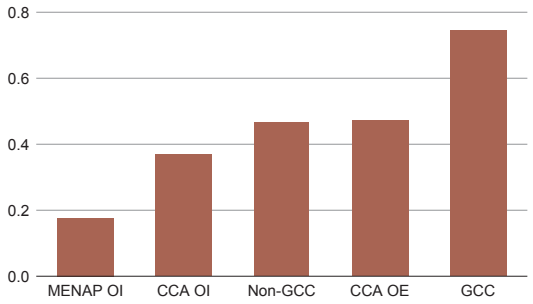
The impact of U.S. interest rate increases is likely to vary across MENAP and the CCA, reflecting these regions' different structural characteristics, policy regimes, cyclical positions, and economic linkages:

- GCC economies are likely to experience a neutral impact. Greater U.S. demand and its positive spillovers to global growth will raise oil export revenues. But in the case of higher U.S. growth, U.S. monetary policy would normalize, resulting in higher interest rates. This could offset some of the increased demand for oil if it results in higher global financial market volatility that hurts emerging market growth, or if it reduces demand for oil as an investment vehicle. Higher U.S. interest rates would also raise external borrowing costs, especially for GCC banks and corporations pursuing large-scale investment projects. Pass-through of higher U.S. interest rates will be strong, given the GCC pegs to the U.S. dollar, and could slow private investment in non-oil sectors (Figure 1.3.1). However, the decline in private sector credit is unlikely to have a major effect on economic activity, which is driven mainly by government spending.
- Other MENAP oil exporters are expected to experience similarly positive spillovers from stronger U.S. growth. Because these countries have more limited global financial ties and weak monetary policy transmission, the adverse consequences of U.S. monetary policy normalization are likely to be smaller (Figure 1.3.2).
- MENAP oil importers stand to gain should stronger U.S. growth spill over into higher growth in their main export destinations and remittance sources (the euro area, the GCC, and emerging markets)—notwithstanding the downside risks of U.S. monetary policy normalization that could lead to further global financial market volatility (Figure 1.3.3). At the same time, many of these countries peg their currencies to the U.S. dollar. The resulting nominal exchange rate appreciation against the euro would hurt their competitiveness, and direct pass-through of higher U.S. interest rates would be limited by weak monetary policy transmission. Though the historical correlations of long-term bond yields have been low, global financial market turmoil could raise external borrowing costs for governments, corporations, and banks, in turn raising domestic private sector lending rates and running counter to monetary easing policies amid still-large negative output gaps.
- CCA economies are less likely to benefit from higher U.S. growth. Their economies are heavily dependent on Russia for trade and remittances, and the positive spillovers from the United States to Russia are now more

Prepared by Pritha Mitra with research assistance by Mark Fischer.

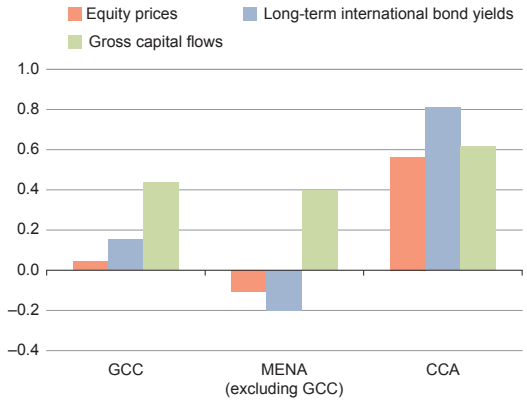
Box 1.3 (*continued*)

Figure 1.3.1
Correlation of Prime Lending Rates between MENAP and CCA Countries and the United States



Sources: Haver Analytics; and IMF staff calculations.
Note: Simple correlations of contemporaneous series. MENAPOI excludes Somalia, Sudan, and Syria. CCAOE excludes Turkmenistan and Uzbekistan. GCC excludes Bahrain and Saudi Arabia. OE = oil exporters; OI = oil importers.

Figure 1.3.2
Financial Market Correlation with Emerging Markets, 2013–15

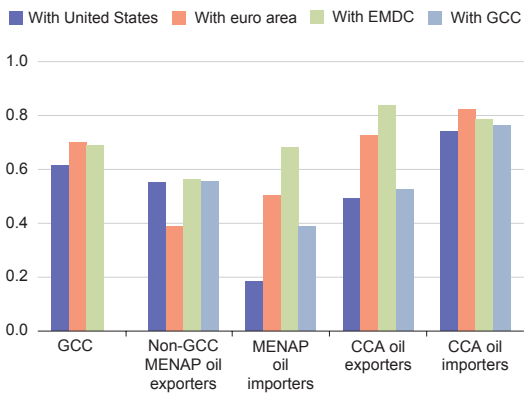


Sources: Bloomberg L.P.; EPFR; JP Morgan; and MSCI.
Note: Correlations are between contemporaneous series. Country coverage for emerging market equity and bond yields is as provided by MSCI and JP Morgan, respectively. Country coverage for capital flows corresponds with available data for countries included in the *World Economic Outlook's* emerging market and developing country aggregate.

limited than in the past. Strong ties to Russian financial markets could transmit emerging market turmoil to equities, raise bond yields, and spur capital outflows. Depreciation pressures in the context of higher dollarization could also create strains for private sector balance sheets. A rise in interest rates would counter monetary policy easing in countries with still-large output gaps. However, CCA exporters of oil and other commodities will gain export revenues from higher global demand for commodities.

Macroeconomic policies can help augment positive spillovers while mitigating the negative ones. Solid macroeconomic fundamentals—including broad-based economic growth, robust current account positions, low inflation, sustainable public debt, and liquid financial markets—should amplify positive spillovers to growth and support investor confidence, mitigating any adverse financial market reactions. Financial system resilience to asset price volatility and a sudden decline in market liquidity can be strengthened through macroprudential policy and risk monitoring. Oil importers that do not have a hard peg to the U.S. dollar—and that still have large negative output gaps—may consider countering upward interest rate pressures by easing monetary policy.

Figure 1.3.3
Growth Correlations, 2003–14



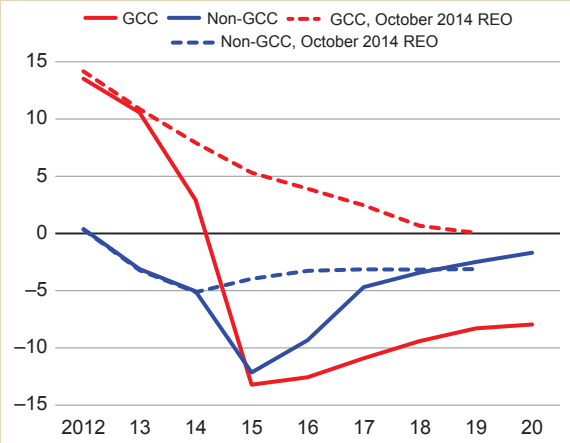
Sources: National authorities; and IMF staff calculations.
Note: Correlations are between contemporaneous series. Bars represent the correlation of real GDP growth between each pair of aggregate country groupings. Aggregates represent World Economic Outlook database definitions. EMDC = emerging market and developing countries.

has been more pronounced in GCC countries because they are more reliant on oil revenues (see Figure 1.9).

Chapter 4 provides an in-depth analysis of fiscal challenges faced by MENAP oil exporters. The key takeaways are as follows:

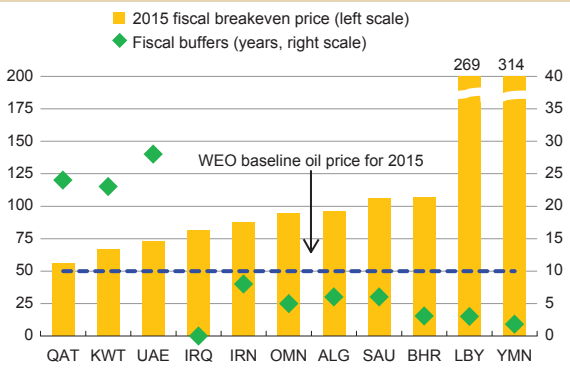
- The oil price decline is expected to have a large, permanent component. Therefore, oil exporters will need to adjust their spending and revenue policies to ensure fiscal sustainability, attain intergenerational equity, and rebuild space for policy maneuvering. Countries with larger buffers can adjust more gradually so as to contain the negative impact on growth. Countries without available buffers have no choice but to adjust quickly, irrespective of their cyclical position (Husain and others 2015).
- For most countries, the fiscal measures currently being considered are likely to be inadequate to achieve the needed medium-term fiscal consolidation. Apart from Kuwait, Qatar, and the United Arab Emirates, under current policies, countries would run out of buffers in less than five years because of large fiscal deficits (Figure 1.6).[4] In addition, none of the MENAP oil exporters are saving enough of their hydrocarbon wealth for intergenerational purposes, as measured against the Permanent Income Hypothesis benchmark (see Figure 4.3 in Chapter 4). Finally, the large and persistent oil price volatility calls for precautionary buffers to be replenished over the medium term, so that any new shocks can again be dealt with in an orderly way (October 2015 *Fiscal Monitor*). This is especially relevant given the most recent developments when oil prices fell sharply again after a year of large declines.
- Nevertheless, some progress on fiscal consolidation is envisaged (Figure 1.7). In the GCC, adjustment over the medium term is expected to come mainly from a reduction in investment and an unwinding of one-off

Figure 1.5
Fiscal Balance, 2012–20
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

Figure 1.6
Fiscal Buffers and Breakeven Oil Prices, 2015
(Years and U.S. dollars per barrel)



Sources: National authorities; and IMF staff calculations.
Note: Years of buffers are calculated with the assumption of no extra debt buildup (that is only running down assets). Country abbreviations are International Organization for Standardization (ISO) country codes.

[4] Buffers are defined here as the number of years until gross government assets turn negative, assuming no fiscal adjustment (for instance, non-oil primary balance to non-oil GDP remains at the 2014 level) and no government borrowing. In practice, many MENAP oil exporters can finance deficits through borrowing and other means—see Box 4.1 for a more general discussion of "fiscal space" available to MENAP policymakers.

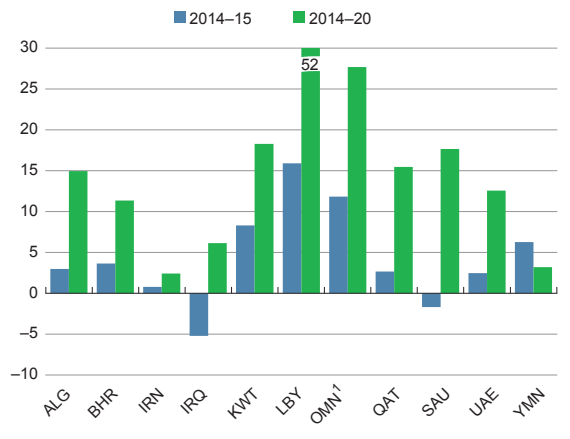
spending items. The projected fiscal adjustment in non-GCC countries that are less dependent on oil revenue (for example, Iran) is smaller, while conflict-affected countries such as Libya and Yemen are being forced to adjust because available buffers are low.[5]

- The composition of fiscal adjustment should be tilted toward curbing current spending, while preserving high-return public capital spending and essential social expenditures.
- Several countries (Iran, Kuwait, the United Arab Emirates) have introduced welcome energy pricing reforms, which have reduced the gap between local prices and international benchmark prices. Direct fiscal savings are relatively modest, however, because in most countries the cost of low energy prices is implicit.[6] More progress needs to be made in this area across the region.
- Developing medium-term fiscal frameworks early on, in tandem with good communication, is essential to maintain policy credibility, not least because a number of countries have started issuing debt to finance deficits. The debt issuance will support local bond market development (Box 4.2 in Chapter 4).
- In some circumstances, the burden of fiscal adjustment can be eased through other policies, such as exchange rate and structural policies. Countries with long-standing exchange rate pegs and undiversified economies (in particular, the GCC countries) should maintain their currency pegs, but aid adjustment through adequate medium-term fiscal consolidation plans.

[5] Iraq's non-oil primary balance is expected to improve in 2015 in level terms, but because of the large fall in nominal non-oil GDP, the change in the non-oil primary balance as a percentage of non-oil GDP is negative.

[6] Most MENAP oil exporters do not provide explicit subsidies, but keep local prices below international prices, which entails considerable fiscal opportunity costs (Coady and others 2015).

Figure 1.7
Change in Non-Oil Primary Balances
(Percent of non-oil GDP)



Sources: National authorities; and IMF staff calculations.
Note: Bars denote changes in non-oil primary balance from 2014–15 and 2014–20, respectively. Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]The reduction in Oman's non-oil primary balance partly reflects an unwinding of exceptional spending measures and an automatic decline in energy subsidies due to lower international oil prices.

Financial Sectors Sound, with Pockets of Vulnerabilities Mainly in Non-GCC Countries

Banking systems in MENAP oil exporters are generally well positioned to withstand the effects of the oil shock, though profits could come under pressure (see Chapter 6). Macroprudential policies have reduced vulnerabilities related to real estate exposure and household indebtedness. The slowdown in deposit growth is affecting credit growth in some countries (for example, Oman and Saudi Arabia).

There are, however, some pockets of weakness. In Algeria and Iraq, macrofinancial risks have increased because of bank dependence on oil-related deposits and exposure to state-owned enterprises, whose performance is driven by oil. In Algeria, the cap on trade finance could affect private banks' profitability. The banking sector in Yemen is exposed to sovereign risks from high government credit exposures, with fiscal indicators deteriorating.

Iranian banks suffer from weak asset quality and thin capitalization, in part because of

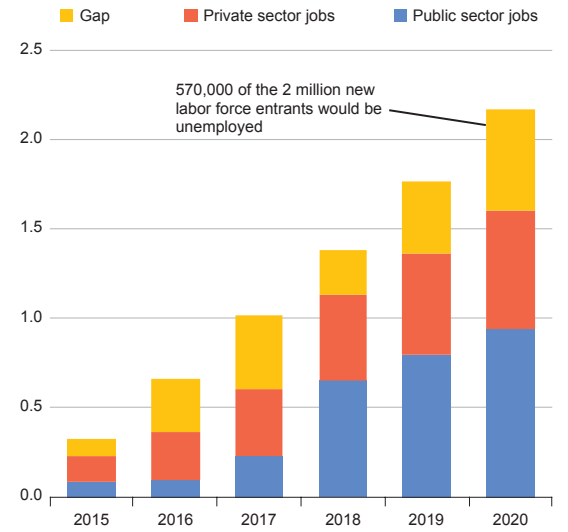
government-mandated credit policies and limited enforcement power of banking supervisors. The removal of sanctions is expected to boost growth and reintegrate the Iranian banks into the international banking system. These developments, coupled with comprehensive domestic reforms in the banking sector, could help improve the financial health of Iranian banks and their ability to support the projected recovery. Vulnerabilities in GCC countries are mainly related to high loan concentrations to single borrowers and/or sectors (such as real estate).

Wanted: A Diversified Private Sector

Lower oil prices will eventually force governments of oil exporters to hire fewer public servants. In the GCC (excluding the United Arab Emirates), more than 2 million nationals are expected to join the workforce by 2020. If private sector job growth were to follow past trends, and public sector employment growth is consistent with the current fiscal projections, more than half a million job market entrants will end up being unemployed (Figure 1.8, yellow bar), in addition to the 1 million who are already out of work. The aggregate GCC unemployment rate would increase from 12¾ percent to 16 percent. Clearly, if more fiscal adjustment were to take place, with some of it in the form of reined-in public sector hiring, unemployment rates would be even higher. In the non-GCC region, about 8 million people will enter the labor force over the next five years. Under current growth projections, and using historical growth–employment elasticities, the average unemployment rate would increase from 14 percent to 15½ percent.[7] In practice, the increase could be much higher, because cash-strapped governments will not be able to maintain the pace of public sector hiring.

Clearly, the private sector will have to take over from the public sector as the main source of job creation. However, the expansion of the private sector and the diversification away from oil that are needed to absorb the growing workforce have so far proven elusive. Though some progress has been made, most economies in the region are still deeply dependent on the capital-intensive hydrocarbon sector, which generates limited direct employment (Figure 1.9). The private sector itself is highly reliant on government spending and needs to become self-sustaining through increased competitiveness in other markets (including exports). Creating incentives for nationals to move to the private nonhydrocarbon sector, improving skills, and making those skills more relevant to the private sector by improving the quality of education[8] are crucial in this respect.[9]

Figure 1.8
Employment Outlook in the GCC
(Millions of new labor market entrants, cumulative)



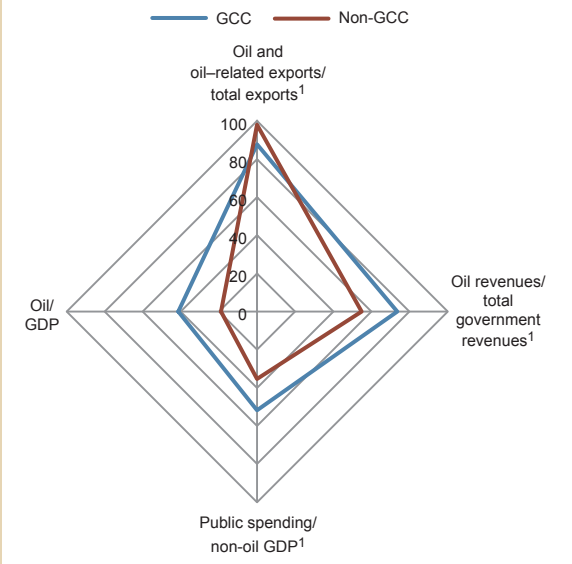
Sources: National authorities; and IMF staff calculations.
Note: Data for the United Arab Emirates not included. Public sector jobs are projected by using projected World Economic Outlook (WEO) wage bill growth rates, while private sector jobs are projected by using historical employment non-oil growth elasticities and non-oil growth current WEO projections (as in Behar 2015).

[7] Data on public and private sector employment is not readily available for non-GCC countries.

[8] Recent research by the Organization for Economic Co-operation and Development shows that oil exporters could increase their long-run growth significantly if they achieved universal secondary education and all students acquired basic skills. Oman would gain 1.7 percentage points of GDP, Qatar 1.3 percentage points, Saudi Arabia 1.25 percentage points, and Iran and Bahrain about 1 percentage point (Manushek and Woesmann 2015, Table 5.5).

[9] See Callen and others (2014) for a deeper analysis of diversification prospects in the GCC region.

Figure 1.9
Diversification
(Higher is less diverse)



Sources: National authorities; UN Comtrade; World Trade Organization; and IMF staff calculations.
[1] Calculated using three-year averages ending in the specified year, or the latest three-year period for which data are available.

In non-GCC countries, there is an urgent need to improve the business environment, even though this is difficult for those conflict-affected countries with low institutional capacity. The specific needs and challenges of those countries are discussed in Box 1.4.

Box 1.4

Trying Times for Fragile States in MENAP

Economic conditions worsened much more in MENAP's fragile states than in the rest of the region in 2014–15. In the oil-exporting countries (Iraq, Libya, Yemen), already weak socioeconomic conditions were exacerbated by regional conflicts and the drop in oil revenue. For net oil importers (Afghanistan, Somalia, Sudan, Syria, West Bank and Gaza), long-standing conflicts and other country-specific shocks had significant impacts. Because of low buffers and weak institutional capacity, external support to fragile states will need to be both sustained and flexible to achieve stabilization and reconstruction, and ultimately, to foster resilience and inclusive growth.

Today, eight MENAP countries and territories are considered "fragile" due to weak institutional capacity and/or conflicts. Five have been fragile for more than a decade (Afghanistan, Iraq, Somalia, Sudan, West Bank and Gaza) and three have joined the ranks during the past few years because of new conflicts (Libya, Syria, Yemen). Fragility has multiple causes, but common factors have been weak governance and noninclusive political and economic institutions. Institutional capacity has seen little improvement over the past decade in the three countries for which the World Bank's Country Policy and Institutional Assessment is available (Afghanistan, Sudan, Yemen) (Table 1.4.1).

Prepared by Nabil Ben Ltaifa, Abdikarim Farah, Shamiso Mapondera, and Eric Mottu.

Box 1.4 *(continued)*

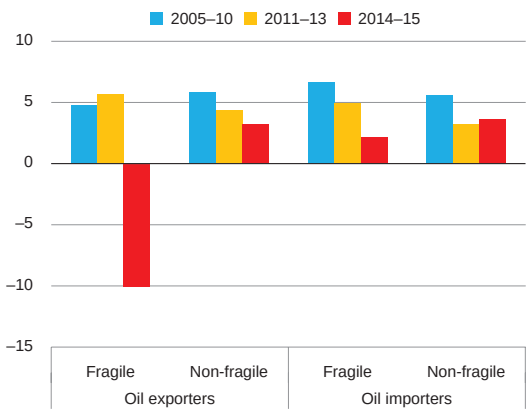
Table 1.4.1. Country Policy and Institutional Assessment

	2006	2010	2014
Afghanistan	2.6	2.6	2.7
Sudan	2.5	2.4	2.4
Yemen	3.3	3.2	3.0

Source: World Bank.
Note: Ratings range from 1 (lowest) to 6 (highest) against a set of 16 criteria grouped in four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.

Conflicts and shocks have had a dramatic impact on economic performance in fragile states. In the fragile oil importers, growth slowed significantly over the past five years as a result of conflicts and country-specific shocks (such as the withdrawal of foreign troops from Afghanistan, the secession of South Sudan, and the deterioration of security in the West Bank and Gaza) (Figure 1.4.1). In Syria, GDP is estimated to have shrunk by half since 2010. In the fragile oil exporters (Iraq, Libya, Yemen), intensified conflicts led to a sharp drop in GDP in 2014–15. Fragile states have also experienced much higher inflation, on average, than non-fragile states. Substantial destruction of human capital and physical infrastructure has made economic recovery much more difficult.

Figure 1.4.1
Real GDP Growth Rates for MENAP Oil Exporters and Importers



Sources: National authorities; and IMF staff calculations.

Policy buffers have dwindled in fragile states, further weakening their capacity to respond to shocks. International reserves have been drawn down in many fragile states and fiscal deficits have widened (Figure 1.4.2). Reduced buffers have increased vulnerabilities as well as the need for external financial support.

Overcoming fragility is a daunting long-term challenge. Past experience in Sub-Saharan Africa suggests that focusing on inclusive politics, effective governance, and increasing fiscal space offers a viable route to overcoming fragility and achieving inclusive economic growth (Gelbard and others 2015). The journey to recovery and resilience is long; it is subject to both political and security risks, and is highly vulnerable to a reversal in progress. Therefore, policies and reforms should be carefully sequenced and take into account country-specific circumstances. They should focus on: (1) building political consensus and restoring peace and security, including via demobilization/reintegration of combatants; (2) supporting economic stabilization; and (3) reinforcing capacity and institutional building (including strengthening fiscal institutions, transparency, and accountability).

With their weak domestic capacity and low policy buffers, the region's fragile states will need urgent and sustained support from the international community to achieve resilience. Support will have to be multidimensional—to tackle the multiple facets of fragility—adaptive, and well coordinated among all stakeholders. The IMF helps

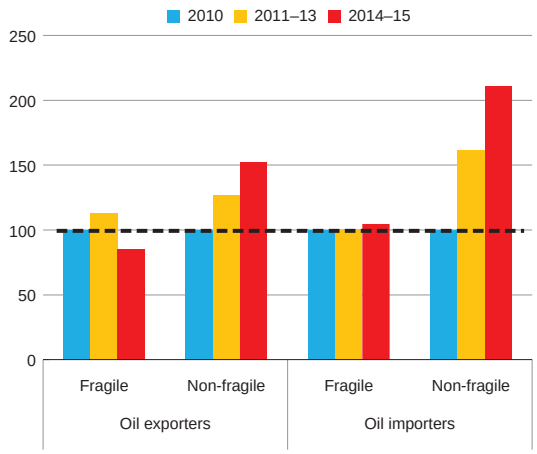
Box 1.4 *(continued)*

fragile states promote macroeconomic stability (which is critical for economic recovery and employment); rebuild institutional capacity for macroeconomic management through technical assistance in public financial management, revenue mobilization, and macroeconomic statistics; and catalyze donor support. The IMF recently re-engaged with Somalia through an Article IV consultation, provided financial assistance to Iraq and Yemen, and engaged with Afghanistan and Sudan through IMF staff-monitored programs. Close coordination with donors and country authorities has also been critical.

Figure 1.4.2

Gross International Reserves

(Index, 2010 = 100)



Sources: National authorities; and IMF staff calculations.

MENAP Oil Exporters: Selected Economic Indicators

	Average 2000–11	2012	2013	2014	Projections 2015	2016
Real GDP Growth	**5.5**	**5.9**	**1.9**	**2.6**	**1.8**	**3.8**
(Annual change; percent)						
Algeria	3.8	2.6	2.8	3.8	3.0	3.9
Bahrain	5.2	3.6	5.3	4.5	3.4	3.2
Iran, Islamic Republic of	5.2	–6.6	–1.9	4.3	0.8	4.4
Iraq	…	13.9	6.6	–2.1	0.0	7.1
Kuwait	5.3	7.7	0.8	0.1	1.2	2.5
Libya	–1.0	104.5	–13.6	–24.0	–6.1	2.0
Oman	3.7	5.8	4.7	2.9	4.4	2.8
Qatar	13.0	4.9	4.6	4.0	4.7	4.9
Saudi Arabia	5.5	5.4	2.7	3.5	3.4	2.2
United Arab Emirates	4.8	7.2	4.3	4.6	3.0	3.1
Yemen	3.0	2.4	4.8	–0.2	–28.1	11.6
Consumer Price Inflation	**7.4**	**10.4**	**10.4**	**5.8**	**6.0**	**5.1**
(Year average; percent)						
Algeria	3.4	8.9	3.3	2.9	4.2	4.1
Bahrain	1.4	2.8	3.3	2.7	2.0	2.1
Iran, Islamic Republic of	15.1	30.5	34.7	15.5	15.1	11.5
Iraq	18.5	6.1	1.9	2.2	1.9	3.0
Kuwait	3.3	3.2	2.7	2.9	3.3	3.3
Libya	5.3	6.1	2.6	2.8	8.0	9.2
Oman	2.7	2.9	1.2	1.0	0.4	2.0
Qatar	4.7	1.9	3.1	3.0	1.6	2.3
Saudi Arabia	2.0	2.9	3.5	2.7	2.1	2.3
United Arab Emirates	4.8	0.7	1.1	2.3	3.7	3.0
Yemen	11.7	9.9	11.0	8.2	30.0	15.0
General Government Overall Fiscal Balance	**6.7**	**7.3**	**4.2**	**–0.8**	**–12.7**	**–11.1**
(Percent of GDP)						
Algeria	4.6	–4.0	–1.5	–7.9	–13.9	–11.4
Bahrain[1]	0.2	–3.2	–4.3	–5.7	–14.2	–13.9
Iran, Islamic Republic of[2]	2.1	–1.9	–2.2	–1.1	–2.9	–1.6
Iraq	…	4.1	–5.8	–5.3	–23.1	–17.7
Kuwait[1]	27.9	34.6	34.0	26.3	1.2	0.0
Libya	11.5	27.8	–4.0	–43.5	–79.1	–63.4
Oman[1]	9.5	4.7	3.2	–1.5	–17.7	–20.0
Qatar	9.3	14.2	20.7	14.7	4.5	–1.5
Saudi Arabia	7.8	12.0	5.8	–3.4	–21.6	–19.4
United Arab Emirates[3]	11.1	10.9	10.4	5.0	–5.5	–4.0
Yemen	–2.4	–6.3	–6.9	–4.1	–8.5	–9.2
Current Account Balance	**12.9**	**17.3**	**15.2**	**8.9**	**–3.4**	**–4.3**
(Percent of GDP)						
Algeria	14.1	5.9	0.4	–4.5	–17.7	–16.2
Bahrain	6.4	7.2	7.8	3.3	–4.8	–5.9
Iran, Islamic Republic of	4.8	4.0	7.0	3.8	0.4	1.3
Iraq	…	6.7	1.3	–2.8	–12.7	–11.0
Kuwait	31.7	45.2	41.2	31.0	9.3	7.0
Libya	24.0	29.1	13.6	–30.1	–62.2	–49.1
Oman	9.0	10.3	6.6	2.0	–16.9	–24.3
Qatar	18.9	32.6	30.9	26.1	5.0	–4.5
Saudi Arabia	16.2	22.4	18.2	10.3	–3.5	–4.7
United Arab Emirates	11.9	21.3	18.4	13.7	2.9	3.1
Yemen	0.4	–1.7	–3.1	–1.7	–5.3	–5.4

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).

[1]Central government.

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

[3]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.

2. MENAP Oil Importers: Growth Trending Up, but More Reforms Needed to Create Jobs

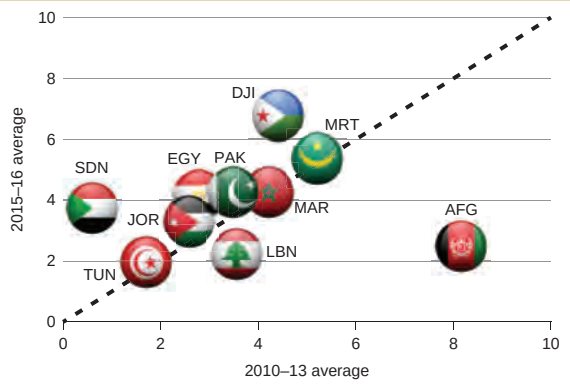
The recovery in the region is gaining strength thanks to progress toward political stability, economic reforms, lower oil prices, and improvement in euro area growth—with growth rising to 4 percent in 2015 and 2016, broadly in line with May 2014 Regional Economic Outlook *projections. However, greater momentum is being held back by continued spillovers from conflicts—including mounting numbers of refugees—and by security risks and social tensions, while supply-side bottlenecks and strong currency valuations continue to hamper competitiveness and productivity growth. In a climate of persistently high unemployment, low living standards, and limited inclusiveness, strong reform initiatives—especially in the areas of business, trade, and labor and financial markets—are imperative for fostering private sector expansion and job creation. Greater exchange rate flexibility and gradual fiscal consolidation—which would achieve sustainable debt profiles and strengthen buffers for dealing with adverse shocks—are also critical.*

Strengthening Recovery

Over the past five years, MENAP oil-importing economies have experienced lackluster growth. The global financial crisis dampened external demand and financial inflows. Political transitions triggered by the Arab Spring uprisings, social upheavals, and regional conflicts displacing thousands of people (Box 2.1) are weighing on confidence. Stagnant 3 percent growth, limited in its inclusiveness, resulted in persistently high unemployment of 11½ percent, with youth unemployment averaging 17 percent across the region.

The recovery is finally starting to gain momentum owing to budding confidence, improved external demand, and lower oil prices. MENAP oil importers' economic growth is expected to rise to 4 percent in 2015 and 2016 (Figure 2.1). Progress in the political transitions initiated in 2010 has resulted in governments with the multiyear horizons needed to enact economic reforms—though the challenges of building strong public consensus mean implementation will be gradual. Greater political stability and recent economic initiatives have fostered confidence, which, together with higher euro area growth and lower oil prices

Figure 2.1
Breaking Free of Stagnant Growth?
(Real GDP annual growth, percent)



Sources: National authorities; and IMF staff estimates.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

(notwithstanding the risks discussed later), has strengthened investment and export growth. Remittances (largely from Europe and the GCC, Box 2.2) and a large public wage bill continue to support consumption, the main driver of economic growth (Figure 2.2).

The revival in confidence reflects a reduction of fiscal vulnerabilities, improvements in the business environment, and easing of financing constraints (Figure 2.3). Most governments are reining in fiscal deficits—which are set to decline

Prepared by Pritha Mitra with input from Inutu Lukonga and research assistance from Mark Fischer.

Box 2.1

Policy Implications of the Growing Refugee Crisis

Deepening conflicts and the rise of violence, including by non-state actors such as the Islamic State of Iraq and the Levant (ISIL), have caused a sharp increase in the number of refugees in the MENA region. UNHCR puts the official count of refugees from MENA countries (excluding Palestinian refugees) at 9.2 million, twice as many as a decade ago and more than 60 percent of the world's total. This figure excludes the millions of internally displaced people. Most of the registered refugees have come from Syria (nearly 4 million), Afghanistan, and Iraq. Most (5.2 million) have so far fled to neighboring countries, such as Iran, Jordan, Lebanon, Pakistan, and Turkey. In addition, Tunisia hosts a large number of Libyan nationals who had moved following the country's political crisis, while Djibouti and Somalia have started to absorb people fleeing the crisis in nearby Yemen. Europe has also been receiving refugees from the region at an accelerating rate in recent months. The associated changes in the level and composition of the populations in countries hosting refugees can be significant. In Lebanon and Jordan, for instance, refugees now account for about one-quarter and one-fifth of the total populations, respectively.

The refugee crisis inflicts massive humanitarian costs on the refugees themselves. It also has significant economic consequences for home and host countries alike.

- For home countries, large outflows of working-age people imply a dramatic decline in human capital. This cost is higher when refugees include the better educated and skilled. Accordingly, home countries face permanent reductions in growth potential, on top of the physical destruction. The loss of human capital partially explains why it typically takes countries a very long time to recover from conflict, especially when conflicts are protracted (for example, with an average growth rate of 3 percent, it would take Syria about 20 years to regain its 2010 GDP level). Over the medium term, home countries may benefit from renewed remittance flows.
- For host countries, large inflows of refugees affect their economies through a variety of channels. First, fiscal pressures increase in line with government outlays on housing and basic services such as health, schooling, and security. This is already a stark reality for host countries within the region, in addition to disruptions in trade flows, lower investment, and tourism. For example, for Jordan and Lebanon, the direct budgetary costs of refugee inflows are estimated to be about 1 percent of GDP per year (USAID for Jordan, World Bank for Lebanon). Large refugee inflows have also increased pressure on food, labor, and real estate markets, and access to public infrastructure, which could disproportionately affect each country's poorest. These developments can strain host countries' social fabric and give rise to political instability, particularly where governments already face the challenges of significant social exclusion and high unemployment, notably among the youth. Host countries outside the region, including in Europe, are beginning to face similar economic challenges in absorbing refugees, though as yet on a much lower scale than many in the Arab world. Moreover, these host countries—and especially those with aging populations—stand to gain long-term benefits from integrating refugees.

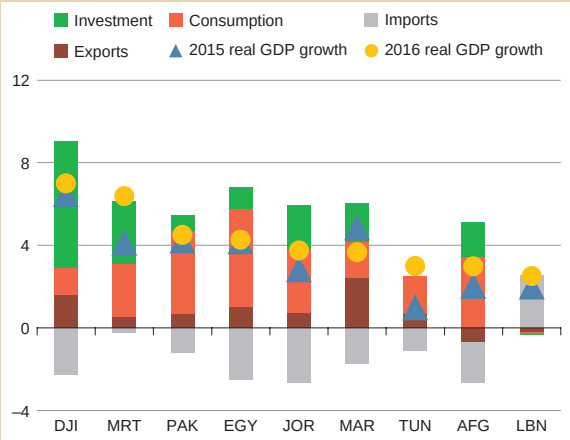
The protracted nature of the conflicts makes a quick resolution of the current refugee crisis in the region unlikely. Affected countries and their external partners can help mitigate the most urgent pressures and provide adequate services to refugees. Over time, only security and better living conditions in the home countries will help address the root causes of the refugee crisis.

Prepared by Davide Lombardo, Gaëlle Pierre, and Björn Rother.

Box 2.1 *(continued)*

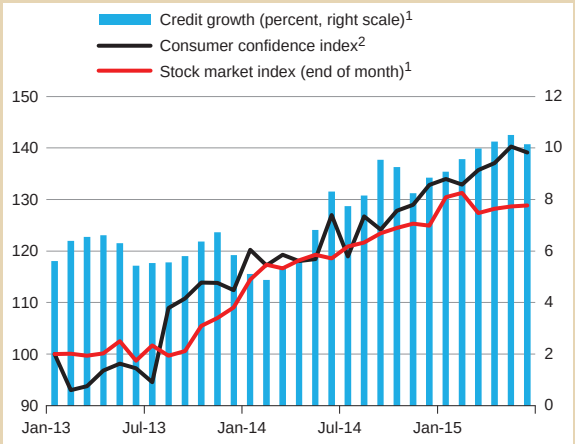
- Home countries need to focus on preventing economic collapse and maintaining macroeconomic stability as much as possible. Host countries should focus on addressing the immediate and longer-term needs of refugees, without compromising macroeconomic stability and social peace.
- External partners can play a key role. By remaining engaged with home countries, they can help them maintain macroeconomic stability and, once the security situation has been restored, rebuild economic infrastructure and institutions by providing financing and capacity building assistance. They should also support the host countries with sufficient financing to enable them to provide adequate care for their incoming refugee populations. This is especially the case for host countries within the region, where pressures have been the greatest so far and fiscal positions are not strong enough to allow them to shoulder the refugee-related challenges on their own.
- More broadly, across the entire MENAP region, conflicts and refugee flows underline the importance of making progress with inclusive growth reforms. This can help to address the deep-seated economic inequities that contribute to conflicts.

Figure 2.2
Contributions to Growth: Exports and Investment Join Consumption
(Percent, average 2015–16)



Sources: National authorities; and IMF staff estimates.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

Figure 2.3
Growing Confidence
(Index, January 2013 = 100)



Sources: Bloomberg, L.P.; national authorities; and IMF staff estimates.
[1]Includes Egypt, Jordan, Lebanon, Morocco, Pakistan, and Tunisia.
[2]Includes Egypt, Lebanon, and Pakistan.

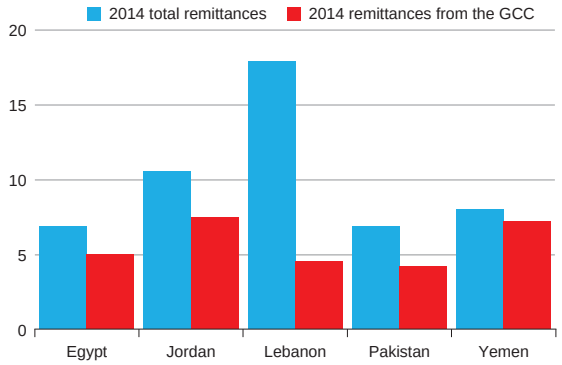
by 2 percentage points on average during 2015–16 to about 6 percent of GDP—and stabilizing public debt ratios below 65 percent for half the region, in part owing to lower oil prices. Reforms to the business environment, including the regulatory framework and investor protection (Egypt, Morocco, Pakistan), are also boosting business and consumer confidence. Nevertheless, poor transport infrastructure, and electricity, fuel, and water shortages still hamper economies in the region. Monetary policy easing (Jordan, Lebanon) is supporting credit growth for both consumption and investment. The region's banks remain, on average, well capitalized, profitable, and liquid.

Box 2.2

Oil Prices and Remittances from the GCC to the Mashreq, Pakistan, and Yemen

Remittances from the GCC are an important source of income for Egypt, Jordan, Lebanon, Pakistan, and Yemen. The Gulf region is one of the largest sources of migrant remittances in the world. Some 29 million foreign workers sent home more than $100 billion in remittances in 2014, about one-third of which was sent to the Mashreq, Pakistan, and Yemen. These countries are highly dependent on remittances and especially on those from the GCC (Figure 2.2.1). For example, Egypt and Jordan receive about 70 percent of their total remittances from the GCC—equivalent to 5 percent and 7½ percent of their GDPs, respectively. Following tepid growth during most of the 1990s, remittance flows from the GCC accelerated at the turn of the century, in tandem with a rapid rise in oil prices and non-oil GDP (Figure 2.2.2).

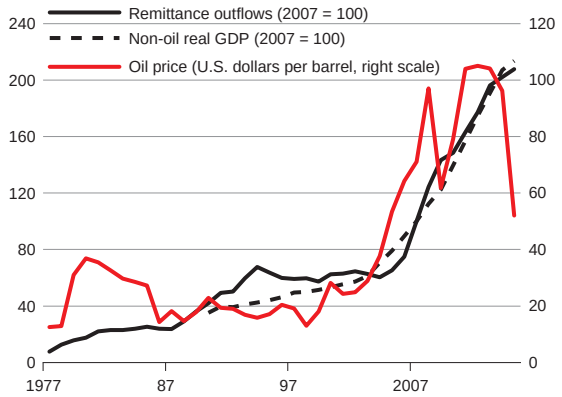
Figure 2.2.1
Remittances to Mashreq, Pakistan, and Yemen
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and World Bank, World Development Indicators database.

Historically, remittances have been much less volatile than oil prices. An analysis of past large oil price declines (in 1986, 1991, 1998, 2001, and 2009) shows that remittance flows to the Mashreq, Pakistan, and Yemen fell only modestly (by 3 percent on average) following large declines in oil prices (30 percent on average) and recovered quickly in line with oil prices. This is mainly because the GCC countries accumulated large buffers, which allowed them to maintain their fiscal spending, even in periods of temporary declines in oil prices. Moreover, government spending tends to drive non-oil economic activity in the GCC, particularly construction and services, where demand for migrant workers is high. Based on historical trends, a 1 percent decline in real non-oil GDP in the GCC is estimated to reduce remittance flows to the Mashreq, Pakistan, and Yemen by ½–¾ percent annually.

Figure 2.2.2
Oil Price, Non-Oil GDP, and Remittance Outflows from the GCC



Sources: Arab Monetary Fund; and IMF, World Economic Outlook database.
Note: Excludes Qatar and the United Arab Emirates.

How are remittances from the GCC likely to be affected by the current oil price decline? Over the near term, the impact is likely to be modest because real non-oil GDP growth is projected to decline only moderately to about 3.8 percent per year in 2015–16, compared to 5.9 percent in 2012–14. Over the medium term, the impact will depend on the pace of fiscal adjustment in the GCC in response to the lower oil prices. Faster fiscal adjustment than is currently envisaged, or the introduction of a special tax on remittances, which has been proposed in the GCC, could slow remittance flows further.

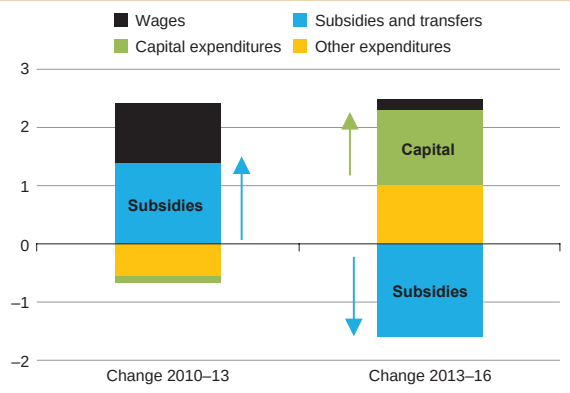
Prepared by Saad Quayyum, and Supriyo De (World Bank), Kirsten Schuettler (World Bank), and Seyed Reza Yousefi (World Bank) with research assistance from Ramsey Andrawis and Mbaye Gueye.

Nonperforming loans (NPLs) are high but have broadly stabilized.

The fiscal space created by fiscal consolidation and lower oil prices has helped to increase growth-enhancing investment. Consolidation has mainly relied on energy subsidy reforms (Egypt, Jordan, Morocco, Pakistan, Sudan; see the *Regional Economic Outlook: Middle East and Central Asia*, October 2014) and, to some extent, privatization of state-owned enterprises (SOEs—Pakistan). Adverse growth effects have been partly offset by the increased availability of private sector bank credit (though it is still limited for small and medium enterprises) and the channeling of some savings toward increased infrastructure spending, targeted social assistance, education, and health care (Figure 2.4, Box 2.3). In 2016, substantial investments in electricity infrastructure (Djibouti, Egypt, Pakistan) are expected to ease production bottlenecks across industries. In Egypt, government reform plans are triggering large-scale public and private investment projects. Wage spending is contained in most countries but has expanded in Tunisia.

External factors are also playing a role in supporting exports and raising confidence. Strengthened euro area activity is raising export demand, tourism, and remittances for the Maghreb (Figure 2.5). Though lower than expected a year ago, GCC growth is still solid and continues to support remittances to the Mashreq, even as export demand from the GCC is slowing—and partly offsetting the gains from lower oil prices. Lower oil prices have reduced net energy import bills (on average 1¼ percent of GDP in 2015–16; see Box 4.3), supporting international reserves coverage at about five months of imports. For those countries yet to complete energy subsidy reforms, savings to government budgets (however limited; Box 4.3) or SOEs (particularly in the electricity sector) are being applied toward public debt stabilization. A better external environment, coupled with domestic reforms, is also attracting more foreign investment (Morocco). The pass-through of expected increases in U.S. interest rates is likely to be partial and slow, given MENAP oil importers' limited financial integration and weak monetary policy transmission mechanisms (see Box 1.3).

Figure 2.4
Subsidy Reforms and Lower Oil Prices Create Space for Growth-Enhancing Spending
(Change in expenditure components, percent of GDP)



Sources: National authorities; and IMF staff estimates.
Note: Includes Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, and Tunisia.

After a sharp decline, inflation is stabilizing (Figure 2.6). In 2015, persistently large negative output gaps and low food prices reduced inflation by almost 3 percentage points to 6½ percent—raising households' real disposable incomes. These pressures were partly offset by energy subsidy phase-outs and, in some cases, currency depreciation, monetization of fiscal deficits, and accommodative monetary policies. A further, albeit small, decline in inflation for 2016 is projected, in line with continuing—but slower—food price declines. An anticipated continuation of weak pass-through of lower international oil prices, owing to remaining subsidies and/or low competition, implies little near-term benefit for firms' production costs and household incomes (except in Jordan, Lebanon, Morocco, and Pakistan).

Serious Headwinds Holding Back Faster Recovery

Domestic and external headwinds are holding back greater economic momentum. Bigger rebounds in domestic investment and production, trade,

Box 2.3

Public Investment as an Engine of Growth

The usefulness of public investment in boosting lackluster emerging market growth is under debate. Public investment can raise output and jobs, in the short term by increasing demand, and in the long term by improving supply—particularly by raising productivity and crowding-in private investment. However, empirical analysis finds limited impact on growth in emerging markets owing to inefficiencies in public investment administration and financing that crowds out private investment (Warner 2014). The short-term impact of public investment also depends on the degree of economic slack and monetary accommodation (*Regional Economic Outlook: Middle East and Central Asia*, October 2014).

In MENAP and the CCA, the correlation between public investment and growth is mild. The ratio of public investment to GDP tends to be positively associated with growth three to five years after the initial increase in investment. In oil exporters, ties to growth are also very strong in the near term, reflecting the importance of public spending as an engine of growth in these economies. Oil importers' near-term correlation is negative but it then reverses over the medium term to be stronger than in oil exporters—reflecting recent targeting of supply-side infrastructure bottlenecks (Figure 2.3.1).

Given large infrastructure gaps across MENAP and the CCA, it is worrying that public investment has declined sharply in MENAP (except the GCC) and is at low levels in the CCA (*Regional Economic Outlook: Middle East and Central Asia*, October 2014). The reasons are multiple, ranging from the global financial crisis and Arab Spring political transitions to conflicts and geopolitical tensions. Lower public investment has contributed to a marked slowdown in medium-term economic growth prospects in the region (Mitra and others 2015). Although most GCC countries have announced ambitious public infrastructure programs many times their annual economic output, public investment in the GCC could slow in the coming years because of persistently low oil prices. With declining public investment growth, structural reforms are needed to strengthen public investment's impact on economic growth over the medium term.

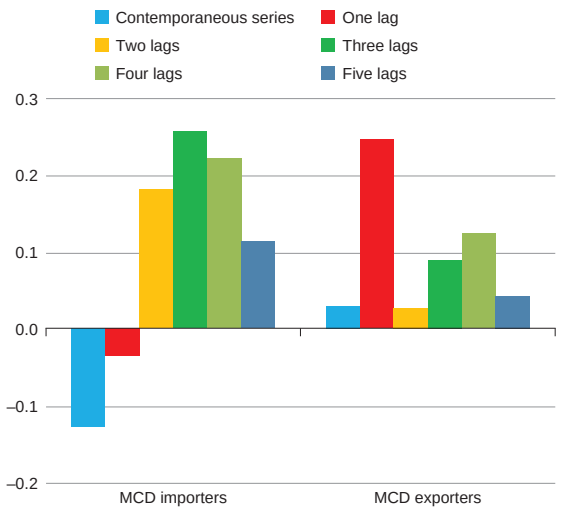
Potentially, more than $60 billion of output per year could be gained if MENAP and the CCA public investment ratios reach emerging market and developing country levels, supported by the following structural reforms:

- Raising public investment efficiency (*Regional Economic Outlook: Middle East and Central Asia*, October 2014), including through better project appraisal and selection, centralized independent reviews, rigorous cost-benefit analysis, risk costing, zero-based budgeting principles, and improved project execution.
- Maximizing synergies with private investment through focused infrastructure investment that eliminates energy and water shortages and raises the availability and quality of communication infrastructure, roads, and public transport to global standards.

Figure 2.3.1

Correlation between Annual Real GDP Growth and Annual Change in Public Investment

(GDP growth in percent; investment in percent of GDP)



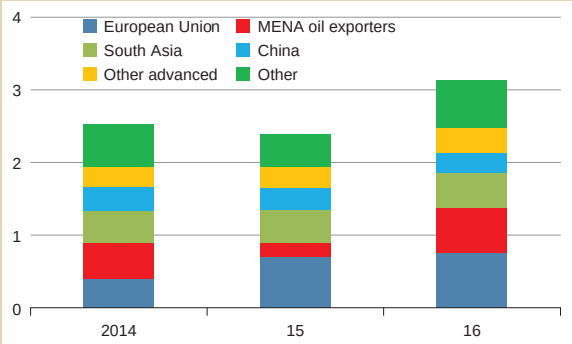
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Oil importers include Armenia, Egypt, Georgia, Jordan, Lebanon, Morocco, Pakistan, Sudan, and Tunisia. Oil exporters include Algeria, Azerbaijan, Bahrain, Iran, Kazakhstan, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Prepared by Pritha Mitra and Mark Fischer.

Box 2.3 *(continued)*

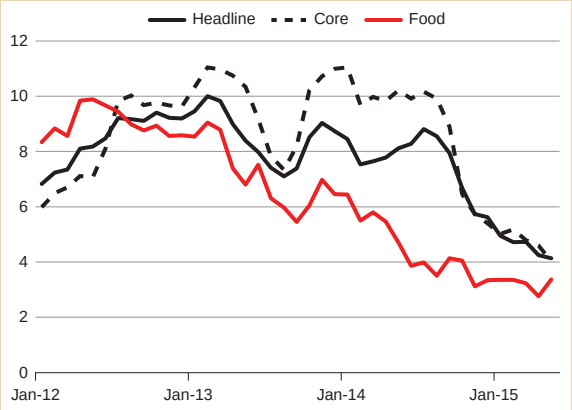
- Improving the business environment, raising access to credit for small and medium enterprises, improving the quality of education, increasing the use of modern technology, and increasing trade openness to maximize private sector benefits from better infrastructure, building public investment management capacity, and increasing absorptive capacity; and
- Diversifying public investment financing across domestic and international sources to reduce crowding out. Strategies include sovereign bond issuance (either conventional or the increasingly popular financing option of Sukuk) and public-private partnerships applied with high fiscal transparency to reduce risks. Reducing other types of spending (for example, energy subsidies) to create room for greater public investment would also help reduce crowding-out effects.

Figure 2.5
Strengthening External Demand
(Export-weighted partner country non-oil real GDP growth, percent)



Sources: IMF, Direction of Trade Statistics database; national authorities; and IMF staff estimates.

Figure 2.6
Sharp Drop in Inflation Follows Low Food Prices
(Inflation, year-over-year percent change)

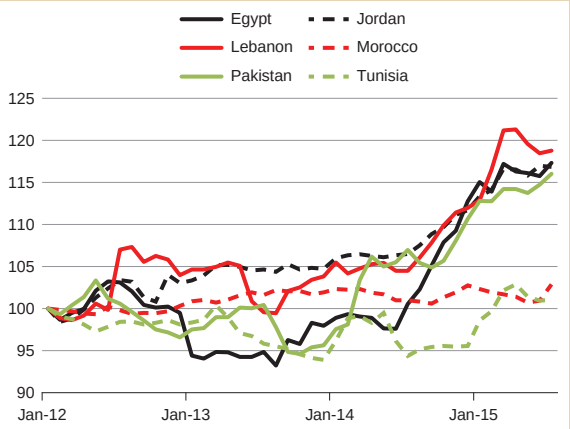


Sources: National authorities; and IMF staff calculations.

and tourism are obstructed by continued security risks, social tensions, and spillovers from regional conflicts (Egypt, Jordan, Lebanon, Pakistan, Tunisia; see Box 1.2 in Chapter 1). In particular, there are additional fiscal spending pressures to accommodate growing numbers of refugees (see Box 2.1), and the security situation is deteriorating as a result of increased terror activities by the Islamic State of Iraq and the Levant (ISIL) and its affiliates across North Africa and the Mashreq, and by the Taliban in Afghanistan. Continued supply-side bottlenecks also pose serious challenges. Despite recent reform initiatives in some countries, production is still hampered by electricity supply disruptions (Djibouti, Egypt, Lebanon, Pakistan) and social unrest (Tunisia). These challenges are compounded by limited access to credit, especially for small and medium enterprises, and by heavy bank financing of perennially large government and SOE deficits. High public sector loan concentrations also pose risks to banking stability. In addition, the region's competitiveness is deteriorating as real exchange rates appreciate—a product of nominal exchange rate appreciation against the euro on the back of a strengthening U.S. dollar, to which some countries informally peg their currencies (Figure 2.7).

Even with recent improvements, vulnerabilities remain large and impede greater confidence. Public debt has recently stabilized but remains high (ranging between 90 percent and 140 percent

Figure 2.7
Competitiveness Challenged by Appreciating Real Effective Exchange Rates
(Real effective exchange rate index, January 2012 = 100)



Sources: IMF, Information Notice System database; national authorities; and IMF staff calculations.

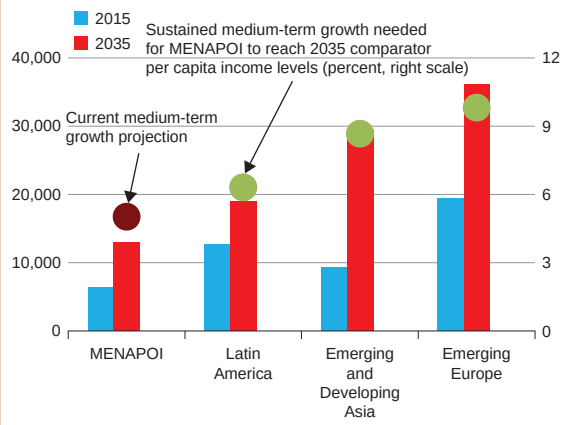
in Egypt, Jordan, and Lebanon), deterring some investors, imposing high servicing costs on the budget, and burdening the economy with large financing needs. Lackluster tax revenues, spending rigidities (especially in public wage bills), large interest payments, and loss-making SOEs encumber public debt reduction. In Egypt, Pakistan, and Sudan, international reserves coverage, though improving, remains low, weighing on confidence. The sharp drop in Sudan's remittances due to de-risking (global banks' scaling back or terminating foreign correspondent relations and their reduction of trade financing activities in certain regions in response to enhanced implementation of global regulatory standards and economic and trade sanctions) has increased pressure on reserves.

Risks to the outlook remain to the downside. A worsening of domestic and external headwinds, especially security conditions and spillovers from regional conflicts, as well as setbacks to political transitions and implementation of reforms, could further undermine trade, tourism, confidence, and, ultimately, macroeconomic stability. Normalization of U.S. monetary policy could tighten financing conditions more than presently envisaged, especially if it sparks financial market volatility or, for countries that peg to the U.S. dollar, if interest rate pass-through strengthens.

A rising concern is a sharper-than-expected slowdown in China, which would reduce infrastructure financing, especially in the energy sector (Egypt, Pakistan), although the direct effect on trade is likely to be small (see Figure 1.4 in Chapter 1). Increased risk aversion and volatility in global financial markets could raise external borrowing costs and feed into higher domestic interest rates. A further decline in oil prices, caused by China's larger-than-expected slowdown, would support growth, but declines in other commodity prices could weaken economic activity and international reserves in commodity exporters (Mauritania, Pakistan). If China's slowdown spills over to other emerging markets, the euro area and, through oil prices, the GCC, it could have a larger impact on the region owing to reduced exports, tourism, remittances (see Box 2.2), and financing support. This is especially true for the Mashreq, which has the strongest ties to the GCC (*Regional Economic Outlook: Middle East and Central Asia*, November 2013, Annex 2). Over the longer term, these factors could slow potential growth further.

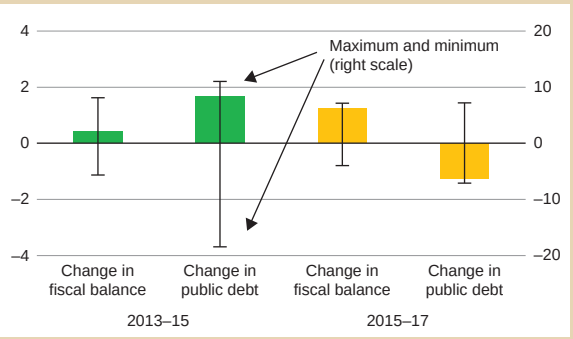
Looking ahead, much higher growth is needed to create enough jobs and significantly raise living standards. Current medium-term growth projections of 5 percent are insufficient to make a dent in unemployment, which is anticipated to only decline by 2¼ percentage points to 9¼ percent by 2020. In an environment of large downside risks, reducing it to the emerging market and developing country (EMDC) average of 6 percent, and raising per capita income levels to those of other EMDCs, would require medium-term growth of more than 7 percent (Figure 2.8). To this end, ramping up the momentum of recently initiated reforms will be critical for raising growth, creating jobs, and tackling fiscal and external headwinds and vulnerabilities.

Figure 2.8
Striving for Higher Growth
(Purchasing power parity income per capita, constant 2012 U.S. dollars)



Sources: IMF, World Economic Outlook database; national authorities; World Bank, World Development Indicators database; and IMF staff estimates.
Note: OI = oil importers.

Figure 2.9
Increased Confidence from Fiscal Consolidation
(Median change, percent of GDP)



Sources: National authorities; and IMF staff estimates.

Fiscal, Monetary, and Structural Reforms

Fiscal policy is at a crossroads. Fiscal consolidation has secured macroeconomic stability and bolstered confidence (Figure 2.9). At this stage, the risks of reform fatigue and/or further spending cuts reversing the nascent recovery, as well as the relief provided by persistently lower oil prices, are arguments in favor of a change in policies. However, sustaining these recent gains necessitates further consolidation, especially in countries with high public debt; given the region's challenging domestic and international environments, public debt ratios need to be not only stabilized but reduced. For example, having largely reduced on-budget energy subsidies—and against a backdrop of sustained low oil prices—it is time to advance automatic pricing mechanisms for all energy products, aiming to reduce SOE losses and move the economy away from energy-intensive industries and toward more efficient labor-intensive industries, while also making growth more inclusive. Raising the quality and efficiency of public spending can also relieve pressures on the budget and possibly reduce the need for consolidation.

The choice of spending and revenue measures can balance the conflicting fiscal objectives of growth and stability. Revenues will rise with economic growth, but revenue measures targeting higher-income segments of the population would boost consolidation and equity (Jewell and others 2015), with less of an adverse effect on growth. Critical tax measures already being considered by governments include eliminating exemptions (Pakistan), addressing loopholes, introducing income tax reforms (Jordan), raising excises, introducing or raising taxes on high-value property, and strengthening administration. In Egypt, however, top income tax rates were recently reduced and capital gains taxes postponed, although the upcoming value-added tax is expected to substantially raise revenues. Continuing to partially channel subsidy reform savings, along with higher tax revenues, toward efficient growth-enhancing spending on education, health care, and infrastructure will help offset the drag on growth. To this end, strong evaluation, prioritization, and implementation of public investment projects will be important. More active labor market policies would help reduce unemployment. For energy-related SOEs (especially where the losses are significant, as in Pakistan), savings from lower oil prices could also be applied toward investment. Gradual public sector workforce rationalization, through

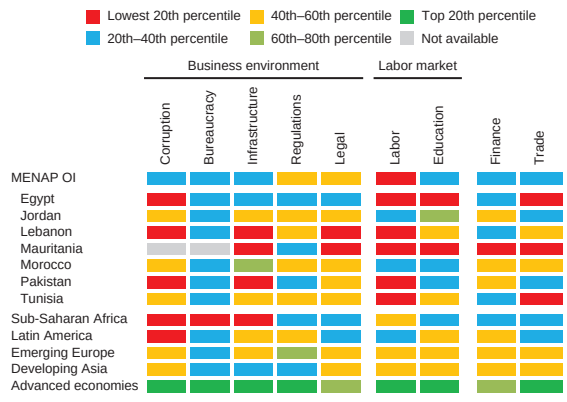
comprehensive civil service reforms, would reduce fiscal deficits and spending rigidities.

These measures, coupled with financing reforms, also benefit the business environment. Revenue measures to broaden the tax base (as discussed) will level the playing field across sectors and firms. A shift in public sector debt financing policies toward more regular domestic bond issuance with longer maturities, market-determined yields, and a broader investor base would reduce rollover risks and deepen financial markets. Plans for further international sovereign bond issuance (Egypt, Morocco, Pakistan, Tunisia) would enhance financial integration with the rest of the world, support reserve accumulation, raise the availability of private sector credit, and reduce risks associated with banks' loan concentration.

Greater exchange rate flexibility would enhance growth and competitiveness. Several countries recently allowed their nominal exchange rates to depreciate, against a backdrop of real exchange rate appreciation (see Figure 2.7), weaker financing flows from oil exporters, stable international reserves, and low inflation. However, more flexibility—coupled with structural reforms—is needed to regain competitiveness and, in some cases, reduce large external vulnerabilities. Continued accommodative monetary policy will complement fiscal consolidation by supporting domestic demand. However, pass-through of higher U.S. interest rates will result in tighter monetary conditions for countries pegged to the U.S. dollar. Key reforms include expansion of interbank markets and active liquidity management.

Targeted structural reforms are critical to higher and more inclusive growth, and to better living standards. Cornerstone areas include reforms to the business environment, labor and financial markets, and trade openness (Figure 2.10; *Regional Economic Outlook: Middle East and Central Asia*, October 2014, Annex 1; Mitra and others forthcoming). Addressing poor investor protection and burdensome regulations, and improving infrastructure quality and efficiency (Albino-War and others 2014) will reduce the cost of doing business and ease supply-side bottlenecks.

Figure 2.10
Cornerstones for a Higher Growth Path



Sources: World Bank; World Economic Forum; PRS Group; and IMF staff calculations.
Note: OI = oil importers.

Curtailing the economic dominance of SOEs could reduce perceptions of corruption and meaningfully enhance job-rich growth. Regulatory reforms that facilitate hiring and skills building would make labor allocation more efficient and raise compensation and job creation. Governments can work with private firms to reform vocational training and align skills with job market needs. The establishment and use of credit bureaus would ease access to credit, especially for small and medium enterprises—ultimately facilitating business expansion, job creation, and more inclusive growth. Deeper international trade integration, combined with the reforms outlined above, can open the door for vertical integration in global manufacturing supply chains, resulting in more jobs and positive spillovers to productivity growth.

International Support

The region's economic stability, higher and more inclusive growth, and better living standards would all benefit from international support. When combined with both a strong reform strategy and strong implementation, bilateral and multilateral official financing can help alleviate fiscal pressures and catalyze additional private financing. In the current environment of intensifying regional

conflicts, it will be particularly important to assemble greater donor support, especially for helping refugees (now one-quarter of Lebanon's population and one-fifth of Jordan's).

However, absent sound reforms, financing only delays the inevitable unwinding of underlying imbalances—which may be abrupt and more painful in the future. Recent IMF arrangements in MENAP oil-importing economies—committing more than US$15 billion in Jordan, Morocco (a credit line against external shocks), Pakistan, and Tunisia—aim to support countries' reform efforts and macroeconomic adjustment. These arrangements have been flexible in responding to unexpected shocks with adaptive program conditionality, especially in Jordan and Tunisia. The international community can also provide support through technical advice, other capacity-building initiatives, and enhanced access to export markets for the region's products and services.

MENAP Oil Importers: Selected Economic Indicators

	Average				Projections	
	2000–11	2012	2013	2014	2015	2016
Real GDP Growth	**4.8**	**2.9**	**3.1**	**2.9**	**3.9**	**4.1**
(Annual change; percent)						
Afghanistan, Republic of	…	14.0	3.9	1.3	2.0	3.0
Djibouti	3.6	4.8	5.0	6.0	6.5	7.0
Egypt	4.7	2.2	2.1	2.2	4.2	4.3
Jordan	5.8	2.7	2.8	3.1	2.9	3.7
Lebanon	4.8	2.8	2.5	2.0	2.0	2.5
Mauritania	4.5	6.0	5.5	6.9	4.1	6.4
Morocco	4.7	3.0	4.7	2.4	4.9	3.7
Pakistan	4.4	3.8	3.7	4.0	4.2	4.5
Sudan[1]	6.6	–3.4	3.9	3.6	3.5	4.0
Syrian Arab Republic[2]	4.3	…	…	…	…	…
Tunisia	3.9	3.7	2.3	2.3	1.0	3.0
West Bank and Gaza[3]	3.9	6.3	2.2	–0.4	2.9	3.9
Consumer Price Inflation	**6.8**	**9.3**	**9.1**	**9.4**	**6.6**	**6.6**
(Year average; percent)						
Afghanistan, Republic of	…	6.4	7.4	4.7	–1.9	2.8
Djibouti	3.6	3.7	2.4	2.9	3.0	3.5
Egypt	8.1	7.1	9.5	10.1	9.5	10.0
Jordan	3.8	4.5	4.8	2.9	0.2	3.1
Lebanon	2.8	6.6	4.8	1.9	0.1	1.5
Mauritania	6.2	4.9	4.1	3.5	3.6	4.2
Morocco	1.8	1.3	1.9	0.4	1.5	2.0
Pakistan	8.1	11.0	7.4	8.6	4.5	4.7
Sudan[1]	9.8	35.5	36.5	36.9	19.8	12.7
Syrian Arab Republic[2]	4.9	…	…	…	…	…
Tunisia	1.6	5.1	5.8	4.9	5.0	4.0
West Bank and Gaza[3]	3.9	2.8	1.7	1.7	1.6	2.6
General Government Overall Fiscal Balance	**–5.1**	**–8.4**	**–9.5**	**–7.9**	**–7.3**	**–5.8**
(Percent of GDP)						
Afghanistan, Republic of[4]	…	0.2	–0.6	–1.7	–0.3	–0.2
Djibouti	–1.9	–2.7	–5.9	–10.5	–11.5	–13.2
Egypt	–7.5	–10.5	–14.1	–13.6	–11.7	–9.4
Jordan[4]	–4.4	–8.9	–11.1	–10.3	–3.0	–2.4
Lebanon[4]	–12.2	–8.4	–8.7	–6.0	–10.0	–8.0
Mauritania[4,5]	–3.1	2.5	–0.9	–3.6	–1.0	–4.7
Morocco[4]	–3.8	–7.3	–5.2	–4.9	–4.3	–3.5
Pakistan	–4.1	–8.6	–8.4	–4.9	–5.3	–4.2
Sudan[1]	–1.1	–3.3	–2.3	–1.1	–1.8	–1.3
Syrian Arab Republic[2]	–2.7	…	…	…	…	…
Tunisia[6]	–2.4	–4.8	–6.0	–3.7	–5.7	–4.0
West Bank and Gaza[3]	–25.4	–15.1	–12.6	–12.4	–12.2	–13.8
Current Account Balance	**–2.0**	**–6.2**	**–5.2**	**–4.2**	**–4.2**	**–4.2**
(Percent of GDP)						
Afghanistan, Republic of	…	6.0	7.4	6.1	4.7	2.4
Djibouti	–6.8	–20.3	–23.3	–25.6	–31.4	–26.8
Egypt	0.6	–3.9	–2.4	–0.8	–3.7	–4.5
Jordan	–5.0	–15.2	–10.3	–6.8	–7.4	–6.5
Lebanon	–14.0	–24.3	–26.7	–24.9	–21.0	–19.3
Mauritania	–12.5	–26.6	–24.4	–28.9	–18.3	–25.6
Morocco	–2.5	–9.5	–7.9	–5.5	–2.3	–1.6
Pakistan	–1.2	–2.1	–1.1	–1.3	–0.8	–0.5
Sudan[1]	–4.9	–9.3	–8.9	–7.7	–5.8	–5.6
Syrian Arab Republic[2]	–0.4	…	…	…	…	…
Tunisia	–3.4	–8.2	–8.3	–8.8	–8.5	–7.0
West Bank and Gaza[3]	–17.9	–16.2	–12.3	–10.9	–11.1	–12.0

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.

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

[2]2011–17 data exclude Syria due to the uncertain political situation.

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

[4]Central government. For Jordan, includes transfers to electricity company.

[5]Includes oil revenue transferred to the oil fund.

[6]Includes bank recapitalization costs and arrears payments.

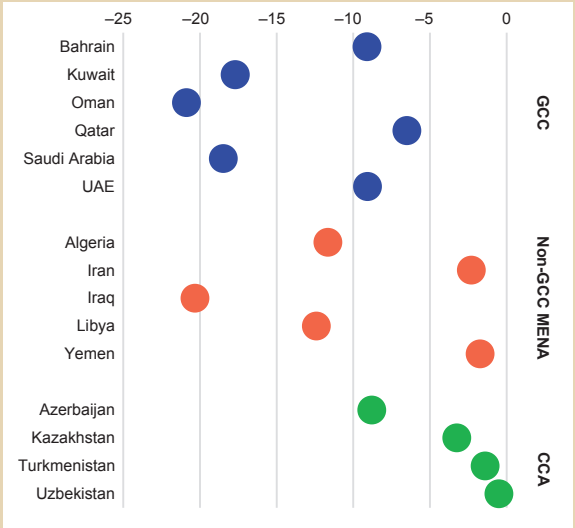
4. Fiscal Adjustment to Lower Oil Prices in MENA and CCA Oil Exporters

Facing a significant and persistent drop in oil prices, oil-exporting countries in MENA and CCA regions have started a process of fiscal adjustment. Although many countries have accumulated sizable buffers that will permit deficit reduction to take place gradually, faster progress is now needed in developing specific plans that would put fiscal positions on a stronger footing. Priorities include streamlining expenditures, increasing non-oil taxation, and gradually rebuilding buffers in the context of comprehensive tax, energy pricing, and public investment management reforms. These objectives should be supported by binding medium-term fiscal frameworks and a strong communication strategy.

Sharply lower oil prices have significantly affected the fiscal prospects of oil exporters across MENA and the CCA.[1] The Brent oil price is projected to average $53 a barrel in 2015, down from almost $110 a barrel in the first half of last year. Exporters' fiscal balances have turned from sizable surpluses to large deficits, with MENA and CCA export revenues dropping by $360 billion and $45 billion, respectively, this year alone.

The impact on oil exporters will vary substantially (Figure 4.1). Countries that are highly dependent on oil exports—especially the GCC countries, Algeria, Iraq, and Libya—will face a drop in fiscal revenues of 10–20 percentage points of GDP. In contrast, countries with relatively low oil receipts—such as Iran and Yemen—will lose only about 2 percentage points of GDP, although their weaker starting positions mean that even this smaller drop will be arduous.[2] Among the CCA countries, Azerbaijan and Kazakhstan will be the hardest hit, with Uzbekistan and Turkmenistan facing less of an impact because of their specific long-term natural gas contracts.[3]

Figure 4.1
Impact of Lower Oil Prices on Fiscal Balances, 2014–15
(Percent of GDP)



Source: IMF staff calculations.
Note: Change in fiscal balances due to the projected drop in oil prices between 2014 and 2015. UAE = United Arab Emirates.

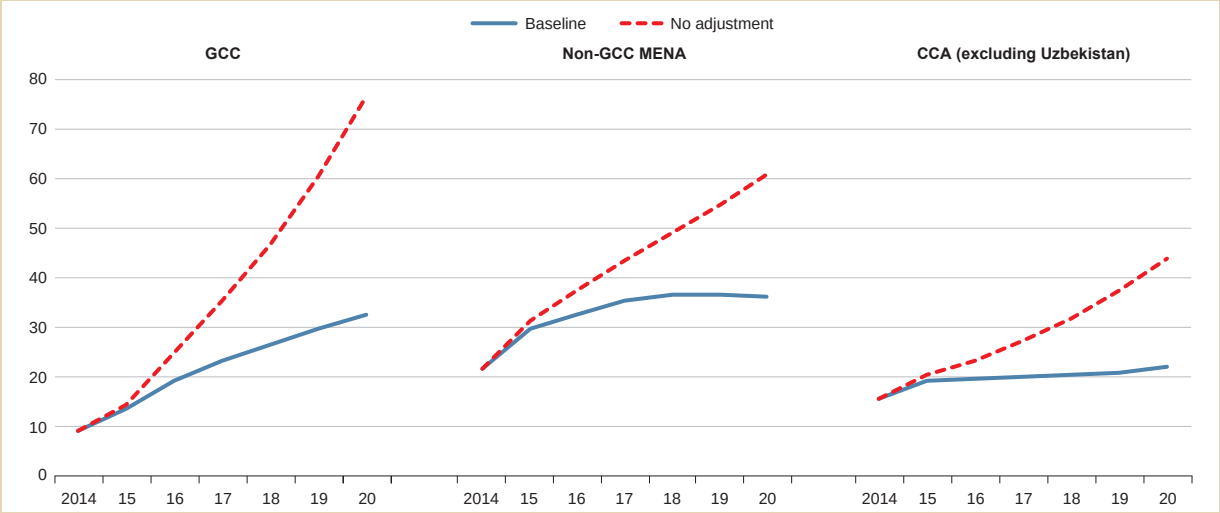
Prepared by Greg Auclair, Saad Quayyum, Martin Sommer (team lead), Andrew Tiffin, and Bruno Versailles, with contributions from Alberto Behar and Ben Piven.

[1] In this chapter, the word *oil* is used interchangeably for both crude oil and natural gas.

[2] The limited impact of lower oil prices on Iran's budget is partly due to a one-off increase in the share of oil revenue allocated to the budget, with correspondingly lower allocation to the National Development Fund.

[3] Natural gas prices have generally declined in line with oil prices in most markets (albeit with a lag). There are notable exceptions owing to the geographical segmentation of the natural gas market and proprietary nature of long-term supply contracts. Several CCA countries, for example, have benefited from fixed-price contracts for their pipeline gas. In the case of Uzbekistan, the redirection of natural gas exports from Russia to China—which pays a higher price—has helped to offset the adverse effect of lower international oil prices.

Figure 4.2
Projections of Public Debt under Alternative Scenarios
(Percent of GDP)



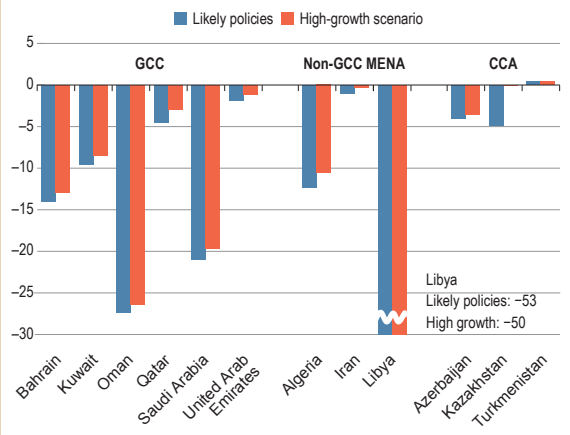
Sources: National authorities; and IMF staff calculations.
Note: "Baseline" refers to a scenario based on IMF staff's assessment of likely policies by country authorities; "no adjustment" assumes that the 2014 non-oil deficit persists into the medium term.

For oil exporters, the main policy issue is fiscal adjustment and rebuilding buffers over the medium term. The Brent oil price is projected to recover only modestly to about $66 a barrel by the end of the decade, with MENA and CCA export receipts remaining $345 billion and $30 billion, respectively, below the 2014 level, even in 2020. In the absence of adjustment, fiscal balances will remain in deep deficit in most countries, with public debt ratios rising rapidly (red lines in Figure 4.2). Under the IMF's baseline projections—incorporating likely adjustment policies as discussed below and removing temporary factors[4]—medium-term fiscal prospects look more favorable than in the no-adjustment scenario. Even under the IMF baseline scenario, however, public debt ratios will continue to rise in many GCC and CCA exporters (blue lines in Figure 4.2). In a number of countries, medium-term fiscal balances will fall well short of the levels needed to ensure that an adequate portion of the income from exhaustible oil and gas reserves is saved for future generations (Figure 4.3). Bahrain, Oman, and Saudi Arabia have medium-term fiscal gaps of some 15–25 percentage points of non-oil GDP, while conflict-torn Libya has a gap of more than 50 percent of non-oil GDP.[5] Iran, Qatar, the United Arab Emirates, and the CCA oil exporters have fairly small gaps of—at most—5 percent of non-oil GDP. But clearly, these estimated gaps are conditional on assumptions about adopted deficit reduction measures in the IMF baseline, and so they understate the overall amount of needed fiscal adjustment.

[4] For example, the medium-term baseline projections exclude recent transitory spikes in security-related spending and expenses on foreign aid in some countries.

[5] This is the gap between the medium-term projection of the non-oil fiscal balance and its desirable level from a Permanent Income Hypothesis (PIH) model. Any net-present-value calculation is subject to caveats about sensitivity to assumptions such as interest rates, population growth, and policymakers' objectives (for example, policymakers could be assumed to target stable real spending, or real spending per capita, in the long run). The point estimates of fiscal gaps should therefore be interpreted with caution. The basic PIH benchmark could be considered as too ambitious for countries with large infrastructure needs (IMF 2012), but too weak for countries exposed to large commodity price uncertainty (see the October 2015 *Fiscal Monitor*).

Figure 4.3
Gap between Projected Fiscal Balances and Desirable Policies
(Percent of non-oil GDP)



Source: IMF staff calculations.
Note: Difference between the projected medium-term non-oil primary balance and the non-oil primary balance recommended by the Permanent Income Hypothesis. The high-growth scenario assumes higher non-oil growth by 1 percentage point annually.

Lessons from Previous Oil Price Drops

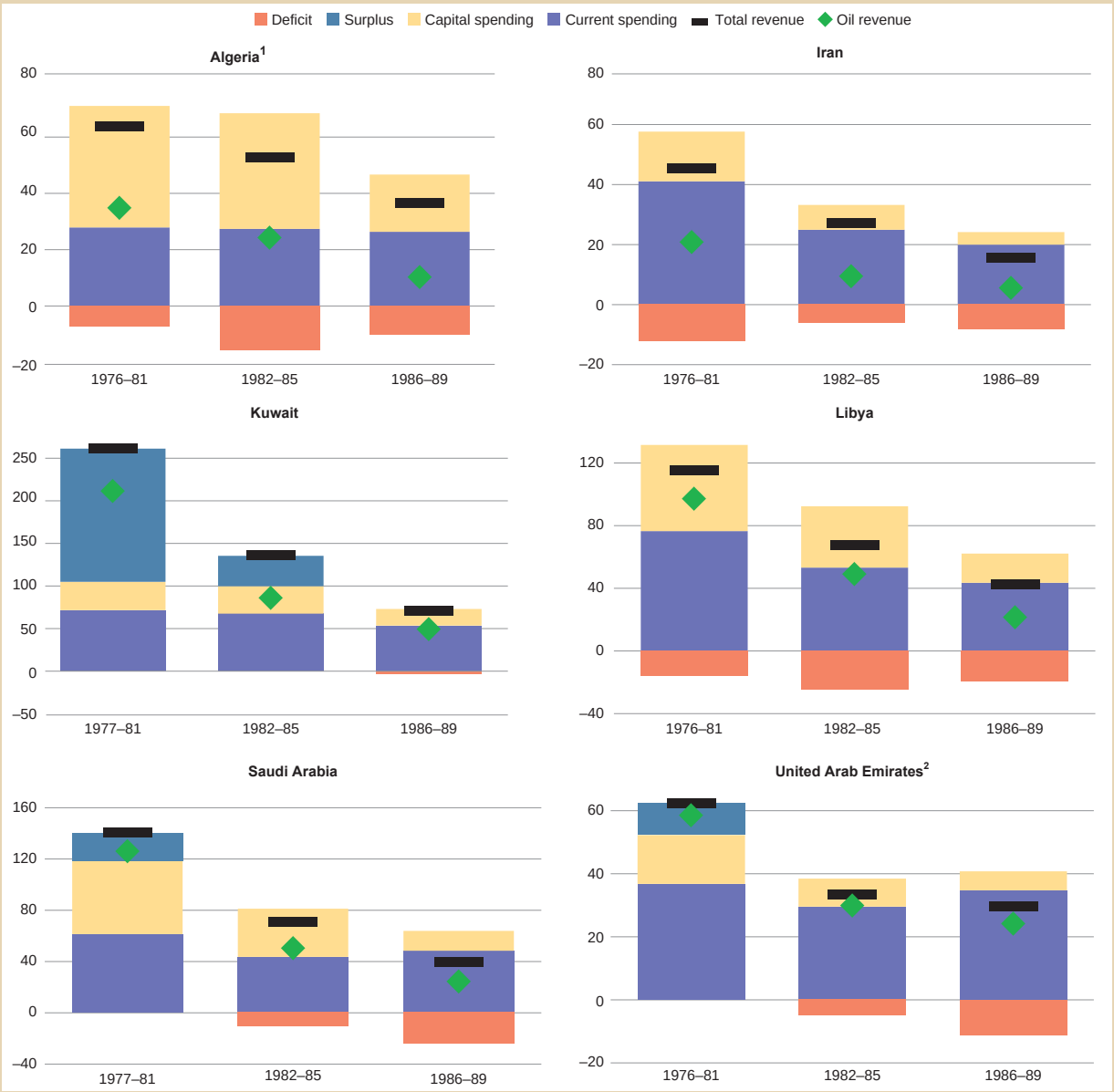
The sustained oil price drop during the 1980s offers a cautionary tale. Two sharp oil price hikes in the 1970s prompted a broad-based increase in government spending, based on expectations that public investment and increased social spending would lay the groundwork for future growth. As a result, MENA exporters were ill-prepared to cope with an abrupt fall in oil prices; public finances came under strain as prices declined during the early 1980s, doubly so after the oil price dropped steeply in 1986.[6] Producers that were restraining oil production in an effort to prop up international prices, such as Saudi Arabia, saw even larger declines in oil receipts. Even as they drew down buffers and accumulated debt, policymakers were forced to substantially reduce public investment, particularly after 1986. Current spending, in contrast, was curbed to a much smaller degree (Figure 4.4). Efforts to raise non-oil revenues were generally limited. Countries such as Saudi Arabia and the United Arab Emirates ran budget deficits for some 15 years, significantly increasing public and external debt. The overall fiscal dynamics of MENA exporters did not improve until oil prices finally recovered in the 2000s.[7]

The events of the 1990s and 2000s highlight the importance of gradually rebuilding fiscal buffers. Taking a lesson from the boom-and-bust cycle of the previous two decades, oil exporters enhanced institutional arrangements to mitigate the effects of oil price volatility including by setting up oil-stabilization and sovereign wealth funds. Moreover, in contrast to the 1980s, the two oil price drops of 1998 and 2008–09 proved to be short-lived. Nonetheless, policy responses differed across the two episodes. In 1998, a prolonged period of low oil prices left MENA oil exporters with limited buffers, so that many were forced to tighten fiscal policy. By 2008–09, these buffers had been replenished, allowing for more countercyclical policies (Figure 4.5).

[6] Oil prices stabilized about two-thirds below their 1980 peak and remained low with brief interruptions until the 2000s. The price drop was driven by large increases in non–Organization of the Petroleum Exporting Countries supply and sluggish demand—both of which were strong responses to the previously high oil prices. Demand was also muted by substantial increases in energy taxation in some countries in response to the oil shocks of the 1970s.

[7] Growth and social development slowed substantially, partly because of the unfavorable composition of fiscal adjustment (Diwan and Akin 2015). Many other countries around the world were similarly ill-prepared for lower oil prices during the 1980s, prompting abrupt fiscal and external adjustments (for example, Norway, Mexico, and Venezuela). In a number of oil exporters including Saudi Arabia, real GDP per capita was lower at the end of the 1990s than during the 1970s.

Figure 4.4
Fiscal Policy Responses during the 1970s and 1980s
(Percent of non-oil GDP)



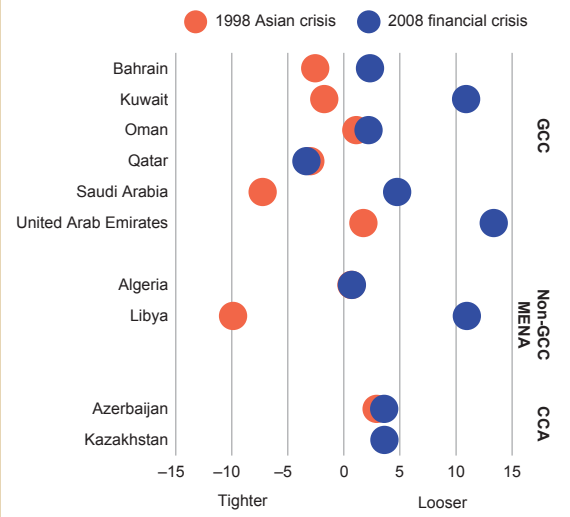
Sources: Haver Analytics; IMF, International Finance Statistics and country reports; and IMF staff calculations.
[1]Capital spending includes advances and loans to public enterprises.
[2]Current spending includes loans and grants.

Adjustment Policies at Present

The recent drop in oil prices points to some parallels with the 1980s. Many MENA and CCA countries have ramped up current and capital spending over the past decade, lifting fiscal breakeven oil prices well above the current oil price (see Chapter 1).[8] Also, as in the 1980s, lower oil prices are expected to persist for the foreseeable future (Husain and others 2015). Just to balance budgets, the average required adjustment is

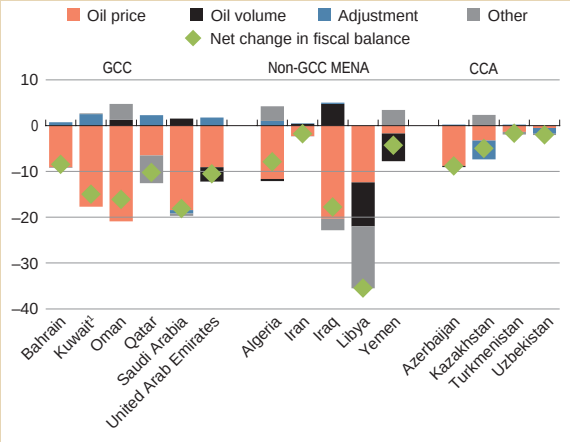
[8] The fiscal breakeven oil price is defined as the oil price that balances the government budget.

Figure 4.5
Fiscal Policy Responses during the 1990s and 2000s
(Percent of non-oil GDP)



Sources: IMF, World Economic Outlook database; World Bank, World Development Indicators database; and IMF staff calculations.
Note: The circles denote average changes in the non-oil primary balance as a share of non-oil GDP during 1998–99 and 2008–09.

Figure 4.6
Dissecting the Deterioration in Fiscal Balances between 2014 and 2015
(Percentage points of GDP)



Sources: National authorities; and IMF staff calculations.
[1]Data for Kuwait are on a fiscal year basis.
Note: Adjustment = deliberate policy measures to increase or decrease the fiscal balance; Other = residual item reflecting changes in fiscal balances due to factors such as automatic reduction in subsidies due to lower oil prices, one-off items, and denominator effects from lower GDP base.

12–13 percent of GDP in MENA countries, and 3½ percent of GDP in the CCA.[9] As discussed above and in the October 2015 *Fiscal Monitor*, ensuring that adequate resources are saved for future generations, and accumulating precautionary buffers to reduce risks from highly persistent oil price swings, would require an even larger adjustment. These are all hefty figures—a recent study by Escolano and others (2014) of large fiscal adjustment episodes over the past 80 years found that the typical (median) sustained adjustment was about 5 percent of GDP, while only one-quarter of analyzed countries managed to achieve an adjustment of more than 7½ percent of GDP. That said, MENA oil exporters such as Algeria, Libya, and Saudi Arabia managed to achieve similar, or even larger, fiscal adjustments in the past, including through deep spending cuts (Figure 4.4).

The adjustment plans adopted so far are modest compared to the scale of the fiscal challenge:

- *Only one half of MENA and CCA oil exporters have adopted significant adjustment measures this year.* Policymakers intend to draw on buffers where available and streamline nonessential spending. Headline fiscal deficits will be partly reduced by lower subsidies on account of lower oil prices and a phase-out of one-off expenditures from previous years (see Chapter 1). Active consolidation measures, such as tax increases and spending cuts (for example, lower investment, hiring freezes, or energy price reform), exceed 1 percentage point of non-oil GDP only in Algeria, Kuwait, Iraq, Qatar, and the United Arab Emirates (Figure 4.6, Table 4.1). Several exporters such as Kazakhstan, Saudi Arabia, and Uzbekistan have engaged in net fiscal stimulus in 2015.[10]

[9] Saudi Arabia is expected to run a deficit of more than 20 percent of GDP this year. Only Kuwait and Qatar will have a surplus this year, after accounting for estimated income from their sovereign wealth funds.

[10] This fiscal expansion was mostly driven by higher public investment in Kazakhstan and Uzbekistan, partly prompted by adverse spillovers from a slowdown in Russia. In Saudi Arabia, the expansion was driven by the January and April 2015 stimulus packages.

Table 4.1. Recently Announced Fiscal Measures in MENA and CCA Oil-Exporting Countries

(As of end-June 2015)

GCC	
Bahrain	Authorities announced gradual increases in gas prices (from April 2015) and employee medical insurance and visa fees (from early 2015). Savings amount to about ½ percent of GDP in both 2015 and 2016. In May 2015, the Cabinet approved saving measures in the amount of BD396 million, equivalent to about 3½ percent of GDP; implementation dates were not established.
Kuwait	Fuel subsidy reform: diesel and kerosene prices were increased (saving ½ percent of GDP), while nonessential current spending has been curtailed.
Oman	The 2015 budget includes a reduction in defense spending. Capital spending is protected.
Qatar	Qatar continues its policy of restraining current expenditures, while maintaining a medium-term cap on public investment.
Saudi Arabia	Large fiscal spending packages were announced in January and April 2015.
United Arab Emirates	Tariffs for water and electricity were raised in January 2015, saving ½ percent of GDP. Other planned measures for 2015 include a reduction in capital transfers to Abu Dhabi government-related entities.
Non–GCC MENA	
Algeria	In 2015, a public sector hiring freeze was instituted. A supplementary 2015 budget law was adopted in July that cut capital spending by 2¾ percent.
Iran	The 2015/16 budget aims to limit the drop in oil revenue by (1) increasing the share of oil exports that goes to the budget, (2) depreciating the official exchange rate (by 10%), and (3) increasing the value-added tax rate, reducing tax exemptions, and improving tax collection efforts.
Iraq	The 2015 budget includes increases in non-oil taxes and aims to contain spending, including by reprioritizing capital expenditures and stricter cash management of current spending.
Libya	Political and security turmoil has severely restricted the scope for policy action. The central bank has been withholding payments across the board to safeguard reserves.
Yemen	The reform agenda is on hold because of the security situation.
CCA	
Azerbaijan	Authorities raised import duties slightly and envisage an underexecution of the budget by between 10 percent and 15 percent in 2015, mainly effected by a reduction in nonpriority capital expenditures.
Kazakhstan	Authorities have embarked on a three- to five-year stimulus plan to modernize critical infrastructure and promote small and medium-sized enterprise lending, $12 billion (5¾ percent of GDP) of which is financed through buffers and $7 billion (3 percent of GDP) in multilateral development bank loans.
Turkmenistan	Authorities used a low natural gas price in the 2015 budget. Half of the investment for rural areas projected for 2016 could be turned into an expenditure contingency.
Uzbekistan	The authorities recently announced a new public investment program, amounting to $41 billion during 2015–19 (11 percent of GDP).

Sources: National authorities; and IMF staff estimates.

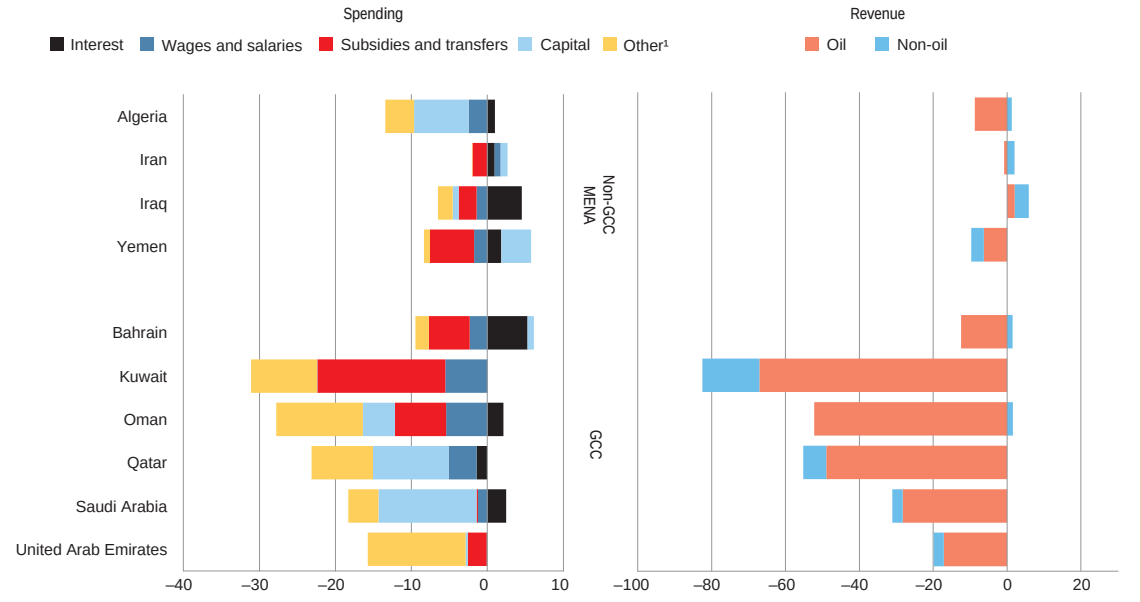
- *Medium-term plans are yet to be articulated clearly.* GCC policymakers generally envisage substantial cuts in public investment, in many cases by not initiating new projects, while non-GCC MENA countries are projected to reduce subsidies and transfers. These assumptions have already been incorporated into IMF baseline forecasts (Figure 4.7). Revenue measures will be limited and are likely to feature more prominently in the non-GCC MENA region. CCA countries—which have smaller adjustment needs than those in MENA—have identified very limited fiscal consolidation measures to date (Table 4.1).

Desirable Fiscal Policy Actions

Most countries need to plan for a sizable medium-term fiscal adjustment to secure fiscal sustainability and intergenerational equity, while rebuilding space for countercyclical policies over time. Those with fiscal space (including borrowing capacity; Box 4.1) can adjust more slowly so as to cushion the adverse impact on growth in the near term, especially if their non-oil economies are weakening. Medium-term adjustment plans—including clear policy objectives and contingency scenarios—should nonetheless be spelled out as soon as possible. Countries without available buffers and market access have no choice but to adjust quickly, irrespective of their cyclical position. For these countries, specific measures should be chosen in a way that minimizes the adverse short-term macroeconomic impact, while enhancing equity and medium-term growth prospects (Husain and others 2015).

Consolidation should be as growth friendly and equitable as possible, underpinned by a medium-term

Figure 4.7
Change in Spending and Revenue between 2014 and 2020
(Percentage points of non-oil GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
[1]Includes subsidies and transfers for Algeria and Qatar.

fiscal framework. Key elements include fair taxation (broader bases, greater income tax progressivity, wider use of value-added tax [VAT], and higher property taxes; Jewell and others 2015); an emphasis on cuts to current, rather than capital, expenditures; and energy price reforms (Coady and others 2015). The medium-term framework should take into account intergenerational considerations, and should be accompanied by additional reforms to increase the coverage and transparency of fiscal accounts (October 2015 *Fiscal Monitor*).

- *Raising non-oil revenue.* Only Iran and Iraq have adopted significant new revenue measures. The recent intensification of work by GCC countries on a regional VAT framework is welcome, but further progress is needed to firm up specific plans, including a timetable for implementation. For example, a 5 percent broad-based VAT could raise roughly 1–2 percent of GDP in revenues. The CCA countries that already have substantial non-oil taxation should reduce exemptions and strengthen collections.
- *Curbing current spending.* There is space to reduce current spending given the run-up in wage, administrative, and security-related expenditures over the past decade (Figure 4.8). These items are often the hardest to address politically, and have made budgets more rigid and difficult to adjust. Wages have grown particularly quickly relative to non-oil GDP in Algeria, Kuwait, and Oman, while Bahrain has significantly increased social benefits. Bringing current noninterest spending back to pre-boom levels would save more than 3 percent of GDP in the GCC region. Health, education, and other essential social spending should be protected. Complementary civil service reforms, and creating incentives for workers to seek private sector employment, would be highly desirable.
- *Streamlining public investment, while increasing its efficiency.* Albino-War and others (2014) found that, on average, MENA and CCA infrastructure projects could achieve the same results with 20 percent less spending, through

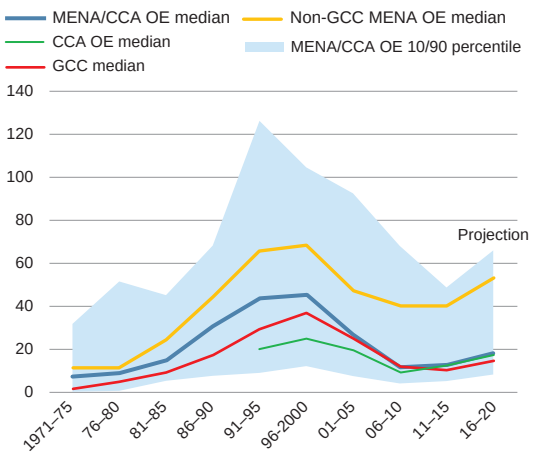
Box 4.1

Fiscal Space in Oil-Exporting Countries

The large and sustained drop in oil prices has increased fiscal vulnerabilities in MENA and CCA oil-exporting countries. The issue of fiscal space has become critical as oil exporters decide how quickly to adjust their fiscal policies to the new reality of persistently lower oil prices. This box considers several alternative measures of fiscal space.

A good starting point is the size of governments' financial assets—commonly referred to as "fiscal buffers." In general, countries with larger buffers can afford to maintain fiscal deficits further into the future, so as to reduce the impact of lower oil prices on growth. On current trends, however, all non-GCC MENA oil exporters are already projected to run out of liquid financial assets in the next three years (see Chapter 1). In, contrast, CCA oil exporters have at least 15 years' worth of available financial savings,[1] while GCC countries are split evenly between countries with relatively large buffers (Kuwait, Qatar, and the United Arab Emirates—more than 20 years remaining) and countries with relatively smaller buffers (Bahrain, Oman, and Saudi Arabia—less than five years).

Figure 4.1.1
Public Debt Ratios, 1970–2020
(Debt in percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: CCA OE = CCA oil exporters excluding Uzbekistan, for which debt data are unavailable.

Additional perspective is provided by a review of past public debt trajectories. MENA and CCA oil exporters accumulated most debt in the mid-to-late 1990s, when the median debt ratio increased to almost 50 percent of GDP, with several countries' debt ratios peaking at about 100 percent or even higher (Figure 4.1.1). Public debt ratios projected by IMF staff through 2020 are well within these historical norms for most MENA and CCA oil exporters, though these projections already assume some fiscal adjustment. Under the alternative "no-adjustment" scenario presented in this chapter, the debt ratios would be within historical norms for the next several years, but would be rising rapidly, especially in the GCC region.

Sovereign ratings also convey information about public debt and fiscal space. Typically, the higher the country's public debt, the lower the sovereign rating and borrowing capacity. Almost all GCC countries (except Bahrain) have ratings similar to those of the best-performing advanced economies, but their debt ratios are considerably below advanced economy peers by some 20–40 percentage points of GDP (Figure 4.1.2).[2] A similar conclusion holds for the two rated CCA countries (Azerbaijan, Kazakhstan). This fairly upbeat assessment, however, should be contrasted with the situation of several non-GCC MENA oil exporters that face security-related challenges and geopolitical risks, do not have sovereign ratings, and are cut off from funding markets (Iran, Libya, Yemen).

Further granularity can be obtained from analysis of the "distance-to-debt limit." This concept extends an approach developed by Ostry and others (2010) and Ghosh and others (2013) and is updated regularly by Moody's. The fiscal

Prepared by Martin Sommer and Bruno Versailles, with support from Greg Auclair.
[1] Based on available data for Azerbaijan, Kazakhstan, and Turkmenistan.
[2] Generally, undiversified oil-exporting countries should be expected to maintain lower debt ratios than similarly rated diversified peers given the inherent risks from highly volatile revenues.

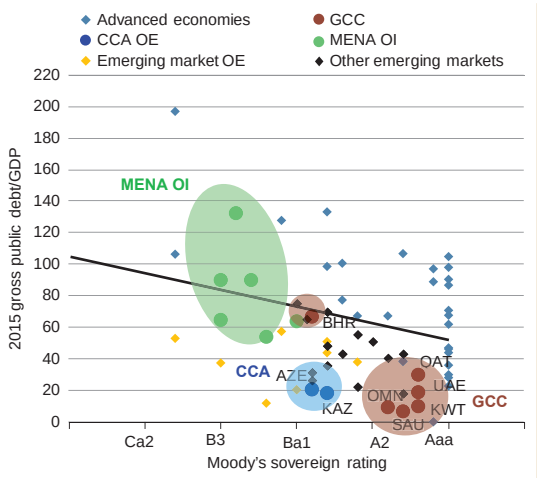
Box 4.1. *(continued)*

space is defined as "the difference between a nation's sovereign-debt-to-GDP ratio and the limit beyond which the nation will default unless policymakers take fiscal steps that are outside of anything they have done historically" (Moody's Analytics 2011, p. 2). Moody's assessment of fiscal space for advanced economies can be mapped to the MENA and CCA oil exporters by matching sovereign credit ratings. On this basis, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates appear to have fiscal space similar to that of Norway. Oman belongs to the intermediate group with the United Kingdom, while Azerbaijan, Bahrain, and Kazakhstan are all at a level where their debt position is considered more vulnerable in comparison with other rated borrowers.

Figure 4.1.2

Sovereign Ratings and Public Debt

(2015 gross public debt as a percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: OE = oil exporters; OI = oil importers. Country abbreviations are International Organization for Standardization (ISO) country codes.

In sum, the fiscal space varies considerably across the MENA and CCA regions. Some oil exporters have very limited fiscal space because of their small savings, security-related challenges, and geopolitical factors. Others have ample savings, low debt ratios, access to international markets, and developed financial systems. Oil exporters have additional options to finance fiscal deficits, including borrowing against their oil reserves and selling ownership stakes in both oil and non-oil industries. Table 4.1.1 combines all of the above considerations and suggests that Kuwait, Qatar,

Table 4.1.1. Alternative Measures of Fiscal Space

Fiscal space: Large | Medium | Limited | Small | Data not available

	Fiscal buffers			Financing needs			Borrowing capacity			
	Years to exhaust fiscal buffers	Years to exhaust fiscal buffers and reach 70 percent of GDP in debt	Hydrocarbon reserves in percent of 2014 GDP	Fiscal balance in percent of GDP, 2015	Government-debt-to-GDP ratio, 2015	Government-debt-to-GDP ratio, 2020	Government-debt-to-bank-assets ratio, 2014	Moody's rating as of mid-2015	Debt limit, Moody's[1]	**Overall assessment**
GCC										
Bahrain										
Kuwait										
Oman										
Qatar										
Saudi Arabia										
United Arab Emirates										
Non-GCC MENA										
Algeria										
Iran										
Iraq										
Libya										
Yemen										
CCA										
Azerbaijan										
Kazakhstan										
Turkmenistan										
Uzbekistan										

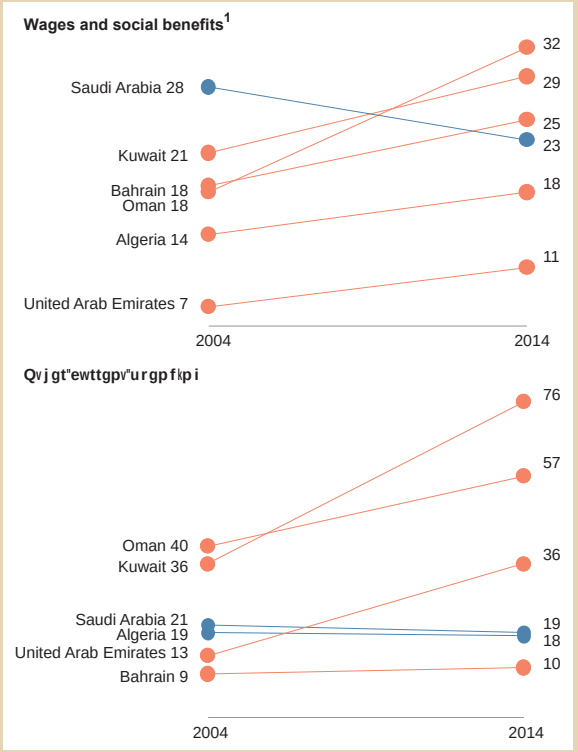
Sources: Moody's Analytics; national authorities; and IMF staff estimates.
[1] The estimates for MENA and CCA oil exporters are obtained by regressing credit ratings of advanced economies onto the "distance-to-debt limit" estimates by Moody's. Regression coefficients are then used in conjunction with credit ratings for MENA and CCA oil exporters to estimate the "distance-to-debt limit."

Box 4.1. *(continued)*

Turkmenistan, and the United Arab Emirates have a high degree of fiscal space. Countries with limited or small fiscal space include Bahrain, Iraq, Libya, and Yemen.

The degree of fiscal space will determine the pace of desirable policy adjustment, but over time all oil exporters will need to adjust to the new low oil price environment. Countries without fiscal buffers have no choice but to adjust in the short term, irrespective of their cyclical position. Countries with fiscal buffers are right to use them to smooth their policy adjustment to support growth, but still need to pursue fiscal consolidation over the medium term because oil prices are expected to remain low. There is no room for complacency even if fiscal buffers appear strong. When public debt quickly rises to high levels, credit to the private sector could get crowded out, with adverse effects on non-oil growth. Specific plans should be made now to adjust fiscal policies and rebuild buffers over the medium term.

Figure 4.8
MENA Oil Exporters: Selected Spending Categories
(2004–14, percent of non-oil GDP)



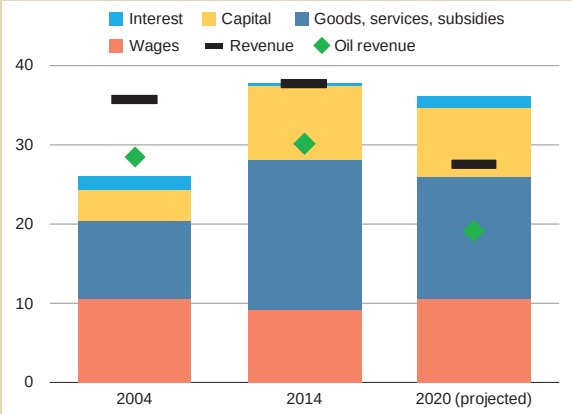
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
[1]In Kuwait excludes social benefits.

more efficient use of resources. Raising investment efficiency could thus save some 2 percentage points of GDP. The scope for savings could be even higher, as this estimate is based on an average over two decades, while public investment has increased rapidly in recent years (Figure 4.9). Any additional streamlining beyond efficiency improvements should be based on a thorough review of needs. Indeed, several non-GCC MENA oil exporters with large infrastructure gaps resulting from military conflicts should actually *increase* public investment once the security situation allows. Over time, all countries need to develop a comprehensive public investment management framework to improve spending efficiency; in this regard, Qatar has made important progress.

- *Medium-term frameworks.* Several countries have established macro-fiscal units (for example, Kuwait and Qatar),[11] and preparations are

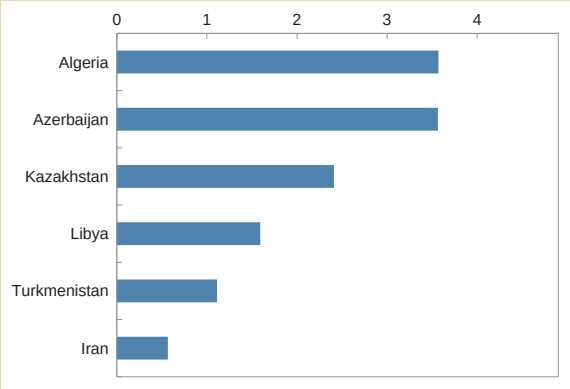
[11] The macro-fiscal units are tasked with preparing a consistent set of macroeconomic and budget revenue and spending projections. Well-functioning macro-fiscal units are a prerequisite for establishing effective medium-term fiscal frameworks.

Figure 4.9
GCC: Composition of Revenue and Spending
(2004–20, percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Figure 4.10
Impact of Exchange Rate Depreciation on Oil Revenues
(2015, percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: Calculated based on a change in the exchange rate between June 2014 and September 2015.

under way to establish or enhance medium-term frameworks in other oil exporters, such as Algeria and Kazakhstan. The fiscal frameworks should specify the key medium-term objectives and accompanying policy measures including contingency plans, and should anchor decisions related to annual budgets. Fiscal frameworks should be accompanied by a strong communication strategy to secure buy-in for the difficult, though necessary, choices, while maintaining policy credibility in the context of large and persistent budget deficits.

Complementarities with Other Policies

The burden of fiscal adjustment can be eased through other policies, especially exchange rate and structural policies:

- Some MENA and CCA countries allowed their exchange rates to depreciate. This step has eased the need for fiscal adjustment, by facilitating higher local currency receipts from oil sales (for example, in Algeria, Azerbaijan, Iran, and Turkmenistan; Figure 4.10). Nonetheless, large exchange rate adjustments can have adverse balance sheet effects on dollarized economies such as those of the CCA. Moreover, the effectiveness of depreciation as an adjustment mechanism varies across countries depending on the degree of diversification, responsiveness of exports and imports (including migrant labor) to exchange rate changes, and balance sheet effects. Where exchange rate depreciation is not appropriate, an even greater emphasis on fiscal adjustment is warranted. In particular, GCC countries should maintain their currency pegs, but aid both fiscal and external adjustment by formulating adequate medium-term fiscal consolidation plans early on.
- Structural policies to boost growth will also facilitate fiscal adjustment (see Figure 4.3). Although structural reforms are highly desirable, they take time to bear fruit. To reap the fiscal benefits, oil exporters would need to enhance their non-oil taxation frameworks, which are generally underdeveloped in MENA, and especially in the GCC countries.

Financing deficits through debt issuance would support financial market development. Exporters with ample fiscal space can issue debt that, by establishing key pricing benchmarks, would help with developing the local corporate debt market (Box 4.2).[12] In particular, highly rated GCC countries tend to have low debt ratios relative to their peers (Box 4.1). Norway, for example, has about 30 percent of GDP in public debt despite substantial wealth in its sovereign wealth fund. That said, policymakers will need to monitor liquidity in local financial markets to ensure that government borrowing does not crowd out private investment. Clear communication about debt issuance plans would help financial markets prepare. Some countries with large deficits may need to borrow externally. In this context, risks to external financing may become elevated in the near term, including those from the euro area and spillovers from normalization of U.S. monetary policy.

Conclusions

MENA and CCA oil exporters are only just beginning to tackle the associated fiscal challenge posed by a sizable and persistent drop in oil prices. Much more progress is needed to formulate and implement significant medium-term fiscal adjustment. Countries with fiscal space are using their buffers appropriately, but medium-term plans to put fiscal finances on a stronger footing are lacking, including in those countries with the largest adjustment needs. Some countries without fiscal space have started to meet some of their funding needs through monetary financing, which creates inflation risks. Some non-GCC countries could also benefit from exchange rate depreciation, which would facilitate the needed fiscal adjustment and improve the competitiveness of their non-oil export sectors. In devising adjustment policies, attention should be paid to growth and distributional effects.

Medium-term policies to deal with lower oil prices include formulating medium-term frameworks to secure fiscal sustainability and intergenerational equity, gradually rebuilding buffers, lowering the rigidity of budget spending, increasing fiscal transparency through greater disclosure, and moving off-budget entities onto the budget, especially in the energy sector. Contingency plans are crucial, given the uncertainty over longer-term oil prices. Policymakers should also strengthen diversification efforts to boost non-oil growth and revenues.

The IMF can help through advice, technical assistance and training, and—if needed—financial support. Technical assistance and training can be provided in many relevant areas, including formulating medium-term fiscal plans; conducting expenditure reviews; designing of tax, energy pricing, and public investment management reforms; and developing communication strategies.[13] Many of these areas are also priorities for MENA and CCA oil-importing countries, which should take advantage of lower oil prices to rebuild buffers and enact important reforms (Box 4.3).

[12] Policymakers have taken diverse approaches to date. Bahrain, Iraq, and Yemen have issued debt. Oman and Saudi Arabia have mostly drawn down buffers, although Saudi Arabia has recently issued sovereign debt for the first time since 2007. Similarly, the CCA countries with ample buffers and relatively small deficits are mainly drawing down assets. On average, debt issuance is expected to cover 22 percent of deficit-financing needs in the GCC region this year, compared with 62 percent in non-GCC MENA and 54 percent in the CCA.

[13] The IMF offers courses on macroeconomic management in resource-rich countries (http://www.imf.org/external/np/INS/english/pdf/catalog2015.pdf), including a free online course on energy subsidy reform (https://www.edx.org/course/energysubsidy- reform-imfx-esrx-0).

Box 4.2

Developing and Deepening Local Currency Debt Markets in the GCC

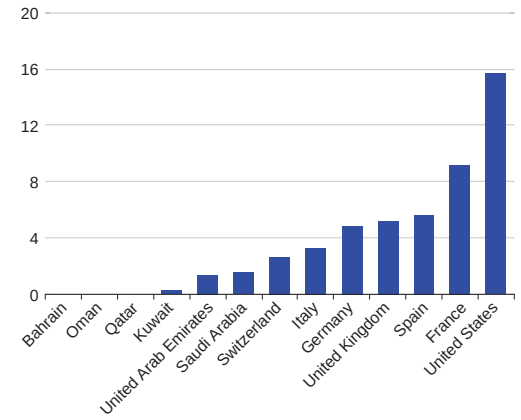
The choice of how fiscal deficits are financed could provide an opportunity for GCC countries to develop their local debt markets, including sovereign issuance of long-term Islamic instruments. Developing deep and liquid domestic debt markets can strengthen the resilience of these economies to adverse shocks, facilitate the conduct of monetary policy by improving the monetary transmission mechanism and the implementation of Basel III liquidity norms, and help advance diversification agendas by expanding the availability of long-term financing. An actively traded government bond market in the GCC region could provide a base from which to price local currency corporate bonds and help address maturity mismatches that restrict long-term bank lending.

The GCC countries' domestic debt markets are at an early stage of development and much needs to be done to advance the agenda (Figure 4.2.1). The domestic corporate bond market is almost nonexistent. In July 2015, Saudi Arabia, for example, issued its first sovereign bonds since 2007 to local banks to finance its fiscal deficit, and Oman and Kuwait are planning a Sukuk issuance. That said, the local currency debt issuance in the GCC countries has yet to translate into adequate secondary market liquidity, and only Qatar has made systematic progress in the development of its government securities market in recent years (Figure 4.2.2).

Establishing a liquid and well-functioning market for long-term government and corporate debt requires proactive and coordinated efforts from government, central banks, other regulatory bodies, and market participants. Key steps and conditions include:

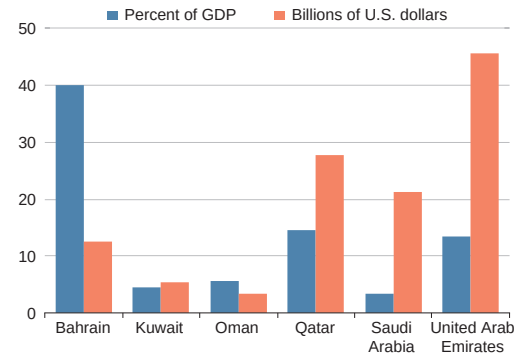
- Initially concentrating on developing the short end of the yield curve by building a liquid Treasury bill market where issuances are backed by liquidity forecasting with a transparent price-clearing mechanism.
- Achieving a diversified domestic and foreign institutional investor base (including pension, insurance, and mutual funds) that can shift financial intermediation from banks to capital markets by increasing the demand for long-term financial assets.
- Creating an efficient institutional infrastructure—including a credible rating system, good corporate governance standards, transparency in reporting requirements, and the adoption of international accounting standards—to help foster market discipline.
- Make pricing transparent and improve microstructures—such as effective trading mechanisms, and custody and settlement systems—to enhance liquidity and efficiency, while reducing trading costs and volatility.

Figure 4.2.1
Domestic Debt Issuance by Nonfinancial Corporations, 2014
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

Figure 4.2.2
GCC Government Domestic Debt Stocks, 2015



Sources: National authorities; and IMF staff estimates.
Note: Debt stock is composed of Treasury bills and government bonds; 2015 data are last month available.

Prepared by Prasad Ananthakrishnan.

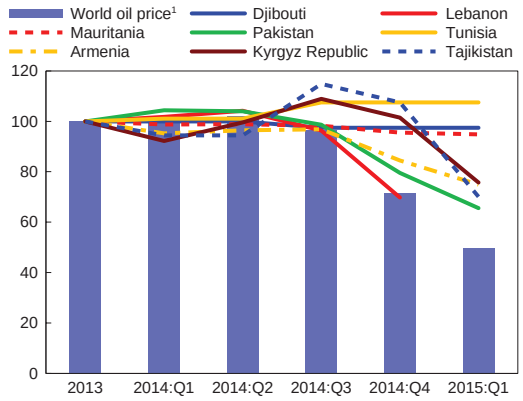
Box 4.3

Fiscal Adjustment in Response to Lower Oil Prices in Oil Importers

For most oil-importing countries in the MENAP and CCA regions, windfall gains from the recent decline in oil prices have been muted by the effects of concurrent adverse shocks. Lower oil prices generally imply higher real disposable income and lower production costs for an oil-importing country, leading to higher consumption and investment growth. However, recent oil price–related gains have been partly offset by other factors for most MENAP and CCA oil importers. The CCA was negatively affected by spillovers from Russia, a key economic partner in the region. Many non-oil commodity producers, including Armenia, Mauritania, and Tajikistan, saw their export unit values deteriorate, because of declining prices for metal and cotton. Data so far do not show a decline of remittances and foreign aid from GCC countries, but this remains a significant risk for a number of oil importers in the Mashreq and Pakistan. It could also translate into slower export demand because the GCC is a significant trading partner as well. In some cases, these negative shocks more than offset the positive effects from lower oil prices on growth, at least in the short term.

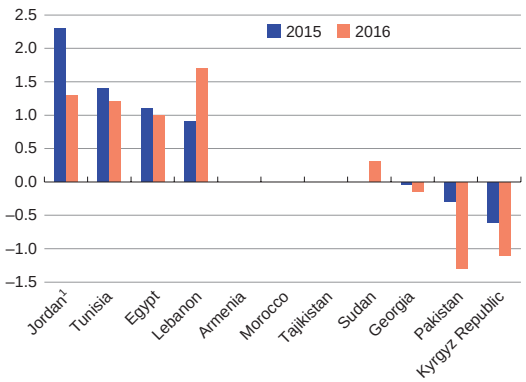
Although lower oil prices imply current account gains for MENAP and CCA oil importers,[1] the impact on fiscal balances is mixed. Regulation of domestic energy prices implies that some of the real income gains from lower oil prices accrue to the fiscal or quasi-fiscal sectors, rather than end users. In fact, MENAP and CCA oil importers have generally had a relatively low pass-through from world to retail oil prices (Figure 4.3.1). However, while some countries are seeing fiscal and/or quasi-fiscal gains from savings on energy subsidies, in others these gains are outweighed by losses from ad valorem fuel taxes (Pakistan, Kyrgyz Republic—Figure 4.3.2). In some CCA countries, pass-through has been limited because fuel import prices were set under long-term international contracts with Russia, and because of gasoline import supply constraints (notably in the Kyrgyz Republic). Countries enjoying fiscal windfall gains should decide how much

Figure 4.3.1
World Oil Price and Retail Fuel Prices
(Index, 2013 = 100)



Sources: National authorities; and IMF staff calculations.
[1]Simple average of Dated Brent, West Texas Intermediate, and the Dubai Fateh spot prices.

Figure 4.3.2
Impact of Lower Oil Prices on Fiscal Balances
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.
Note: The first-round impact of the oil price change in the APSP oil price between 2014 ($96.25) and the World Economic Outlook database assumptions for 2015 ($51.62) and 2016 ($50.36), keeping oil/gas production and other factors constant at the 2014 level.
[1]For Jordan, estimates include a state-owned electricity company.

Prepared by Gohar Minasyan.
[1] The current account balances of CCA oil importers were also adversely affected by lower remittances from and exports to Russia—partly owing to lower oil prices. These second-round effects are not considered here.

Box 4.3 *(continued)*

of them to save based on the existing vulnerabilities and cyclical risks. Locking in windfall gains, reducing public debt, and strengthening policy buffers should be priorities when vulnerabilities are significant, but where output gaps are large, the windfall should be spent.

Getting energy prices right has been a longstanding policy priority for most MENAP and CCA countries, and low oil prices provide a unique window of opportunity to push ahead with reform. Fully liberalizing domestic energy prices or adopting automatic pricing formulas, and reforming state-owned enterprises in the energy sector can be easier and politically less costly in an environment of low international oil prices. Savings from these reforms can then be used to finance targeted transfers to socially vulnerable groups and growth-enhancing spending. Because low energy prices are deeply entrenched in many economies in the Middle East, targeted mitigation measures and an effective communication strategy would be required to make reforms successful. It is encouraging that energy pricing reform is on the agenda in most countries while some countries, including Jordan, Morocco, and Pakistan, have already implemented measures (Table 4.3.1). Some CCA countries (such as Armenia) are expected to use the opportunity to increase fuel excises. However, if short-term fiscal incentives are not well aligned with the long-term energy pricing reform agenda, lower oil prices may jeopardize reform. In particular, lower oil prices temporarily ease the fiscal burden of subsidies, which may create incentives for governments to delay the implementation of energy pricing reform, as appears to be the case in Egypt.

Table 4.3.1. Subsidy Reform Progress in Selected Countries

	Egypt	Jordan	Mauritania	Morocco	Tunisia	Pakistan
Budgetary Subsidy Reform	The five-year plan to eliminate electricity subsidies is on track. There have been slippages on fuel subsidy reform.	Completed. Conditional cash transfers in case of oil prices exceeding US$100 per barrel will be maintained.	Gasoline subsidies have been eliminated.	Liquid natural gas subsidies have been eliminated.	Reform to eliminate energy subsidies has started but progress has been slow.	Reforms to reduce electricity subsidies are on track.
SOE Reform	There has been no tangible progress in reforming the EGPC and EGAS.	On track to achieve electricity cost recovery by 2018.	No reform plans for the energy sector SOEs.	No reform plans for the energy sector SOEs.	Cross-subsidies between energy sector companies have been eliminated.	Authorities have devised a plan to address arrears in the power sector SOEs.

Sources: National authorities; and IMF staff calculations.
Note: EGAS = Egyptian Natural Gas Holding Company; EGPC = Egyptian General Petroleum Corporation; SOE = state-owned enterprise.

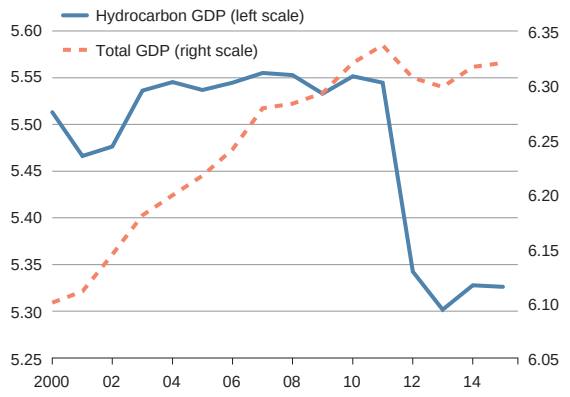
5. Economic Implications of Agreement with the Islamic Republic of Iran

The recent agreement between the P5+1 and Iran allows for the removal of most economic sanctions and for a significant improvement in Iran's economic outlook.[1] Economic spillovers to the rest of the world are uncertain but are likely to be a net positive, for two reasons. Iran's return to the global oil market is expected to increase global supply of oil, and the removal of sanctions is likely to open new trade and investment opportunities. How large these effects will be, and how quickly they materialize, is unclear because of a number of factors: the considerable uncertainty about precisely when the sanctions will be removed and for how long, the speed with which Iran will be able to ramp up its oil production and how other oil producers will respond, and whether much-needed reforms to reignite the domestic economy will accompany the removal of the sanctions.

The Current State of Iran's Economy

The Joint Comprehensive Plan of Action (JCPOA) between Iran and the P5+1 comes after several difficult years for the Iranian economy. Following the intensification of international trade and financial sanctions in late 2011, Iran's economy contracted by about 9 percent during 2012/13 and 2013/14 (Figure 5.1). At the same time, a large real depreciation of the domestic currency, along with supply-side disruptions, pushed 12-month inflation to a peak of 45 percent in June 2013. Employment growth stagnated across most sectors of the economy and the participation rate declined, with unemployment contained at about 10½ percent. The interim agreement reached with the P5+1 in November 2013, along with prudent domestic macroeconomic policies, provided considerable impetus to several sectors, most notably oil, transportation, and manufacturing. Real GDP grew by 3 percent in 2014/15 and 12-month inflation declined markedly, stabilizing at about 15 percent. Nonetheless, by end-2014/15, the level of economic activity was still 6 percent below the end-2011/12 level, mostly because of lower hydrocarbon production. Annual inflation remained in the double digits, while unemployment was at 10½ percent as of December 2014.

Figure 5.1
GDP Level
(In log, constant prices)



Sources: National authorities; and IMF staff calculations.

Much of the sanctions-induced contraction in the economy was reflected in a sharp drop in productivity relative to trend. In the three years prior to the intensification of sanctions, non-oil output per worker grew at an annual average rate of 5 percent, led by strong capital accumulation and total factor productivity (TFP—Table 5.1). After economic and financial sanctions tightened in late 2011, capital accumulation and TFP declined sharply. The hydrocarbon sector saw sharp contractions in production and exports (Figures 5.2 and 5.3).

Prepared by Robert Blotevogel, Martin Cerisola, Keiko Honjo, Asghar Shahmoradi, Natalia Tamirisa, and Bruno Versailles.

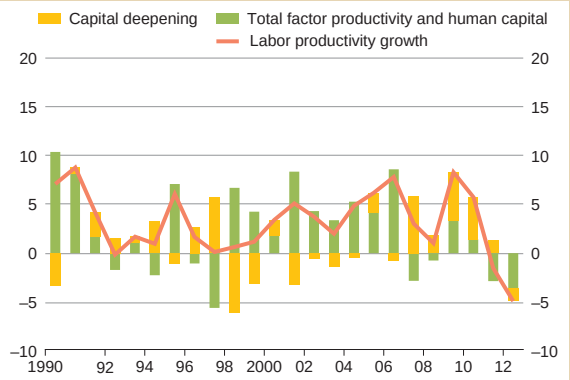
[1] The Joint Comprehensive Plan of Action (JCPOA) between the P5+1 (the five permanent members of the UN Security Council—China, France, Russia, the United Kingdom, and the United States—plus Germany).

Table 5.1. Annual Value Added, Employment, and Productivity Growth
(Percent)

	2008–10 Average	2012	2013
Non-Oil Labor Productivity	5.4	–1.5	–4.9
Contribution from:			
Capital per Worker	3.5	1.3	–1.3
TFP and Human Capital per Worker	1.9	–2.9	–3.6
Non-Oil Employment Growth	0.1	0.6	3.4
Non-Oil Value Added	5.5	–1.0	–1.5
Oil Employment Growth	–5.9	–1.0	–1.0
Oil Value Added	–0.8	–46.8	–9.3

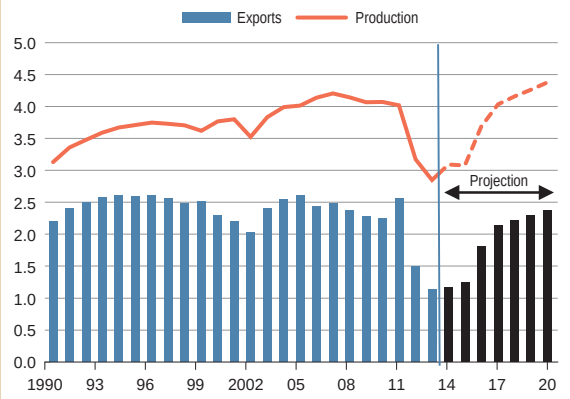
Sources: Iranian authorities; and IMF staff estimates.
Note: TFP = total factor productivity.

Figure 5.2
Non-Oil Sector: Labor Productivity and Contributing Factors
(1990–2013; percent)



Sources: National authorities; and IMF staff calculations.

Figure 5.3
Oil Sector: Production and Exports
(1990–2020; million barrels per day)



Sources: National authorities; and IMF staff calculations.

How Will the Lifting of Sanctions Affect the Iranian Economy?

Once approved and implemented, the JCPOA is expected to provide relief from sanctions in four broad areas: (1) export and transportation of hydrocarbon and hydrocarbon-related products; (2) banking and other financial services and transactions, including restored access to the international payment system (SWIFT); (3) access to foreign financial assets; and (4) the sale, supply of parts, and transfer of goods and services to the automotive and air-transportation sectors, and associated foreign investment.

The sanctions relief will bring three key benefits for Iran. First and foremost will be a positive *external demand shock*, both for oil and non-oil exports. In addition, the decline in the cost of external trade and financial transactions will act as a positive *terms-of-trade shock* (lowering the price of imports and raising the price of exports). Finally, restored access to foreign assets and higher oil exports should also result in a positive *wealth effect*. Taken together, these three shocks are likely to create a significant improvement in the outlook for the Iranian economy in the years ahead, outweighing the adverse effects from the sharp decline in global oil prices over the past year.

Assessing the likely magnitude of these effects is subject to a considerable degree of uncertainty because of the lack of comparable historical precedents and the conditional nature of sanctions

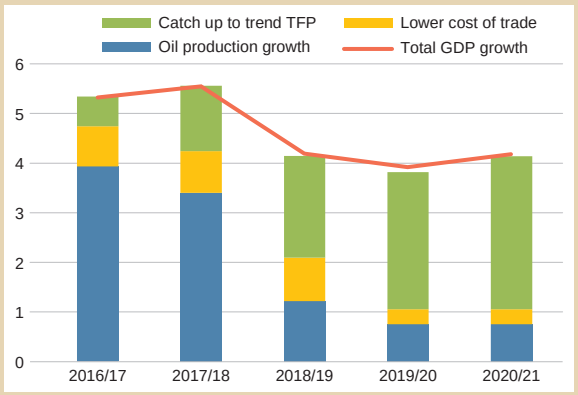
removal ("snap-back" provisions). In addition, it remains to be seen how quickly Iran will be able to ramp up its oil production, given the significant investment needs in the sector, and how other oil producers will respond.

The post-sanctions growth dividend will also depend on the domestic macroeconomic policy response and the pace and content of structural reforms following the removal of the sanctions. A key question is how quickly the Iranian economy will regain the pace of capital accumulation and productivity growth experienced before the introduction of the sanctions. Structural reforms of the business climate and labor and financial markets could play a key role in this respect. Macroeconomic policies will also need to be adjusted in the years ahead so that the authorities can achieve their goals of single-digit inflation, a competitive real exchange rate, and sustainably higher inclusive growth. In particular, additional fiscal consolidation would help contain the appreciation of the real exchange rate and support monetary policy in containing demand and achieving the desired reduction in inflation.

Estimates of the growth impact, based on analysis of the Iranian economy,[2] suggest that domestic economic activity could accelerate markedly following sanctions relief (Figure 5.4).

Real GDP growth could rise up to 5½ percent in 2016/17 and 2017/18, while hovering around 3½–4 percent annually in the years after. The most important driver of growth in the short term would be a recovery in oil production and exports, projected to increase by about 0.6 million barrels per day (mbpd) in 2016 and by about 1.2 mbpd over the medium term. Higher oil output would contribute about three-quarters and two-thirds of the estimated economic growth in 2016/17 and 2017/18, respectively. Lower trade and financial transaction costs would add about ¾–1 percentage point to growth.

Figure 5.4
Iran: Projected Real GDP Growth and Contributing Factors Post Sanctions
(Percent)



Source: Blotevogel and others (forthcoming).
Note: TFP = total factor productivity.

If sanctions are lifted, the efficiency of the non-oil economy should gradually improve, as lower transaction costs stimulate investment and productivity, particularly in manufacturing and construction. Non-oil TFP growth would gradually pick up to reach its 1990–2010 average in 2020. The pace of the recovery would depend, among several other factors, on the authorities' ability to preserve a competitive real exchange rate and sound macroeconomic policies. Significant currency appreciation would tend to slow the pace of the recovery.

Incorporating feedback effects from global factors renders slightly lower the estimates of the economic benefits to Iran from sanctions removal. A global model,[3] which takes into account international spillovers through trade and financial channels and global oil markets, indicates that the combination of positive external demand, wealth, and terms-of-trade shocks would entail a

[2] A dynamic financial computable general equilibrium calibrated to Iran is based on Shahmoradi, Haqiqi, and Zahedi (2010), Haqiqi (2011), and Haqiqi and Bahalou Horeh (2013). For more details, see Blotevogel and others (forthcoming).

[3] A dynamic stochastic general equilibrium model represents the global economy and is part of the Flexible System of Global Models (FSGM) developed at the IMF (Andrle and others 2015). The sanctions removal scenario assumes: (1) an increase in Iran's oil exports; (2) a reduction in Iran's sovereign and corporate risk premiums; and (3) a reduction in the cost of imports and an increase in the price of exports.

cumulative 15 percent increase in real GDP during the next five years relative to a baseline scenario of sustained sanctions.

The current account would improve in line with the ramp-up in oil exports; however, higher investment and private consumption, along with a decline in the risk premium, would stimulate imports and potentially narrow the improvement in the current account. Although Iran would continue to save from one-quarter to one-third of its oil export proceeds in the National Development Fund of Iran, the real exchange rate would appreciate by about 5 percent over the medium term, weighing on non-oil exports. Inflation would remain broadly stable, as the pass-through from the appreciation is likely to be offset by increased demand pressures in the non-oil economy.

The estimates presented above need to be taken with caution. Neither of the models assumes that substantial domestic economic reforms will accompany the removal of the sanctions. As discussed earlier, if such reforms are adopted and implemented, the increase in growth following the removal of the sanctions is likely to be larger. Another caveat is that the models do not factor in the liquidity and solvency problems that have permeated the corporate and banking sectors in the past few years. These factors could impair the depth and speed of recovery, particularly for investment in the non-oil sector. Also, the authorities' goal of achieving single-digit inflation underscores a strong need for policies to further adjust in the years ahead. In particular, additional fiscal consolidation would be required to support monetary policy and to help preserve a competitive real exchange rate.

The Agreement's Effect on Global Oil Prices and Economic Activity

Iran's reentry into the global oil market, and its increased integration into the global economy, could have far-reaching economic effects, given the large size of its economy (close to 1½ percent of global GDP or 18 percent of MENA GDP), population (78 million), and oil and gas reserves (fourth and second largest in the world, respectively).

Event study analysis points to oil prices as a key channel through which effects of the Iran Agreement are likely to be transmitted to the rest of the world.

- The tightening of international sanctions during 2010–13 pushed international oil prices upward. On days when new sanctions against Iran were introduced during 2012–13, oil prices tended to rise. The cumulative impact could have been as large as $14.[4]
- Only a fraction of the sanctions-related increase in oil prices seemed to have dissipated by mid-July 2015. Oil prices declined significantly in the days leading up to the November 2013 interim agreement. But taken together, the subsequent landmarks in the negotiations—the extensions, the April 2015 framework agreement, and the final deal itself—did not see a significant impact.[5] This result suggests that oil prices could fall further as uncertainties surrounding the pace and timing of Iran's return to the oil market are resolved and oil supply in the global market expands.

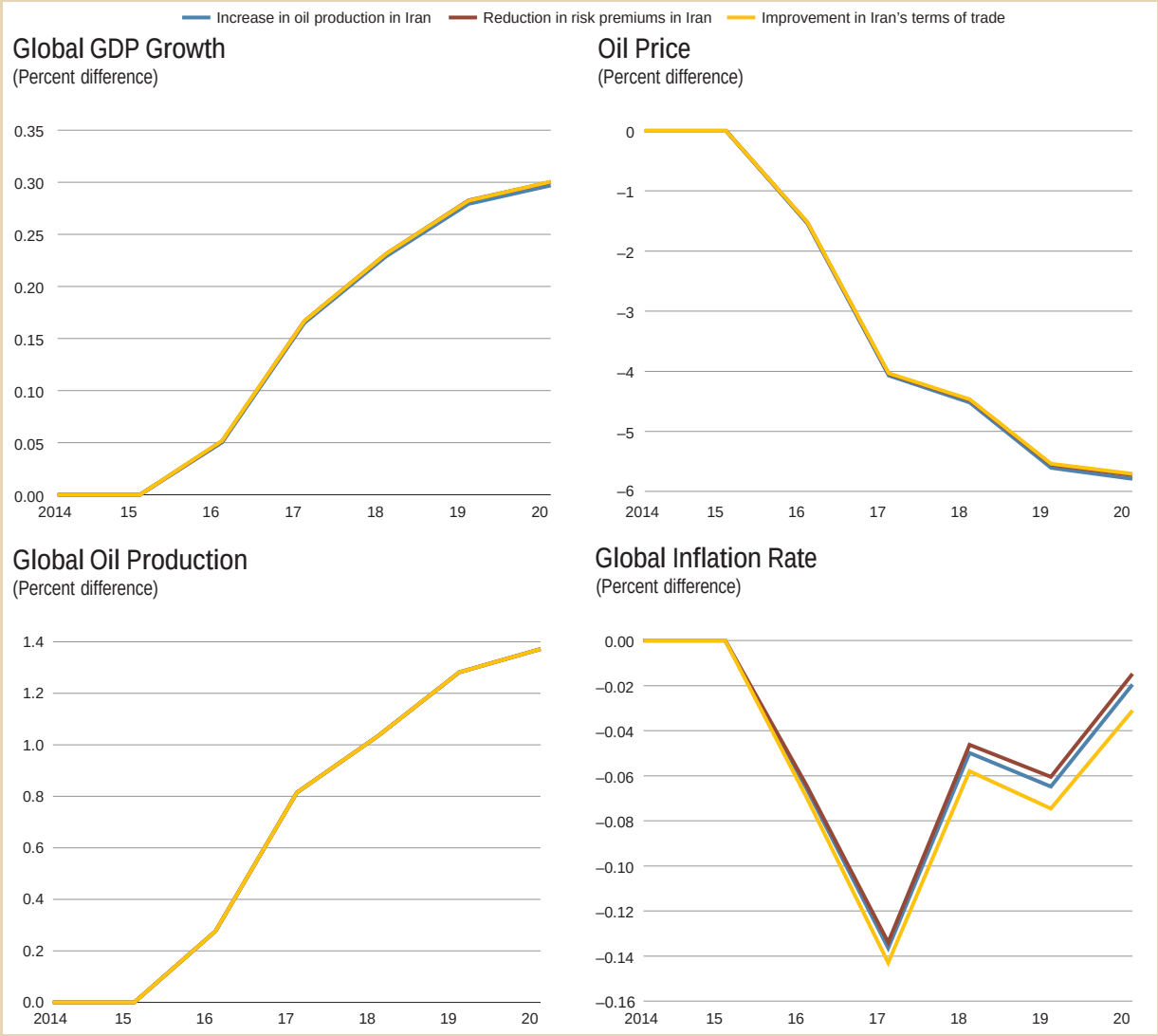
Global GDP (excluding Iran) is estimated to rise by about ¼ percent over the medium term, mainly owing to a decline in oil prices but also to an increase in non-oil trade with Iran. A gradual rise in Iran's oil production could amount to an increase of almost 1½ percent of global oil production by 2020, and is likely to affect the global economy by causing global oil prices to ease further (Figure 5.5). Declines in Iran's risk premium and trade costs are likely to have much smaller global and regional spillovers than the decline in oil prices.[6]

[4] These results are consistent with estimates by the U.S. Energy Information Administration (2015) and World Bank (2015).

[5] Other important shocks, such as those concerning Yemen, Libya, and Iraq, coincided with the dates of announcements about Iran's negotiations, which reduces robustness of estimates.

[6] In addition to oil exports, the natural gas supply from Iran to other countries in the region (for example, Oman, Pakistan, and Armenia) may also rise over time, conditional on the construction of new pipelines.

Figure 5.5
Estimated Global Impact of Sanctions Removal



Source: IMF staff estimates.

The magnitude of the oil price decline is highly uncertain. It depends on how quickly Iran is able to raise its oil production and how other oil suppliers respond. Under plausible assumptions—including the assumption that, consistent with their recent announcements, OPEC members do not compensate for an increase in Iran's oil exports by cutting their own oil production—the decline in oil prices could range from 5 percent to 10 percent over the medium term.

How Will Iran's Non-Oil Trade with the Region Be Affected?

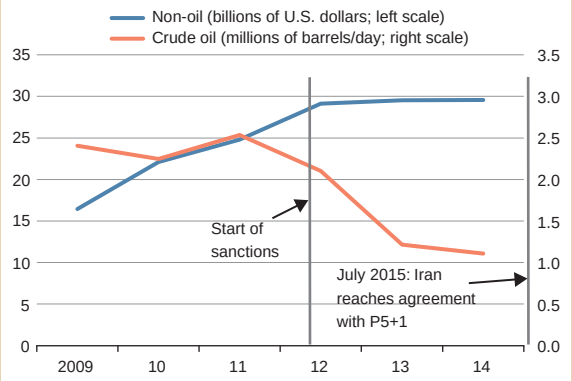
Non-oil trade between Iran and the rest of the world is currently limited but is expected to rise, reflecting higher incomes in Iran and the rest of the world and a reduction in transaction costs. Iran's imports are projected to rise by 50 percent over the next five years, from $75 billion this year to $115 billion in 2020. There is also large potential

for Iran to increase its non-oil exports further (Figure 5.6). Estimates obtained from gravity models, or by comparing Iran's export patterns to those of other oil exporters, show that Iran's export levels are less than half of their potential.

Iran's trading partners stand to gain from increased trade with Iran. For the United Arab Emirates, for example, Iran is the most important export destination after India. The lifting of the sanctions could add more than 1 percentage point to the United Arab Emirates' real GDP over the period 2016–18 through higher nonhydrocarbon exports alone (IMF 2015a). Although moderating, economic growth in China and India is expected to remain strong, solidifying the position of these countries as increasingly important trading partners for Iran (Figure 5.7).

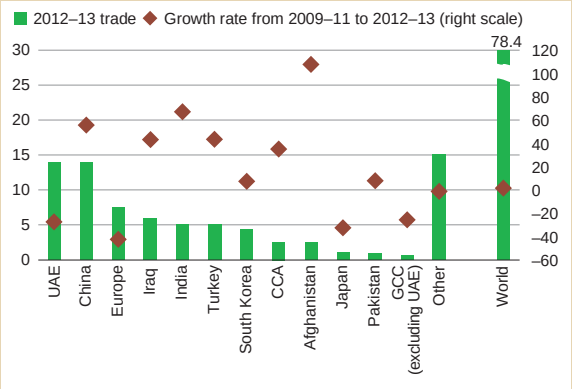
Iran has already signed a preferential trade agreement with Turkey, another country with which its trade has been growing rapidly in recent years. Europe, by contrast, has seen its trade share diminish during the sanctions period, although it could rise in a post-sanctions world. CCA countries could reap large economic benefits in the long run if they become transit points for growing trade among China, India, Iran, and other countries in the region as well as in Europe (Box 3.1). This will depend on the completion of ambitious regional initiatives. For details on the likely country-specific implications of the Iran Agreement, see Tables 5.2 and 5.3.

Figure 5.6
Iranian Exports, 2009–14



Sources: Organization of the Petroleum Exporting Countries, Statistical Yearbook; and World Trade Atlas.

Figure 5.7
Nonhydrocarbon Trade 2012–13 and Growth in Trade from 2009–11 to 2012–13
(Billions of U.S. dollars and percent)



Sources: World Trade Atlas; and IMF staff calculations.

Table 5.2. Regional Implications of Iran Sanctions Relief for MENAP and CCA Oil Exporters

	Gas	Non-Oil Trade	Finance and Investment	Oil
GCC				Expected increase in oil production will put downward pressure on oil prices, which would reduce oil-related fiscal and export revenues. Increased Iranian oil exports could see increased competition for market share (notably in Asia) with other oil exporters in the region.
Bahrain		Little trade with Iran, trade not expected to be significantly affected.		
Kuwait		Little trade with Iran.		
Oman	Pipeline construction to export gas from Iran (2014) could be accelerated as some delays were attributed to sanctions.			
Qatar	Qatar's expertise could help develop Iran's gas fields (countries share a maritime border that crosses a large, not fully exploited, gas field).	Good prospects. February 2015 ministerial meeting discussed trade ties.	Potential for Qatari FDI in Iran, given synergies in natural gas production.	
Saudi Arabia		Little trade with Iran.		
United Arab Emirates		Iran is the United Arab Emirates' second-largest export market. Large potential for more trade and tourism. End of sanctions could add 1¼ percentage points to growth over next three years solely through increased nonhydrocarbon exports.	End of sanctions would stimulate two-way investment, especially in real estate and small and medium-sized enterprises.	
Non-GCC				
Algeria		Little trade with Iran, trade is not expected to be significantly affected.	Algeria's capital account is closed, so sanctions had no impact on cross-border financial transactions.	
Iraq		Trade with Iran could be displaced as removal of sanctions could diversify the origin of Iranian imports.	Could benefit from higher Iranian FDI.	
Libya		Hardly any trade with Iran currently—not expected to be significantly affected.	Not much FDI either way—not expected to change much.	
Yemen		Trade currently low, could improve post sanctions.	Financial flows currently low—could improve post sanctions.	
CCA				
Azerbaijan	Azerbaijan's biggest gas field has significant investment from an Iranian company exempted from sanctions. Gas cooperation is likely to continue in the future.	Iranian exports to Azerbaijan have increased since the introduction of sanctions.	Azerbaijan has benefited from increased Iranian FDI. Cooperation in the banking sector could improve post sanctions.	
Kazakhstan		Bilateral trade increased during sanctions, expected to increase further with future opening of new infrastructure, such as the Kazakhstan-Turkmenistan-Iran railway. Trade is expanding through new shipping facilities.	Current flow of FDI to and from Iran is limited.	
Turkmenistan	Iran is expected to help diversify Turkmenistan's access to gas sources, including through a new gas pipeline.	Imports from Iran have increased by a factor of 10 in past decade. To continue growing at this rate, new infrastructure is needed.		
Uzbekistan		Modest post-sanctions expectations for increased trade relations and transport corridor development.		

Sources: National authorities; and IMF staff assessment.
Note: FDI = foreign direct investment.

Table 5.3. Regional Implications of Iran Sanctions Relief for MENAP and CCA Oil Importers

	Gas	Non-Oil Trade	Finance and Investment	Oil
MENAP Oil Importers				Expected increase in Iranian oil production will put downward pressure on oil prices, to the benefit of MENAP and CCA oil importers. Energy import bills would decrease and, where lower oil prices are passed on to end-users, production costs would decline and disposable income would rise. Declining oil prices would affect Russia and MENAP oil exporters negatively, which could entail negative second-round effects for CCA and MENAP oil importers, respectively.
Afghanistan		Important trade partner—lots of trade through informal channels (hence sanctions did not have a huge impact).	Weak formal financial linkages—unlikely to change much.	
Djibouti		Little trade, not expected to improve much.		
Egypt		Limited trade between the two countries.		
Jordan		Little trade, not expected to improve much.	Low investment flows—not expected to change much.	
Lebanon		Trade relations should improve with sanctions removal, especially because in 2010 Lebanon signed 17 bilateral trade agreements with Iran, some in the oil and gas sectors.	Banks could lose some transactional business from Iranian clients, given the SWIFT cut-off of Iranian banks. This is not expected to materially impact banks' profitability though.	
Mauritania		Little trade, not expected to improve much.		
Morocco		Little trade, not expected to improve much.		
Pakistan	Sanctions relief could lead to completion of gas pipeline, with benefits to Pakistan's energy market.	Little trade, has increased somewhat during sanctions—might be displaced after sanctions by lower-cost countries.	Capital flows have been very small both before and after sanctions—not expected to increase much.	
Tunisia		Little trade, not expected to improve much.	Financial links negligible.	
CCA Oil Importers				
Armenia		Bilateral trade suffered from sanctions. Trade could be revived, notably through construction of a railway between the countries.	FDI stopped since 2011, could increase post-sanctions. Energy-related cooperation (gas exports, transport) only to increase with large investments.	
Georgia		Little trade currently, but potential to increase over the medium term, especially if Iran wishes to diversify its trade routes.		
Kyrgyz Republic		Trade currently negligible. Potential railroad (Afghanistan-China-Iran-Kyrgyz Republic-Tajikistan) and preferential trade agreement to boost trade.		
Tajikistan		Exports to Iran grew during sanctions, as imports from Iran were flat. With improvements in infrastructure, Tajikistan could benefit from increased trade between Iran, South Asia, and Central Asia.		

Sources: National authorities; and IMF staff assessment.
Note: FDI = foreign direct investment.

6. How Might the Sustained Decline in Oil Prices Affect MENA and CCA Banking Systems?

The slump in oil prices, through its adverse impact on oil-dependent economies, has raised questions about financial sector stability in MENA and the CCA. The risks are more pronounced in the CCA and non-GCC oil exporters, where the impact of the oil price shock has been compounded by spillovers from Russia and other shocks, against the backdrop of already elevated bank vulnerabilities. As low oil prices persist, some banks may become distressed, especially in countries where space for countercyclical policies is limited and/or regulatory and supervisory frameworks are weak. Maintaining sound macroeconomic policies, increasing supervisory oversight, strengthening prudential and crisis management frameworks, and reducing bank vulnerabilities, particularly dollarization, are key to mitigating financial stability risks.

The decline in oil prices has important implications for the MENA and CCA economies and their financial sectors. In oil-exporting countries, lower oil prices are weakening the balance sheets of oil companies and governments and raising credit and liquidity risks for banks through their adverse impact on the broader economy. In countries such as those of the GCC, where the government or oil companies have majority ownership stakes in rated banks, lower oil prices could also undermine the intrinsic strength of banks and raise funding costs for those that tap international markets. In oil importers, lower oil prices have a positive impact on the economy but adverse spillovers from oil-dependent trading partners can partly offset the benefits. Other concurrent shocks, such as intensifying conflicts in non-GCC MENA or spillovers from Russia to the CCA, add to the impact of lower oil prices.

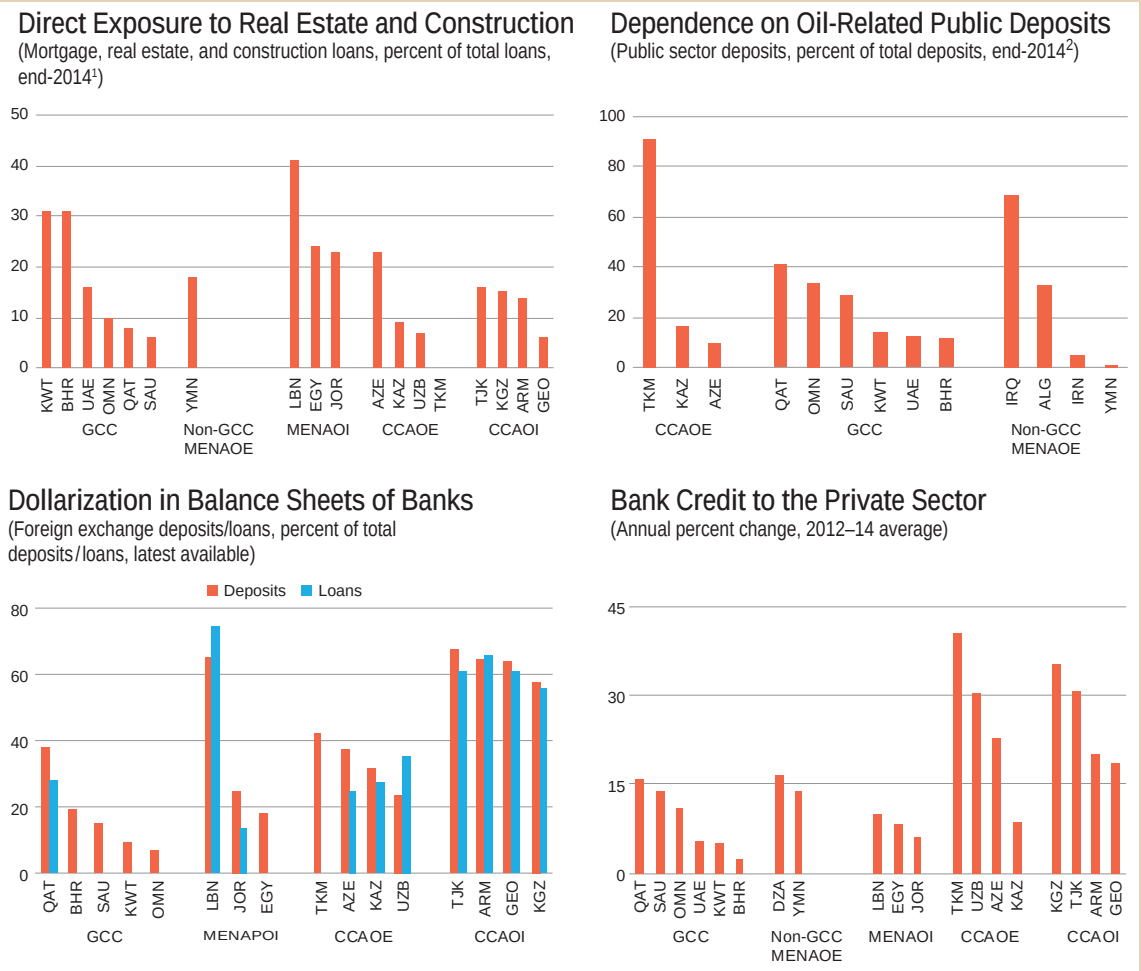
This chapter discusses the financial stability impact of a sustained decline in oil prices for MENA and CCA countries, as well as policies to mitigate macrofinancial risks. It identifies key transmission channels, vulnerabilities, and feedback loops that can amplify the impact of the oil price decline on the banking systems, as well as data gaps that can impede effective financial sector surveillance. It also discusses policy options to mitigate the macro-financial risks for banks. The analysis covers 21 countries, including 14 oil exporters and seven oil importers. Libya and Sudan are excluded because of data limitations. Only oil importers whose major trading partners are net oil exporters are covered.

How Can Low Oil Prices Affect Banking Systems in MENA and the CCA?

In the GCC, slowing government spending presents a major risk for banking systems but it has so far been contained. Government infrastructure spending drives non-oil GDP growth and bank lending to public sector entities and private contractors, whose performance, in turn, affects banks' credit risks. Bank lending to households is driven by growth in the public sector wage bill. Because most GCC countries have large buffers, slowdowns in government spending, in response to lower oil prices, are expected to be gradual, limiting credit risks (see Chapter 4). Moreover, prudential frameworks have been strengthened to comply with Basel III rules. A lingering concern, though, is that credit risk can be amplified by high loan concentrations to single borrowers and/or sectors,

Prepared by Inutu Lukonga (team lead) and Moez Souissi with input from Kusay Alkunaizi, Kay Chung, Pritha Mitra, Rafik Selim, Saad Quayyum, Andre Santos, and Bruno Versailles. Research support was provided by Mark Fischer, Gregory Hadjian, Brian Hiland, and Jonah Rosenthal.

Figure 6.1
MENA and CCA: Banking System Vulnerabilities



Sources: National authorities; and IMF staff estimates.
Note: OE = oil exporters; OI = oil importers. Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]Includes only lending exposure. Indirect exposure via collateral or investments is not taken into account.
[2]Includes government and other public sector deposits.

particularly those that are cyclically sensitive, like real estate and construction (Figure 6.1).[1] Exchange rate pegs are perceived as credible, thus exchange rate risks are muted.

Risks to financial stability are higher in non-GCC MENA oil exporters. Significant bank vulnerabilities remain, while capacity to mitigate the risks is limited because of generally smaller, or inaccessible, buffers and weaker, or absent, macro-prudential and crisis management frameworks. In Algeria and Iraq, bank dependence on oil-related deposits (Figure 6.1) and exposure to state-owned enterprises (SOEs), whose performance is driven by oil, against the backdrop of weak corporate governance of both banks and SOEs, increase both credit and liquidity risks. State influence in

[1] Indirect exposures to real estate through collateral and the growing Islamic banking sector's investments remain high. Available metrics do not capture indirect exposures to real estate, especially in countries with a significant presence of Islamic banks, because banks are permitted to establish subsidiary companies for investment purposes.

Iran's banking system tends to weaken underwriting standards, which puts asset quality at risk. Banking sectors in Iraq and Yemen are also exposed to sovereign credit and liquidity risks from excessive credit exposures to oil-dependent governments, whose fiscal positions have weakened. Gaps in prudential frameworks limit the scope for mitigating these risks.

In MENA oil importers, banking systems are exposed to oil price shocks through their links to oil exporters, particularly the GCC. Remittances from the GCC (see Box 2.1) support liquidity in the banking systems and foreign exchange markets, especially in Jordan and Lebanon, and, to a lesser extent, Egypt; the latter also receives sizable official grants from the GCC. Significant dollarization (Figure 6.1), elevated nonperforming loans (NPLs), and high bank exposure to sovereign debt could increase financial stability risks in the event of a sharp slowdown in the GCC economies. Exposure to the cyclically sensitive real estate and construction sectors is also significant for some countries. Gaps in prudential frameworks heighten the risks.

The CCA banking systems are affected through multiple channels. The impact from lower oil prices, compounded by spillovers from Russia's slowdown, exchange rate depreciation (see Chapters 3 and 7), and increases in interest rates in response to rising inflation in some countries, has not only increased credit and liquidity risks but also exchange rate and solvency risks for the CCA banks. Banks' funding strategies—based on intermediation of dollar deposits and foreign currency lending to unhedged borrowers—heighten these risks. In addition, rapid private sector credit growth in the years prior to the recent oil price shock—in Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, and Tajikistan—has increased the likelihood of asset quality deterioration in slowing economies.[2]

[2] Growth in credit, to some degree, reflects currency valuation effects, which implies that the debt burden of foreign currency borrowers has increased substantially, raising the probability of default.

Weak corporate governance in banks and recipient SOEs increase credit risks (Tajikistan). Delays in resolving past NPLs and problem banks also aggravate stability risks in a number of countries (Azerbaijan, Kazakhstan, Tajikistan). Moreover, important gaps in prudential and crisis management frameworks could limit scope for the orderly resolution of problem banks, if the risks were to materialize.

How Has Bank Soundness Been Affected So Far?

CCA

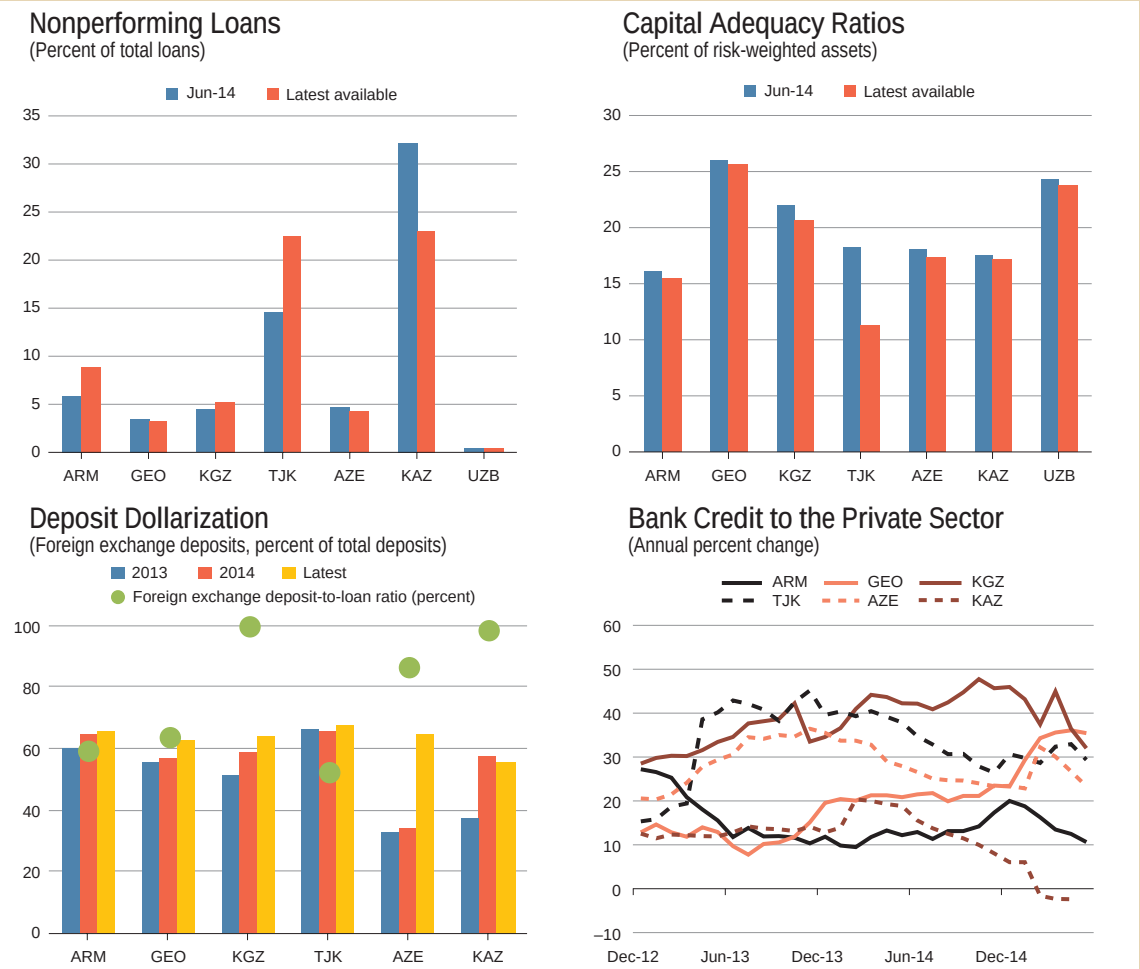
Recent financial soundness indicators (FSIs) point to a weakening in bank soundness of several CCA countries (see Figure 6.2).[3] NPLs are trending up, profitability has declined, and, although capital adequacy ratios (CARs) remain high, they are declining in most countries.[4] Open foreign exchange positions have widened, thus exchange rate depreciations have consequently increased revaluation losses and capital erosion, in addition to indirect credit risks from borrowers in foreign currency. Private sector credit growth has also weakened across the CCA, particularly in real dollar terms.

Contemporaneous aggregate indicators may understate the extent of deterioration in bank soundness. Recent economic shocks are likely to be reflected in the NPL numbers with a lag. Some banks have been restructuring loans (Armenia, Azerbaijan, Kazakhstan). The strength of bank balance sheets is overstated by inadequacies in loan classifications and provisioning (Azerbaijan, Kazakhstan, Tajikistan) and one-off charges to

[3] In some cases differences in definition and/or measurement of FSIs affect their comparability across countries.

[4] Banking systems in Uzbekistan and Turkmenistan, where economic growth has remained strong, appear more stable.

Figure 6.2
CCA: Recent Developments in Banking System Soundness and Performance



Sources: National authorities; and IMF staff estimates.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

NPL stocks.[5] Bank-by-bank analysis also shows a dispersion in bank performance.[6]

Exchange rate depreciations have had a particularly quick and profound impact on banking system soundness, owing to significant dollarization in the balance sheets of banks and borrowers. Although devaluations helped preserve international reserves and improve fiscal positions, actual and expected devaluations precipitated deposit dollarization, while reducing demand for foreign currency loans (Figure 6.2). Widening currency mismatches

[5] In Kazakhstan, bank loans are mostly collateralized by real estate, but banks do not revalue collateral in a timely manner, and estimates are generally based on past high prices. Also, the recent decline in NPLs reflects the revocation of BTA Bank JSC's banking license and the removal of tax, accounting, and other legal obstacles to write-offs and transfers to special-purpose vehicles, rather than improving asset quality. In Azerbaijan, NPLs are underestimated because only the overdue portions of principal and interest, and not the full amount of the loan, are included in NPL numbers.

[6] In Azerbaijan and Kazakhstan, capital in some banks has fallen below the statutory minimum, while in Armenia, the erosion of bank capital has been moderated by injections of new capital raised to comply with the new minimum statutory capital requirements. In Tajikistan, the placement of government deposits and National Bank of Tajikistan foreign exchange deposits at commercial banks throughout 2014 supported the liquidity of several banks (see IMF Country Reports 15/241 and 15/65; and Press Releases 15/265 and 15/268).

between banks' assets and liabilities are increasing revaluation losses, which erode banks' capital and constrain local currency loans in the absence of available hedging instruments. Exchange rate depreciation has also increased indirect credit risk among borrowers in foreign currency. Rising deposit dollarization, deposit flight—and policies to either stem currency depreciations or inflation—tightened local currency liquidity in a number of countries (Armenia, Kazakhstan).

Policy responses have aimed to balance the goals of facilitating economies' adjustment to large external shocks and preserving financial stability (see Box 3.2). In addition to intervention or administrative measures to moderate exchange rate pressures, several countries (Armenia, Azerbaijan, Kazakhstan) have provided liquidity support to banks amid deposit volatility, tried to ease overall liquidity conditions through reduced reserve requirements (Azerbaijan), or placed government deposits and foreign exchange deposits at commercial banks (Tajikistan). Other measures have included the use of foreign exchange swaps to hedge tenge deposits (Kazakhstan); increasing foreign exchange reserve requirements to address rising deposit dollarization and increased capital requirements for banks (Armenia); and reducing loan-loss reserve requirements for restructured loans (Azerbaijan).[7]

MENA

Banking systems in MENA have been more resilient, in aggregate, but there is considerable heterogeneity across countries in bank performance and vulnerabilities (Figure 6.3). CARs remain high and NPLs are low, with the exception of countries whose elevated NPL levels predate recent shocks. Deposit growth in oil-exporting countries (Algeria, Iran, Oman, Qatar, Saudi Arabia, United Arab Emirates) has begun to moderate, yet bank liquidity remains high. Credit growth is slowing, however, except in Qatar where investment in the run-up to the 2022 FIFA World Cup is driving credit demand.

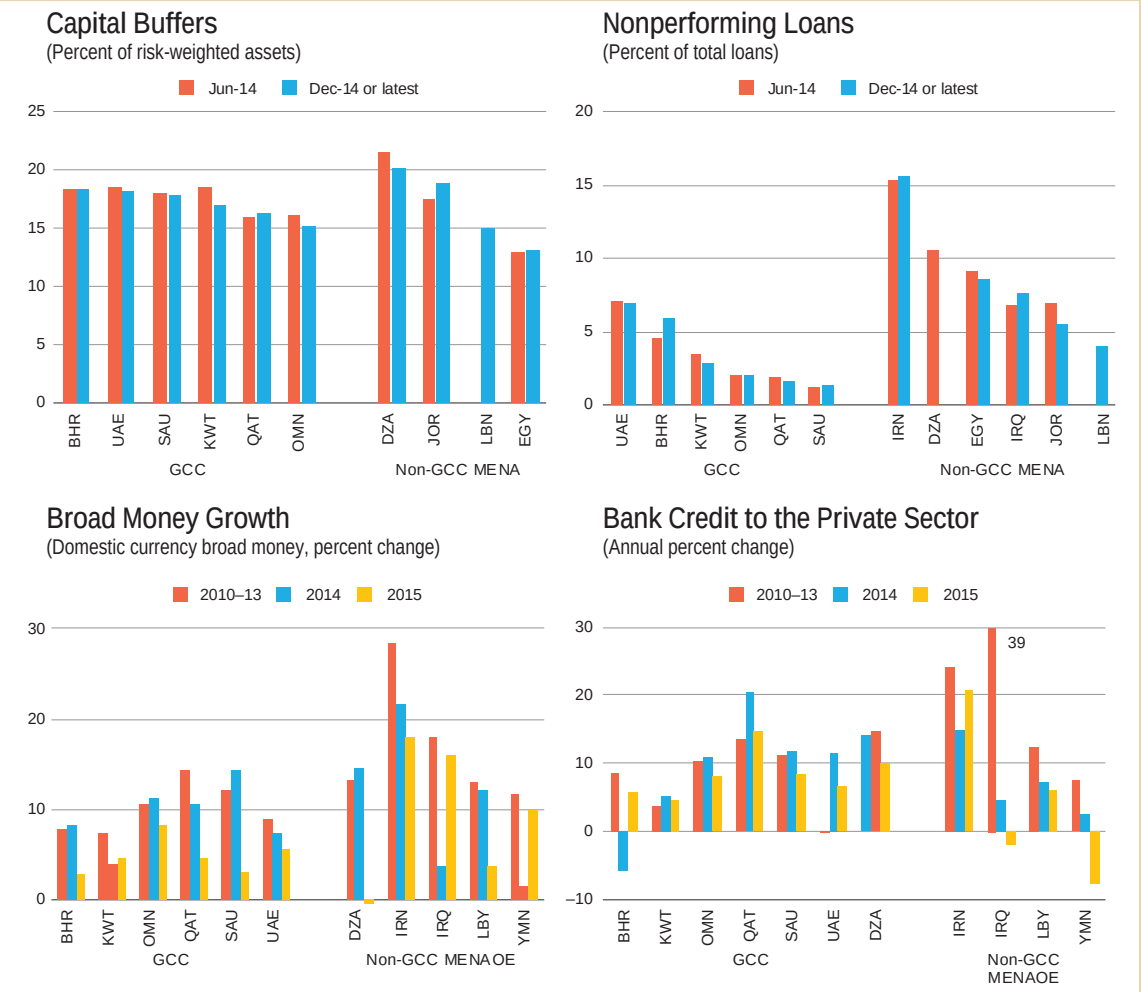
GCC banking sectors have continued to perform strongly, reflecting solid economic fundamentals and low bank vulnerabilities. Although the oil price shock has eroded fiscal and external surpluses, the impact on economic activity has been limited because large financial buffers have allowed governments to avoid sharp cuts in public spending, supporting consumer and investor confidence and moderating equity price declines (see Chapters 1 and 4). Lending to households is predominantly to public sector employees, whose incomes have not been affected by the decline in oil prices. Banks have benefited from abundant retail deposits while available financing has contained governments' drawdowns of bank deposits.

In non-GCC MENA oil exporters, the banking sector performance has been mixed, reflecting structural vulnerabilities that predate the oil price shock. Algeria's exchange rate has depreciated and the economy has slowed, but controls on banks' foreign exchange exposures and administrative restrictions on lending to households have muted exchange rate and credit risks for banks. Strains in Iran's banking system have emanated from the effects of sanctions and bank governance issues, while the impact of low oil prices has been less apparent. In Iraq, the economic slowdown and the fiscal crisis, stemming from low oil prices and the insurgency by the Islamic State of Iraq and the Levant (ISIL), increased financial stability risks as banks' financing of fiscal operations rose. In Yemen, low oil prices, together with intensified conflicts, have weakened the fiscal position and heightened sovereign credit and liquidity risks for banks, because of sizable exposures to government paper.

Banking systems in MENA oil importers have benefited from recent improvements in economic performance. Lower oil prices have reduced fiscal pressures while continued growth of public spending in the GCC has helped sustain remittance inflows and support bank liquidity.

[7] Reducing provisions for restructured loans could have the unintended consequence of encouraging banks to renegotiate loans with borrowers instead of recognizing new NPLs.

Figure 6.3
MENA: Recent Developments in Banking System Soundness and Performance



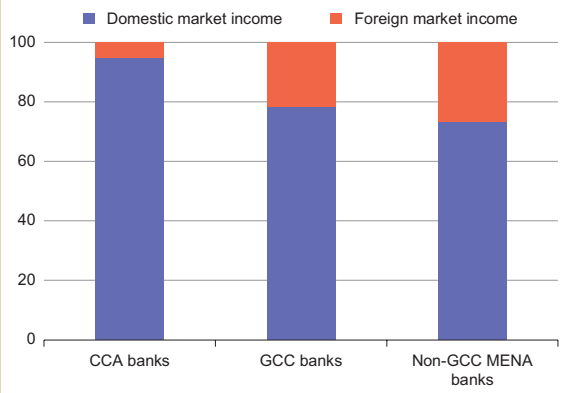
Sources: National authorities; and IMF staff estimates.
Note: OE = oil exporters. Country abbreviations are International Organization for Standardization (ISO) country codes.

How Vulnerable Are MENA and CCA Banks to Sustained Low Oil Prices?

With low oil prices expected to persist, the economic environment facing CCA and MENA banks will remain challenging. Banks derive most of their income from the domestic market and from lending to households and the non-oil sector (Figure 6.4). A sharper economic slowdown is thus likely to increase credit risks. These risks can be amplified by sectoral (real estate, construction) and single-borrower loan concentrations. A further decline in oil prices could also slow growth in deposits and private sector loans, even if liquidity risks are moderated through central bank facilities.

Country-specific econometric analyses confirm the strong relationship between oil prices and bank performance in MENA and the CCA. Though the econometric analysis is constrained by the availability of data, GDP growth is consistently found to have the largest impact on NPL growth. Oil prices affect NPLs mostly through GDP and, in some cases, other economic variables, such as exchange rates (Duma 2015). The impact occurs with significant lags but is persistent (Espinoza and Prasad 2010).

Figure 6.4
Banks Derive Most of Their Income Domestically
(Domestic versus foreign income, percent of total income)



Sources: Audited bank financial statements.
Note: Includes data on the largest 60 banks from 11 countries. Domestic income for some GCC countries (Bahrain, Kuwait) likely reflects income from activities in other GCC economies.

In the CCA, exchange rates are an important determinant of NPLs. Interest rates are also important for Georgia, while inflation tends to be a significant determinant of NPLs in Azerbaijan. In Tajikistan, where the economy is highly dependent on remittance inflows from Russia, the corporate sector poses greater credit risk than households, though declines in remittances do have a significant impact on bank asset quality. Remittances from Russia help explain the dynamics of real GDP growth in remittance-dependent countries such as Tajikistan.[8]

For some MENA banking systems, external financial linkages are an important channel for transmission of shocks. Among GCC countries, because Bahrain's banks include not only retail banks but also wholesale banks, the broader geographical footprint of the latter group of banks reduces the impact of domestic GDP growth on NPLs (Blotevogel and Sidahmed 2013). In MENA oil importers (Egypt), capital inflows tend to affect asset quality of banks, confirming the importance of external financial linkages (Love and Ariss 2013).

[8] See Duma (2015), IMF (2015b), and Kryshko (2015).

These findings suggest that, although increased stability risks are, at present, pronounced mainly in the CCA, over the longer horizon MENA banking systems may not be immune either. The lags and persistence with which economic slowdowns affect credit risks suggest that macro-financial spillovers from low oil prices may not have played out fully yet and a further deterioration in credit quality is possible.

- For CCA banks, the susceptibility to sustained low oil prices has been further increased by the weakening in the balance sheets of banks and borrowers, the nonlinear effects of the macroeconomic shocks on banks, lower buffers to lean against the wind—particularly to mitigate liquidity risks in dollarized banking systems—and gaps in supervisory frameworks. Banks will also face an increasingly challenging operating environment, owing to the effect of slowdowns in domestic economies and in key trading partners such as Russia and China.
- GCC banking systems are starting from a position of strength, including in macro-prudential policies and oversight of banks, but a sustained period of low oil prices could increase risks to financial stability if public investment is scaled back sharply or if real estate prices decline. Negative feedback from the banking system to the real economy, through declining credit growth, is also possible as liquidity conditions tighten, because oil-related deposits are a key source of bank funding (see Figure 6.1).
- In non-GCC MENA oil exporters, the dominance of state-owned banks, which are dependent on oil-related deposits and exposed to SOEs, increases systemic banking risks (Algeria, Iraq). Rising fiscal pressures aggravate these risks (Iraq, Yemen).
- In MENA oil importers (Egypt, Jordan, Lebanon), slower GCC growth could affect remittances and bank deposits, with spillovers to bank credit and foreign exchange markets. Banking stability risks would rise if exchange rates were to come under pressure, given moderate dollarization.

Stress tests highlight similar differences in the resilience of banking systems between MENA and the CCA, as well as the dispersion in risks at the bank level. Generally, credit risk constitutes the single most important risk for banking systems, particularly in the CCA, where it is amplified by exchange rate, interest rate, and concentration risks. IMF Financial Sector Assessment Programs (FSAPs) for Azerbaijan, Georgia, Kazakhstan,[9] and Tajikistan, and stress scenarios by country authorities (Kyrgyz Republic) indicate that although in aggregate the banking systems exhibit resilience, adverse shocks can leave a number of banks undercapitalized. Funding risks related to dollarization and, in some cases, reliance on nonresident deposits also present risks.

Stress tests performed during Article IV consultations, and by country authorities in the GCC (Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates), indicate that strong capital buffers and low NPLs provide a substantial cushion, though selected banks are vulnerable to severe downside shocks. Overall, recapitalization needs were higher for the CCA than MENA countries.[10]

Besides the direct impact on financial stability, a sustained decline in oil prices could trigger negative feedback loops between the banking sector and the economy, both in the CCA and MENA. Rising fiscal deficits financed through zero risk–weighted domestic government bonds provide investment opportunities for banks and can have a positive effect on their capital. However, in countries with low excess reserves, government bond financing can crowd out the private sector and accelerate a slowdown in credit as banks become increasingly averse to credit risk in a slowing economy.

How Can Policies Help Mitigate Financial Stability Risks?

Sound macroeconomic policies and increased supervisory vigilance are key to reducing financial stability risks in the CCA and MENA. Low oil prices affect financial stability mainly through their impact on the broader economy; thus, macroeconomic policies that engender growth also help promote financial stability. These should be complemented by enhanced surveillance of credit, liquidity, and solvency risks and regular stress testing. Data gaps should be closed to ensure effectiveness of surveillance, prudential measures need to be strengthened, and preparedness for dealing with bank distress improved. Forbearance should be avoided and shareholders should be called upon to provide capital where needed.

Given the significant differences in financial vulnerabilities across MENA and the CCA countries, policy priorities need to be tailored to country-specific circumstances.

- In the CCA, reducing dollarization and strengthening prudential and crisis management frameworks are critical. These need to be supported by steps to address directed lending and improve corporate governance. Reducing dollarization requires tackling its root causes—improving policy credibility and developing financial markets—in addition to differentiating capital requirements for lending to unhedged borrowers (Ben Naceur, Hosny, and Hadjian 2015). To avoid forbearance, restructured loans should be adequately provisioned and open foreign exchange position limits enforced. Gaps in data for macro-financial risk analysis should be addressed.

[9] For Kazakhstan, assessments of macro-financial risks were updated as part of the recent Article IV consultation.

[10] Stress tests for non-GCC MENA countries have not yet been completed, but the analysis of available bank data suggests that banks could be vulnerable to credit and liquidity risks and recapitalization needs could be substantial. Contingent fiscal liabilities could also increase in countries where state-owned banks are prevalent. Countries with large government exposures also face sovereign risks, and their capital buffers are overstated by the zero risk weights for government securities.

- In the GCC, the liquidity implications of low oil prices and the differential impact of slowing growth on Islamic and conventional banks warrant attention. Coordination between the central bank and the government in financing government deficits can help minimize potential liquidity shocks. Issuance of domestic government bonds would provide compensatory investment opportunities for banks in a slowing economy, and balancing the composition of issuance between conventional bonds and Sukuk could help level the playing field for conventional and Islamic banks. Large exposures of banks to real estate suggest the need to develop metrics that can more comprehensively capture risks to real estate and facilitate the implementation of macroprudential policies. Macroprudential tools should also be expanded to enhance the resilience of banks, in particular, to cyclical risks (Arvai, Prasad, and Katayama 2014).
- In non-GCC MENA oil exporters, the priorities include strengthening prudential and corporate governance frameworks and reducing private sector crowding out. There is an urgent need to introduce macroprudential policies and crisis management frameworks, strengthen microprudential regulation and supervision, improve corporate governance, for both banks and SOEs, and close broad-based data gaps.
- In MENA oil importers, a combination of macroeconomic policies and supervisory measures is key to minimize stability risks. In particular, there is a need to address vulnerabilities related to dollarization, exposures to government debt, weak asset quality, and inadequacies in prudential frameworks.

Statistical Appendix

This publication features an abbreviated version of the Statistical Appendix. The full Statistical Appendix is available online at www.imf.org/external/pubs/ft/reo/2015/mcd/eng/pdf/mreost1015.xlsx

The IMF's Middle East and Central Asia Department (MCD) countries and territories comprise Afghanistan, Algeria, Armenia, Azerbaijan, Bahrain, Djibouti, Egypt, Georgia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, the Kyrgyz Republic, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tajikistan, Tunisia, Turkmenistan, the United Arab Emirates, Uzbekistan, the West Bank and Gaza, and Yemen.

The following statistical appendix tables contain data for 31 MCD countries. Data revisions reflect changes in methodology and/or revisions provided by country authorities.

Somalia is excluded from all regional aggregates owing to a lack of reliable data.

2011 data for Sudan exclude South Sudan after July 9; data for 2012 onward pertain to the current Sudan.

All data for Syria are excluded for 2011 onward because of the uncertain political situation.

All data refer to the calendar years, except for the following countries, which refer to the fiscal years: 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) except inflation.

Data on consumer price inflation in Table 1 relate to the calendar year for all aggregates and countries, except for Iran, for which the Iranian calendar year (beginning on March 21) is used.

Tables 1, 3, 4, 6, 7, 8, and 9 include data for West Bank and Gaza.

In Table 1, "oil GDP" includes "gas GDP." In Table 5, "oil" includes gas, which is also an important resource in several countries.

REO aggregates are constructed using a variety of weights as appropriate to the series:

- Composites for data relating to the domestic economy (Table 1, Table 2: Oil and Non-Oil Real GDP Growth, Tables 3–5) and monetary sector (Table 8: Credit to Private Sector) whether growth rates or ratios, are weighted by GDP valued at purchasing power parities (PPPs) as a share of total MCD or group GDP. Country group composites for the growth rates of broad money (Table 8: Broad Money Growth) are weighted by GDP converted to U.S. dollars at market exchange rates (both GDP and exchange rates are averaged over the preceding three years) as a share of MCD or group GDP.
- Composites relating to the external economy (Tables 6 and 7) denominated in U.S. dollars are sums of individual country data after conversion to U.S. dollars at the average market exchange rates in the years indicated for balance of payments data and at end-of-year market exchange rates for debt denominated in U.S. dollars. Composites relating to the external economy (Tables 6 and 7) denominated in percent of GDP/months of imports are sums of individual country data divided by sums of dollar-denominated GDP/sums of imports denominated in U.S. dollars.
- Composites in Table 2 (Crude Oil Production) are sums of the individual country data.

Table 1. Real GDP Growth and Consumer Price Inflation

	Real GDP Growth (Annual change; percent)					Consumer Price Inflation[1] (Year average; percent)				
				Projections					Projections	
	Average 2008–12	2013	2014	2015	2016	Average 2008–12	2013	2014	2015	2016
MENAP	**4.4**	**2.3**	**2.7**	**2.5**	**3.9**	**9.1**	**10.0**	**6.9**	**6.2**	**5.6**
Oil Exporters	**4.6**	**1.9**	**2.6**	**1.8**	**3.8**	**8.4**	**10.4**	**5.8**	**6.0**	**5.1**
Algeria	2.6	2.8	3.8	3.0	3.9	5.6	3.3	2.9	4.2	4.1
Bahrain	3.8	5.3	4.5	3.4	3.2	2.1	3.3	2.7	2.0	2.1
Iran, Islamic Republic of	1.4	–1.9	4.3	0.8	4.4	20.1	34.7	15.5	15.1	11.5
Iraq	7.9	6.6	–2.1	0.0	7.1	2.9	1.9	2.2	1.9	3.0
Kuwait	2.3	0.8	0.1	1.2	2.5	4.7	2.7	2.9	3.3	3.3
Libya	9.9	–13.6	–24.0	–6.1	2.0	7.5	2.6	2.8	8.0	9.2
Oman	5.8	4.7	2.9	4.4	2.8	5.3	1.2	1.0	0.4	2.0
Qatar[2]	13.5	4.6	4.0	4.7	4.9	2.3	3.1	3.0	1.6	2.3
Saudi Arabia	6.1	2.7	3.5	3.4	2.2	4.1	3.5	2.7	2.1	2.3
United Arab Emirates	2.3	4.3	4.6	3.0	3.1	3.2	1.1	2.3	3.7	3.0
Yemen	1.0	4.8	–0.2	–28.1	11.6	12.7	11.0	8.2	30.0	15.0
Oil Importers	**3.8**	**3.1**	**2.9**	**3.9**	**4.1**	**10.5**	**9.1**	**9.4**	**6.6**	**6.6**
Afghanistan, Republic of	10.7	3.9	1.3	2.0	3.0	8.0	7.4	4.7	–1.9	2.8
Djibouti	4.7	5.0	6.0	6.5	7.0	5.3	2.4	2.9	3.0	3.5
Egypt	4.2	2.1	2.2	4.2	4.3	11.7	9.5	10.1	9.5	10.0
Jordan	4.1	2.8	3.1	2.9	3.7	5.4	4.8	2.9	0.2	3.1
Lebanon	6.2	2.5	2.0	2.0	2.5	5.5	4.8	1.9	0.1	1.5
Mauritania	3.0	5.5	6.9	4.1	6.4	5.3	4.1	3.5	3.6	4.2
Morocco	4.4	4.7	2.4	4.9	3.7	1.6	1.9	0.4	1.5	2.0
Pakistan	3.1	3.7	4.0	4.2	4.5	13.0	7.4	8.6	4.5	4.7
Sudan	1.2	3.9	3.6	3.5	4.0	18.4	36.5	36.9	19.8	12.7
Syrian Arab Republic	…	…	…	…	…	…	…	…	…	…
Tunisia	2.4	2.3	2.3	1.0	3.0	4.0	5.8	4.9	5.0	4.0
CCA	**5.9**	**6.6**	**5.3**	**3.7**	**4.0**	**8.8**	**6.0**	**5.8**	**6.8**	**7.4**
Oil and Gas Exporters	**6.2**	**6.8**	**5.4**	**3.8**	**4.1**	**9.0**	**6.3**	**5.9**	**6.8**	**7.6**
Azerbaijan	5.5	5.8	2.8	4.0	2.5	7.4	2.4	1.4	5.0	4.2
Kazakhstan	4.9	6.0	4.3	1.5	2.4	9.0	5.8	6.7	6.3	8.6
Turkmenistan	11.2	10.2	10.3	8.5	8.9	5.4	6.8	6.0	7.0	6.0
Uzbekistan	8.4	8.0	8.1	6.8	7.0	12.2	11.2	8.4	9.7	9.2
Oil and Gas Importers	**3.6**	**5.7**	**4.7**	**2.3**	**3.0**	**7.7**	**3.6**	**4.6**	**6.3**	**6.1**
Armenia	1.4	3.5	3.4	2.5	2.2	6.0	5.8	3.0	4.3	3.4
Georgia	3.7	3.3	4.8	2.0	3.0	5.3	–0.5	3.1	3.7	5.0
Kyrgyz Republic	3.0	10.5	3.6	2.0	3.6	11.7	6.6	7.5	8.3	9.0
Tajikistan	6.6	7.4	6.7	3.0	3.4	10.3	5.0	6.1	10.8	8.2
Memorandum										
MENA	**4.5**	**2.1**	**2.6**	**2.3**	**3.8**	**8.7**	**10.3**	**6.7**	**6.4**	**5.8**
MENA Oil Importers	**3.9**	**2.8**	**2.4**	**3.8**	**4.0**	**9.4**	**10.1**	**10.0**	**7.9**	**7.8**
Arab Countries in Transition (excluding Libya)	**3.9**	**2.8**	**2.1**	**2.4**	**4.4**	**9.1**	**7.7**	**7.5**	**8.2**	**8.0**
GCC	**5.5**	**3.2**	**3.4**	**3.3**	**2.8**	**3.9**	**2.8**	**2.6**	**2.4**	**2.5**
Non-GCC Oil Exporters	**3.7**	**0.5**	**1.7**	**0.1**	**4.9**	**13.2**	**19.0**	**9.5**	**10.3**	**8.2**
Arab World	**5.2**	**3.0**	**2.2**	**2.6**	**3.7**	**5.9**	**4.9**	**4.7**	**4.5**	**4.5**
West Bank and Gaza[3]	8.3	2.2	–0.4	2.9	3.9	4.4	1.7	1.7	1.6	2.6

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

[1]Data on a calendar year basis for all countries except Iran.

[2]Qatar's data since 2010 reflect the recently published national accounts based on 2013 constant prices; data prior to 2010 are from Haver Analytics.

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

Table 2. Oil Exporters: Oil and Non-Oil Real GDP Growth; and Crude Oil and Natural Gas Production

	Average 2008–12	2013	2014	Projections 2015	Projections 2016	Average 2008–12	2013	2014	Projections 2015	Projections 2016
	Oil GDP (Annual percent change)					Non-Oil GDP (Annual percent change)				
MENAP Oil Exporters	**1.1**	**–2.7**	**1.4**	**1.2**	**7.7**	**5.8**	**5.0**	**3.7**	**1.3**	**3.3**
Algeria	–4.0	–5.5	–0.6	–2.8	1.8	7.2	7.6	5.8	5.2	4.3
Bahrain	–1.0	15.3	3.0	–1.0	0.0	5.1	3.0	4.9	4.5	4.0
Iran, Islamic Republic of	–7.9	–8.9	6.1	–0.3	18.0	3.3	–1.1	4.1	1.0	2.8
Iraq	7.4	3.1	4.6	10.8	11.6	8.6	10.2	–8.8	–12.3	0.5
Kuwait	2.7	–0.8	–1.9	0.0	2.2	1.7	3.6	3.5	3.0	3.0
Libya	27.0	–31.6	–53.7	–14.6	14.4	2.2	8.7	–1.0	–3.0	–2.0
Oman	5.0	3.0	–0.5	4.2	1.1	6.7	6.5	6.5	4.5	4.5
Qatar[1]	14.0	0.1	–1.5	0.2	1.4	13.1	10.6	10.6	9.5	8.4
Saudi Arabia	2.7	–1.6	1.5	4.2	1.2	7.5	6.4	5.0	2.9	3.0
United Arab Emirates	1.4	2.9	4.0	2.0	2.1	2.9	5.0	4.8	3.4	3.6
Yemen	2.9	13.2	–11.3	–61.0	85.2	1.0	4.0	1.0	–25.0	8.0
CCA Oil Exporters	**3.1**	**2.6**	**–0.6**	**0.7**	**1.5**	**7.3**	**8.2**	**7.1**	**4.2**	**4.0**
Azerbaijan	2.3	0.5	–2.4	–0.9	0.0	9.1	9.9	6.2	7.1	4.0
Kazakhstan	3.3	3.2	–1.3	–0.4	0.4	5.5	7.0	6.3	2.1	3.0
Turkmenistan	2.1	3.6	6.9	8.6	9.0	13.4	11.1	12.7	8.5	8.8
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**3.4**	**0.1**	**1.3**	**2.9**	**1.4**	**6.3**	**6.2**	**5.5**	**3.8**	**3.8**
Non-GCC Oil Exporters	**–1.4**	**–6.0**	**1.5**	**–0.8**	**15.1**	**5.2**	**3.7**	**1.6**	**–1.7**	**2.7**
	Crude Oil Production (Millions of barrels per day)					Natural Gas Production (Millions of barrels per day equivalent)				
MENAP Oil Exporters	**25.0**	**25.2**	**25.0**	**25.7**	**27.0**	**10.9**	**12.8**	**13.0**	**12.8**	**13.2**
Algeria	1.1	1.0	1.0	1.0	1.0	1.5	1.5	1.5	1.3	1.3
Bahrain	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4
Iran, Islamic Republic of[2]	3.9	2.8	3.1	3.1	3.7	2.5	2.6	2.8	2.8	2.8
Iraq	2.5	3.0	3.1	3.4	3.8	0.0	0.0	0.0	0.0	0.0
Kuwait	2.6	2.9	2.9	2.9	2.9	0.2	0.3	0.3	0.3	0.3
Libya	1.4	1.0	0.5	0.4	0.5	0.1	0.1	0.0	0.0	0.0
Oman	0.8	0.9	0.9	1.0	1.0	0.6	0.7	0.7	0.7	0.7
Qatar	0.8	0.7	0.7	0.7	0.7	2.9	4.0	4.0	4.0	4.1
Saudi Arabia	8.9	9.6	9.7	10.2	10.2	1.6	1.9	2.0	2.0	2.1
United Arab Emirates	2.5	2.8	2.8	2.9	2.9	1.1	1.3	1.3	1.3	1.3
Yemen	0.2	0.2	0.2	0.1	0.1	…	0.2	0.2	0.1	0.1
CCA Oil Exporters	**2.7**	**2.8**	**3.0**	**2.8**	**2.8**	**1.3**	**1.5**	**1.6**	**1.7**	**1.9**
Azerbaijan	0.9	0.9	0.8	0.8	0.8	0.3	0.3	0.3	0.3	0.3
Kazakhstan	1.6	1.7	1.9	1.7	1.7	0.0	0.0	0.0	0.0	0.0
Turkmenistan	0.2	0.2	0.2	0.3	0.3	1.0	1.2	1.3	1.4	1.6
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**15.8**	**17.2**	**17.2**	**17.7**	**18.0**	**6.7**	**8.5**	**8.6**	**8.7**	**8.9**
Non-GCC Oil Exporters	**9.2**	**8.0**	**7.8**	**8.0**	**9.1**	**4.2**	**4.3**	**4.4**	**4.2**	**4.3**

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

[1]Qatar's data since 2010 reflect the recently published national accounts based on 2013 constant prices; data prior to 2010 are from Haver Analytics.

[2]Including condensates.

Table 3. General Government Fiscal Balance and Total Government Gross Debt

	General Government Fiscal Balance, Including Grants (Percent of GDP)					Total Government Gross Debt (Percent of GDP)				
	Average			Projections		Average			Projections	
	2008–12	2013	2014	2015	2016	2008–12	2013	2014	2015	2016
MENAP	**1.7**	**–0.1**	**–3.0**	**–11.0**	**–9.4**	**32.2**	**32.9**	**33.8**	**38.1**	**41.1**
Oil Exporters	**5.5**	**4.2**	**–0.8**	**–12.7**	**–11.1**	**16.3**	**13.4**	**14.6**	**20.5**	**25.0**
Algeria	–1.2	–1.5	–7.9	–13.9	–11.4	10.2	8.3	8.8	10.2	13.6
Bahrain[1]	–2.4	–4.3	–5.7	–14.2	–13.9	26.5	43.5	43.8	66.7	77.8
Iran, Islamic Republic of[1,2]	–0.1	–2.2	–1.1	–2.9	–1.6	11.5	15.4	15.8	16.4	15.3
Iraq[3]	–1.8	–5.8	–5.3	–23.1	–17.7	58.1	31.9	38.9	74.5	87.6
Kuwait[1]	28.2	34.0	26.3	1.2	0.0	9.5	6.4	6.9	9.9	9.8
Libya	8.4	–4.0	–43.5	–79.1	–63.4	3.5	3.3	39.3	50.5	46.5
Oman[1]	7.4	3.2	–1.5	–17.7	–20.0	5.5	5.1	5.1	9.3	12.2
Qatar	11.4	20.7	14.7	4.5	–1.5	30.8	32.3	31.7	29.9	27.8
Saudi Arabia[1]	10.2	5.8	–3.4	–21.6	–19.4	8.7	2.2	1.6	6.7	17.3
United Arab Emirates[4]	7.0	10.4	5.0	–5.5	–4.0	18.7	15.9	15.7	18.9	18.3
Yemen	–5.9	–6.9	–4.1	–8.5	–9.2	44.3	48.2	48.7	67.0	60.6
Oil Importers	**–6.5**	**–9.5**	**–7.9**	**–7.3**	**–5.8**	**65.5**	**75.3**	**75.4**	**75.3**	**75.2**
Afghanistan, Republic of	–1.0	–0.6	–1.7	–0.3	–0.2	11.4	6.7	6.4	6.6	6.8
Djibouti	–1.9	–5.9	–10.5	–11.5	–13.2	51.2	42.3	42.3	53.3	62.1
Egypt	–8.7	–14.1	–13.6	–11.7	–9.4	74.4	89.0	90.5	90.0	89.3
Jordan[1,5]	–6.9	–11.1	–10.3	–3.0	–2.4	68.9	86.7	89.0	90.0	86.6
Lebanon[1]	–8.0	–8.7	–6.0	–10.0	–8.0	142.3	133.4	133.1	132.4	134.3
Mauritania[1,6]	–1.4	–0.9	–3.6	–1.0	–4.7	79.3	76.4	76.6	84.3	85.1
Morocco[1]	–3.8	–5.2	–4.9	–4.3	–3.5	50.3	61.5	63.4	63.9	63.9
Pakistan[7]	–6.7	–8.4	–4.9	–5.3	–4.2	60.4	64.8	64.9	64.7	64.4
Sudan	–1.5	–2.3	–1.1	–1.8	–1.3	75.9	89.9	74.0	71.5	74.0
Syrian Arab Republic	–4.5	…	…	…	…	32.9	…	…	…	…
Tunisia	–2.3	–6.0	–3.7	–5.7	–4.0	43.1	44.3	50.0	54.0	56.3
CCA	**4.5**	**2.8**	**0.9**	**–3.5**	**–1.5**	**12.8**	**15.3**	**16.6**	**20.4**	**21.6**
Oil and Gas Exporters	**5.6**	**3.4**	**1.3**	**–3.5**	**–1.2**	**10.0**	**12.9**	**13.9**	**17.4**	**18.7**
Azerbaijan[1]	12.1	0.8	–0.4	–9.2	–5.5	10.4	13.8	15.9	20.6	22.7
Kazakhstan	2.3	5.0	1.8	–3.2	–0.3	10.1	12.9	14.9	18.3	18.8
Turkmenistan[8]	5.8	1.3	0.8	–0.9	–0.6	7.5	21.1	16.8	18.7	16.6
Uzbekistan	7.0	2.9	1.9	–0.1	0.3	10.3	8.3	8.5	11.6	16.0
Oil and Gas Importers	**–4.3**	**–2.4**	**–2.2**	**–3.6**	**–3.6**	**35.3**	**35.6**	**38.4**	**45.5**	**47.0**
Armenia[1]	–3.8	–1.6	–1.9	–4.0	–3.5	30.9	38.0	41.3	46.1	48.3
Georgia	–5.5	–2.6	–2.9	–3.3	–2.7	29.6	32.2	34.8	45.4	45.8
Kyrgyz Republic	–4.3	–5.1	–3.9	–5.9	–6.7	52.9	46.1	53.0	60.0	62.0
Tajikistan	–3.0	–0.8	0.0	–1.9	–2.6	34.1	29.2	28.3	32.9	34.6
Memorandum										
MENA	**2.7**	**0.8**	**–2.8**	**–11.8**	**–10.1**	**29.1**	**29.3**	**30.3**	**35.1**	**38.5**
MENA Oil Importers	**–6.5**	**–10.4**	**–9.7**	**–8.6**	**–6.9**	**69.6**	**83.4**	**83.5**	**83.4**	**83.4**
Arab Countries in Transition (excluding Libya)	**–7.1**	**–11.2**	**–10.5**	**–9.3**	**–7.5**	**65.3**	**77.7**	**79.6**	**81.3**	**80.6**
GCC	**11.0**	**10.6**	**2.9**	**–13.2**	**–12.6**	**13.1**	**9.3**	**9.0**	**13.2**	**18.9**
Non-GCC Oil Exporters	**–0.1**	**–3.1**	**–5.1**	**–12.1**	**–9.3**	**19.7**	**18.1**	**21.1**	**29.3**	**32.1**
Arab World	**3.4**	**1.5**	**–3.2**	**–13.7**	**–12.0**	**33.5**	**32.4**	**33.6**	**39.3**	**43.7**
West Bank and Gaza[3,9]	–19.8	–12.6	–12.4	–12.2	–13.8	22.6	19.0	19.7	20.6	21.0

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

[1]Central government.

[2]Includes National Development Fund but excludes Targeted Subsidy Organization.

[3]Excluding grants.

[4]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah. Total goverment gross debt includes banking system claims. Excludes debt raised by federal and Emirati governments in the international markets.

[5]Central government. Includes transfers to electric company (4.3 percent and 2.7 percent of GDP in 2013 and 2014, respectively).

[6]Includes oil revenue transferred to the oil fund. Total government gross debt also includes oil revenues transferred to public enterprises and central bank debts.

[7]Debt figures include IMF obligations.

[8]State government.

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

Table 4. General Government Total Revenue Excluding Grants, and Total Expenditure and Net Lending

	General Government Total Revenue, Excluding Grants (Percent of GDP)					General Government Total Expenditure and Net Lending (Percent of GDP)				
	Average 2008–12	2013	2014	Projections 2015	2016	Average 2008–12	2013	2014	Projections 2015	2016
MENAP	**32.0**	**31.2**	**29.1**	**25.2**	**25.2**	**30.6**	**29.9**	**31.4**	**32.8**	**36.7**
Oil Exporters	**37.6**	**36.9**	**33.8**	**28.1**	**27.5**	**32.2**	**32.5**	**34.7**	**41.1**	**38.8**
Algeria[1]	40.0	35.8	33.2	29.6	28.9	41.2	37.3	41.2	43.6	40.2
Bahrain[2]	24.2	24.0	24.1	16.4	16.0	27.8	30.4	33.6	44.2	43.5
Iran, Islamic Republic of[2,3]	19.9	14.1	14.6	13.9	15.1	19.1	15.0	15.7	16.8	16.7
Iraq	45.4	42.6	40.1	36.6	39.0	50.4	48.4	45.4	59.7	56.7
Kuwait[2]	69.0	71.8	68.7	55.6	52.3	40.8	37.8	42.4	54.4	52.3
Libya	59.5	65.7	40.9	21.3	23.2	51.1	69.8	84.4	100.4	86.6
Oman[2]	45.0	49.1	47.2	39.5	38.0	39.7	47.2	50.2	60.0	61.4
Qatar	40.4	52.2	47.4	40.2	34.0	29.1	31.6	32.7	35.7	35.6
Saudi Arabia[2]	43.1	41.4	37.3	28.9	27.3	32.9	35.6	40.8	50.4	46.7
United Arab Emirates[4]	37.1	41.0	37.7	31.3	29.9	30.1	30.6	32.8	36.8	33.9
Yemen	26.8	23.0	21.0	10.0	12.9	34.5	30.8	27.8	19.8	23.0
Oil Importers	**20.3**	**18.9**	**18.8**	**18.9**	**20.4**	**27.4**	**28.9**	**28.8**	**27.3**	**27.0**
Afghanistan, Republic of	9.5	9.8	8.5	9.8	10.3	22.0	25.0	25.6	29.5	30.1
Djibouti	28.6	27.4	28.8	27.9	25.8	38.4	37.7	46.0	48.5	47.7
Egypt	24.6	22.7	21.2	22.9	25.4	33.7	37.1	38.6	35.4	34.9
Jordan[2]	22.9	21.5	23.0	23.2	23.5	33.2	29.6	30.9	29.1	30.2
Lebanon[2]	22.8	19.8	21.7	19.1	20.1	31.1	28.5	27.7	29.0	28.2
Mauritania[2,5]	22.4	26.9	27.5	28.3	25.9	24.8	28.6	31.3	31.1	31.4
Morocco[2,6]	28.2	27.1	26.5	24.3	25.5	32.2	32.9	33.0	30.0	30.0
Pakistan	13.5	13.3	14.5	14.4	15.3	20.4	21.8	20.2	19.8	19.6
Sudan	17.1	10.2	10.9	9.4	9.7	18.9	13.1	12.7	11.6	11.6
Syrian Arab Republic	21.6	…	…	…	…	26.1	…	…	…	…
Tunisia	23.6	23.6	24.0	22.4	23.1	26.3	29.8	28.1	28.4	27.4
CCA	**31.1**	**29.2**	**28.4**	**24.3**	**25.5**	**27.0**	**26.5**	**27.8**	**27.8**	**26.9**
Oil and Gas Exporters	**31.9**	**29.5**	**28.6**	**24.1**	**25.4**	**26.5**	**26.1**	**27.4**	**27.4**	**26.4**
Azerbaijan[2,7]	44.6	39.4	38.8	26.8	27.9	33.4	38.0	39.2	34.7	31.9
Kazakhstan	25.8	25.3	24.3	20.4	23.0	23.5	20.3	22.6	23.6	23.2
Turkmenistan[6]	19.3	17.4	16.3	13.8	13.3	13.5	16.1	15.4	14.8	13.8
Uzbekistan	38.9	35.9	35.2	34.9	34.8	32.2	33.4	33.6	35.4	34.9
Oil and Gas Importers	**24.7**	**26.1**	**26.7**	**26.0**	**25.8**	**31.2**	**29.9**	**30.7**	**31.5**	**31.3**
Armenia[2,7]	20.3	22.0	21.7	20.9	21.1	26.2	25.1	25.1	26.8	26.3
Georgia	27.1	26.8	27.0	27.1	27.1	34.6	30.1	30.9	31.3	30.5
Kyrgyz Republic	29.4	32.0	32.3	32.3	31.4	37.0	38.0	39.8	41.7	41.4
Tajikistan	21.5	24.6	26.9	24.3	24.2	26.7	27.7	28.4	28.2	29.2
Memorandum										
MENA	**34.3**	**33.5**	**31.0**	**26.6**	**26.5**	**31.9**	**32.6**	**34.4**	**38.8**	**37.0**
MENA Oil Importers	**23.9**	**22.1**	**21.4**	**21.7**	**23.4**	**30.9**	**32.8**	**33.5**	**31.2**	**30.8**
Arab Countries in Transition (excluding Libya)	**25.2**	**23.5**	**22.4**	**22.5**	**24.5**	**32.9**	**34.9**	**35.6**	**32.8**	**32.5**
GCC	**43.9**	**45.4**	**41.6**	**33.3**	**31.2**	**33.0**	**34.9**	**38.8**	**46.9**	**44.2**
Non-GCC Oil Exporters	**31.1**	**27.3**	**24.8**	**22.0**	**23.1**	**31.3**	**29.8**	**30.0**	**34.2**	**32.5**
Arab World	**37.9**	**37.9**	**34.7**	**29.5**	**29.1**	**35.0**	**36.5**	**38.7**	**43.7**	**41.5**
West Bank and Gaza[7,8]	21.0	18.6	21.5	21.7	22.0	40.7	31.2	34.0	34.0	35.8

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

[1]Including special accounts.

[2]Central government.

[3]Includes National Development Fund but excludes Targeted Subsidy Organization.

[4]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.

[5]Includes oil revenue transferred to the oil fund.

[6]State government.

[7]Expenditures do not include statistical discrepancy.

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

Table 5. Oil Exporters: Non-Oil Fiscal Balance and Revenue; and Fiscal and External Breakeven Oil Prices

	Average 2008–12	2013	2014	Projections 2015	Projections 2016	Average 2008–12	2013	2014	Projections 2015	Projections 2016
	Non-Oil Fiscal Balance (Percent of non-oil GDP)					Non-Oil Revenue (Percent of non-oil GDP)				
MENAP Oil Exporters	**–45.8**	**–45.5**	**–43.9**	**–42.9**	**–38.7**	**12.7**	**13.0**	**12.8**	**12.8**	**12.5**
Algeria	–45.8	–33.6	–37.9	–34.1	–29.8	19.2	19.5	18.6	18.7	18.6
Bahrain[1]	–30.7	–34.5	–35.3	–31.9	–30.8	3.9	3.8	4.0	3.7	3.6
Iran, Islamic Republic of[1,2]	–14.9	–10.5	–8.0	–7.5	–7.3	10.3	9.2	10.5	11.2	11.7
Iraq	–78.2	–69.4	–60.5	–66.8	–62.7	6.5	6.6	4.2	7.8	8.0
Kuwait[1]	–76.9	–73.6	–76.9	–68.8	–65.4	30.0	36.2	37.5	32.0	28.2
Libya	–136.0	–176.2	–133.0	–117.1	–100.8	16.5	9.5	4.4	3.0	3.4
Oman[1]	–60.5	–82.9	–85.4	–73.0	–69.7	13.9	13.3	13.0	13.4	13.8
Qatar	–47.1	–46.5	–45.1	–42.2	–37.3	15.9	21.9	18.1	14.5	14.1
Saudi Arabia[1]	–55.9	–59.0	–62.9	–64.0	–56.7	8.5	8.2	8.2	8.2	8.1
United Arab Emirates[3]	–28.9	–28.4	–28.9	–26.3	–23.5	17.2	20.3	20.9	20.4	19.1
Yemen[4]	–31.6	–24.9	–19.0	–12.2	–15.3	11.7	12.8	12.2	7.8	9.4
CCA Oil Exporters	**–20.7**	**–18.9**	**–20.3**	**–18.8**	**–16.7**	**20.0**	**17.2**	**18.3**	**15.7**	**16.4**
Azerbaijan[1]	–39.7	–45.6	–41.4	–36.2	–31.4	23.5	19.8	21.8	19.8	19.7
Kazakhstan	–14.6	–9.4	–13.8	–13.6	–12.5	19.4	16.7	17.9	14.9	16.1
Turkmenistan[5]	–8.7	–12.1	–10.8	–10.3	–8.6	14.4	14.3	13.2	11.6	11.4
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**–51.4**	**–53.8**	**–56.1**	**–54.4**	**–48.9**	**13.3**	**14.9**	**14.6**	**13.7**	**13.0**
Non-GCC Oil Exporters	**–40.0**	**–36.2**	**–29.8**	**–29.0**	**–26.9**	**12.0**	**10.9**	**10.7**	**11.7**	**12.1**
	Fiscal Breakeven Oil Prices[6] (U.S. dollars per barrel)					External Breakeven Oil Prices[7] (U.S. dollars per barrel)				
MENAP Oil Exporters										
Algeria	95.1	108.1	133.8	96.1	93.0	61.8	87.5	94.8	90.4	90.0
Bahrain	99.0	125.3	122.5	107.0	105.0	62.8	64.9	80.9	72.5	77.3
Iran, Islamic Republic of	84.3	115.8	94.2	87.2	70.4	60.6	54.2	55.4	42.7	47.5
Iraq	99.5	114.6	112.5	81.0	75.9	74.1	95.1	104.8	65.0	65.4
Kuwait	41.4	43.6	56.0	49.1	51.8	29.6	35.1	44.2	41.1	42.6
Libya	80.6	110.8	206.0	269.0	207.6	57.3	83.2	185.2	246.1	185.6
Oman	69.4	98.3	108.2	94.7	97.5	…	90.2	95.4	84.5	89.8
Qatar	58.5	60.0	56.3	55.5	57.8	…	51.5	50.2	46.1	58.6
Saudi Arabia	67.4	89.0	105.7	105.6	95.8	53.0	59.4	70.9	63.8	64.7
United Arab Emirates	67.4	69.4	78.4	72.6	67.5	…	49.3	50.5	44.8	43.6
Yemen[4]	…	214.8	160.0	314.0	304.0	…	168.0	120.0	…	…
CCA Oil Exporters										
Azerbaijan	47.8	82.4	92.0	69.7	60.6	…	74.2	69.1	55.9	56.4
Kazakhstan	70.5	63.2	65.5	88.1	82.7	77.8	108.3	105.7	84.5	86.7
Turkmenistan	…	41.9	47.9	45.5	42.7	…	63.4	60.4	46.8	42.6
Uzbekistan	…	…	…	…	…	…	…	…	…	…

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

[1]Central government.

[2]Includes National Development Fund but excludes Targeted Subsidy Organization.

[3]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.

[4]Yemen is a net oil importer in 2015 and 2016.

[5]State government.

[6]The oil price at which the fiscal balance is zero.

[7]The oil price at which the current account balance is zero.

Table 6. Current Account Balance

	(In billions of U.S. dollars)					(In percent of GDP)				
	Average 2008–12	2013	2014	Projections 2015	2016	Average 2008–12	2013	2014	Projections 2015	2016
MENAP	**276.6**	**344.0**	**192.5**	**–101.8**	**–121.6**	**9.1**	**10.2**	**5.6**	**–3.6**	**–4.3**
Oil Exporters	**309.0**	**387.4**	**229.6**	**–73.7**	**–97.0**	**13.6**	**15.2**	**8.9**	**–3.4**	**–4.3**
Algeria	15.8	0.8	–9.6	–31.0	–29.4	8.8	0.4	–4.5	–17.7	–16.2
Bahrain	1.8	2.6	1.1	–1.5	–1.9	6.5	7.8	3.3	–4.8	–5.9
Iran, Islamic Republic of	28.5	26.5	15.9	1.6	5.5	5.7	7.0	3.8	0.4	1.3
Iraq	10.8	3.0	–6.2	–20.9	–19.4	6.1	1.3	–2.8	–12.7	–11.0
Kuwait	53.9	72.5	53.5	11.4	8.9	37.5	41.2	31.0	9.3	7.0
Libya	17.6	8.9	–12.4	–18.5	–15.9	23.0	13.6	–30.1	–62.2	–49.1
Oman	5.3	5.1	1.5	–10.2	–14.7	8.0	6.6	2.0	–16.9	–24.3
Qatar	34.2	62.4	54.8	9.7	–8.6	22.4	30.9	26.1	5.0	–4.5
Saudi Arabia	108.7	135.4	76.9	–22.4	–30.3	17.8	18.2	10.3	–3.5	–4.7
United Arab Emirates	33.6	71.4	54.6	9.8	11.0	9.7	18.4	13.7	2.9	3.1
Yemen	–1.3	–1.2	–0.7	–1.8	–2.3	–4.6	–3.1	–1.7	–5.3	–5.4
Oil Importers	**–32.3**	**–43.4**	**–37.1**	**–28.1**	**–24.6**	**–4.5**	**–5.2**	**–4.2**	**–4.2**	**–4.2**
Afghanistan, Republic of	0.0	0.0	0.0	0.0	0.0	7.1	7.4	6.1	4.7	2.4
Djibouti	–0.2	–0.3	–0.4	–0.5	–0.5	–13.4	–23.3	–25.6	–31.4	–26.8
Egypt	–4.8	–6.4	–2.4	…	…	–2.0	–2.4	–0.8	–3.7	–4.5
Jordan	–2.6	–3.5	–2.4	–2.8	–2.6	–9.4	–10.3	–6.8	–7.4	–6.5
Lebanon	–6.5	–12.7	–12.4	–11.4	–11.0	–16.8	–26.7	–24.9	–21.0	–19.3
Mauritania	–0.6	–1.3	–1.5	–0.9	–1.2	–13.3	–24.4	–28.9	–18.3	–25.6
Morocco	–6.6	–8.5	–6.0	–2.4	–1.8	–6.8	–7.9	–5.5	–2.3	–1.6
Pakistan	–6.3	–2.5	–3.1	–2.3	…	–3.6	–1.1	–1.3	–0.8	–0.5
Sudan	–2.7	–5.9	–5.7	–4.9	–4.8	–4.6	–8.9	–7.7	–5.8	–5.6
Syrian Arab Republic	–1.3	…	…	…	…	–2.4	…	…	…	…
Tunisia	–2.4	–3.9	–4.3	–3.8	–3.1	–5.4	–8.3	–8.8	–8.5	–7.0
CCA	**15.4**	**8.5**	**8.8**	**–13.8**	**–15.1**	**4.8**	**1.9**	**2.0**	**–3.4**	**–3.8**
Oil and Gas Exporters	**19.3**	**11.6**	**13.4**	**–9.9**	**–11.3**	**6.9**	**2.9**	**3.3**	**–2.7**	**–3.2**
Azerbaijan	14.7	12.0	10.4	1.9	1.7	27.0	16.4	14.1	3.0	2.7
Kazakhstan	3.0	0.9	4.6	–5.9	–7.1	1.6	0.4	2.1	–3.0	–4.1
Turkmenistan	–0.2	–3.0	–2.8	–6.0	–6.2	–1.4	–7.3	–5.8	–13.6	–12.1
Uzbekistan	1.8	1.6	1.1	0.1	0.2	4.9	2.9	1.7	0.2	0.3
Oil and Gas Importers	**–3.9**	**–3.1**	**–4.6**	**–4.0**	**–3.7**	**–11.3**	**–7.2**	**–10.2**	**–10.0**	**–9.2**
Armenia	–1.3	–0.8	–0.8	–0.6	–0.7	–13.3	–7.6	–7.3	–5.9	–6.4
Georgia	–1.8	–0.9	–1.6	–1.5	–1.4	–13.4	–5.7	–9.7	–10.7	–9.6
Kyrgyz Republic	–0.6	–1.1	–1.2	–1.3	–1.2	–9.8	–15.0	–16.8	–17.7	–15.7
Tajikistan	–0.3	–0.2	–0.9	–0.6	–0.5	–4.4	–2.9	–9.2	–7.5	–6.1
Memorandum										
MENA	**281.9**	**345.0**	**194.4**	**–100.4**	**–122.1**	**10.0**	**11.0**	**6.1**	**–4.0**	**–4.7**
MENA Oil Importers	**–27.1**	**–42.5**	**–35.2**	**–26.7**	**–25.1**	**–5.2**	**–7.3**	**–5.7**	**–5.9**	**–5.9**
Arab Countries in Transition (excluding Libya)	**–17.7**	**–23.5**	**–15.8**	**–10.8**	**–9.8**	**–4.2**	**–4.7**	**–3.0**	**–4.2**	**–4.3**
GCC	**237.5**	**349.4**	**242.6**	**–3.1**	**–35.6**	**17.7**	**21.6**	**14.8**	**–0.2**	**–2.5**
Non-GCC Oil Exporters	**71.5**	**38.0**	**–13.0**	**–70.6**	**–61.4**	**7.7**	**4.1**	**–1.4**	**–8.8**	**–7.2**
Arab World	**253.4**	**318.4**	**178.4**	**–102.0**	**–127.6**	**10.9**	**11.6**	**6.4**	**–4.7**	**–5.6**
West Bank and Gaza[1]	–1.2	–1.5	–1.4	–1.4	–1.6	–12.2	–12.3	–10.9	–11.1	–12.0

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

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

Table 7. Gross Official Reserves and Total Gross External Debt

	Gross Official Reserves (Months of imports)					Total Gross External Debt (Percent of GDP)[1]				
				Projections					Projections	
	Average 2008–12	2013	2014	2015	2016	Average 2008–12	2013	2014	2015	2016
MENAP	**12.6**	**13.8**	**14.3**	**12.4**	**10.6**	**27.7**	**26.6**	**27.8**	**32.1**	**32.6**
Oil Exporters	**14.8**	**16.3**	**16.7**	**14.1**	**11.8**	**24.9**	**23.0**	**24.5**	**30.1**	**30.6**
Algeria	34.8	32.6	32.7	24.7	19.0	3.0	1.6	1.7	2.0	1.8
Bahrain	3.7	4.1	5.9	4.5	3.1	132.7	133.5	140.4	165.4	170.1
Iran, Islamic Republic of	11.8	18.2	17.8	17.5	16.9	4.0	1.7	1.4	2.5	2.8
Iraq	10.3	10.4	10.5	7.8	7.0	51.5	25.5	28.8	42.3	47.4
Kuwait	6.1	6.9	7.3	6.7	6.8	30.1	17.9	19.3	28.6	28.9
Libya	47.8	50.7	43.3	30.8	…	9.1	8.5	13.5	18.8	20.6
Oman	5.4	4.5	5.0	4.6	4.4	14.0	11.1	10.7	14.4	15.6
Qatar	6.2	7.9	7.8	7.1	6.1	76.1	80.9	79.9	86.1	87.2
Saudi Arabia[2]	30.3	33.8	36.8	32.4	27.0	16.0	11.6	12.3	14.9	15.0
United Arab Emirates	1.7	2.6	3.0	2.8	3.0	44.5	44.4	49.1	61.2	60.0
Yemen	6.1	4.8	5.9	2.7	1.3	20.3	15.2	14.3	17.1	15.6
Oil Importers	**5.8**	**4.5**	**5.3**	**5.8**	**5.9**	**36.6**	**37.7**	**37.8**	**36.6**	**37.3**
Afghanistan, Republic of	5.5	7.6	8.2	7.9	7.3	11.4	6.7	6.4	6.6	6.8
Djibouti	2.1	4.8	4.3	3.8	4.4	55.2	48.4	53.7	67.2	78.4
Egypt	5.6	2.5	2.7	3.2	3.1	16.2	15.9	16.1	14.9	16.4
Jordan[3]	6.6	6.7	8.6	8.7	8.4	60.0	65.1	65.5	66.2	64.7
Lebanon[4]	10.8	12.2	14.5	14.2	14.9	167.4	163.8	165.1	162.4	165.5
Mauritania	1.5	3.4	2.9	4.2	2.4	79.6	85.2	89.6	90.0	93.0
Morocco	6.2	4.7	6.0	6.3	6.8	24.7	30.1	30.4	32.3	32.1
Pakistan	3.1	1.5	2.2	3.3	4.0	30.5	26.3	26.5	24.0	23.9
Sudan	1.7	1.8	1.8	2.0	2.1	63.2	67.6	63.0	57.8	59.2
Syrian Arab Republic	11.2	…	…	…	…	15.5	…	…	…	…
Tunisia	4.4	3.4	3.9	4.2	4.5	49.1	54.1	56.2	64.4	67.5
CCA	**7.3**	**6.8**	**8.4**	**7.7**	**7.7**	**49.7**	**45.4**	**47.6**	**55.7**	**62.1**
Oil and Gas Exporters	**8.3**	**7.9**	**9.8**	**8.9**	**8.9**	**48.5**	**43.2**	**45.9**	**53.8**	**60.7**
Azerbaijan[3,5]	6.7	8.4	10.1	7.1	7.3	7.6	11.7	14.5	18.9	21.3
Kazakhstan	6.0	5.3	7.1	7.0	6.7	78.5	64.7	72.7	86.0	104.0
Turkmenistan[3]	…	…	…	…	…	7.5	21.1	16.8	18.7	16.6
Uzbekistan[3]	12.6	15.8	16.9	15.9	16.1	13.8	12.7	13.0	15.9	20.8
Oil and Gas Importers	**3.5**	**3.4**	**3.4**	**3.3**	**3.4**	**60.8**	**65.5**	**62.8**	**74.3**	**75.2**
Armenia	4.5	4.9	3.9	4.4	4.4	58.8	78.3	71.3	80.6	81.6
Georgia	3.7	3.4	3.8	3.6	3.7	60.2	65.4	63.1	76.8	74.0
Kyrgyz Republic[3]	4.1	4.1	4.1	3.5	3.6	80.9	71.9	76.3	88.5	90.4
Tajikistan	1.1	1.0	1.4	1.2	1.3	48.6	43.2	41.0	48.9	54.0
Memorandum										
MENA	**13.1**	**14.3**	**14.8**	**12.8**	**10.9**	**27.6**	**26.8**	**28.1**	**33.0**	**33.6**
MENA Oil Importers	**6.3**	**5.1**	**5.9**	**6.2**	**6.3**	**39.6**	**43.3**	**43.4**	**42.8**	**43.8**
Arab Countries in Transition (excluding Libya)	**5.7**	**3.9**	**4.6**	**4.8**	**4.8**	**24.8**	**25.8**	**26.1**	**26.2**	**26.8**
GCC	**12.5**	**14.3**	**15.1**	**13.2**	**11.2**	**33.9**	**31.2**	**33.2**	**40.8**	**41.0**
Non-GCC Oil Exporters	**19.9**	**21.8**	**21.5**	**16.9**	**13.8**	**12.5**	**8.7**	**9.1**	**11.8**	**13.2**
Arab World	**13.2**	**14.1**	**14.6**	**12.4**	**10.4**	**32.8**	**30.2**	**32.1**	**38.0**	**38.7**
West Bank and Gaza[6]	1.8	1.1	1.0	…	…	12.6	8.9	8.5	8.4	8.2

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

[1]Nominal GDP is converted to U.S. dollars using period average exchange rate.

[2]Saudi Arabia Monetary Agency gross foreign assets.

[3]Excludes deposits of nonresidents held in the banking system.

[4]Excludes gold and encumbered assets.

[5]Public and publicly guaranteed debt, because private debt data are not reliable.

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

Table 8. Broad Money Growth and Depository Corporations (Banking System) Credit to Private Sector

	Broad Money Growth (Annual change; percent)					Credit to Private Sector (Annual change; percent)				
				Projections					Projections	
	Average 2008–12	2013	2014	2015	2016	Average 2008–12	2013	2014	2015	2016
MENAP	**14.5**	**18.6**	**11.6**	**10.0**	**9.7**	**13.7**	**14.4**	**10.9**	**8.9**	**9.7**
Oil Exporters	**15.2**	**20.2**	**11.3**	**9.1**	**9.5**	**14.9**	**16.7**	**11.7**	**8.9**	**9.5**
Algeria	13.0	8.4	14.5	–1.6	7.9	13.4	20.9	14.7	10.2	11.8
Bahrain	8.4	8.2	6.5	2.9	4.8	14.1	6.6	–5.9	5.7	5.7
Iran, Islamic Republic of	22.2	42.9	18.8	18.0	15.6	17.6	32.5	15.0	18.6	16.8
Iraq	23.6	15.9	3.6	16.1	10.9	41.9	15.5	4.5	–2.0	3.0
Kuwait	9.5	9.7	2.8	4.4	4.4	6.0	7.3	5.0	4.7	4.7
Libya	20.6	6.9	11.5	3.5	3.5	17.1	20.7	7.1	–2.3	–4.0
Oman	12.4	8.5	12.0	8.2	8.5	16.7	6.8	10.9	7.2	6.5
Qatar	19.9	19.6	10.6	9.9	8.8	19.2	13.5	20.3	17.5	13.6
Saudi Arabia	12.1	10.9	11.9	8.3	8.0	12.0	12.5	11.8	8.4	7.9
United Arab Emirates	8.9	22.5	8.0	5.5	9.3	8.9	3.5	11.5	5.9	7.8
Yemen	11.0	12.5	0.2	5.9	16.2	0.7	38.9	2.6	–7.9	22.8
Oil Importers	**12.5**	**13.4**	**12.5**	**12.6**	**10.3**	**10.3**	**7.1**	**8.4**	**8.9**	**10.5**
Afghanistan, Republic of	24.3	9.4	8.3	4.0	5.8	12.6	10.1	–6.6	3.3	5.8
Djibouti	12.2	6.9	6.5	9.7	10.7	16.0	15.6	8.6	12.0	14.0
Egypt	10.5	18.4	17.1	16.4	9.5	6.7	9.8	7.4	12.8	13.6
Jordan	10.0	9.7	6.9	8.2	8.8	7.8	8.0	3.7	6.0	10.2
Lebanon[1]	13.2	9.0	6.0	8.0	8.0	16.3	9.6	9.3	8.7	4.8
Mauritania	14.4	13.6	8.6	4.0	7.5	14.4	11.1	11.2	8.6	8.1
Morocco	7.1	3.1	6.2	5.8	6.0	11.4	3.8	2.5	4.2	4.6
Pakistan	13.5	15.9	12.5	13.2	12.4	6.5	–0.6	11.0	5.6	9.8
Sudan	24.7	13.0	17.0	18.0	17.3	18.9	23.2	17.6	17.1	16.0
Syrian Arab Republic	11.5	...	...	...	...	26.8	...	...	...	...
Tunisia[1,2]	11.4	6.6	7.8	6.9	7.6	13.1	6.8	9.4	6.5	7.5
CCA	**23.2**	**15.5**	**11.3**	**7.1**	**13.4**	**20.2**	**23.0**	**11.3**	**12.4**	**13.3**
Oil and Gas Exporters	**24.2**	**14.9**	**11.5**	**6.5**	**13.5**	**20.5**	**22.7**	**9.6**	**12.2**	**13.7**
Azerbaijan	23.4	15.4	11.4	10.9	20.0	23.7	27.6	19.5	27.0	17.7
Kazakhstan	18.2	10.2	10.5	1.9	10.4	8.1	12.8	0.4	0.8	5.0
Turkmenistan	37.8	31.2	11.4	8.4	7.2	62.4	53.3	20.9	30.0	30.0
Uzbekistan	38.7	22.5	15.8	17.2	21.7	35.6	35.9	25.3	24.0	27.6
Oil and Gas Importers	**16.1**	**20.8**	**9.4**	**12.2**	**11.6**	**18.6**	**26.3**	**27.5**	**14.5**	**9.8**
Armenia	14.5	15.2	8.9	6.5	7.1	30.4	12.2	20.5	–2.0	4.0
Georgia	14.2	24.4	13.8	14.5	11.7	14.4	19.5	23.3	22.7	8.4
Kyrgyz Republic	18.1	22.8	3.0	11.2	14.1	15.4	36.1	43.6	17.6	15.3
Tajikistan	21.9	19.7	7.0	16.2	15.2	6.8	53.6	31.5	18.0	15.1
Memorandum										
MENA	**14.5**	**18.9**	**11.6**	**9.8**	**9.5**	**14.3**	**15.5**	**11.0**	**9.2**	**9.7**
MENA Oil Importers	**11.8**	**12.6**	**12.7**	**12.6**	**9.5**	**11.8**	**10.0**	**7.9**	**10.5**	**10.9**
Arab Countries in Transition (excluding Libya)	**9.8**	**12.8**	**11.8**	**11.9**	**9.1**	**8.4**	**10.2**	**5.9**	**8.3**	**11.7**
GCC	**11.7**	**14.4**	**9.7**	**7.3**	**8.0**	**11.5**	**9.5**	**11.6**	**8.4**	**8.2**
Non-GCC Oil Exporters	**20.0**	**28.2**	**13.7**	**12.0**	**12.2**	**19.7**	**26.7**	**11.8**	**9.8**	**11.7**
Arab World	**12.9**	**13.4**	**10.1**	**8.4**	**8.6**	**13.6**	**11.7**	**10.3**	**7.6**	**8.7**
West Bank and Gaza[3]	7.3	3.0	20.1	...	...	17.1	3.0	29.9	12.0	18.9

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

[1] Broad money is defined to include nonresident deposits (M5).

[2] Credit to private sector includes credit to public enterprises.

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

Table 9. Financial Sector Indicators

	Capital Adequacy Ratios (Percent of risk-weighted assets)			Return on Assets (Pretax, percent)			Nonperforming Loans (90-day basis, percent of total loans)		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
MENAP									
Oil Exporters									
Algeria	23.6	21.5	16.0	1.9	1.9	2.0	11.7	10.6	9.2
Bahrain[1]	19.3	18.5	18.3	1.2	1.1	1.4	5.8	5.6	4.6
Iran, Islamic Republic of[2]	…	…	…	…	…	…	17.6	15.4	…
Iraq	…	…	…	…	…	…	…	…	…
Kuwait	18.5	18.9	16.9	1.2	1.0	1.1	5.2	3.6	2.9
Libya	15.7	…	…	0.7	0.6	…	21.0	21.0	…
Oman	16.0	16.2	…	1.8	1.8	…	2.1	2.0	…
Qatar	18.9	16.0	16.3	2.4	2.1	2.1	1.7	1.9	1.7
Saudi Arabia	18.2	17.9	…	2.1	2.0	…	1.7	1.3	…
United Arab Emirates[3]	21.2	19.3	…	2.0	1.5	…	8.4	8.2	…
Yemen[4]	29.6	26.4	…	1.2	1.5	…	25.5	21.7	…
Oil Importers									
Afghanistan, Republic of	…	…	…	…	…	…	…	…	…
Djibouti	11.7	9.6	10.7	1.3	1.2	0.7	11.4	14.5	18.0
Egypt[5,6]	15.9	13.0	13.1	0.8	1.0	1.0	10.0	9.1	8.6
Jordan	19.0	18.4	18.4	1.1	1.2	1.4	7.7	7.0	5.6
Lebanon[5,7]	11.2	…	14.9	1.0	1.0	1.1	3.8	4.0	4.0
Mauritania[8]	29.2	32.4	28.1	1.4	2.0	1.9	25.7	20.4	
Morocco	12.3	13.3	13.8	1.0	1.0	1.0	5.0	5.8	6.8
Pakistan	15.4	15.1	17.1	2.1	1.7	2.2	14.5	13.0	12.3
Sudan	12.0	16.6	…	4.4	3.7	…	11.8	8.4	7.1
Syrian Arab Republic	…	…	…	…	…	…	…	…	…
Tunisia	11.8	8.9	9.7	0.6	0.7	…	14.9	15.2	15.8
CCA									
Armenia	16.8	16.7	14.5	1.1	1.4	0.7	3.6	4.5	6.8
Azerbaijan	16.8	18.1	19.2	0.7	1.5	1.7	5.7	4.5	4.4
Georgia[9]	25.3	25.2	…	1.0	2.6	…	3.7	3.1	…
Kazakhstan	18.1	18.8	16.8	–1.5	…	…	28.2	31.3	23.5
Kyrgyz Republic	28.3	25.0	21.8	3.0	2.8	2.6	7.2	5.5	4.5
Tajikistan[10]	23.3	20.2	12.0	0.2	0.7	–4.4	9.5	16.0	25.1
Turkmenistan	45.3	13.7	15.7	2.6	3.1	3.2	0.0	0.0	0.0
Uzbekistan	24.3	24.3	23.8	1.9	2.0	2.0	0.5	0.4	0.4
Memorandum									
West Bank and Gaza[11]	22.7	20.7	18.0	1.8	1.9	1.7	3.1	2.9	2.5

Sources: National authorities; and IMF staff estimates.

[1] Conventional retail banks only; excludes Islamic wholesale and retail banks along with conventional wholesale banks.

[2] December data refer to March data of the following year.

[3] National banks only.

[4] Data refer to all banks except the Housing Bank and CAC Bank.

[5] After tax.

[6] Provisioning to nonperforming loans surpassed 100 percent as of December 2009 and data refer to end of fiscal year.

[7] CAR according to Basel II in 2010 and Basel III from 2011 onwards.

[8] Provisioning to nonperforming loans stood at 89 percent in June 2011.

[9] Cumulative and annualized.

[10] CAR: Tier 1 capital as percent of risk-weighted assets. ROA: the quick turnaround in profitability in H1 2013 reflects sizeable underprovisioning for nonperforming assets in some large banks. Nonperforming loans: loans overdue by 30 days or more.

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

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