

Middle East and North Africa Regional Economic Outlook

April 25, 2016



Roadmap

**Global Environment and
Regional Themes**

MENAP Oil Exporters

MENAP Oil Importers

A modest recovery in global economic growth, albeit weaker than projected last October

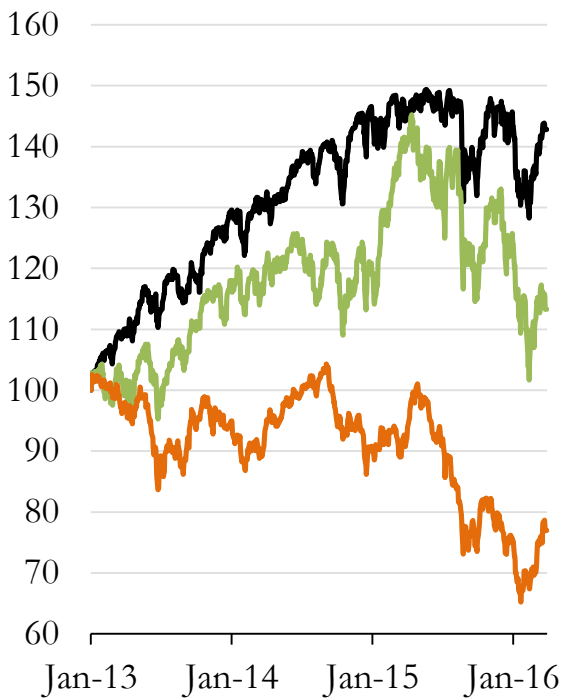


	World	U.S.	Euro Area	Emerging markets	China	Russia
2015	3.1	2.4	1.6	4.0	6.9	-3.7
2016	3.2	2.4	1.5	4.1	6.5	-1.8
2017	3.5	2.5	1.6	4.6	6.2	0.8

Downside risks have risen amid tighter financial market conditions and slower-than-expected economic activity

Equity Markets

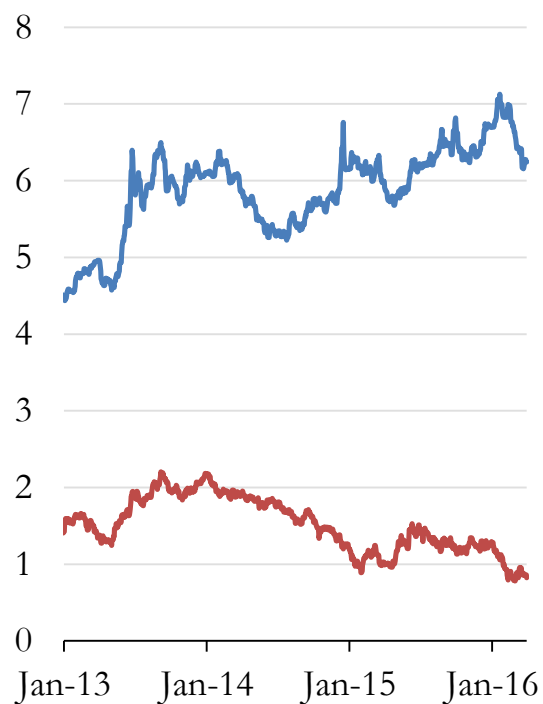
(Indices, Jan 1, 2013 = 100)



- SP 500 Index
- Euro Stoxx 50 Index
- MSCI Emerging Markets

Sovereign Yields

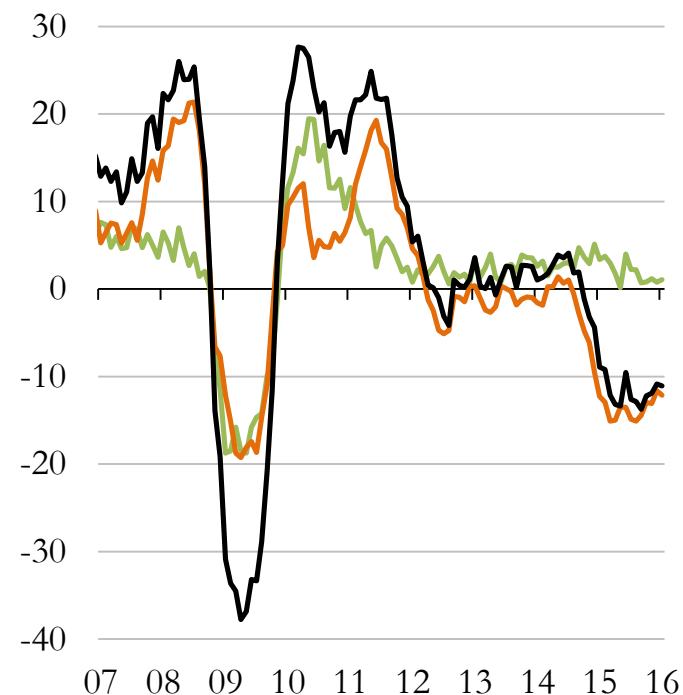
(Percent)



- Emerging Markets
- Advanced Countries

World Merchandise Trade

(YoY Percent Change)



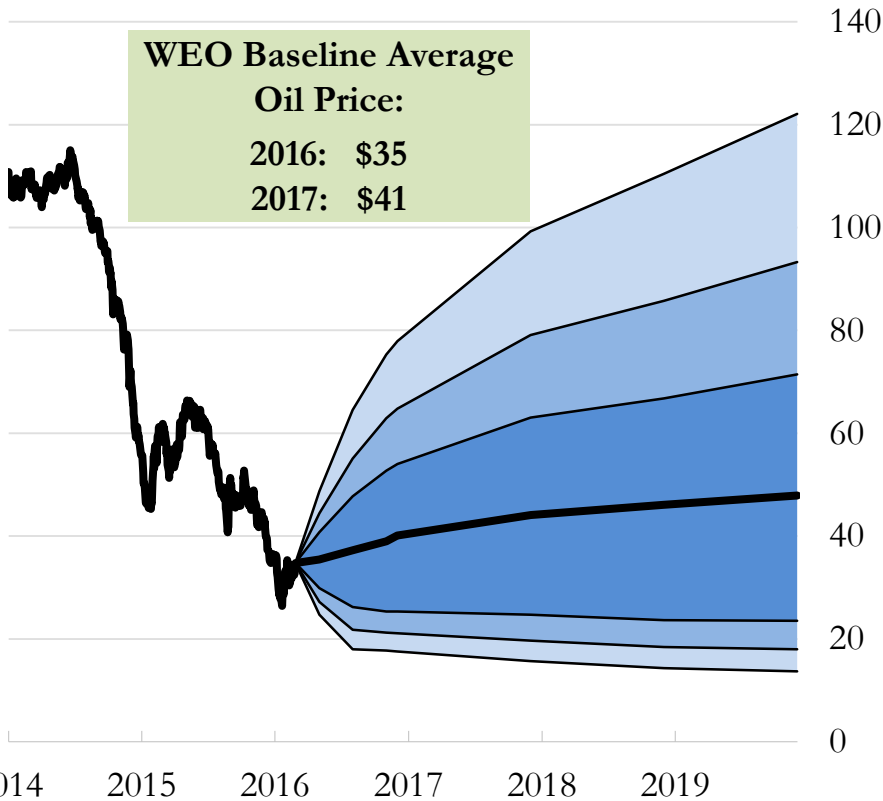
- Volume
- Price
- Value



Oil prices are expected to remain low for a long time, although uncertainty around these forecasts is high

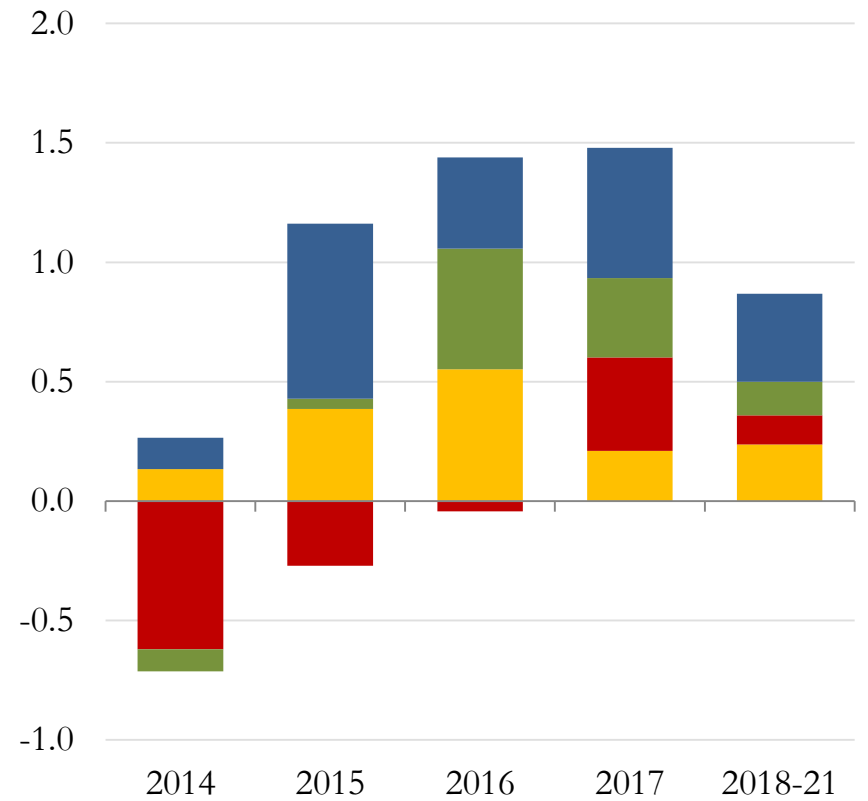
Brent Crude Oil Price

(U.S. dollars per barrel)



Hydrocarbon Production

(Change relative to previous year, millions of barrels per day)



- 95% Confidence interval
- 86% Confidence interval
- 68% Confidence interval
- Brent futures

- GCC + Algeria
- Iran
- Libya + Yemen
- Iraq



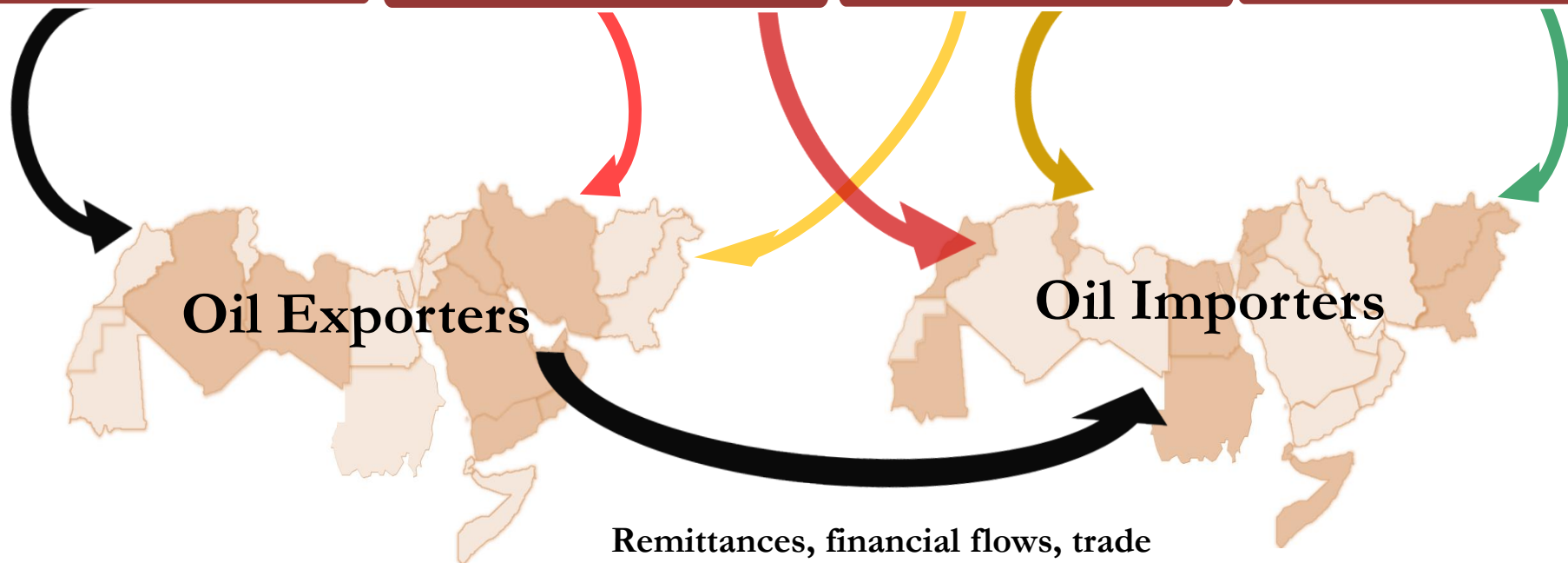
The region is facing intensifying shocks from conflicts, oil prices, and financing costs

Low Oil Prices

Conflicts

High Financing Costs

Strong U.S. Dollar



Remittances, financial flows, trade

16 million refugees and internally displaced

Syria	9.6	Yemen	0.3
Afghanistan	3.4	Libya	0.1
Iraq	2.4		



Roadmap

**Global Environment and
Regional Themes**

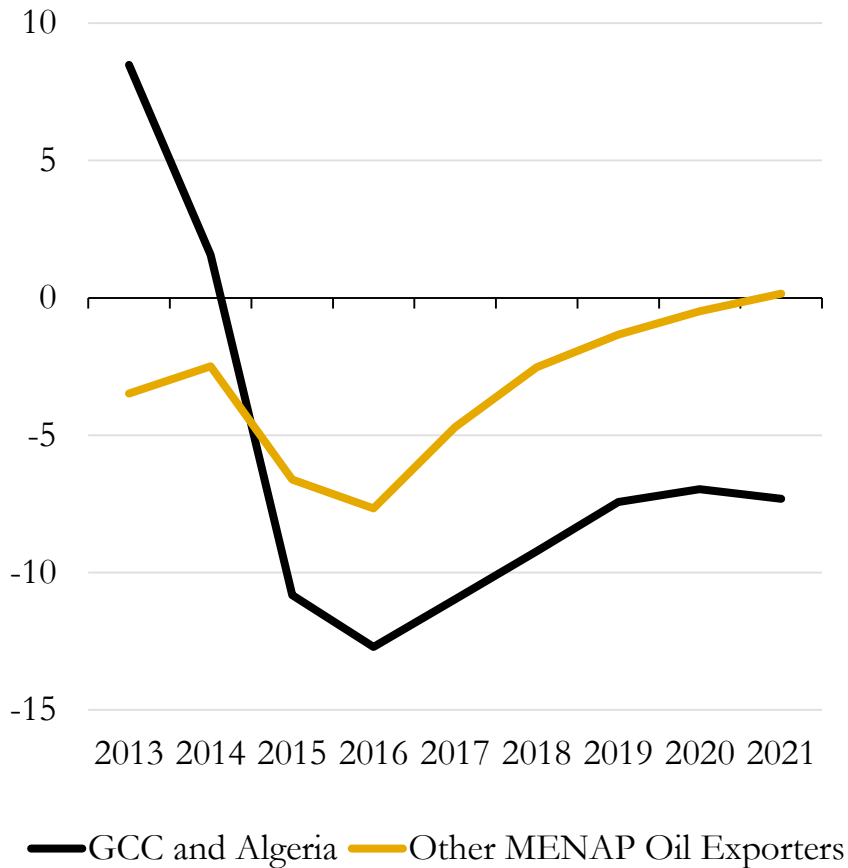
MENAP Oil Exporters

MENAP Oil Importers

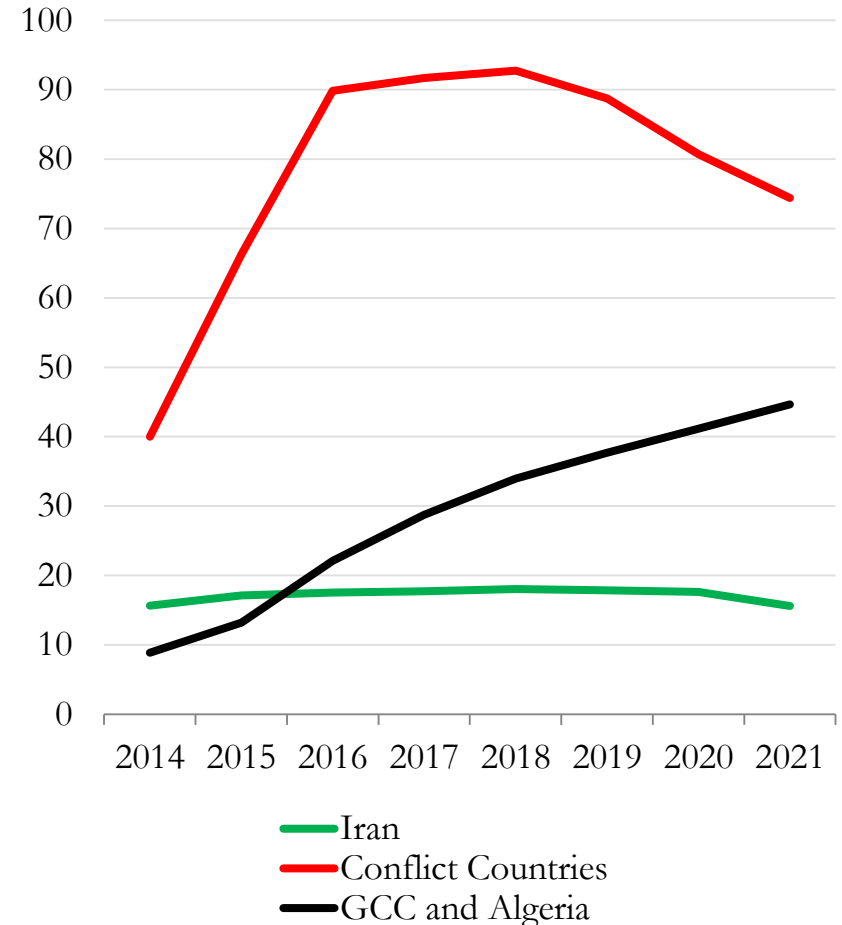


Fiscal effects of the large and persistent decline in the price of oil are significant

Fiscal Balance (Percent of GDP)



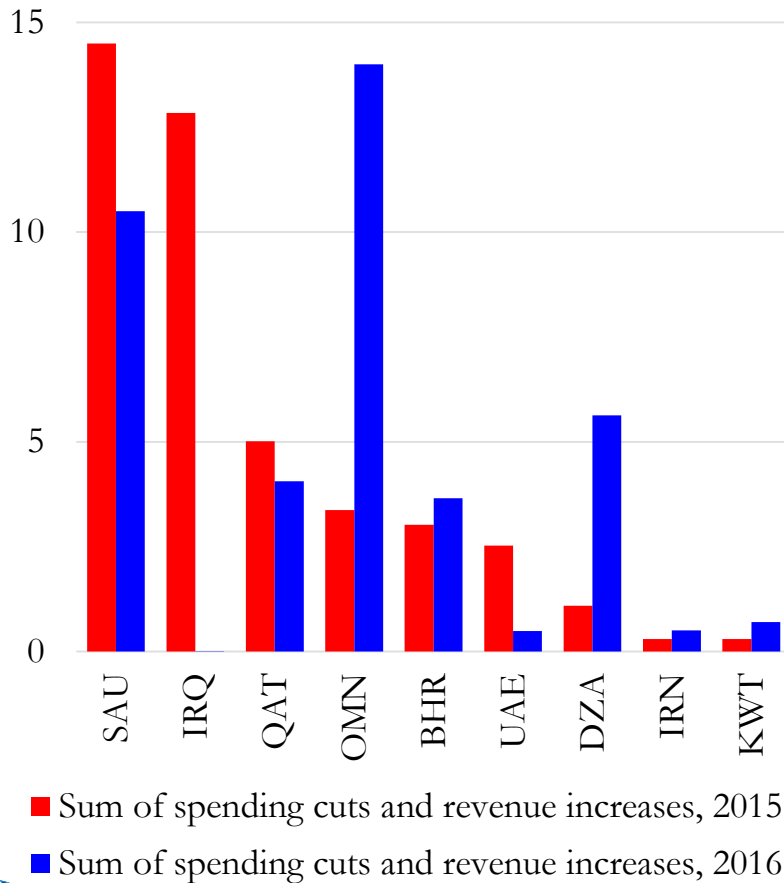
Public Debt (Percent of GDP)



Many countries have adopted sizable fiscal measures

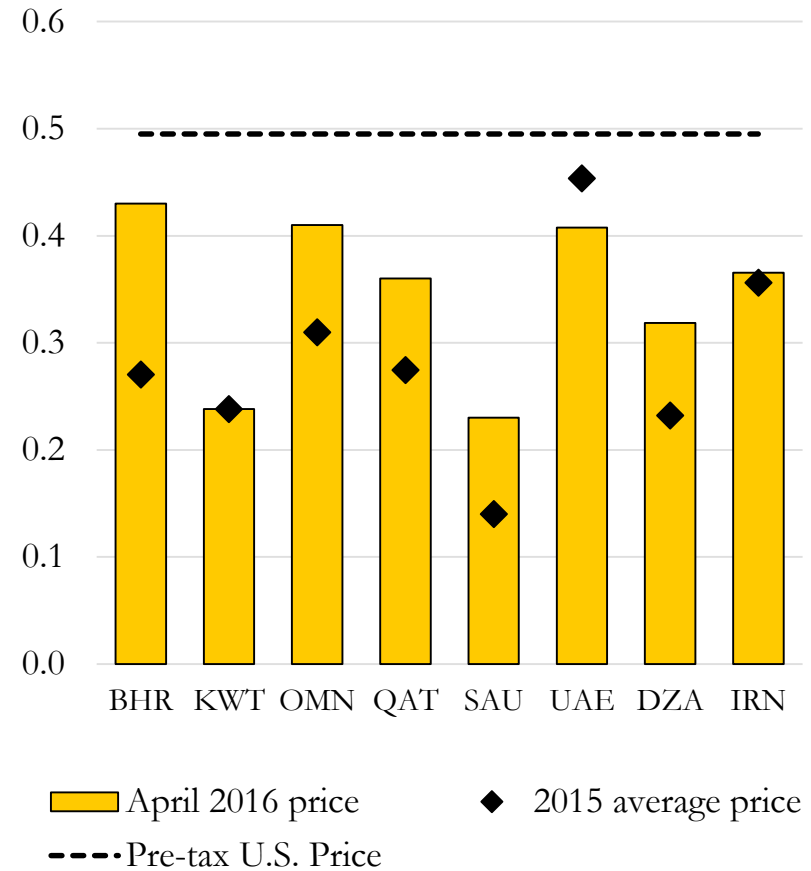
Fiscal Consolidation Measures

(Percent of non-oil GDP, 2015–16)



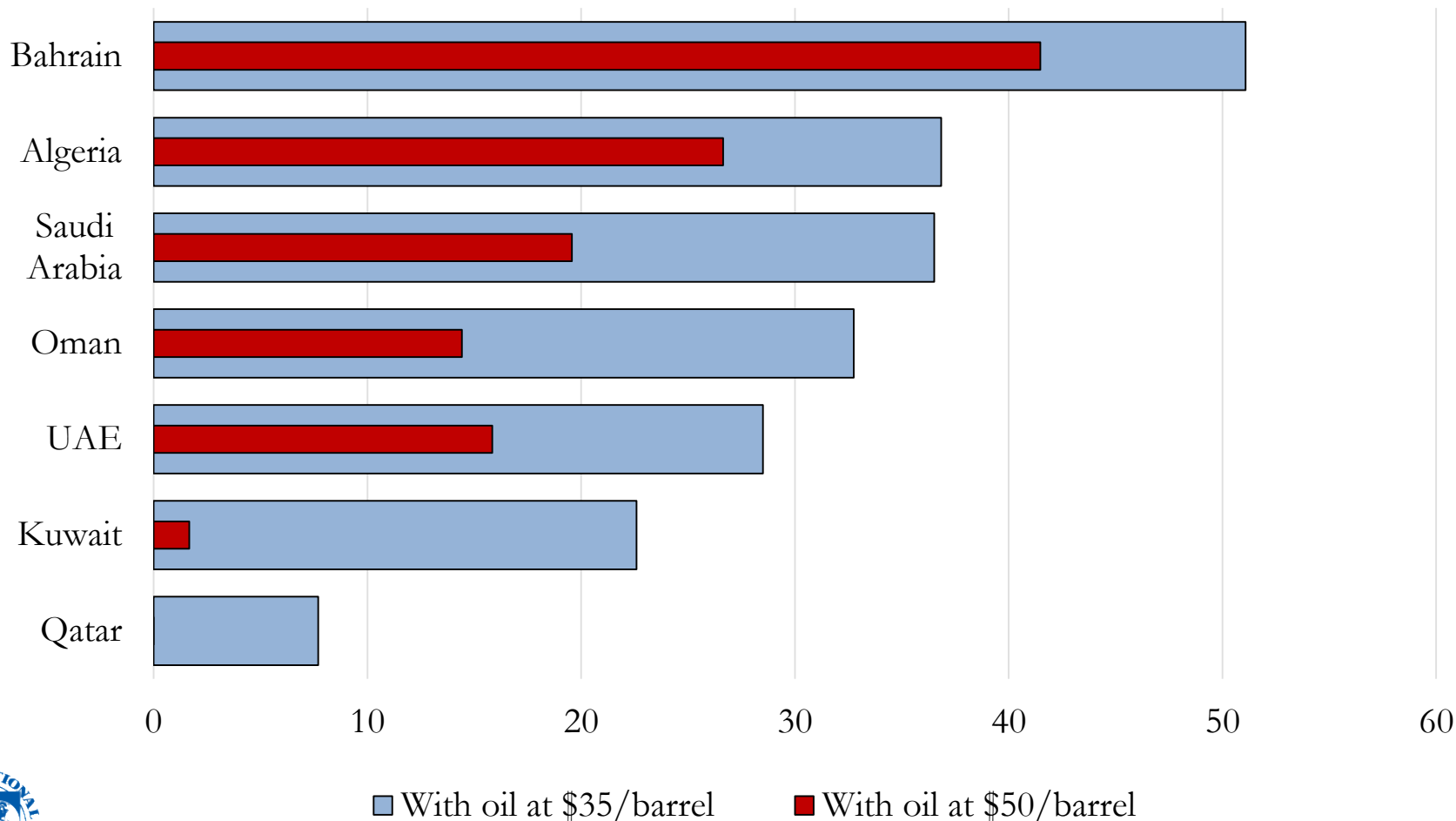
Gasoline Prices

(U.S. dollars per liter)



Further sizable fiscal measures needed to balance budgets

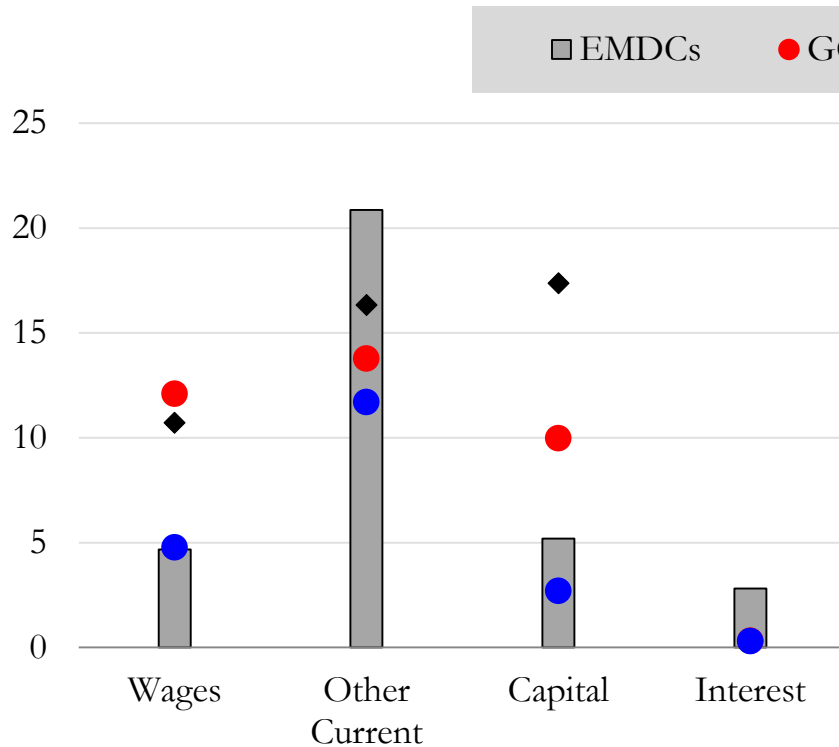
Decrease in Spending Needed to Balance 2016 Budget (Percentage decrease relative to baseline)



Cross-country comparisons suggest that room exists to cut spending and raise taxes

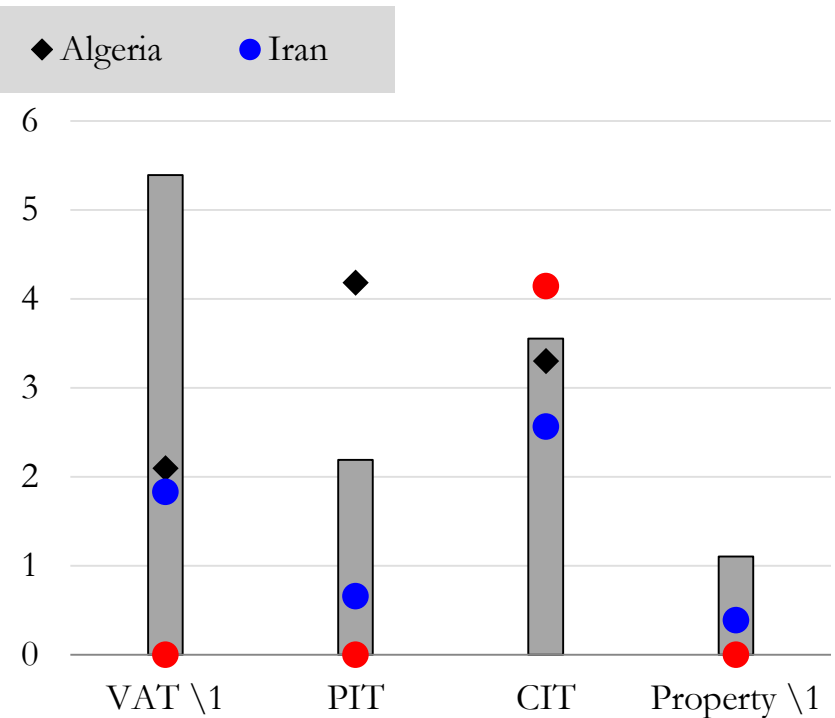
Spending

(Percent of GDP, 2015)



Tax Revenue

(Percent of non-oil GDP, 2015 or most recent available)



Menu of options for the GCC (in percent of GDP)

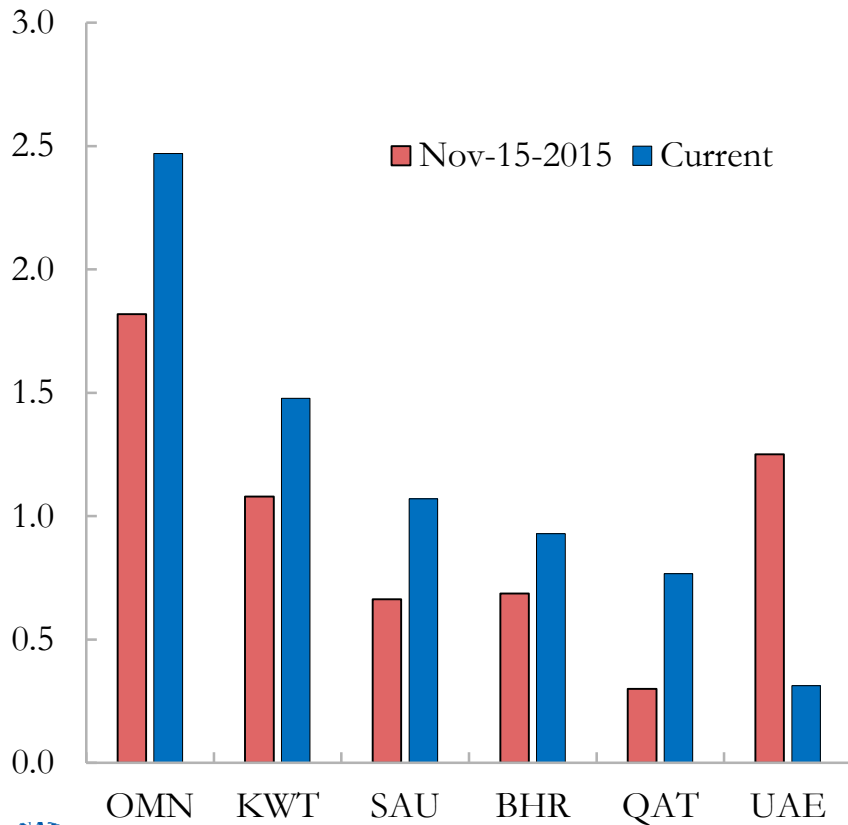
1. A broad-based 5% VAT: saving 1.5%
2. More efficient public investment: 2%
3. Further reducing energy subsidies: saving 2%
4. Benchmarking spending to pre-oil price boom levels



Market discipline reinforces need for sustained fiscal consolidation in GCC countries

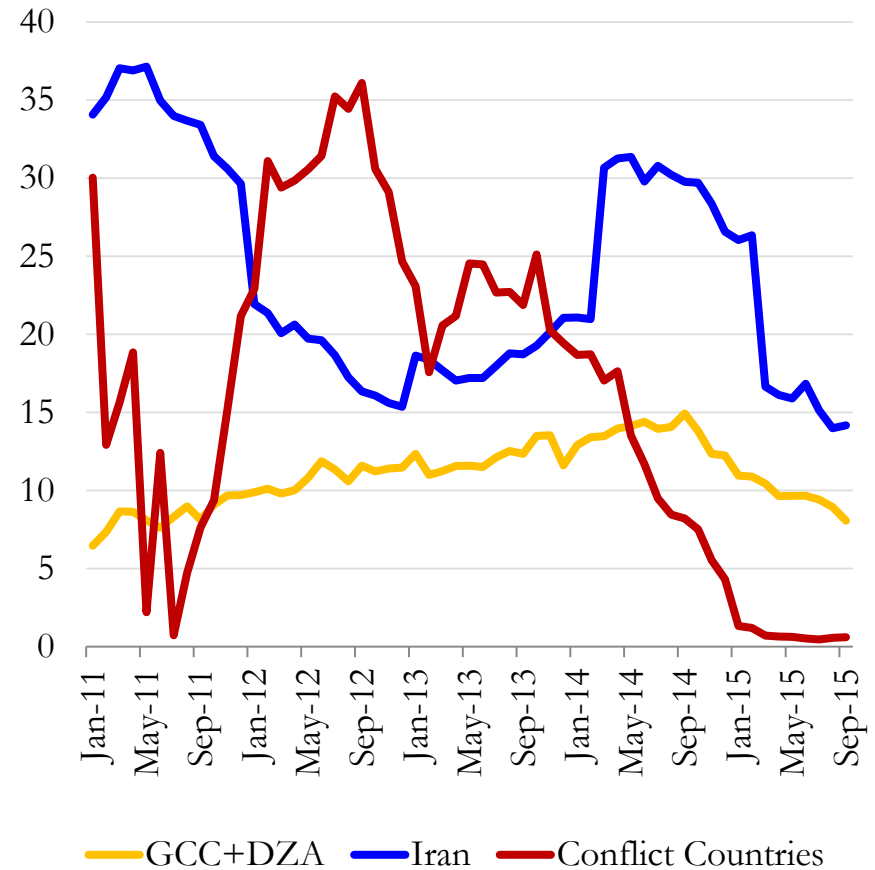
Discount in 12-month Forward Exchange Rates

(Percent ratio of 12-month forward price to spot price)



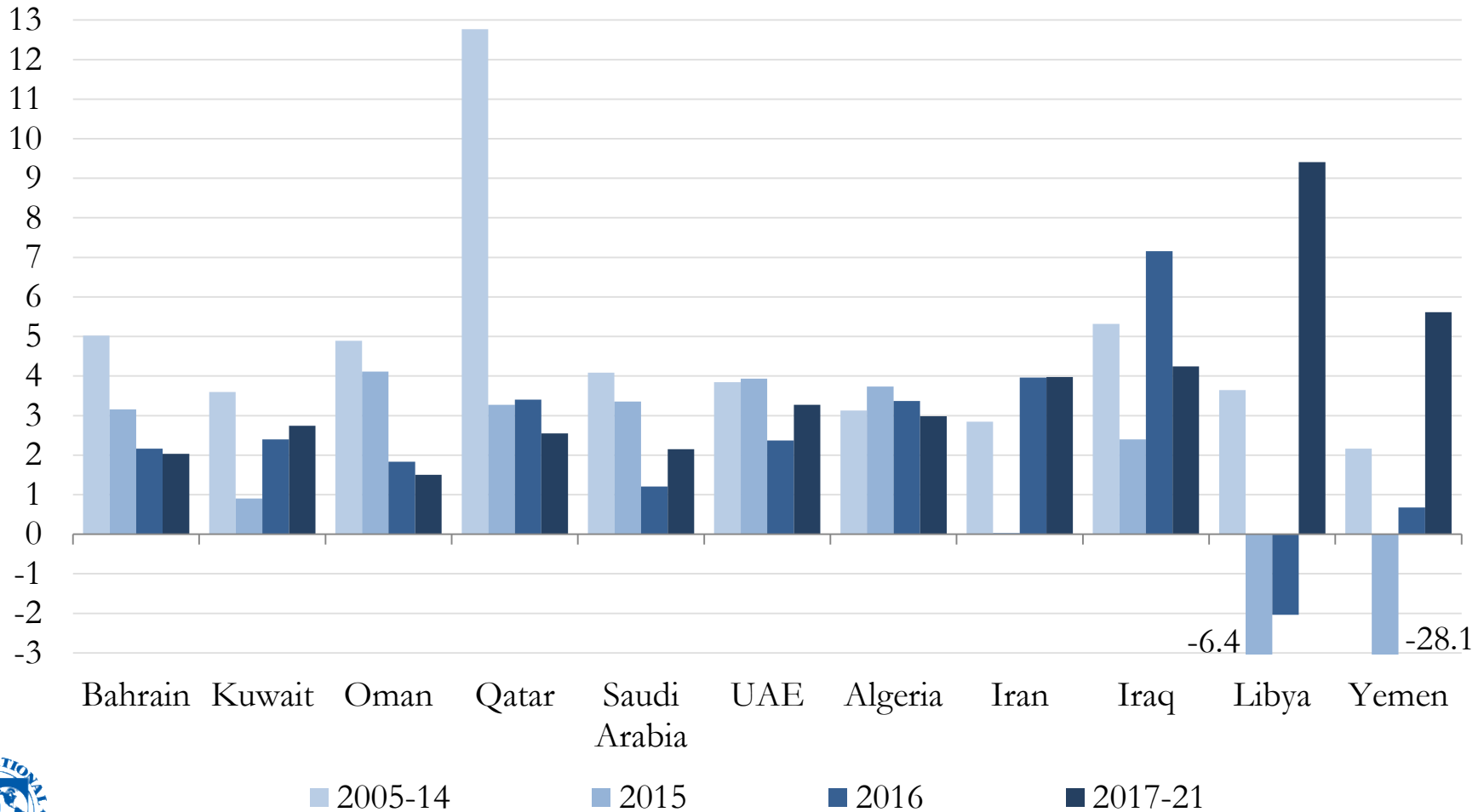
Private Sector Credit Growth

(Percent change, YoY)

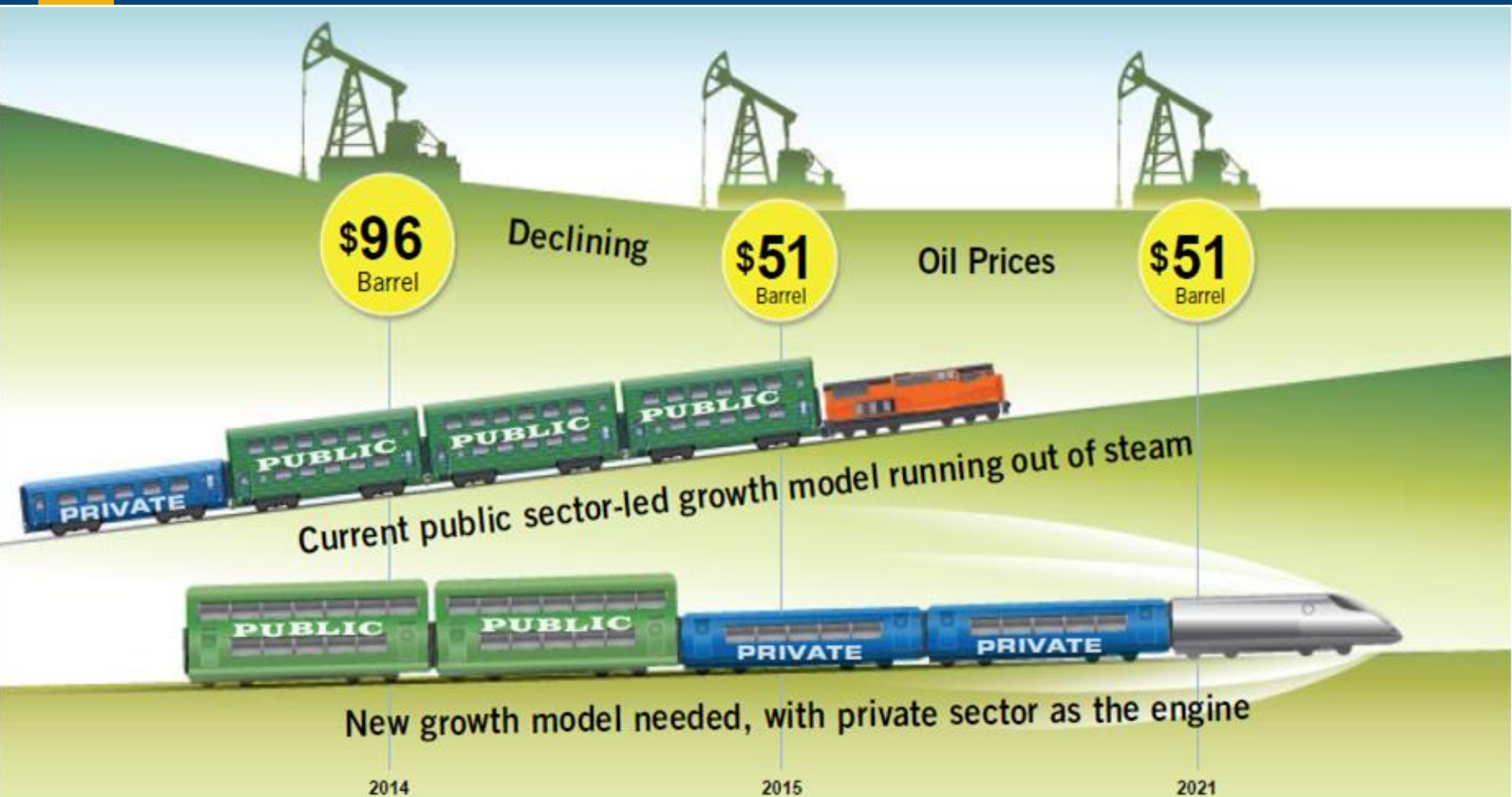


Fiscal tightening to slow economic activity in GCC and Algeria, oil output driving growth in Iran and Iraq

Real Overall GDP Growth
(Percent)



With dwindling oil revenues, the private sector needs to become the engine of non-oil growth and job creation



Oil exporters: policy response has to be in sync with the large and lasting shocks – business as usual will not do.

- Significant fiscal adjustment is underway, but more is needed as oil prices are expected to be “low-for-long.”
- Adjustment can be more gradual if buffers are available; but credible adjustment path is essential for market confidence.
- Economic activity is slowing as the public purse is tightened; private sector needs to take over as the engine of growth.
- Increased engagement with the private sector can help to identify and address impediments to growth.
- Security is a prerequisite for economic growth in countries affected by conflict.
- In Iran, sanctions relief will boost the economy but growth dividend would be larger if accompanied by structural reforms.



Roadmap

**Global Environment and
Regional Themes**

MENAP Oil Exporters

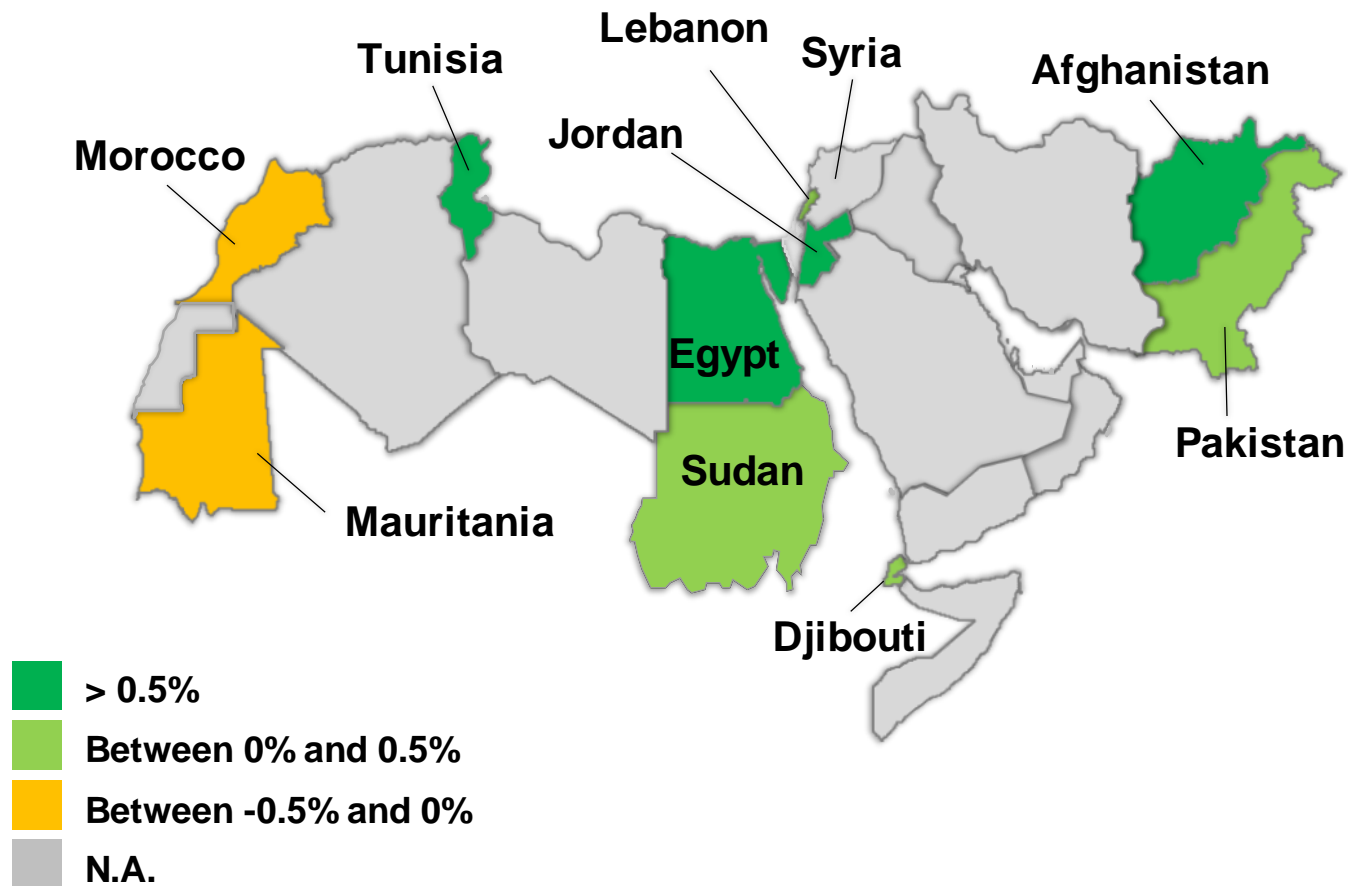
MENAP Oil Importers



Recovery has been gradual and uneven

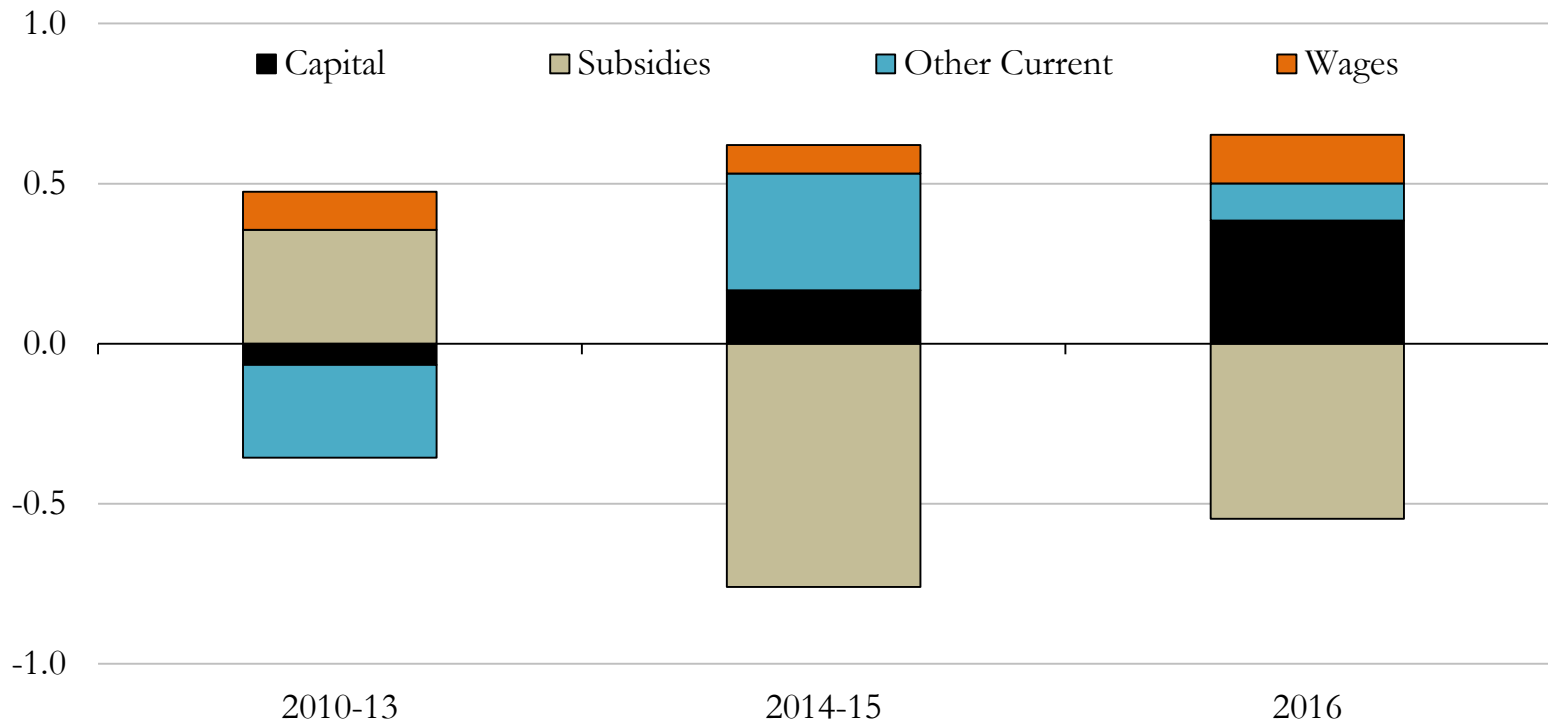
Real GDP Growth

(Percentage Point Change, 2016-17 Average vs. 2014-15)



Subsidy reforms and low oil prices have created space for raising growth-enhancing investment

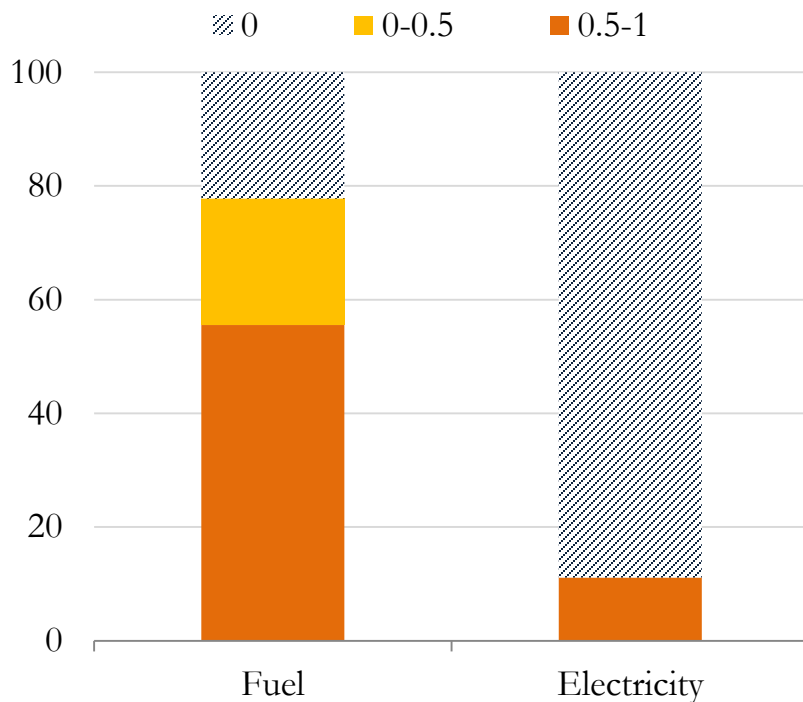
Changes in Government Spending (Percentage of GDP, Change from Prior Year)



Low oil prices support consumption, offsetting slowing remittances

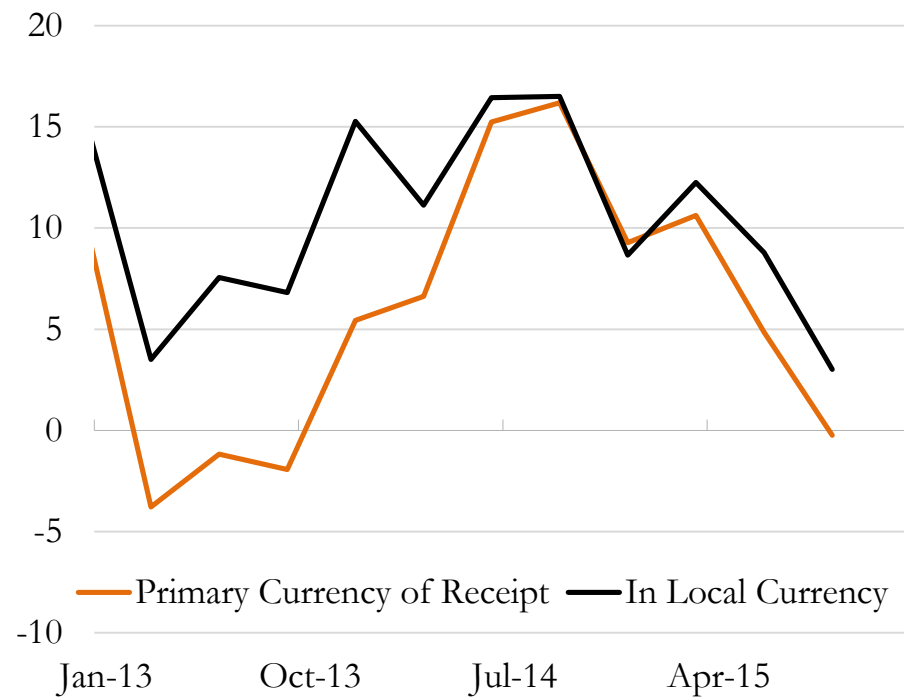
Oil Price Pass-Through

(Proportion of Sample, Expected end-June ¹)



Remittances

(YoY Percent Change)



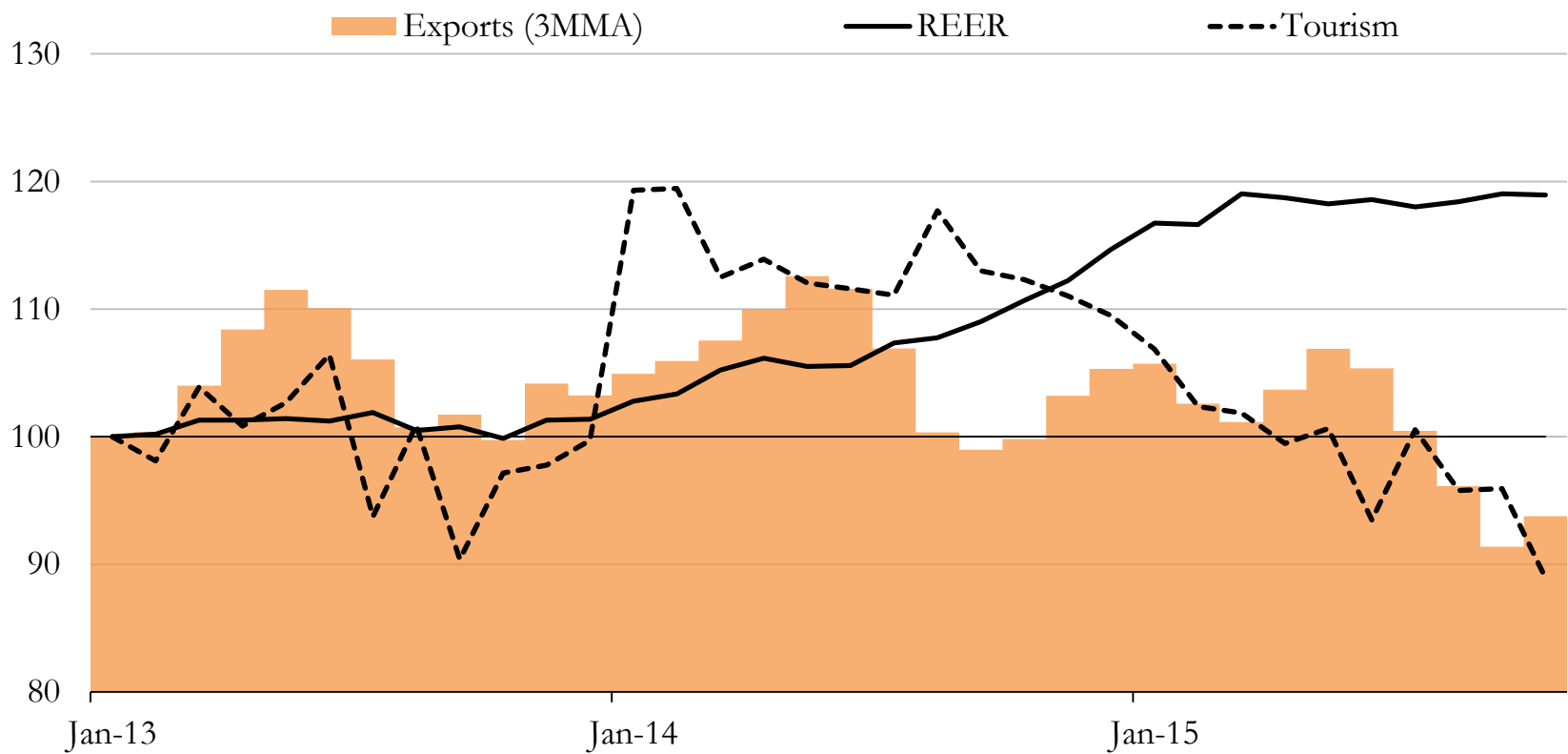
¹ Pass-through period is defined as the oil price drop from Sept. 2014 to end-June 2016.



Exports and tourism are slowing, because of deteriorating competitiveness and rising security risks

Exports, Tourism, Exchange Rate

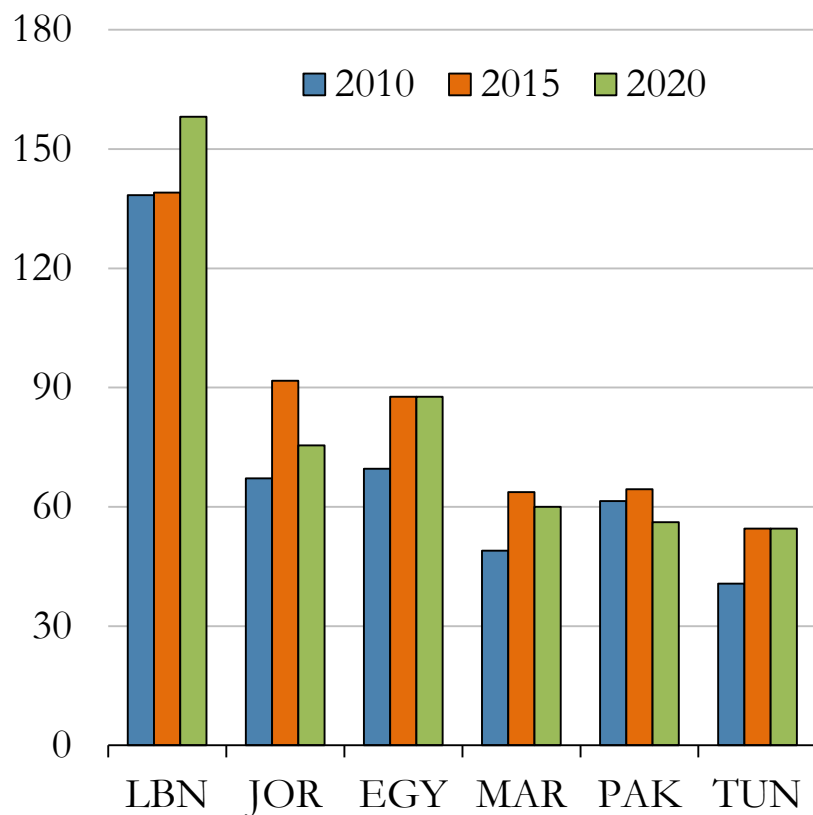
(Index values, Jan 2010=100)



Further fiscal consolidation needed to reduce debt, while greater growth needed to create more jobs and improve living standards

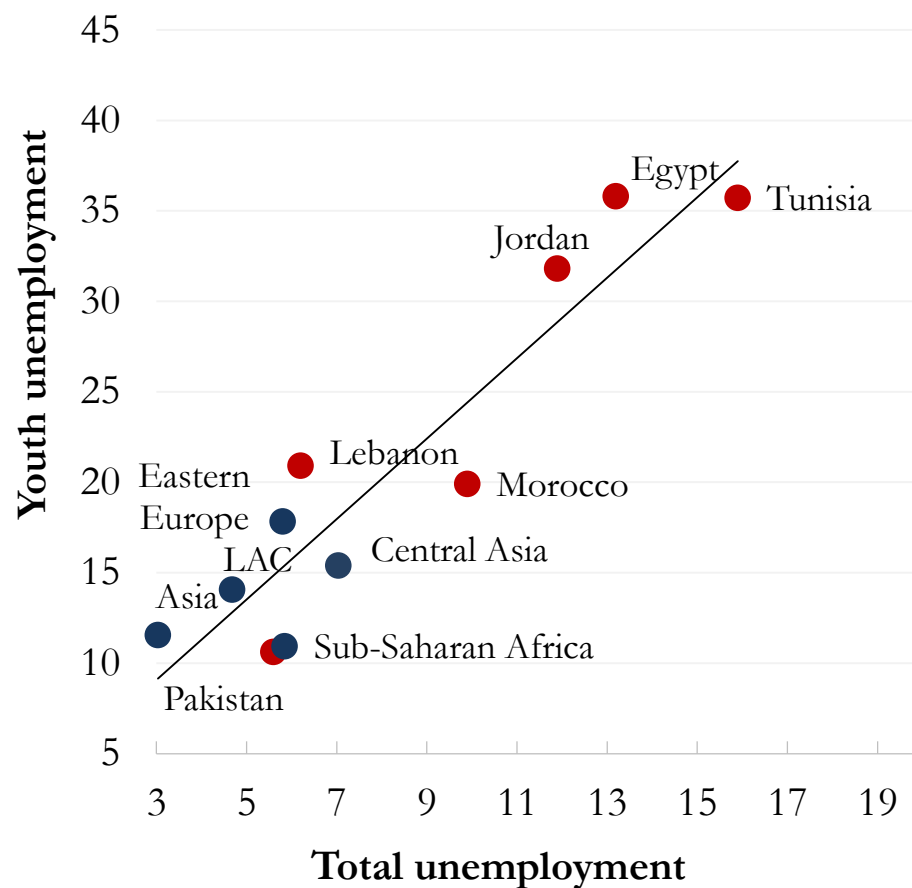
Public Debt

(Percent of GDP)



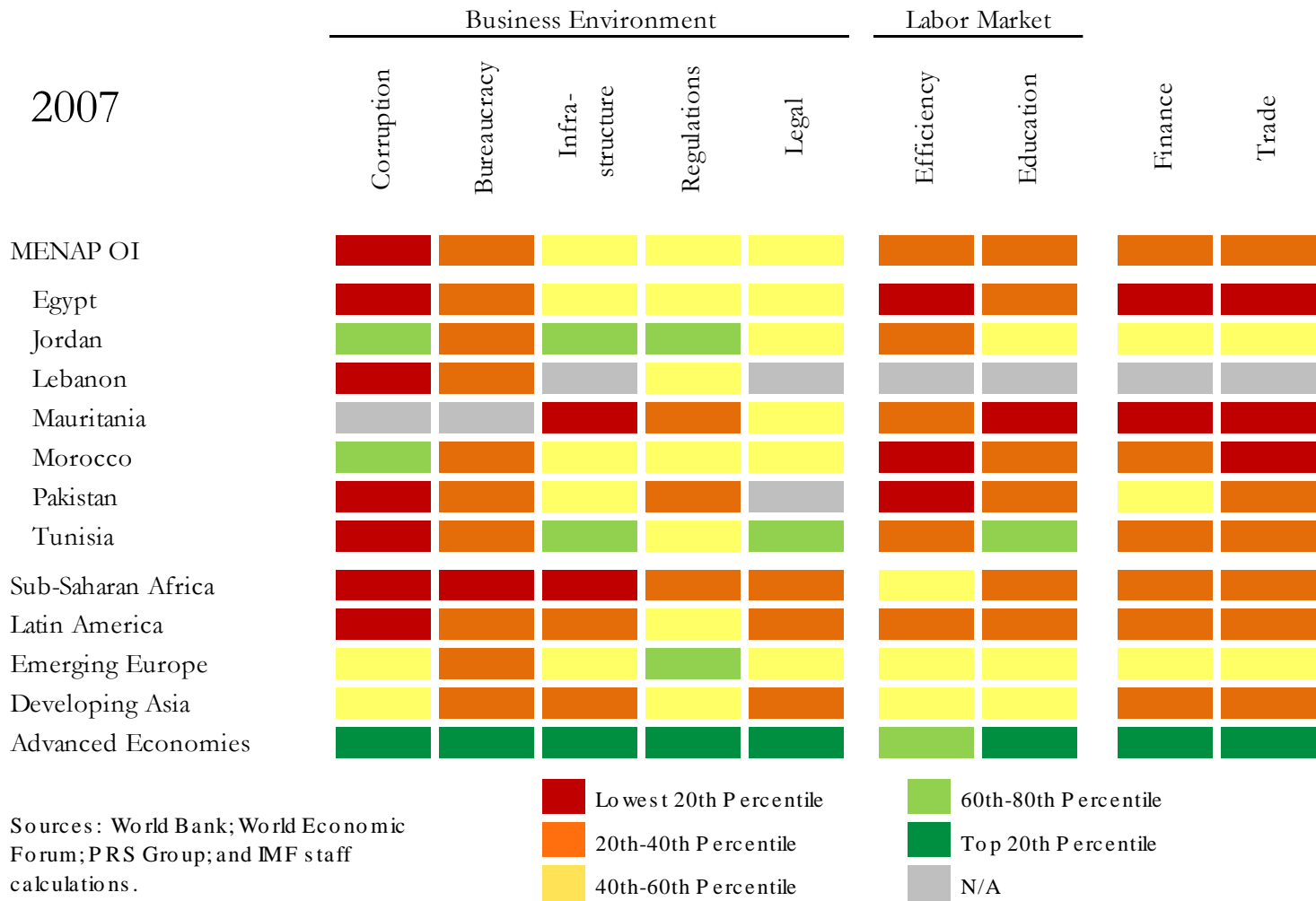
Unemployment

(Latest available, Percent)



Structural reforms are key to igniting business confidence and improving labor markets

2007

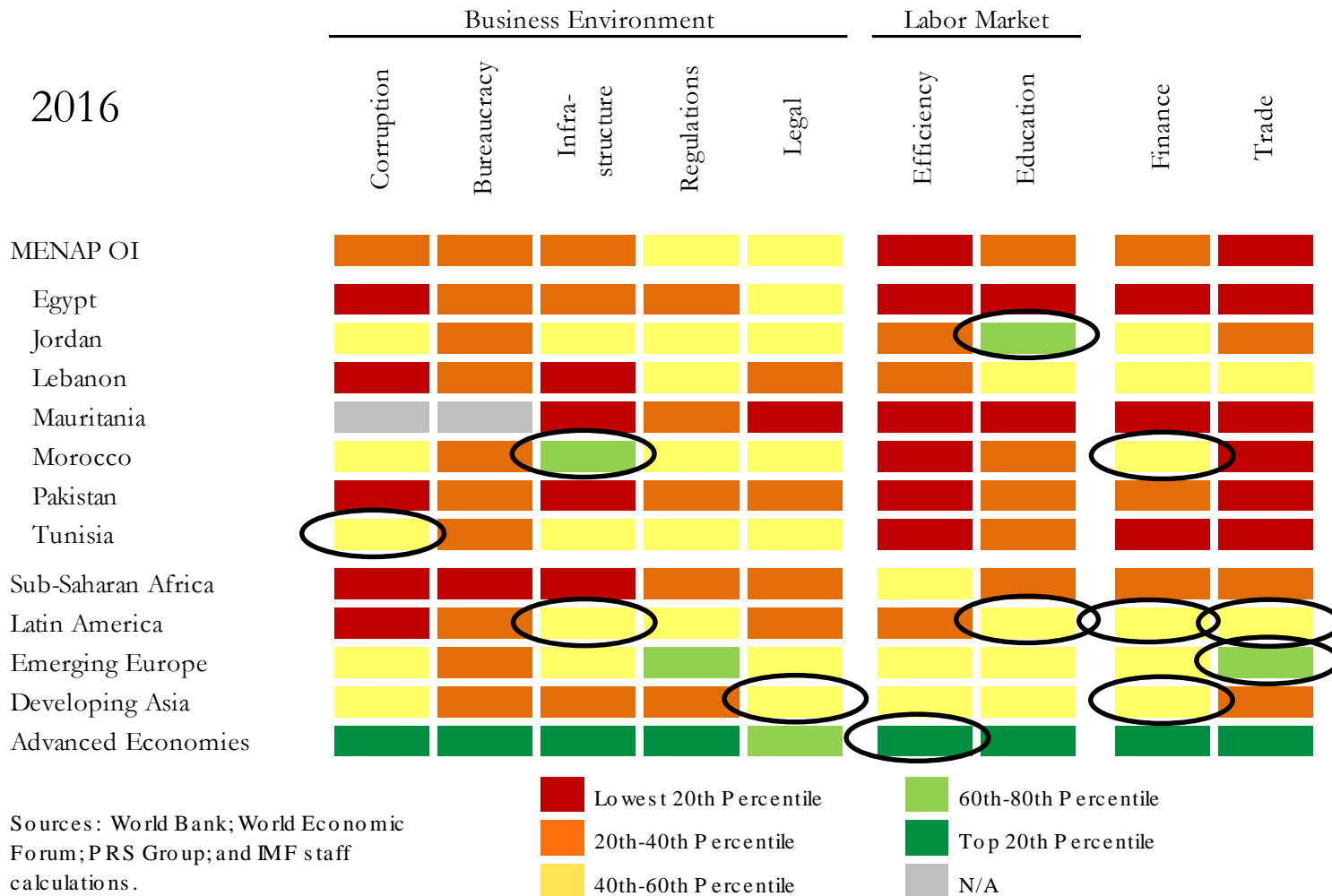


Sources: World Bank; World Economic Forum; PRS Group; and IMF's staff calculations.



Structural reforms are key to igniting business confidence and improving labor markets

2016



Sources: World Bank; World Economic Forum; PRS Group; and IMF staff calculations.



Oil importers: reform momentum must continue to create jobs and improve living standards

- Growth rising and unemployment stabilizing as subsidy reforms and lower oil prices have created room for investment.
- Yet some economies are lagging because of conflicts and security challenges.
- Large downside risks and vulnerabilities remain.
- Budget savings can be channeled into growth-enhancing spending. Need for further fiscal consolidation to ensure debt sustainability.
- Greater exchange rate flexibility would improve competitiveness.
- Accelerated structural reforms needed to create jobs and to ensure higher, more inclusive medium-term growth.



Regional outlook is weaker than last October, especially in oil exporters; recovery expected in oil importers and Iran

Real GDP Growth, 2015-17

	GCC and Algeria	Iran	Conflict Countries	MENAP Oil Importers
2015	3.3	0.0	-2.0	3.8
2016	2.1 ▼	4.0 ▼	5.4 ▼	3.5 ▼
2017	2.4 ▼	3.7 ▼	5.4 ▼	4.2 ▼

▼ Indicates a decline in projections relative to October 2015 REO



To download REO publication, please visit

<http://www.imf.org/external/pubs/ft/reo/2016/mcd/mreo0416.htm>

