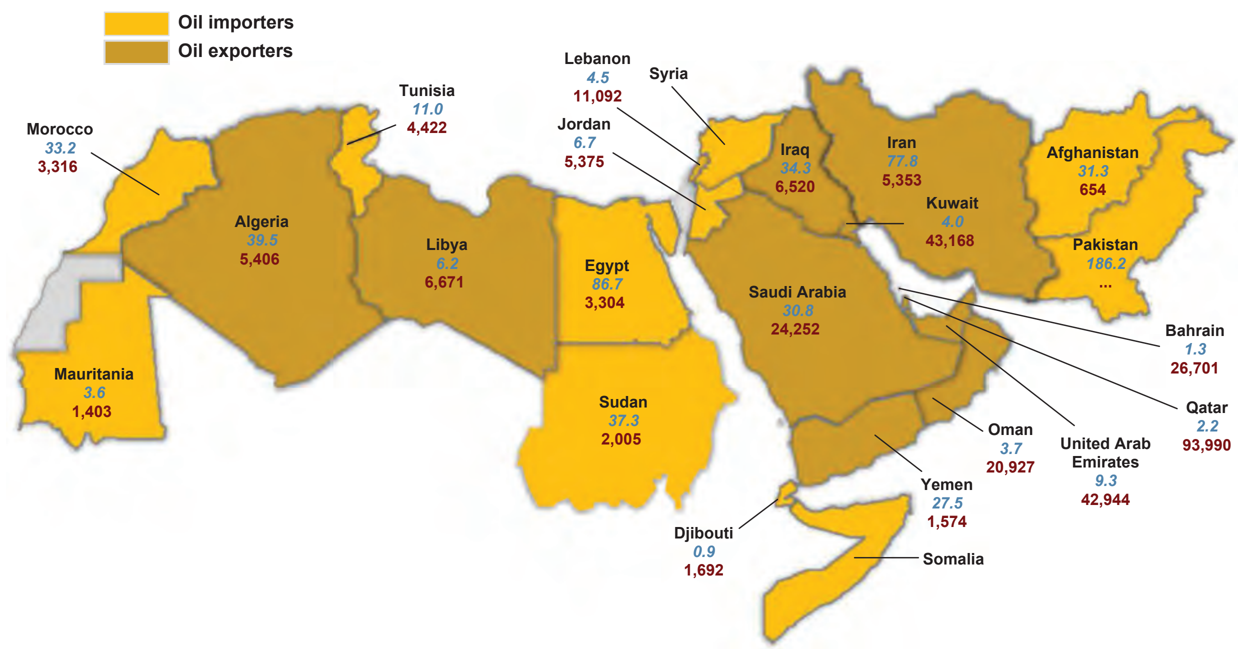
Middle East, North Africa, Afghanistan, and Pakistan

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	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.