

Middle East and North Africa Regional Economic Outlook



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Middle East and Central Asia Department

International Monetary Fund

Ramallah, November 2012



Overview

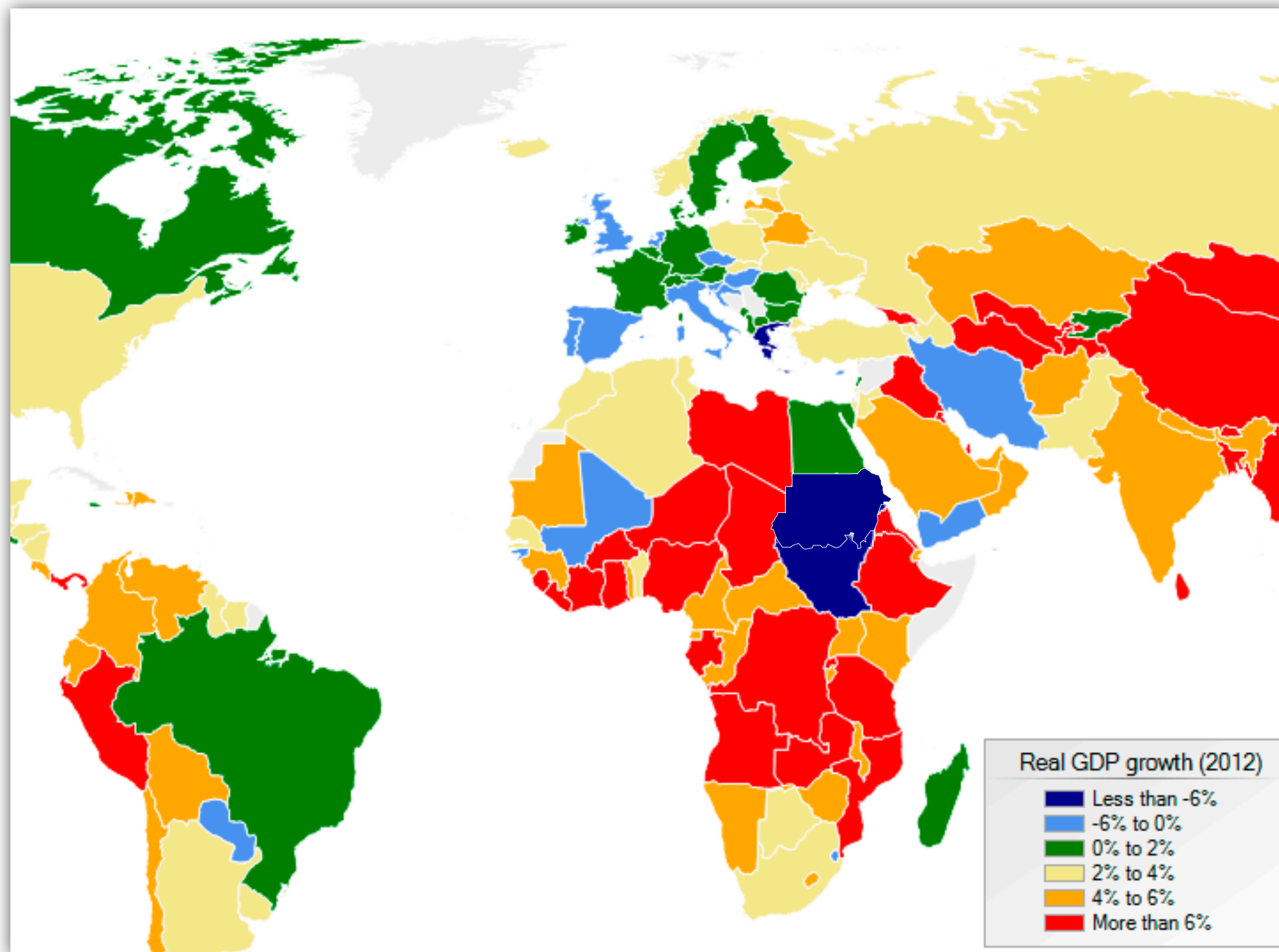
Global Outlook

MENAP Oil Exporters

MENAP Oil Importers

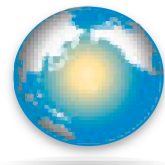



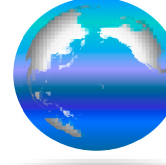

West Bank and Gaza

Slower and uneven recovery in 2012



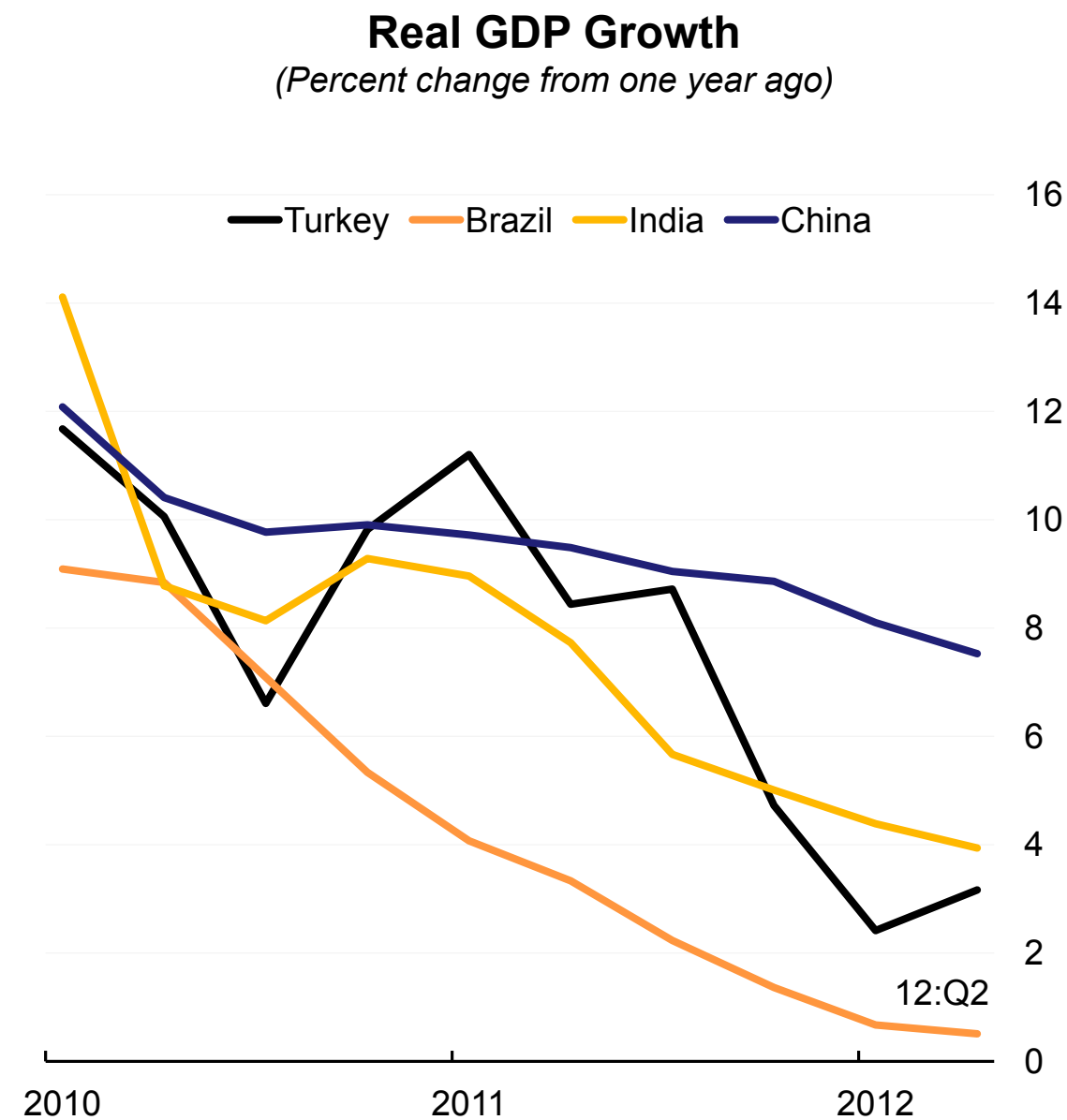
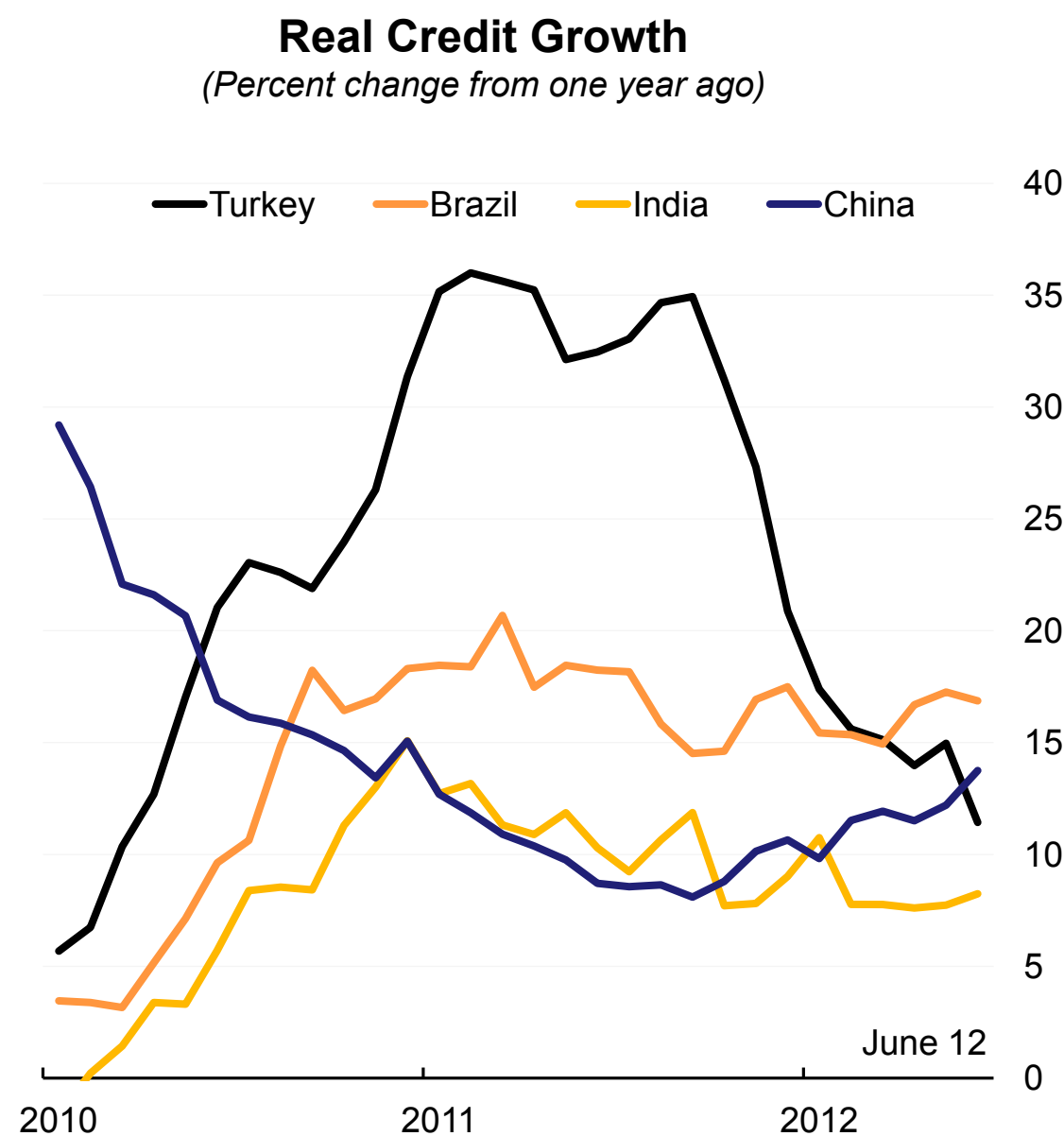
Growth prospects have been downgraded

WEO Real GDP Growth Projections
(Percent change from a year earlier)

						
	World	U.S.	Euro Area	Advanced Economies	Emerging Economies	MENA
2012						
(Oct 2012)	3.3	2.2	-0.4	1.3	5.3	5.3
(April 2012)	3.5	2.1	-0.3	1.4	5.7	4.2
2013						
(Oct 2012)	3.6	2.1	0.2	1.5	5.6	3.6
(April 2012)	4.1	2.4	0.9	2.0	6.0	3.7

Source: IMF, *World Economic Outlook*.

Emerging market economies: End of a boom



Sources: Haver Analytics; IMF, *World Economic Outlook*; and IMF staff calculations.

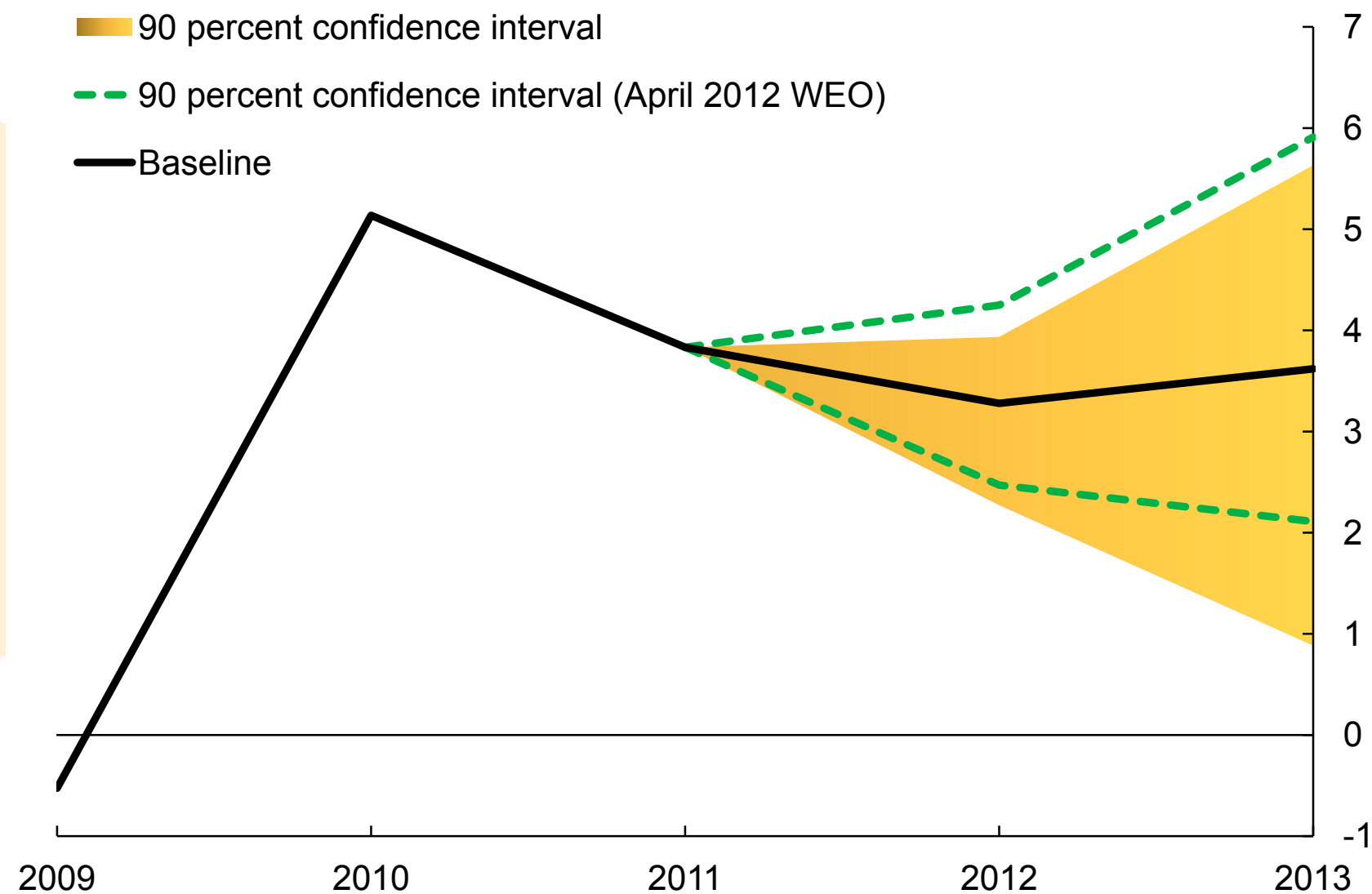
Global downside risks have increased

Downside risks:

- ❖ More stress in euro area
- ❖ U.S. fiscal cliff, debt ceiling
- ❖ Higher oil prices
- ❖ Medium-term risks: high advanced economy debt; lower emerging market growth

Prospects For World GDP Growth

(Percent change)

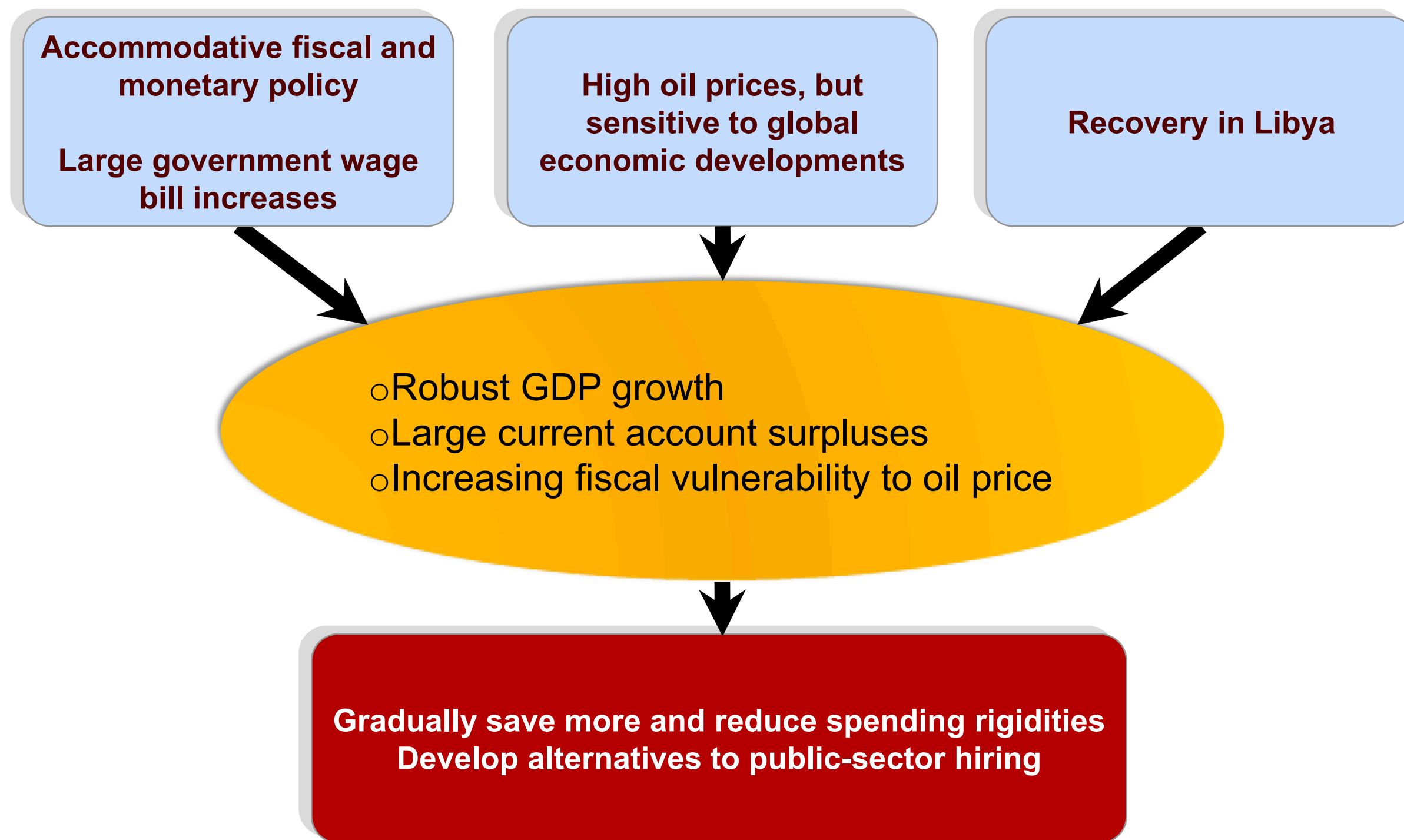


Source: IMF, *World Economic Outlook*.

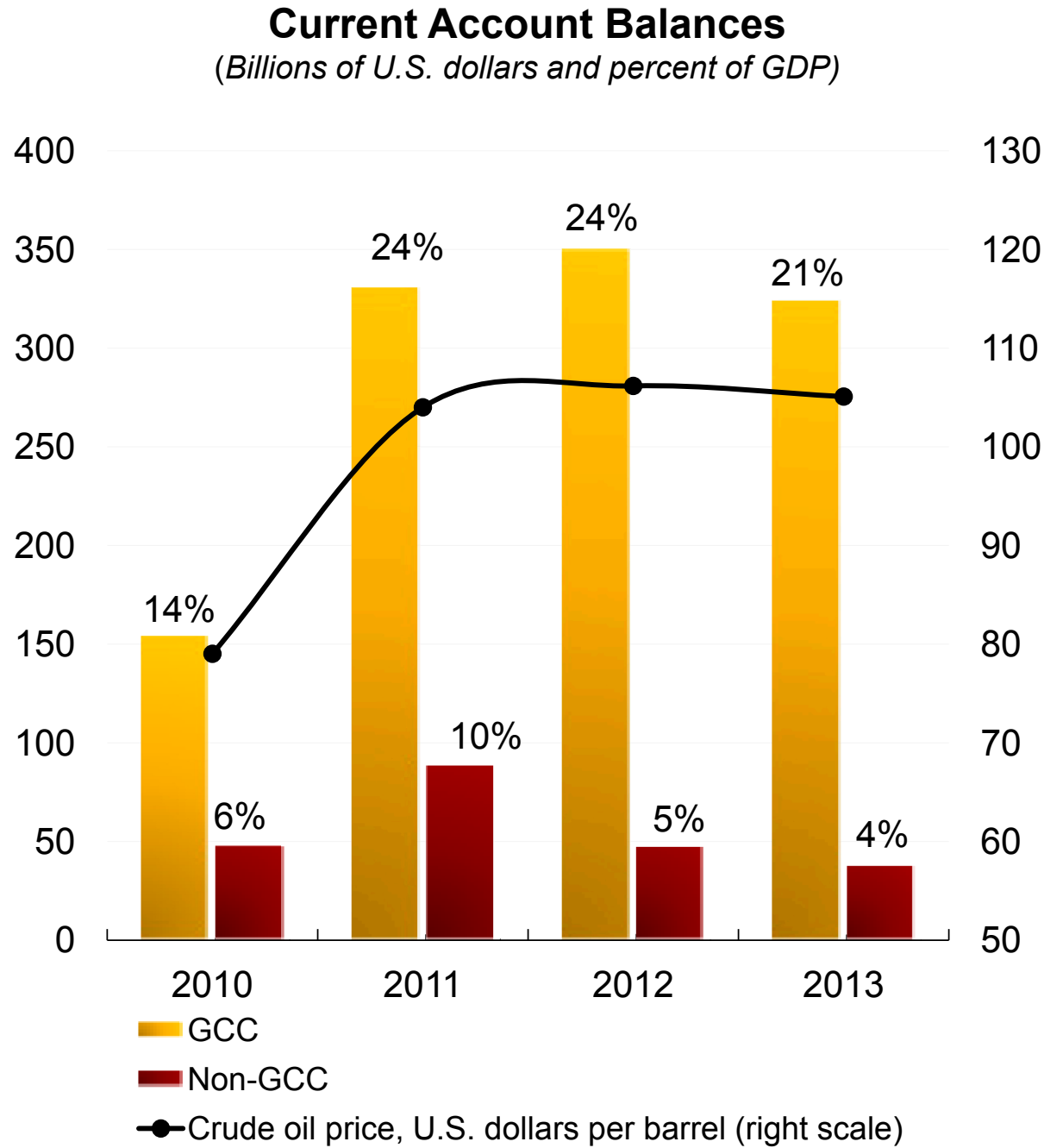
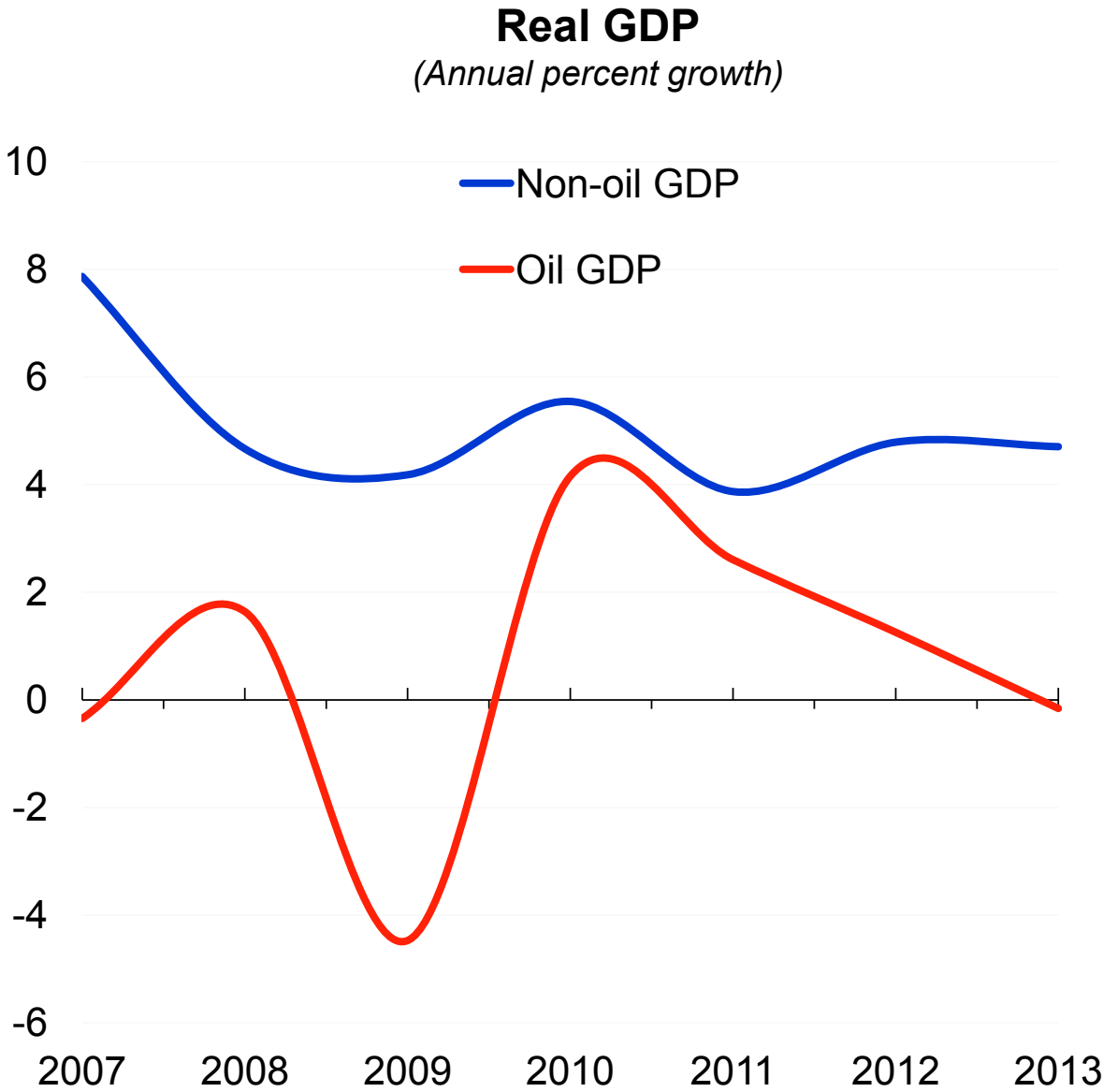
MENAP oil exporters



Increase resilience and create private-sector jobs



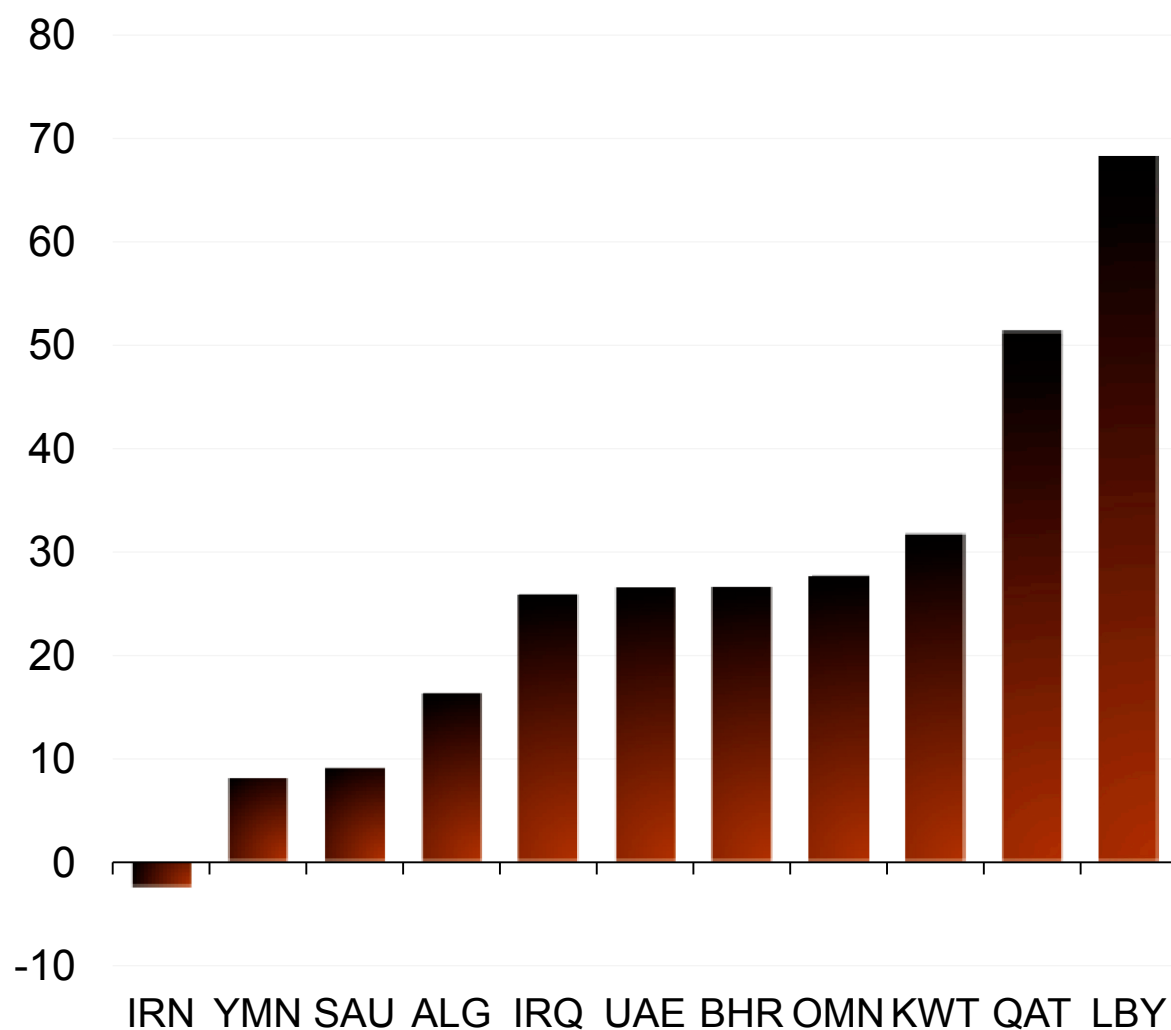
Non-oil GDP growth strong; current accounts buoyant



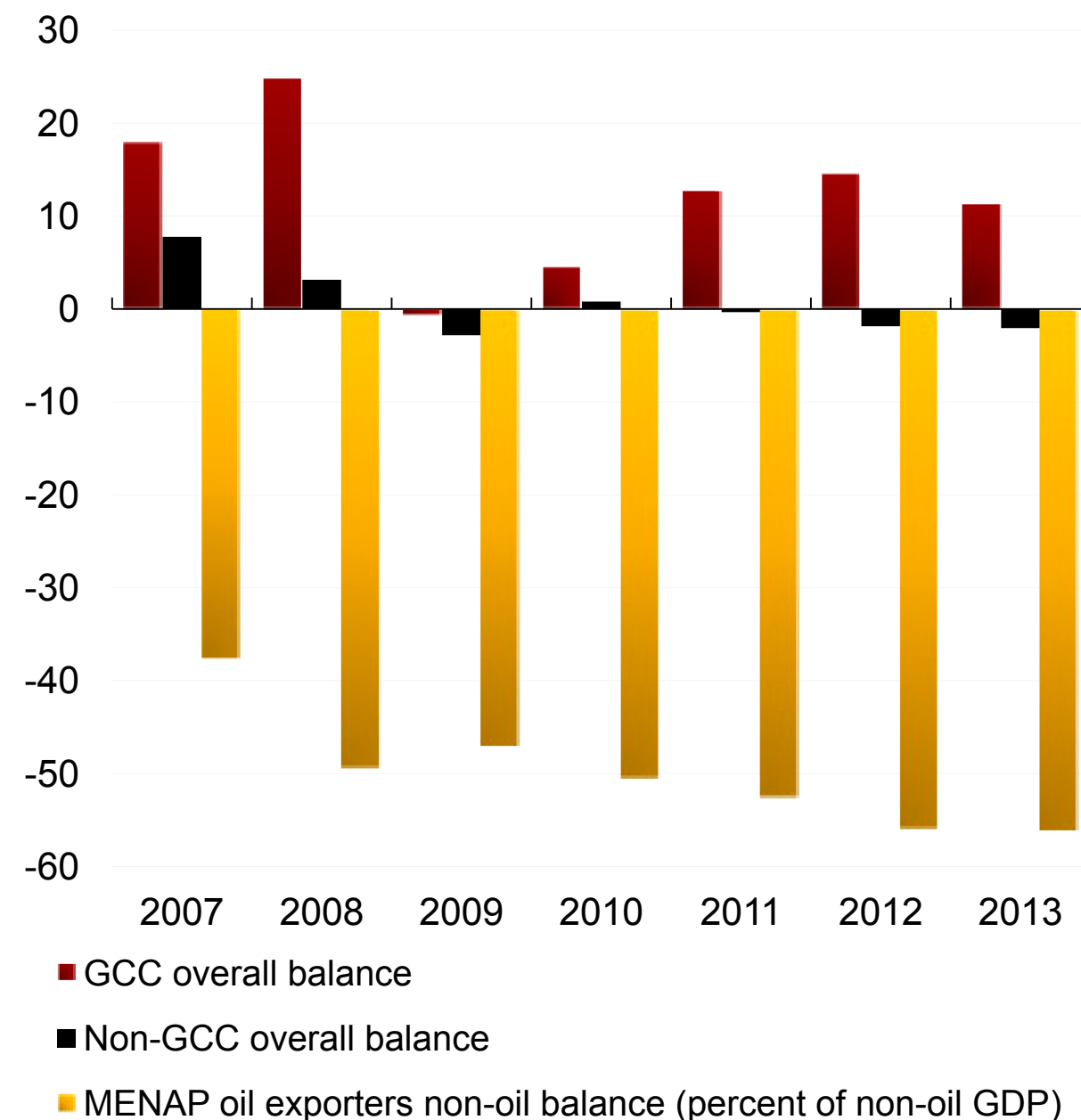
Sources: National authorities; and IMF staff calculations.

Higher government wage bills weaken public finances

Government Wage Bill Growth, 2010–13
(Percent, deflated by CPI)

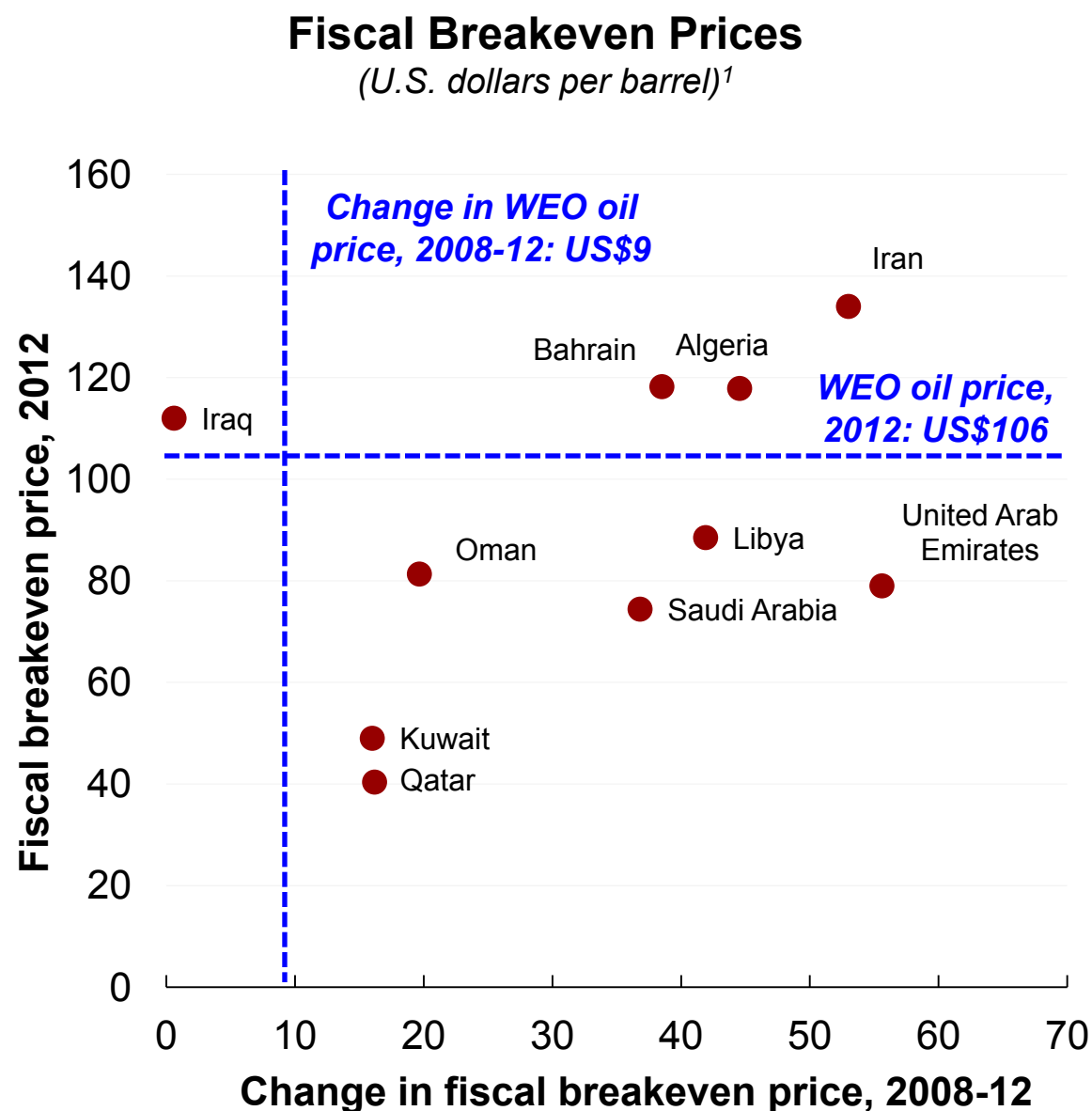


Fiscal Balances Have Deteriorated
(Percent of GDP)



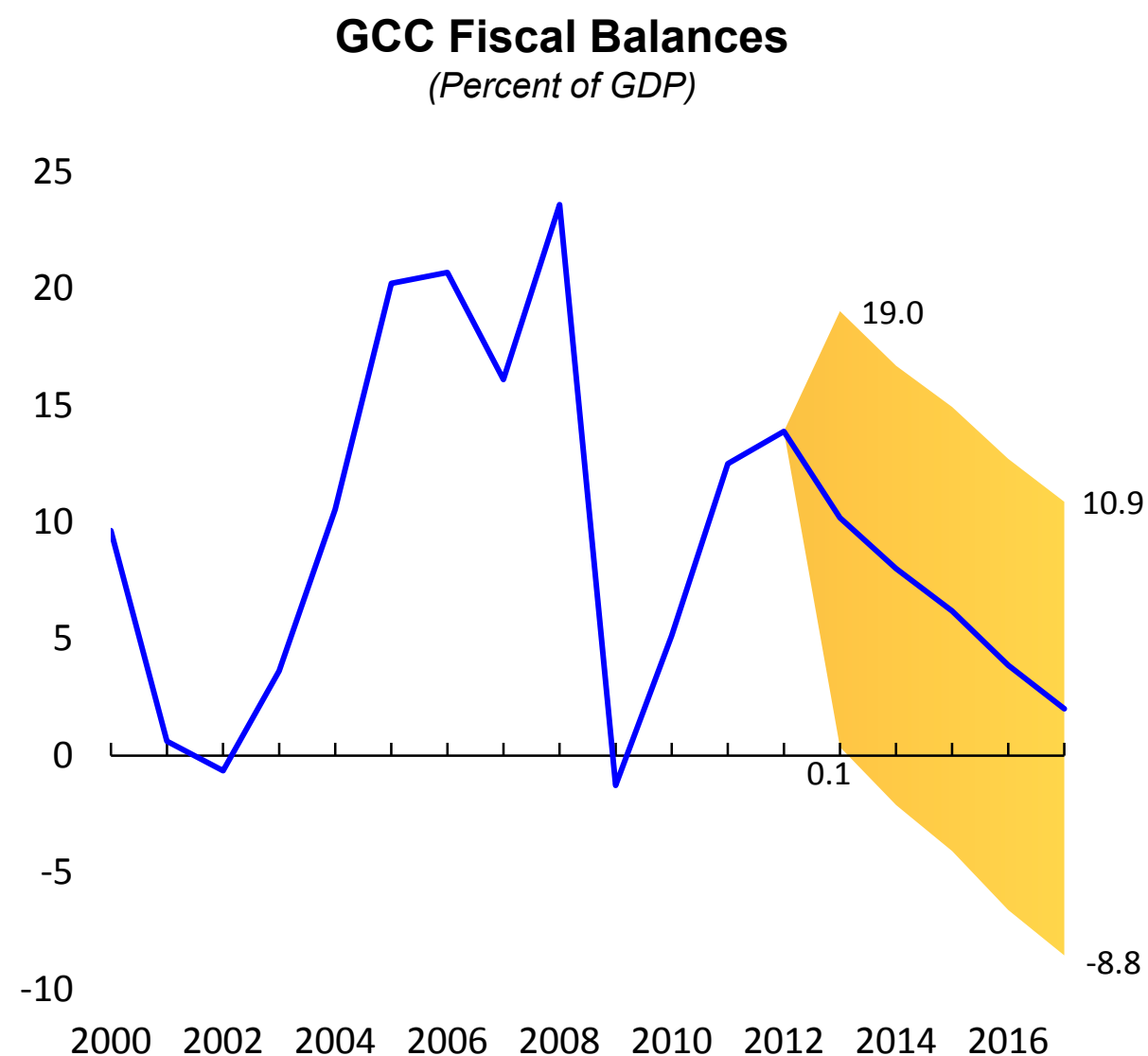
Sources: National authorities; and IMF staff calculations.

Fiscal vulnerability to a lower oil price has increased



Sources: National authorities; and IMF staff calculations.

¹Yemen fiscal breakeven, 2012: US\$237 per barrel.



Note: Shaded area shows the fiscal balance for an oil price up to US\$28 per barrel (one standard deviation) higher or lower than the forecast oil price for 2013 to 2017.



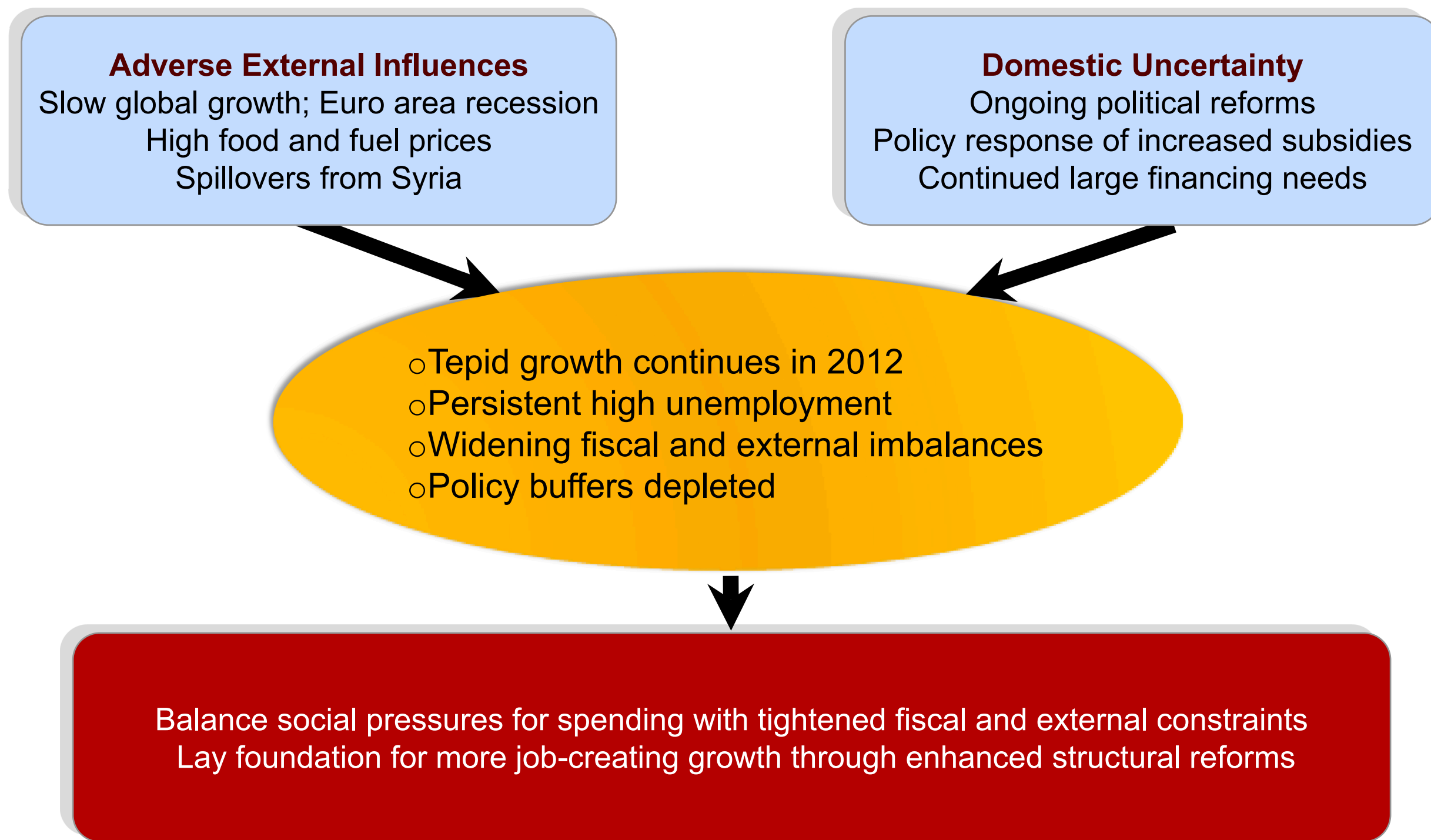
Key messages: MENAP oil exporters

- ❖ Robust non-oil GDP growth (supported by accommodative fiscal policy); strong 2012 growth driven by Libyan recovery
- ❖ Large external current account surpluses are sensitive to lower oil prices
- ❖ Gradually saving more and reducing spending rigidities will strengthen fiscal resilience to oil price declines
- ❖ Continued focus on broader structural reforms and economic diversification will help generate private-sector employment and inclusive growth

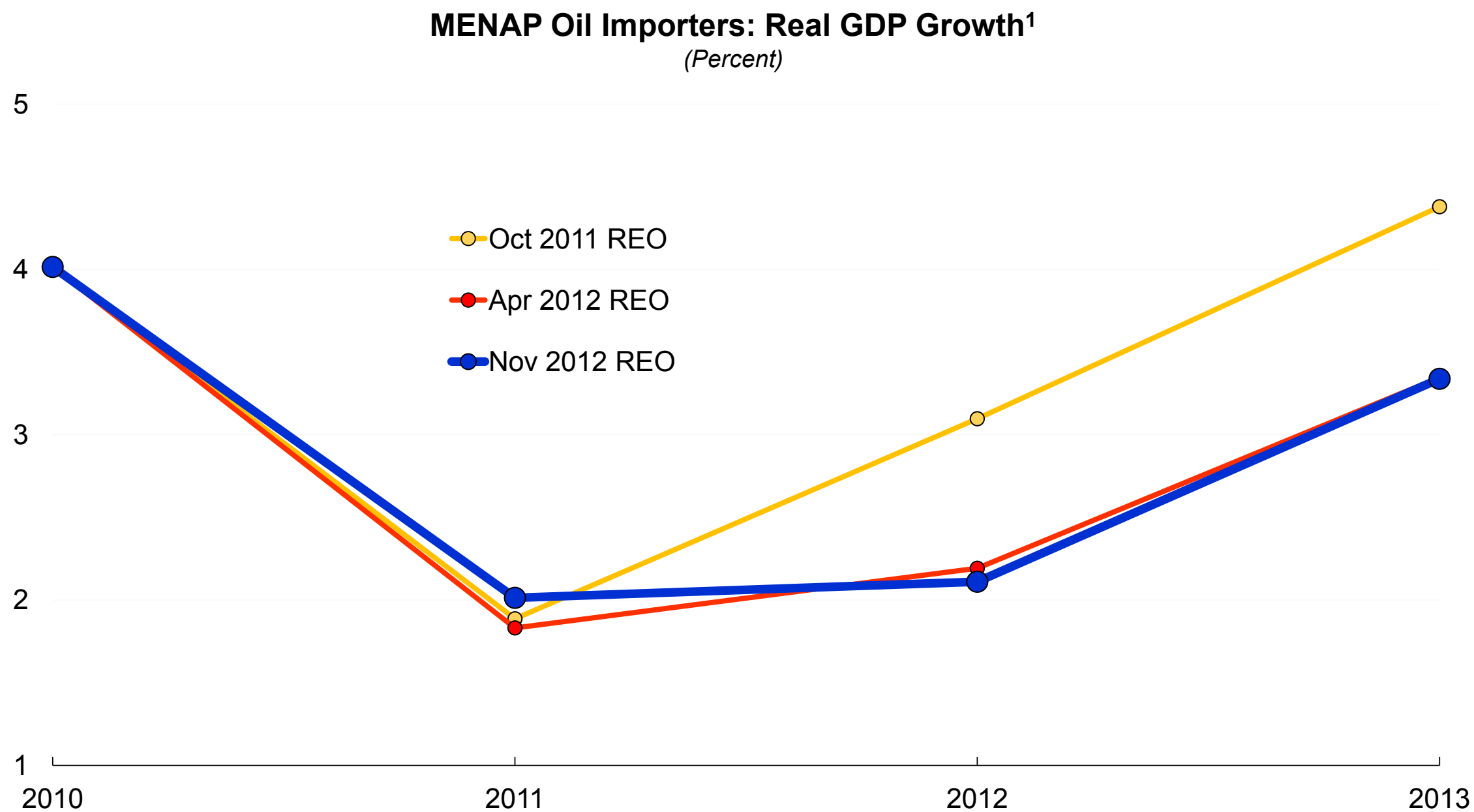
MENAP oil importers



Restore macroeconomic sustainability and accelerate growth



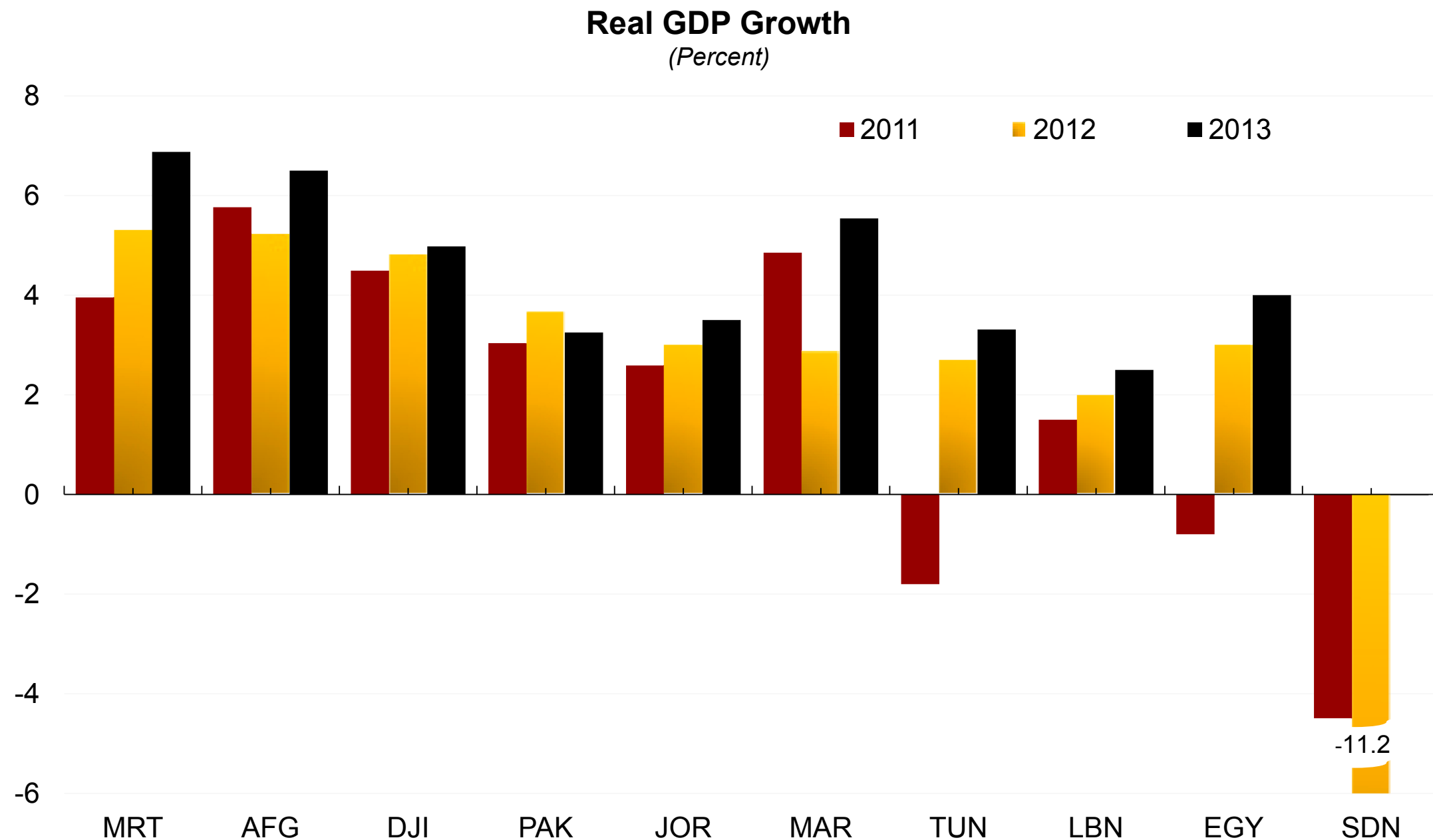
Growth forecasts revised downward



Sources: National authorities; and IMF staff calculations.

¹Excludes Syria from 2011 onwards.

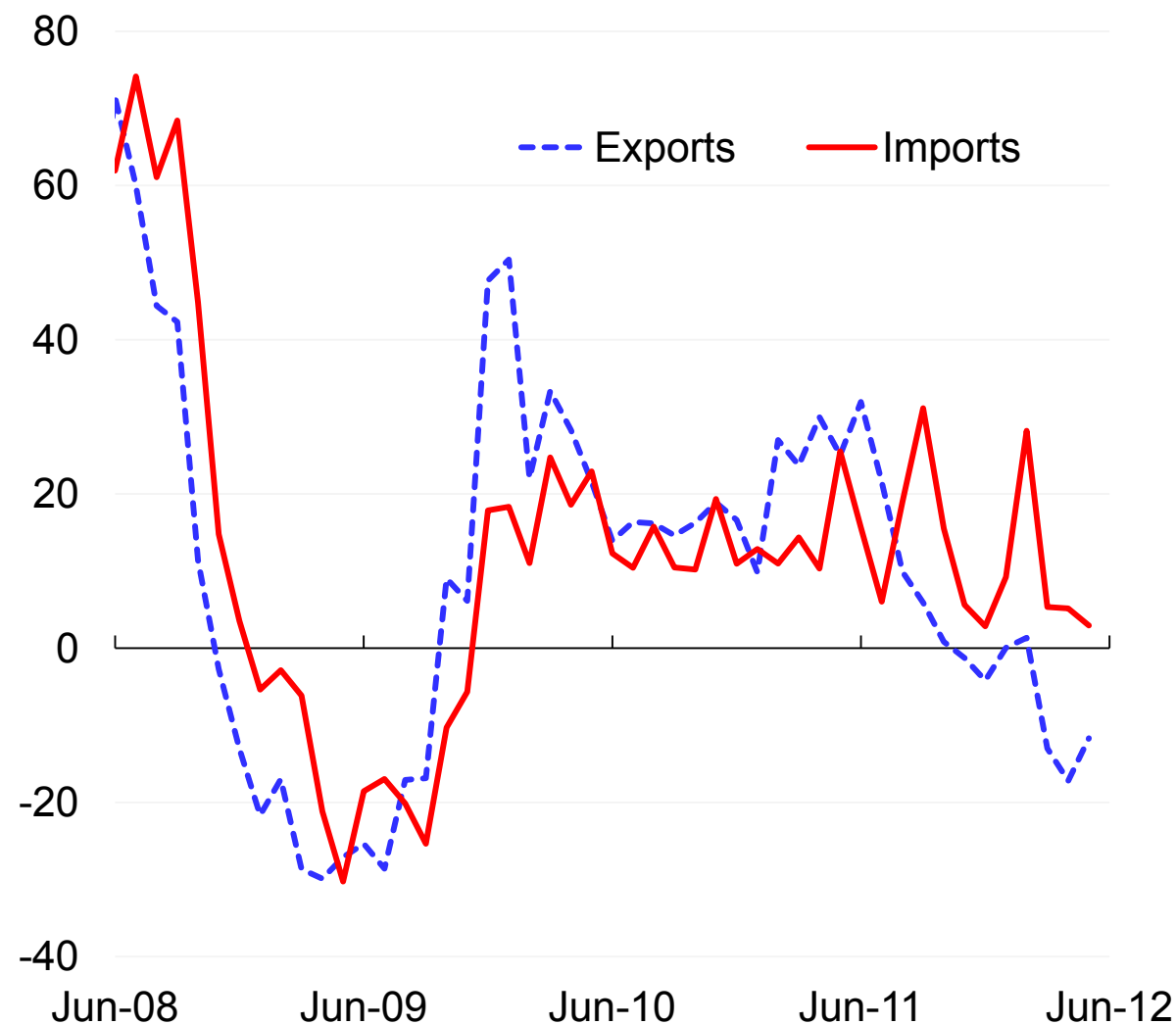
Recovery expected, but uncertainty weighing on activity



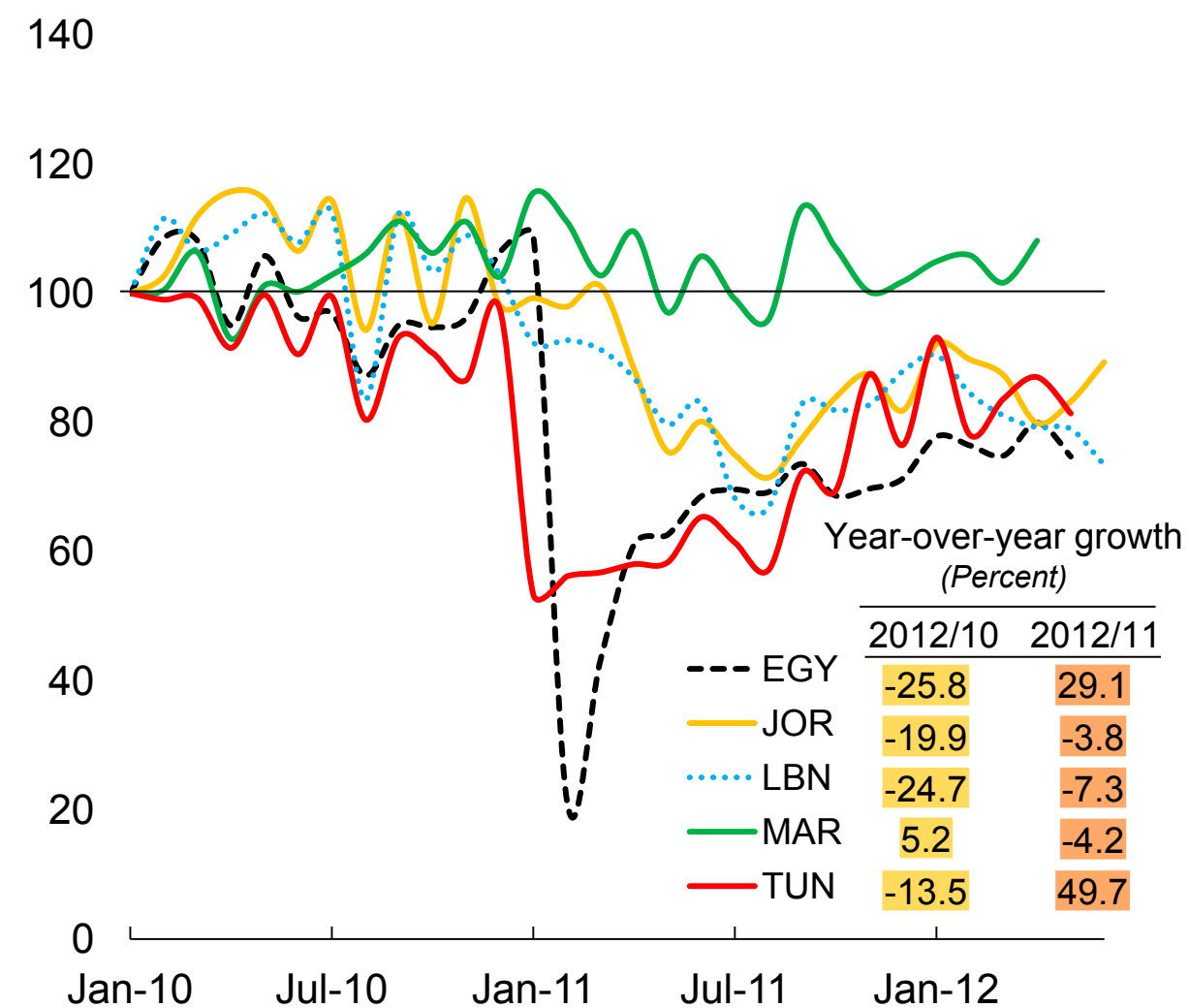
Sources: National authorities; and IMF staff calculations.

Tepid outlook reflects weak exports of goods, tourism

Exports and Imports of Goods
(Annual percentage change)



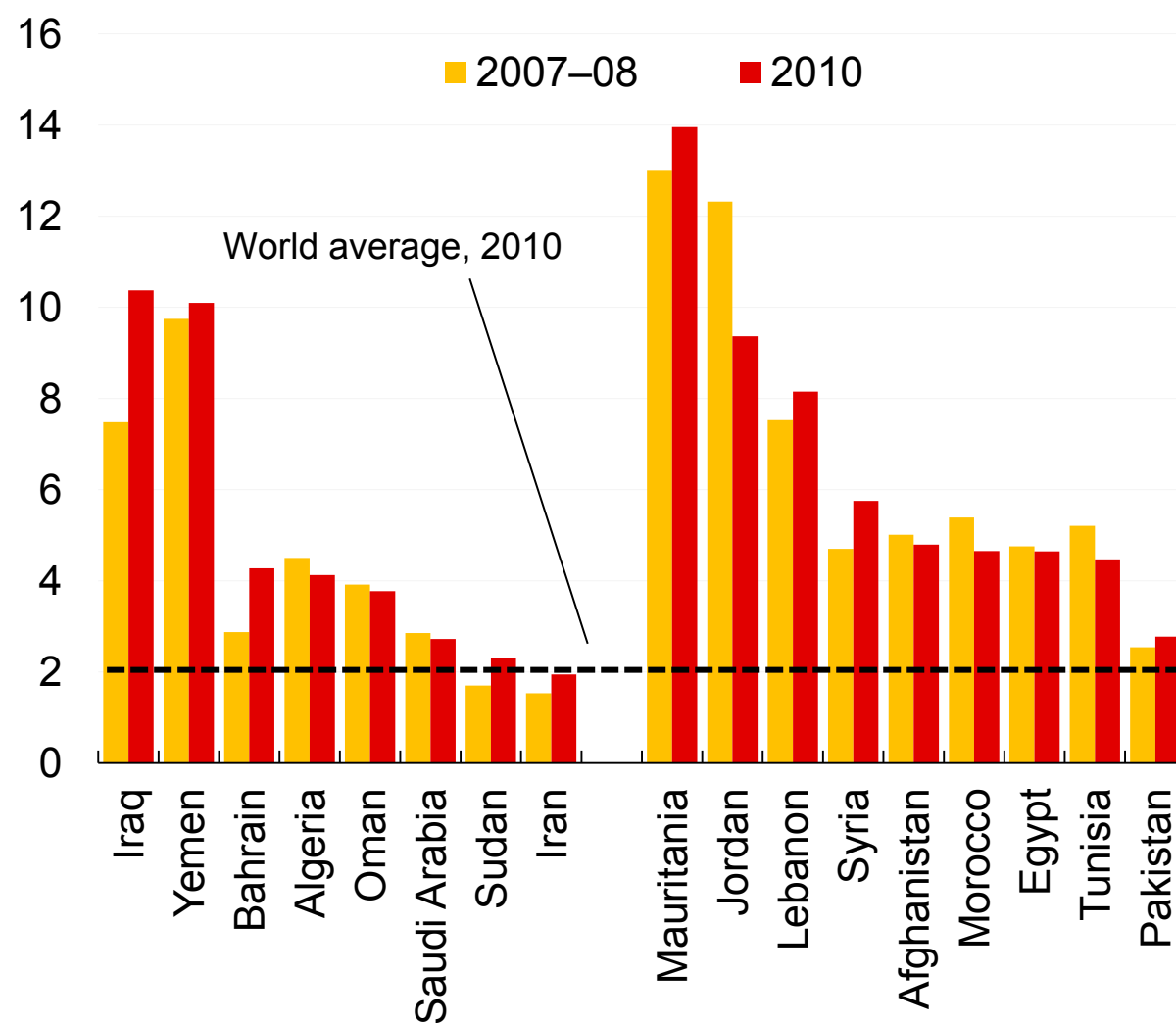
International Tourist Arrivals
(Index; Jan 2010=100, seasonally adjusted, most recent month)



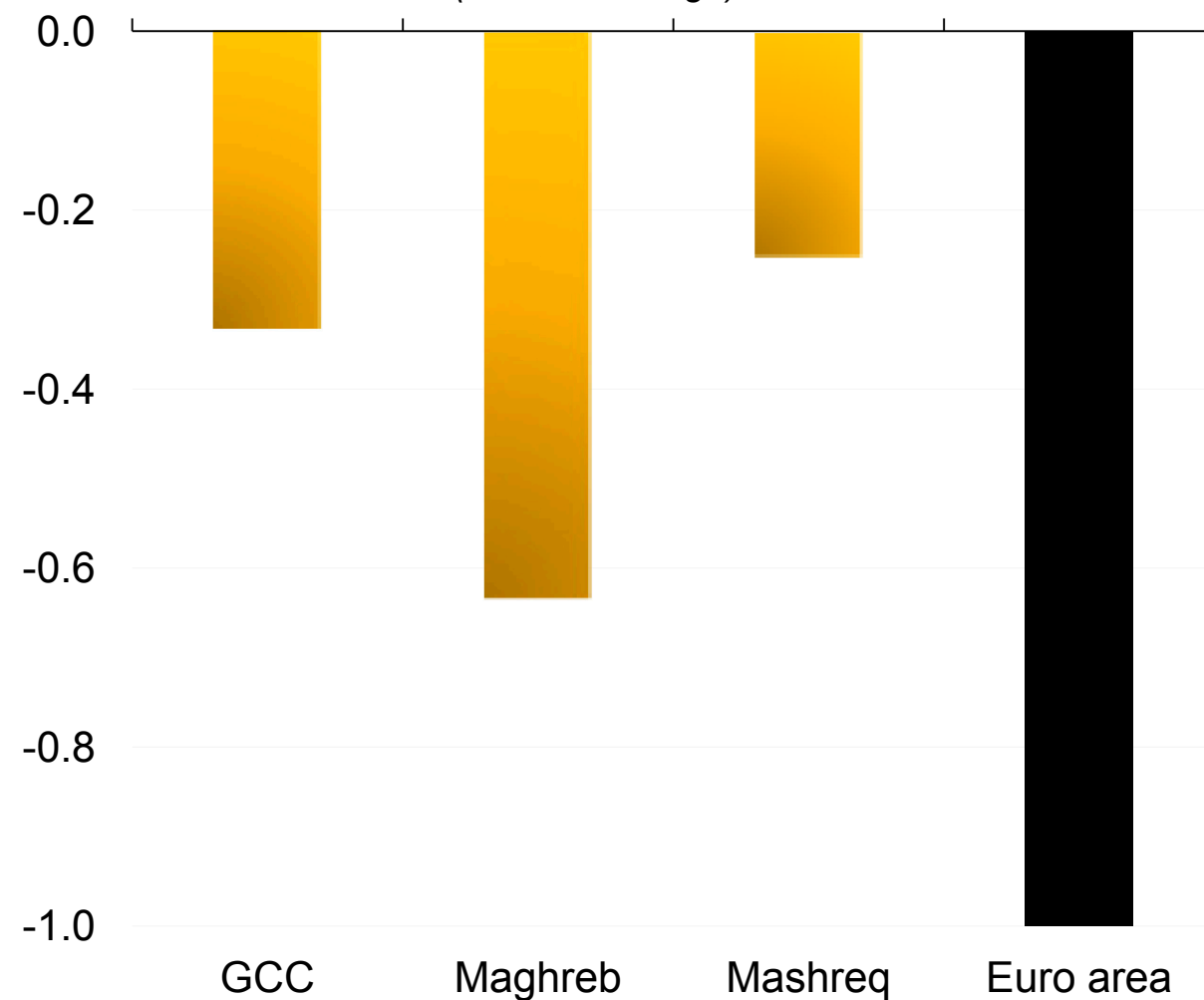
Sources: Haver Analytics; and national authorities.

Vulnerable to high food prices, euro area slowdown

Food Imports as a Share of GDP
(Percent)



Responses of Output to a Negative GDP Shock in the Euro Area
(Percent change)

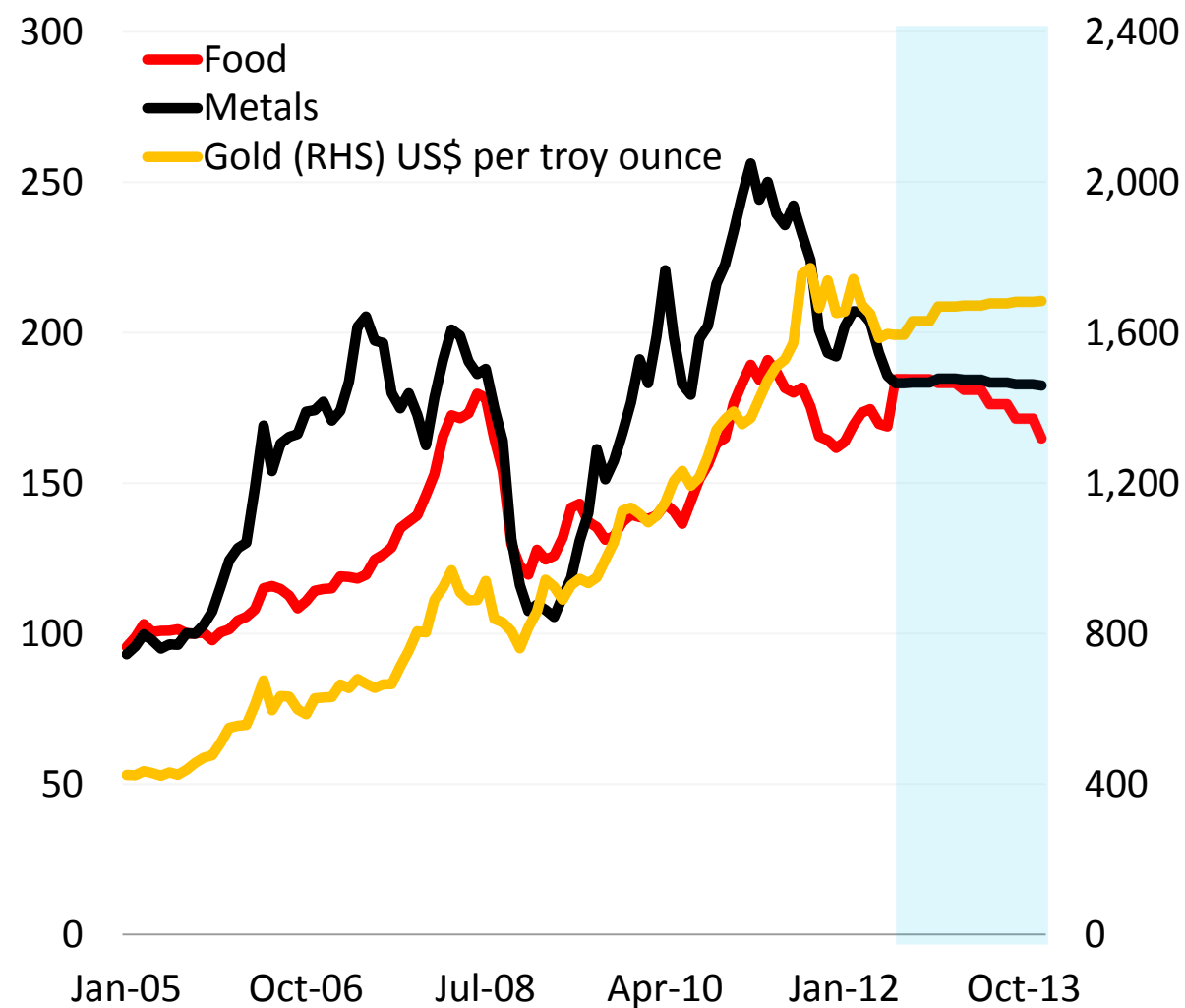


Sources: Cashin, Mohaddes, Raissi (2012); and IMF staff calculations.

Commodity prices likely to remain high

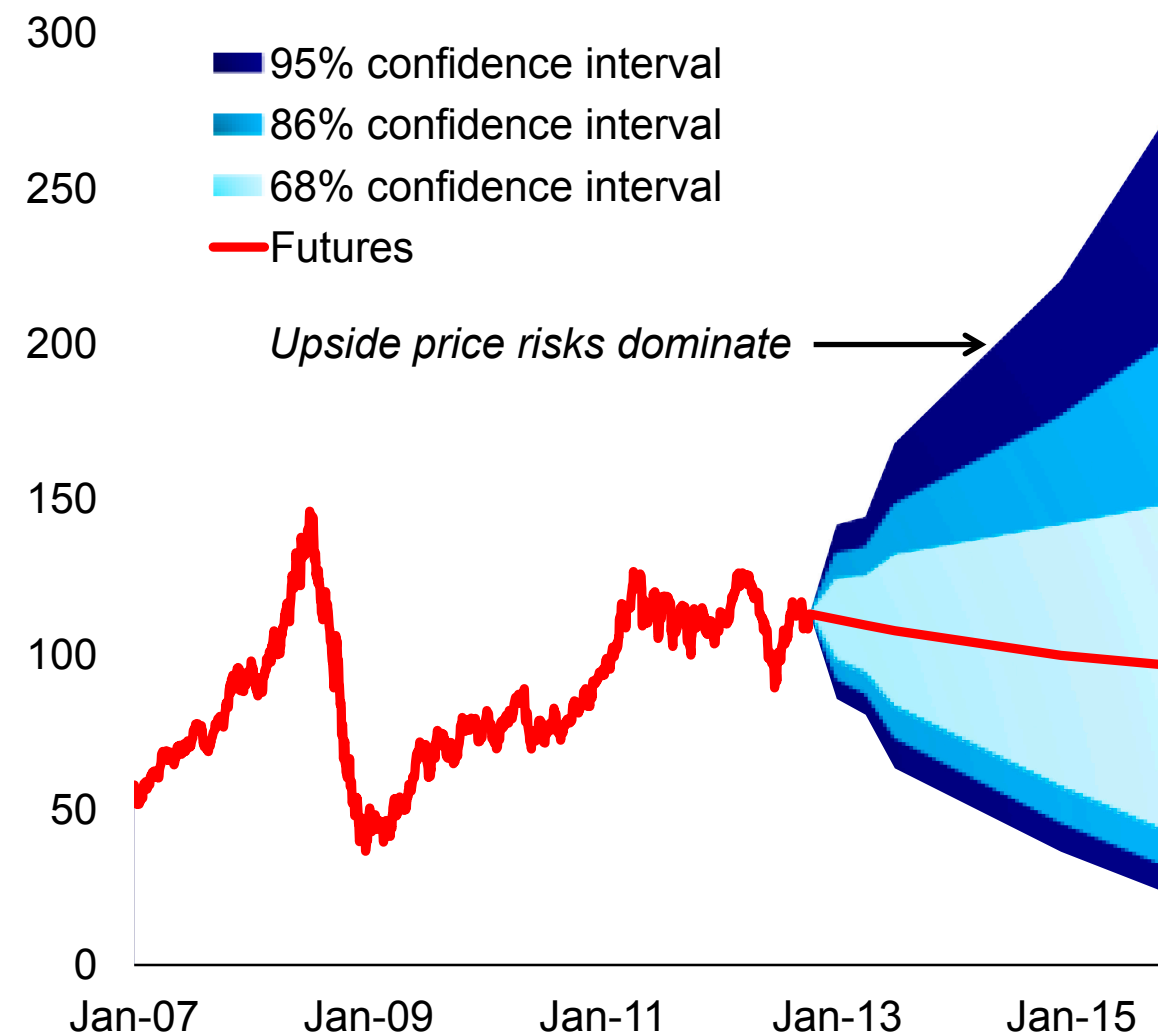
Global Commodity Price Developments¹

(Index; 2005 = 100)



Brent Crude Oil Price Prospects²

(U.S. dollars per barrel)

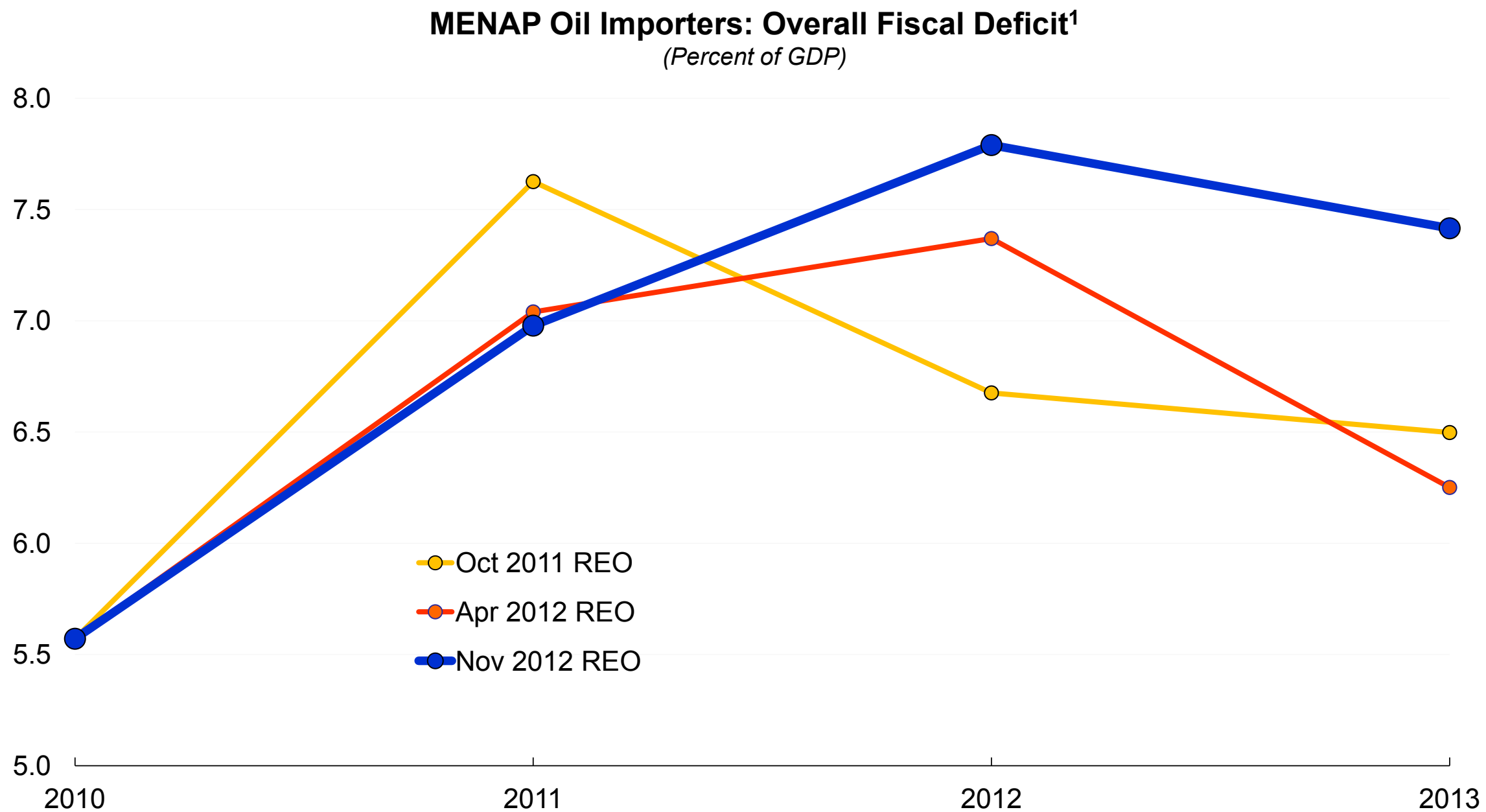


Sources: IMF, Primary Commodity Price System; and IMF staff calculations.

¹Food index derived from average price of corn, wheat, rice, and soybeans.

²Derived from prices of futures options on October 9, 2012.

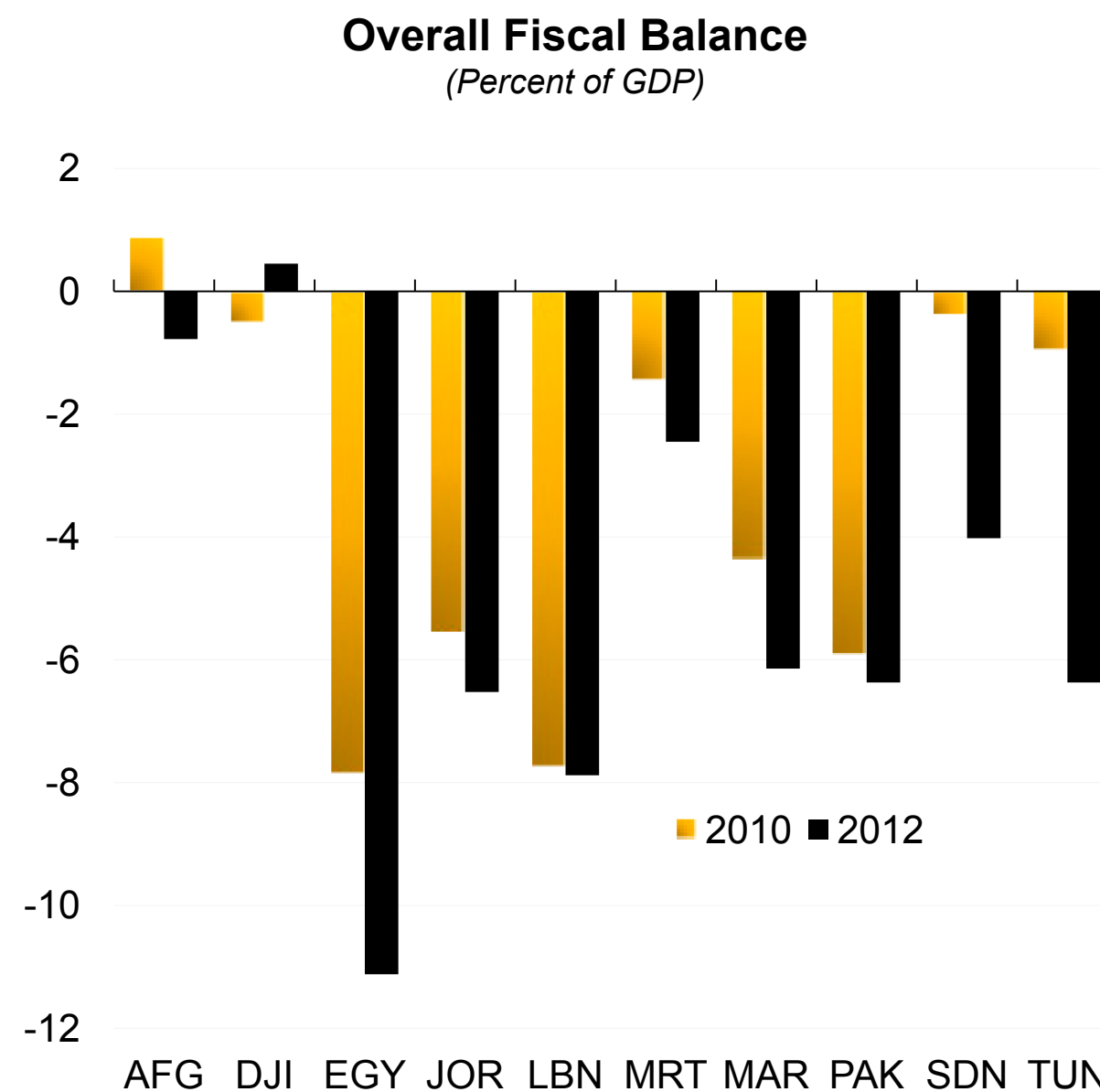
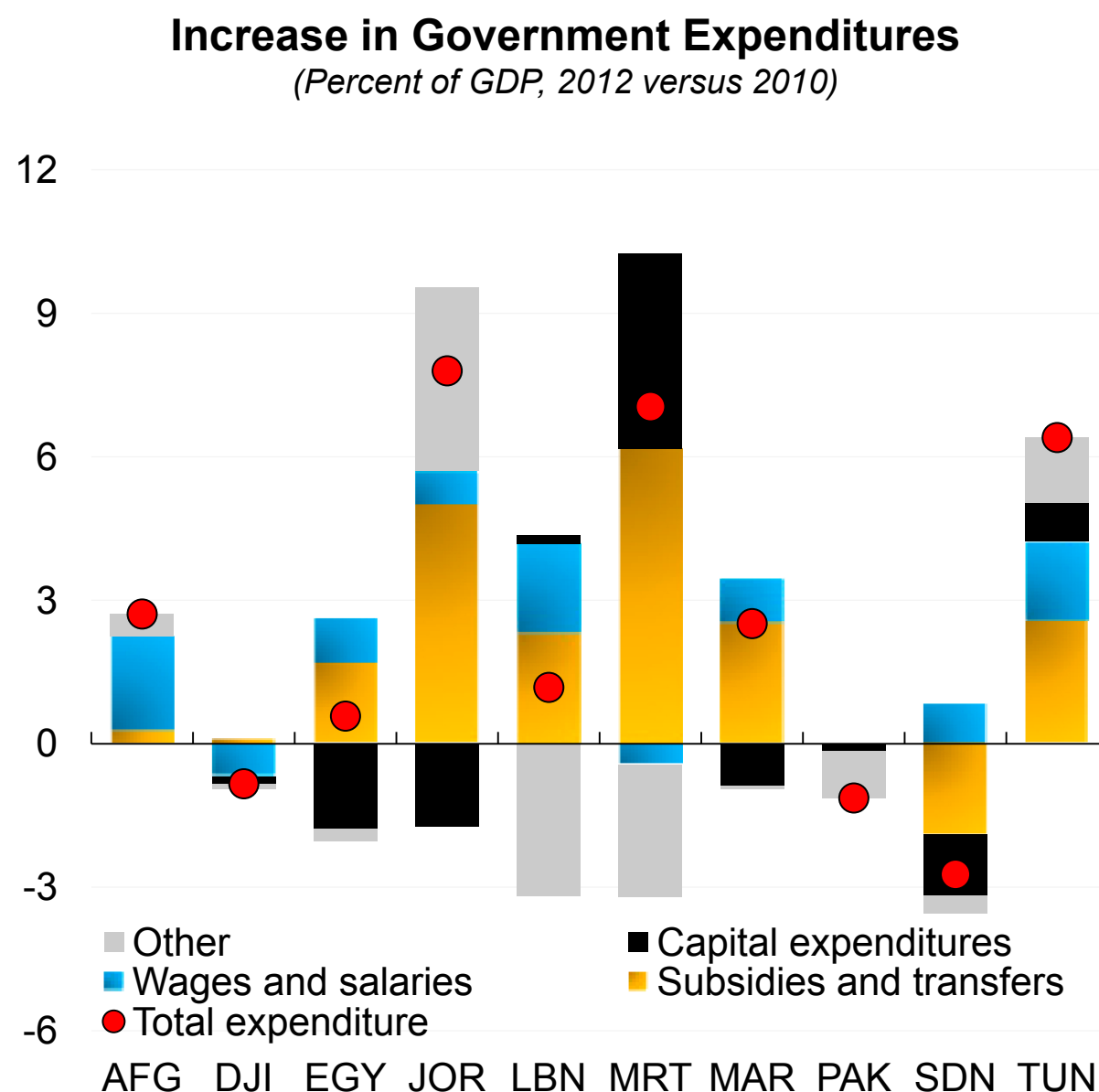
Fiscal deficits revised upward



Sources: National authorities; and IMF staff calculations.

¹Excludes Syria from 2011 onwards.

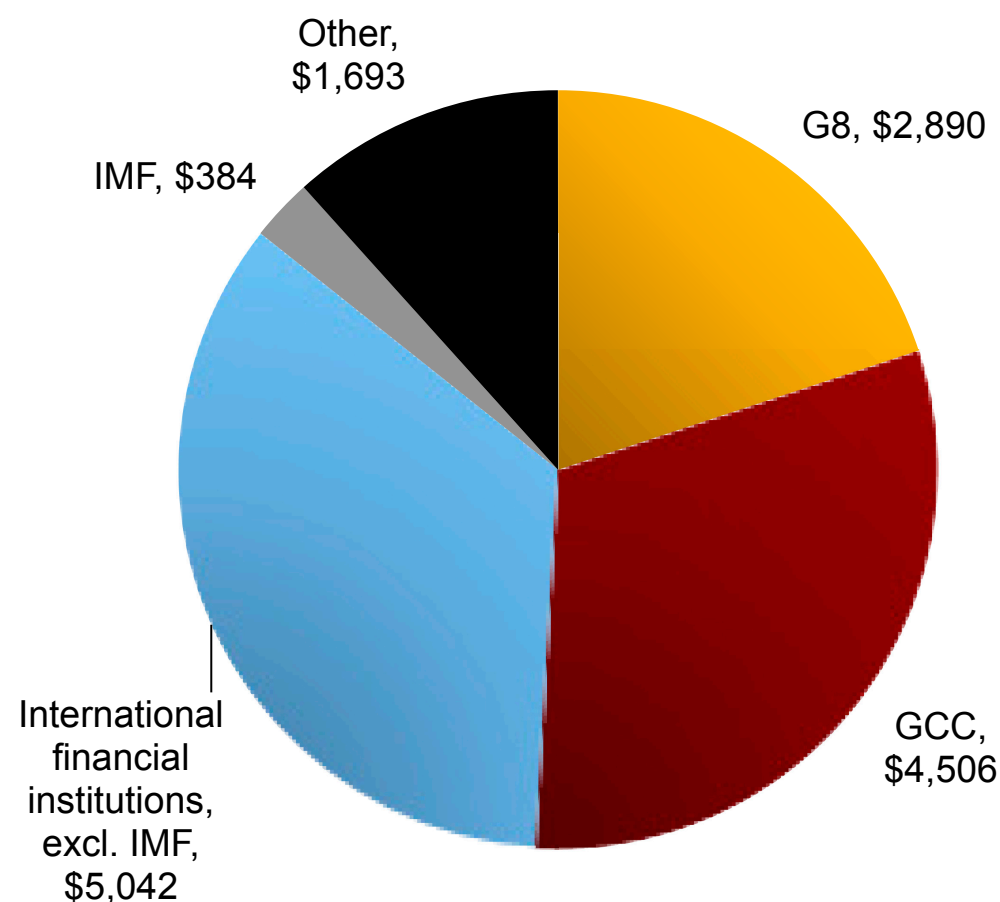
Policy response: higher deficits and spending, mainly on subsidies



Sources: National authorities; and IMF staff calculations.

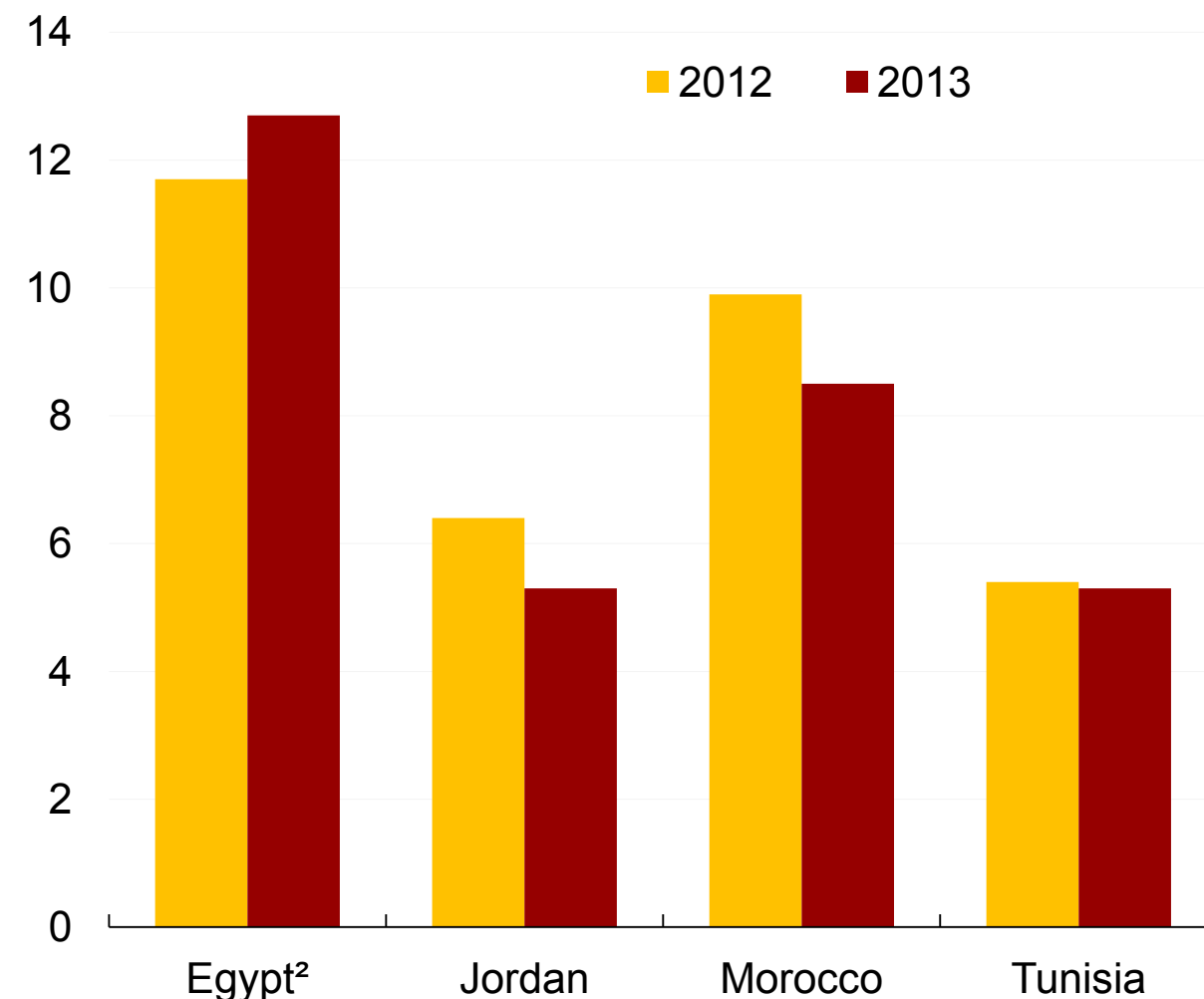
Increased official financing, but more needed.

Official Financing Disbursed Since Arab Awakening¹
(Millions of U.S. dollars)



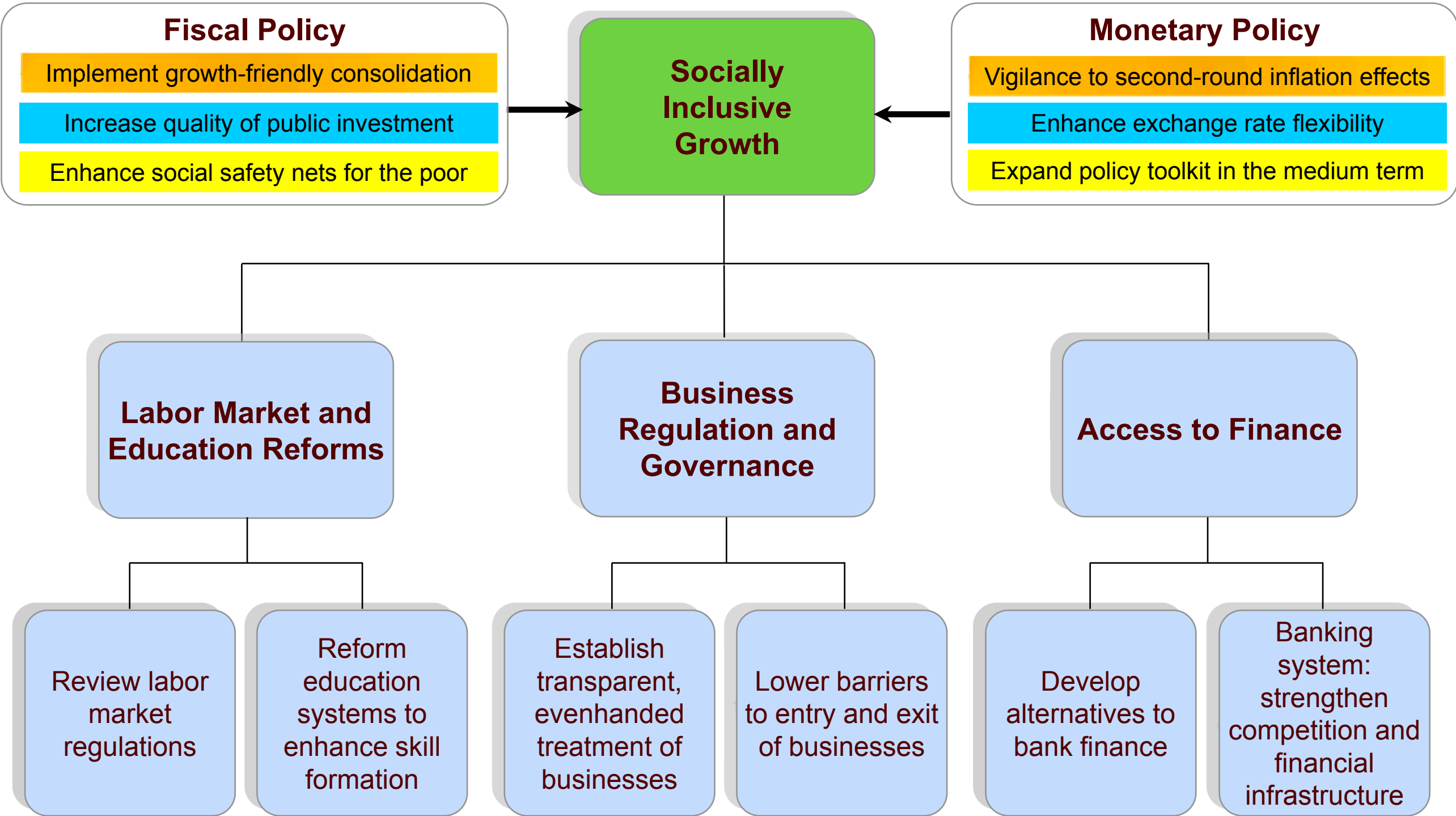
Sources: National authorities; and IMF staff calculations.
¹Received through August 2012 or latest available. Includes disbursements to Egypt, Jordan, Morocco, and Tunisia.

Gross External Financing Needs¹
(Billions of U.S. dollars)



Sources: National authorities; and IMF staff calculations.
¹Calculated as the sum of current account balance (before grants) and external amortization.
²Fiscal year (July-June).

Medium-term policy agenda for shared prosperity





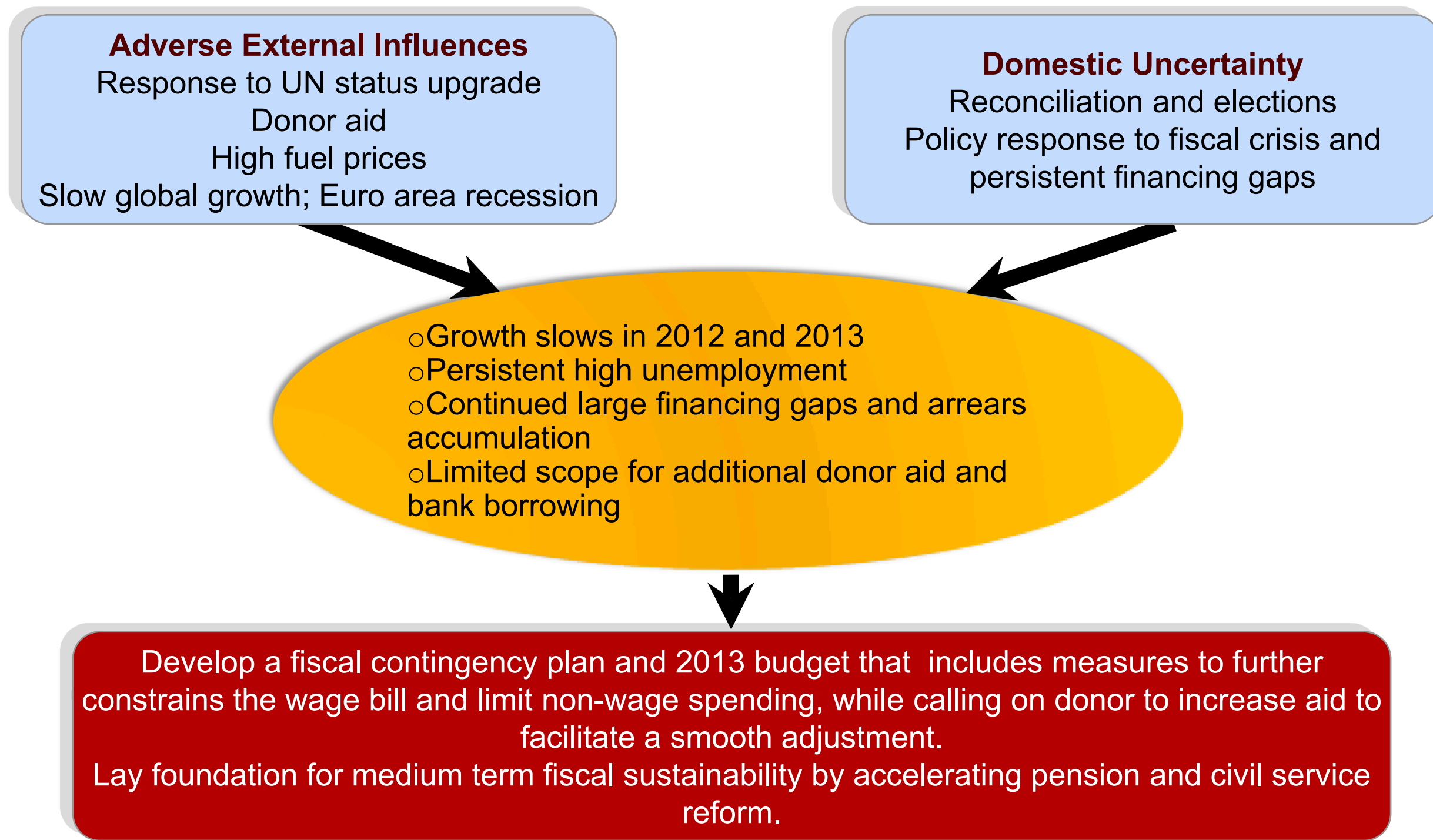
Key messages: MENAP oil importers

- ❖ Growth prospects for 2012-13 remain modest, with economic activity below potential
- ❖ Largest downside risks emanate from continued political instability and spillovers from Syria, but other risks—including a further deterioration of the global economy and continued high commodity prices—also loom large
- ❖ Depletion of policy buffers calls for urgent action on growth-enhancing consolidation, while protecting the poor and vulnerable through effective safety nets
- ❖ Commitments from international partners for financial assistance, trade access, and capacity building are needed to smooth adjustment in 2012-13
- ❖ Time to start economic transitions—prompt action on macroeconomic policies and reforms needed to boost competitiveness, growth, and job creation

West Bank and Gaza

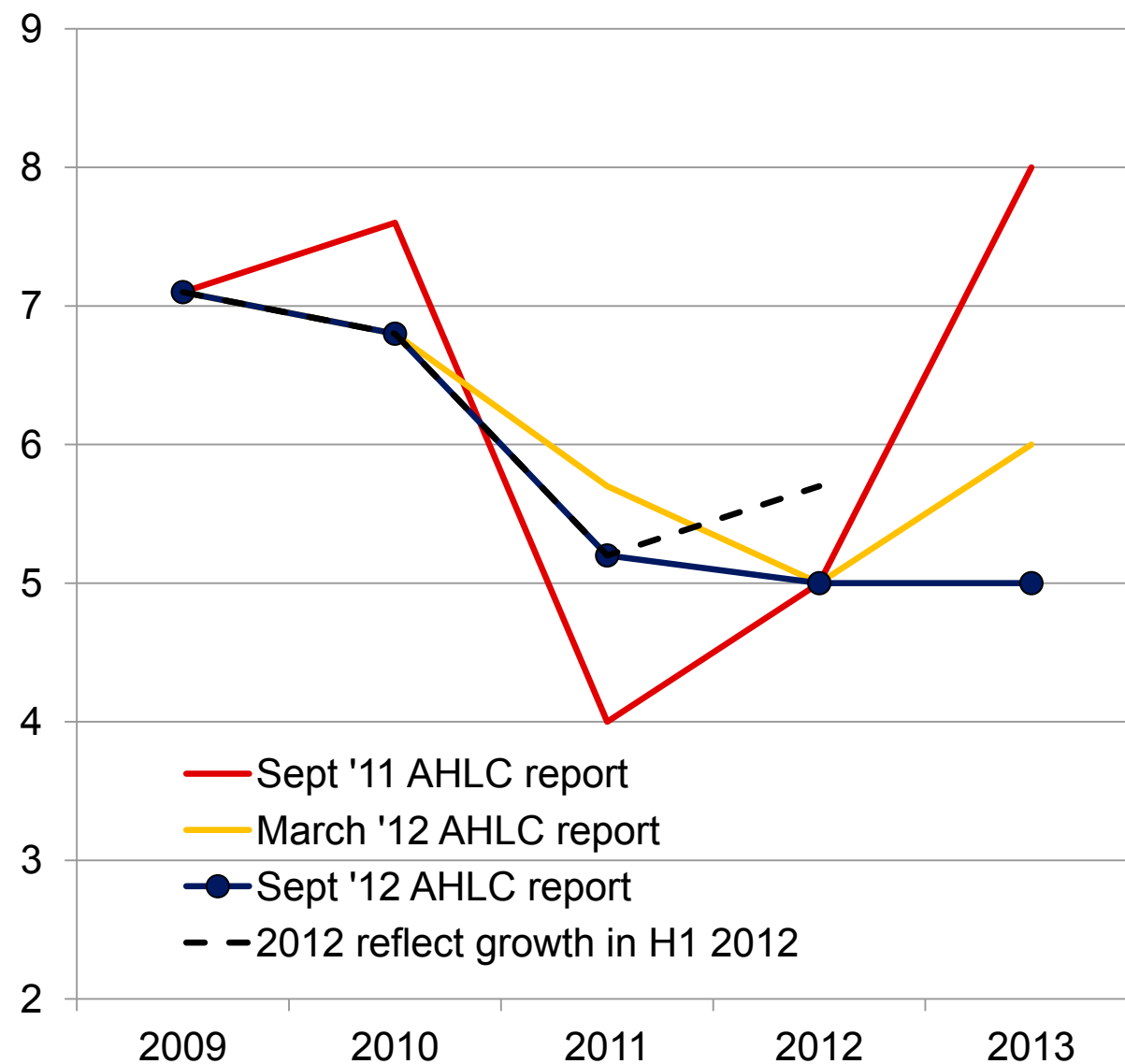


Challenges for West Bank and Gaza



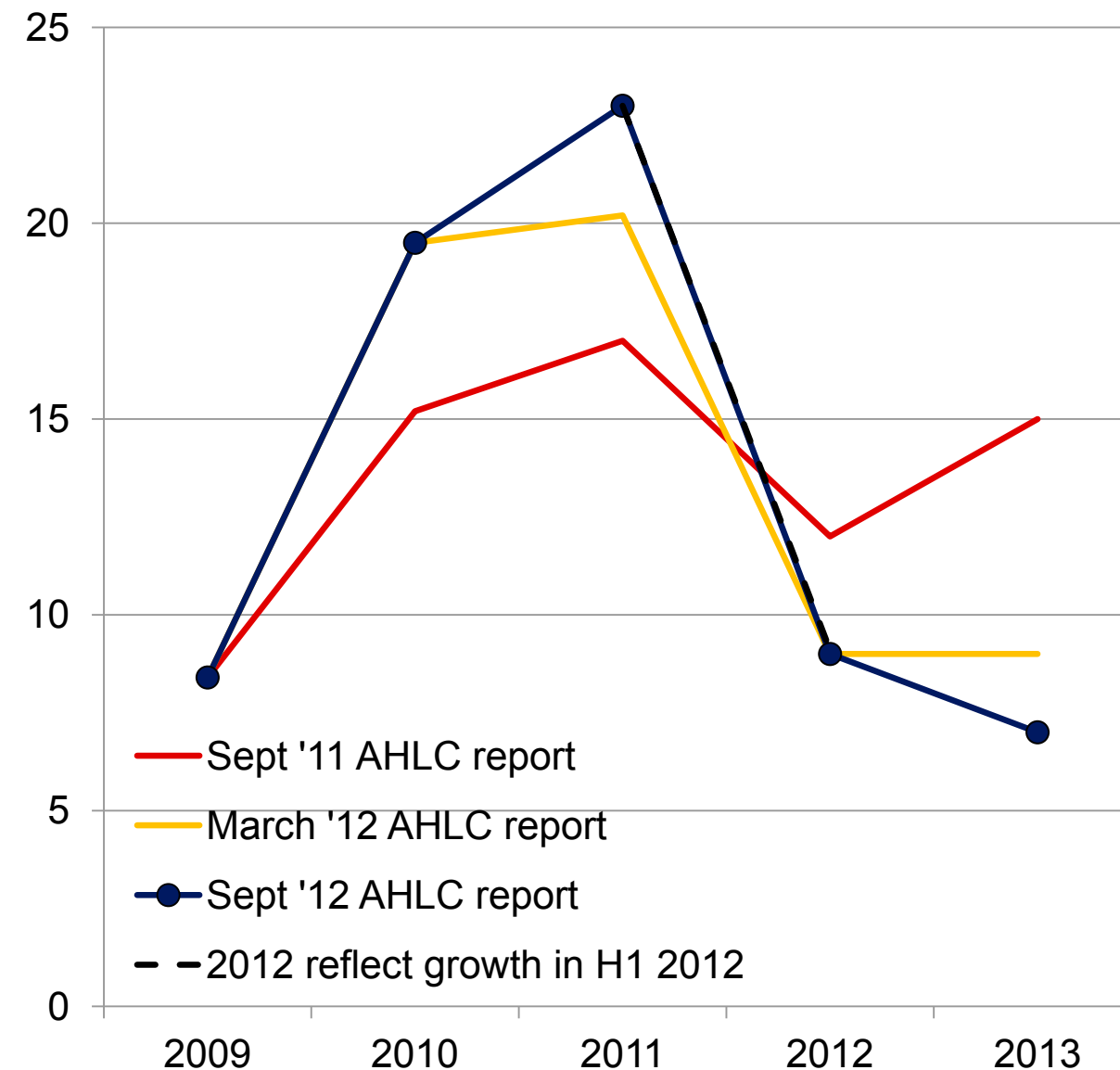
Growth forecasts revised downward

Growth in West Bank slowing to 5 percent...

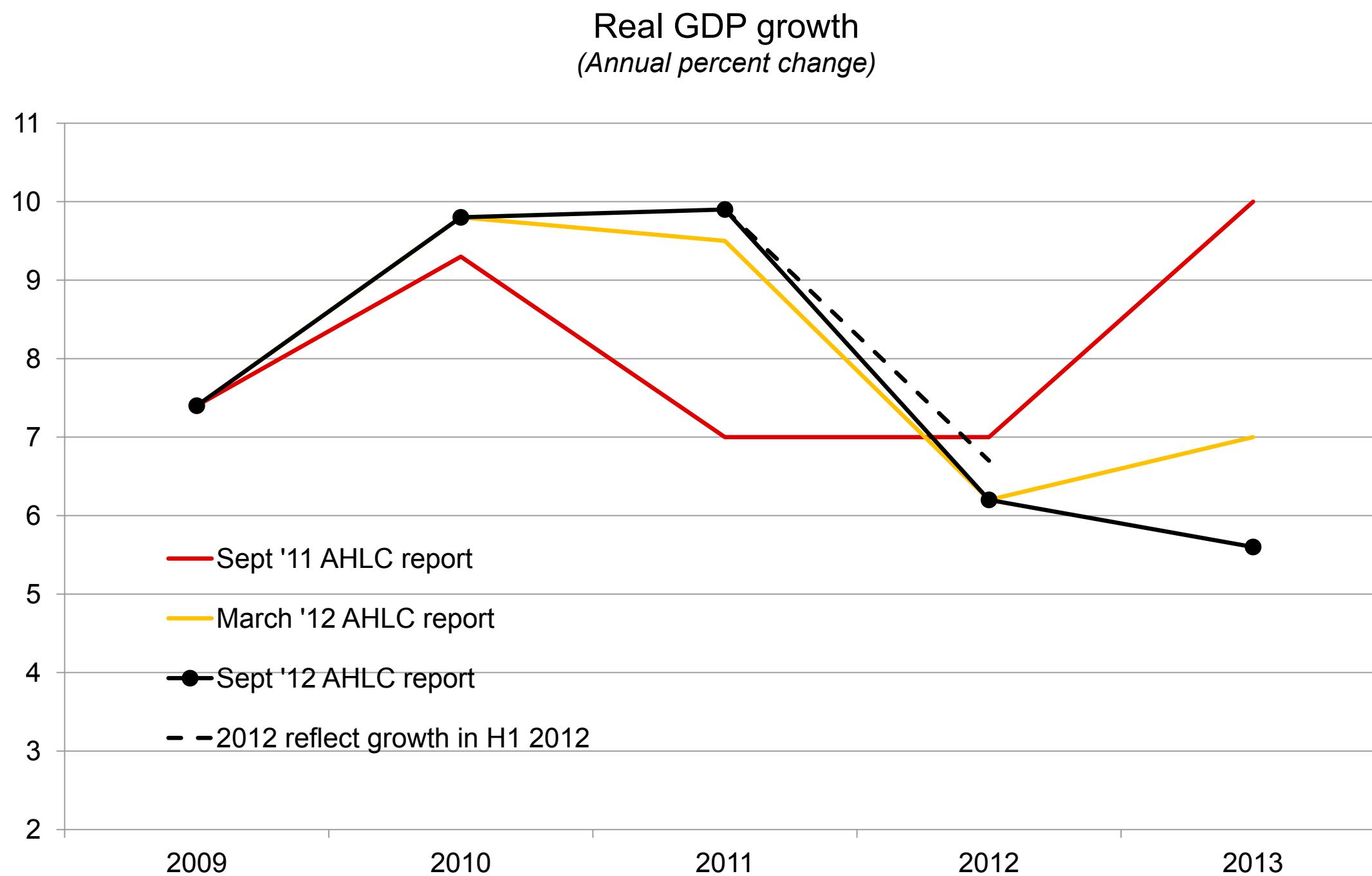


Sources: National authorities; and IMF staff calculations.

...while the post-2008 boom in Gaza seems to have ended.

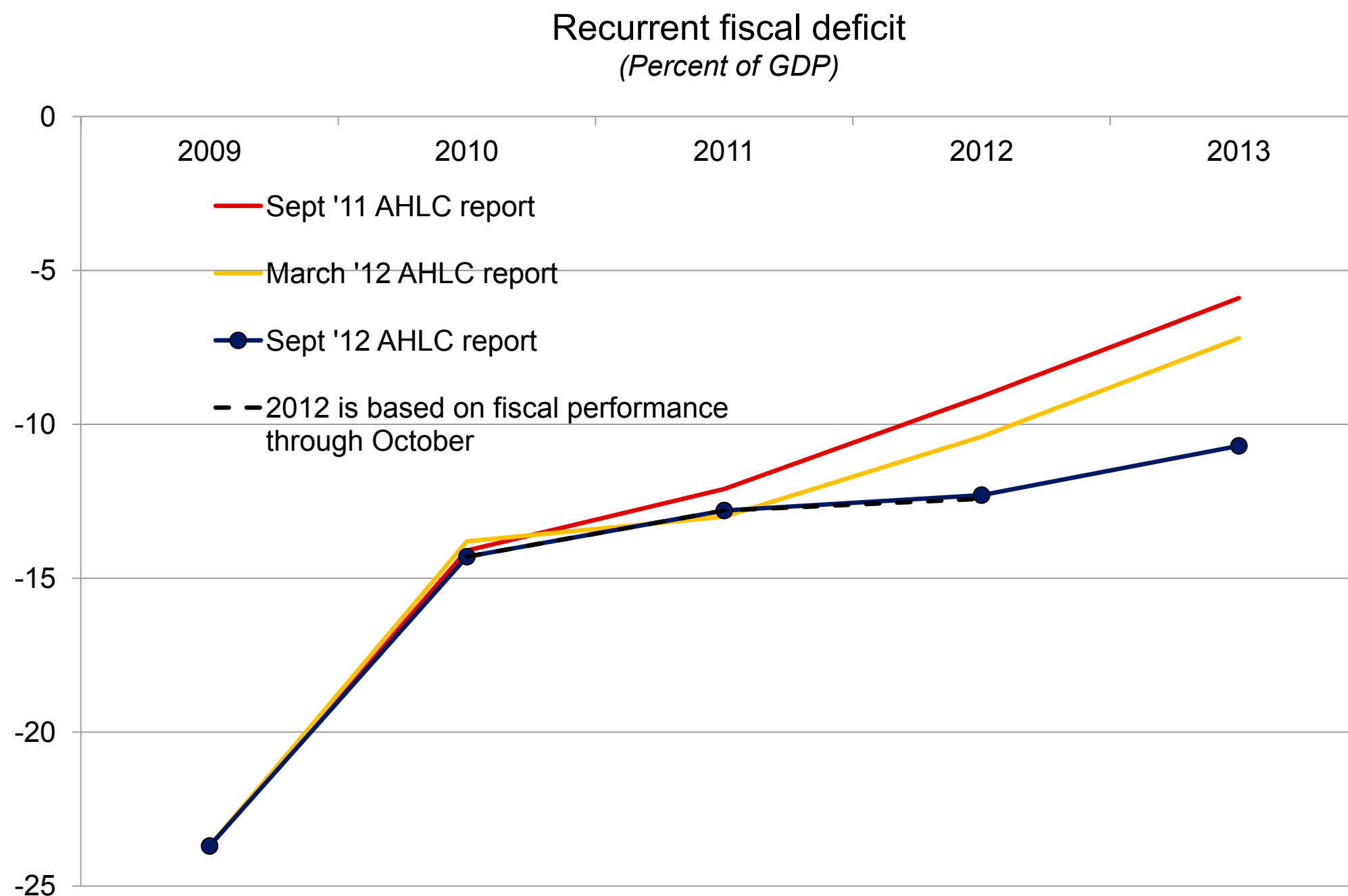


Growth forecasts revised downward



Sources: National authorities; and IMF staff calculations.

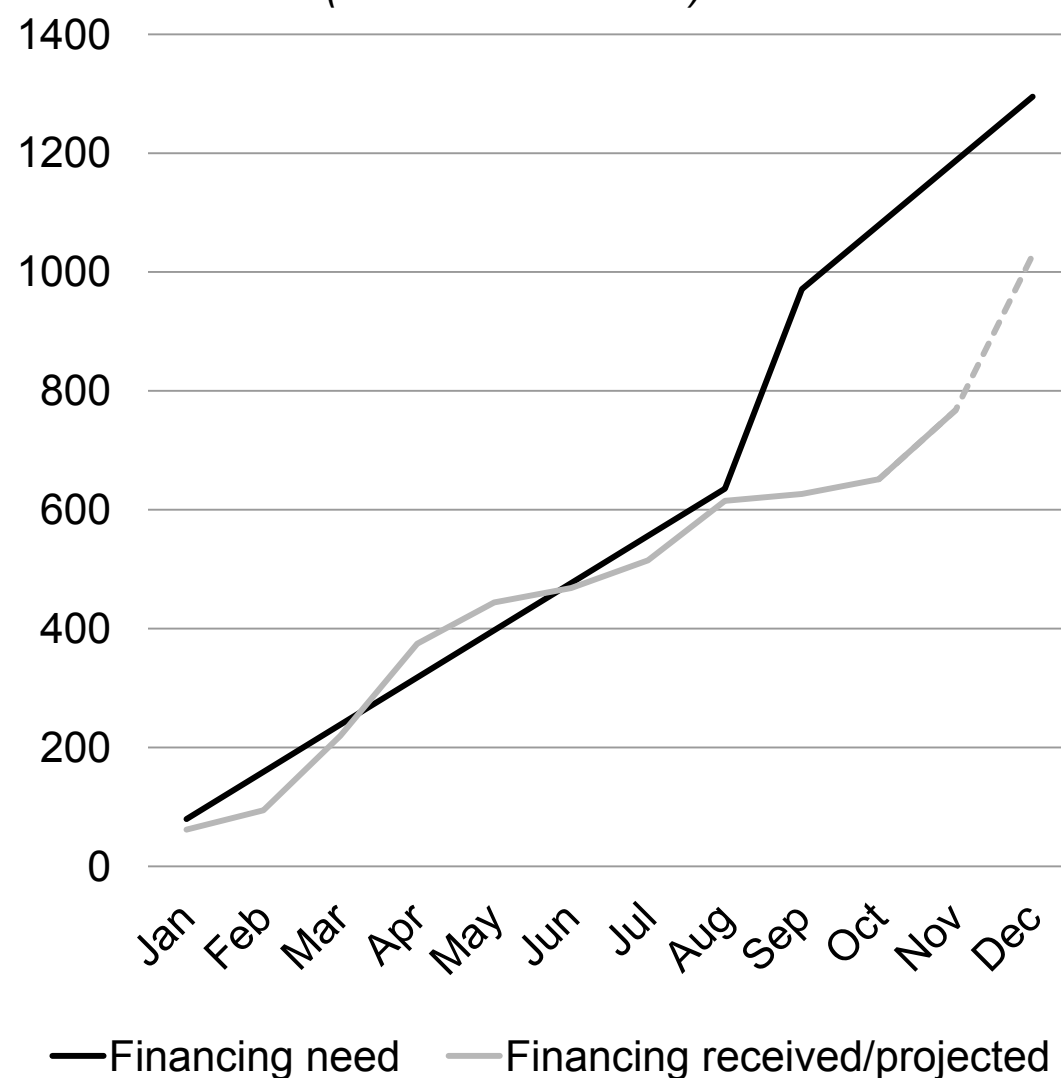
Fiscal consolidation is progressing



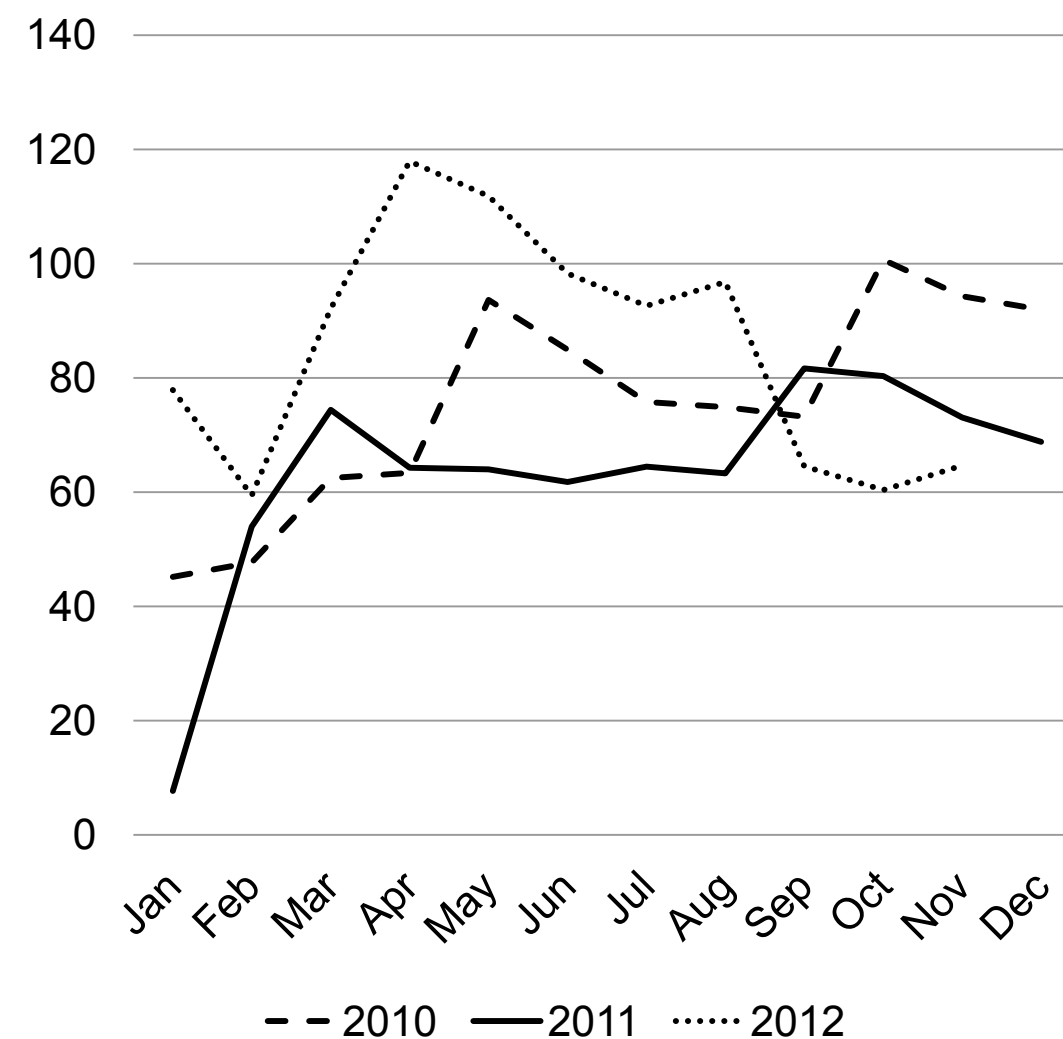
Sources: National authorities; and IMF staff calculations.

Shortfalls in donor aid continue

Cumulative Financing Need and Financing Received / Projected: 2012
(In millions of USD)



Cumulative Financing Received : 2010, 2011 and 2012 (as of November 19 2012)
(In percent of financing need)



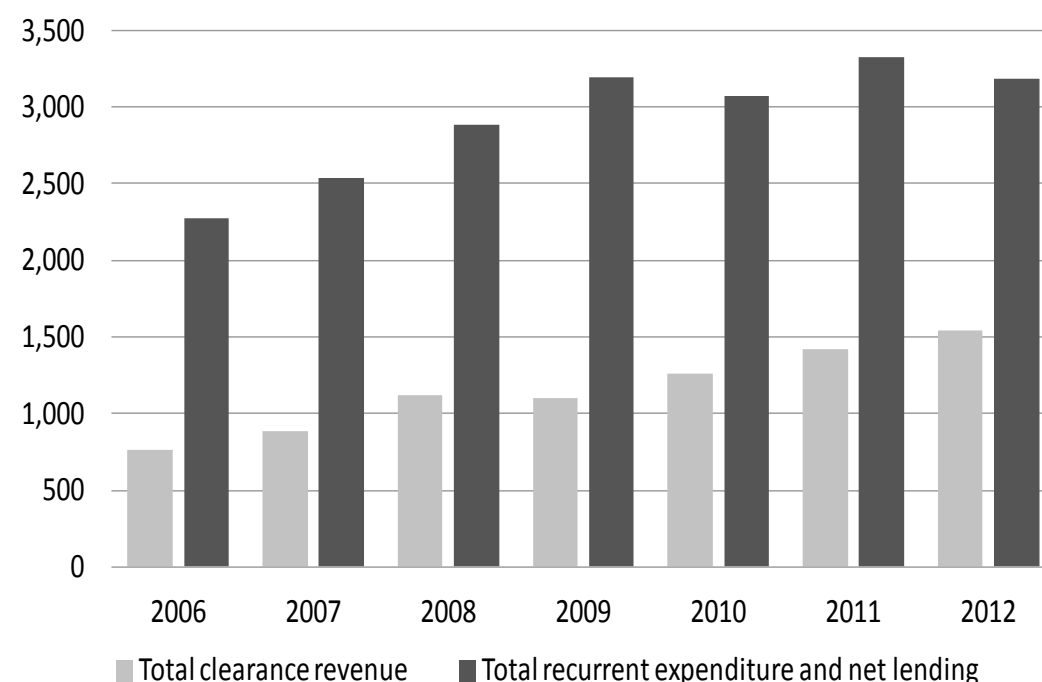
Sources: National authorities; and IMF staff calculations.

WBG in the MCD REO: The 2012 Fiscal Crisis

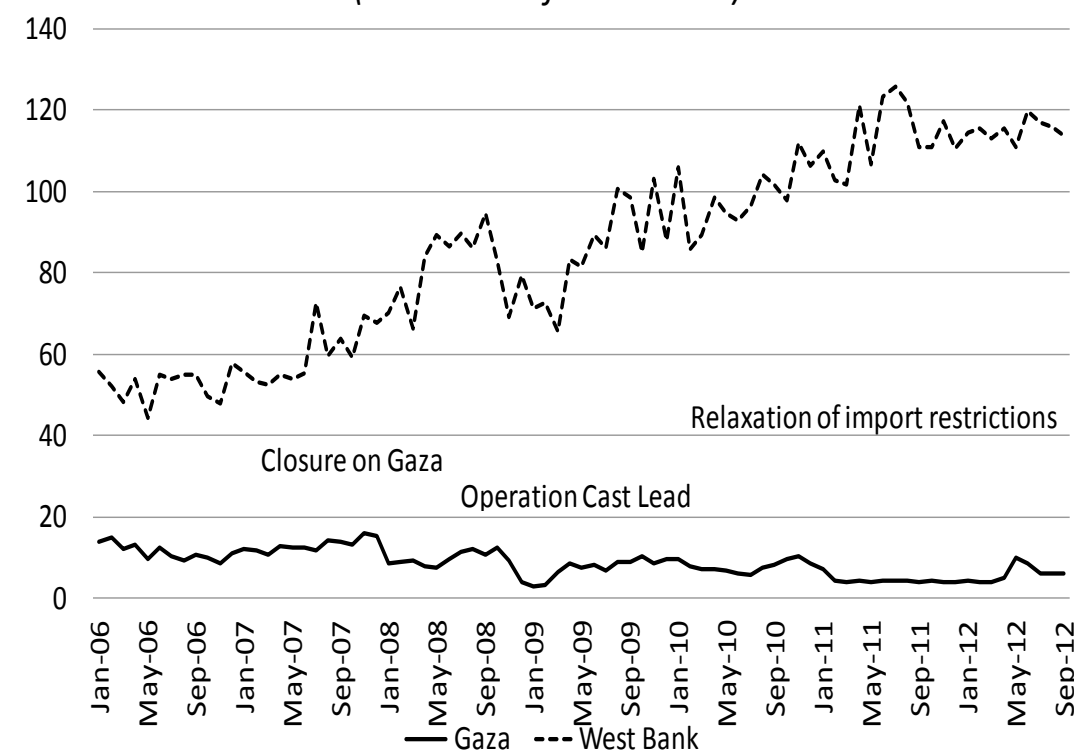
- Fiscal crisis: aid and revenue shortfalls
- Consequences: arrears and bank borrowing
- Actions needed:
 - Contain deficit
 - Implement clearance revenue arrangement
 - Additional donor aid

Clearance revenues are crucial

Total Clearance Revenue and total recurrent expenditures and net lending for West Bank and Gaza: 2006-2012
(In millions of U.S. dollars)



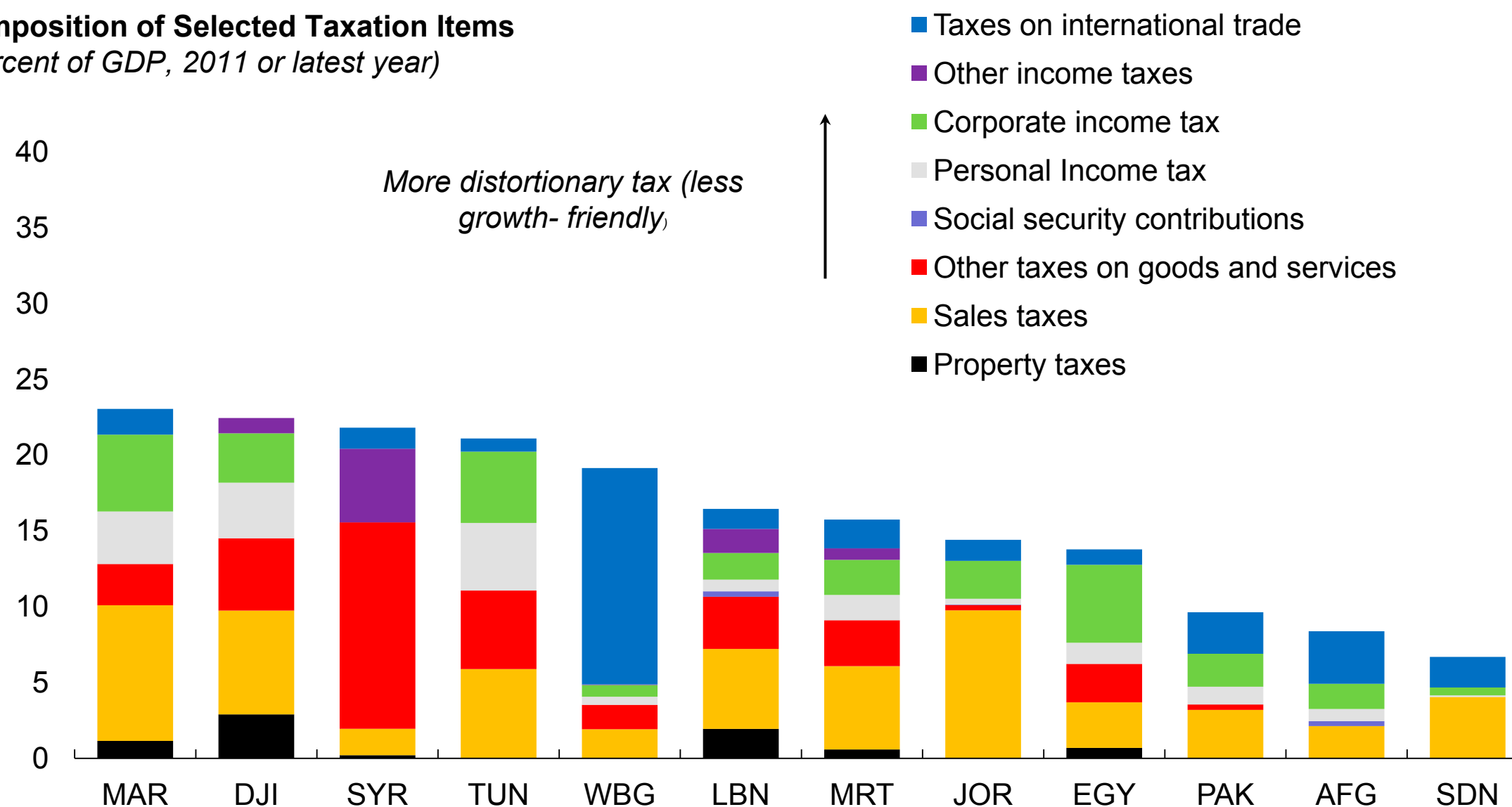
Total Clearance Revenue for West Bank and Gaza : January 2006 - September 2012
(In millions of U.S. dollars)



Sources: National authorities; and IMF staff calculations.

Growth-friendly fiscal consolidation: Taxation items

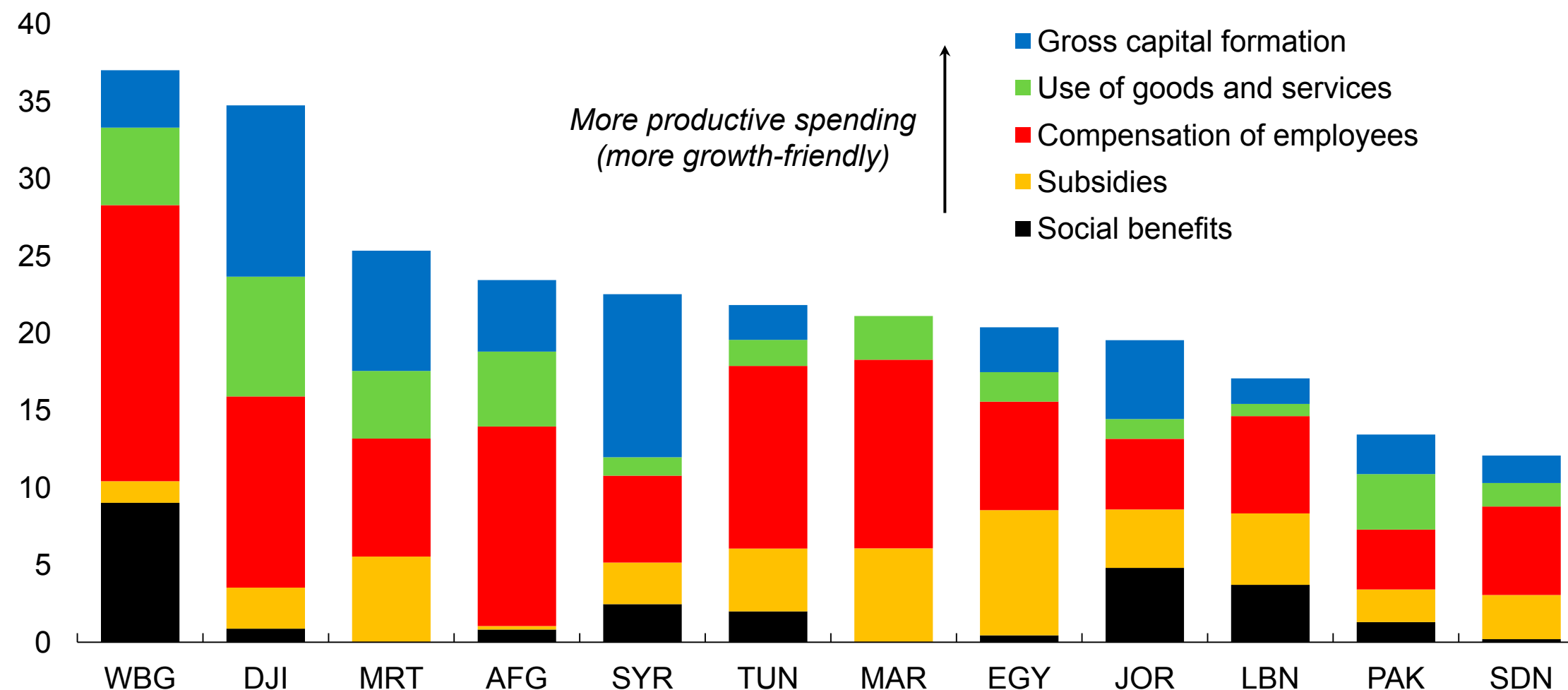
Composition of Selected Taxation Items
(Percent of GDP, 2011 or latest year)



Sources: National authorities; and IMF staff estimates.

Growth-friendly fiscal consolidation: Expenditure items

Composition of Selected Expenditure Items
(Percent of GDP, 2011 or latest year)



Sources: National authorities; and IMF staff estimates.

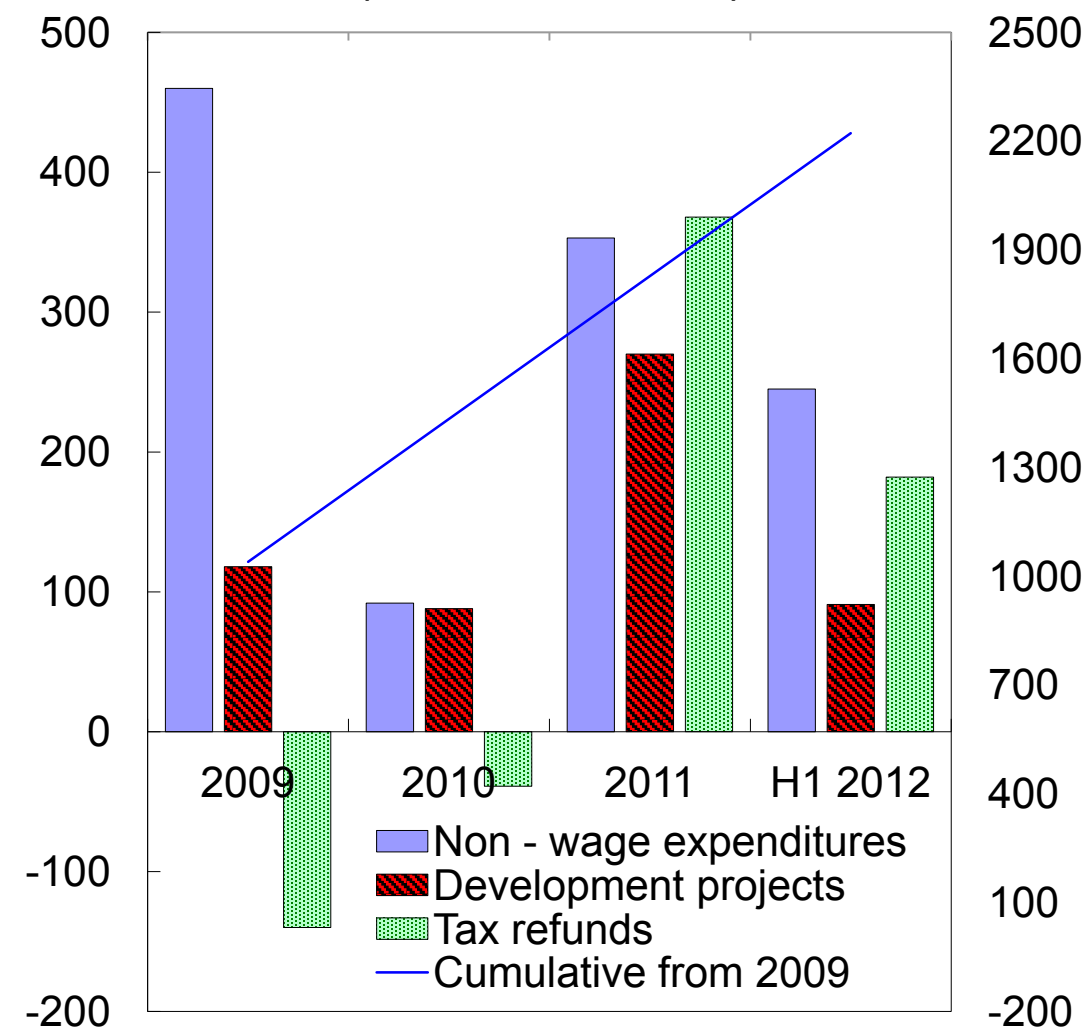
Private Sector is Struggling

Annual Private Sector Credit Growth
(In percent, end of period)



Source: PMA

Net Arrears Accumulation: 2009 - H1 2012
(In millions of NIS)

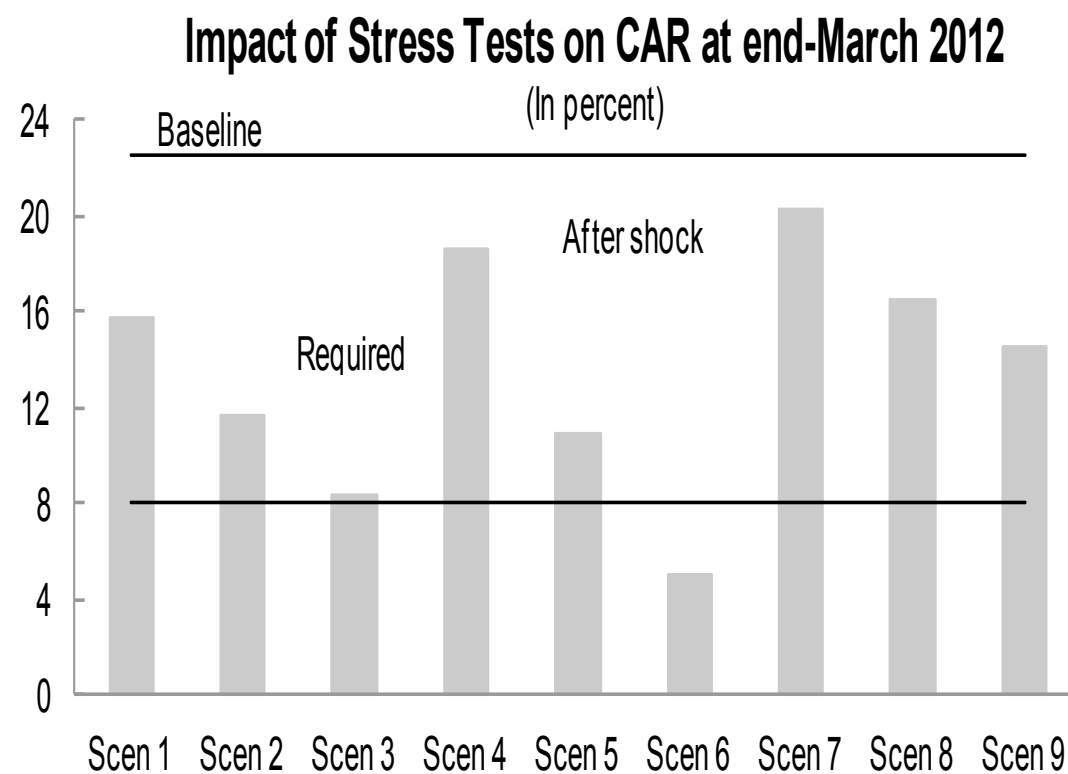


Source: Ministry of Finance and IMF Staff calculations

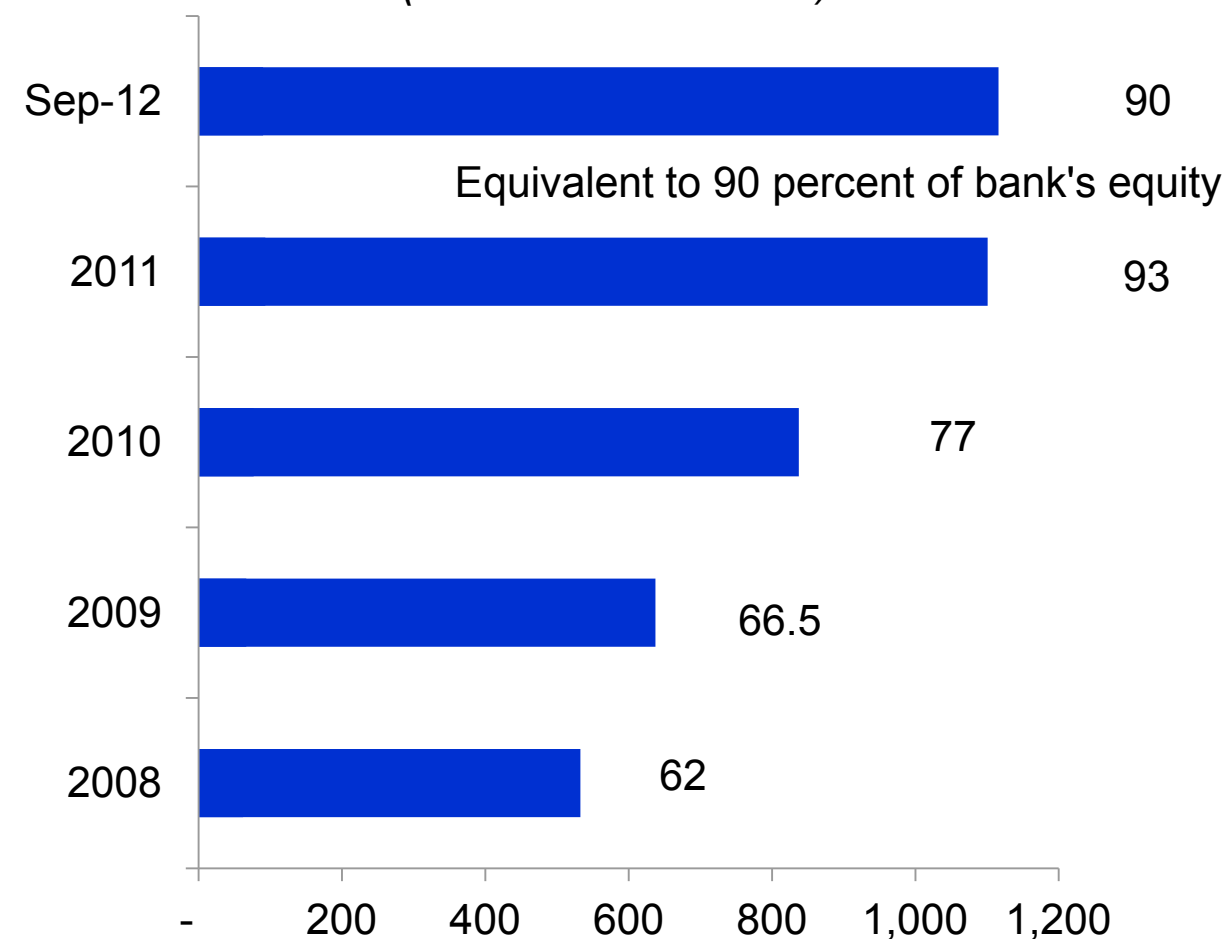
Banking Sector

Resilient to a broad range of shocks....

....but heavily exposed to relate to the PA .



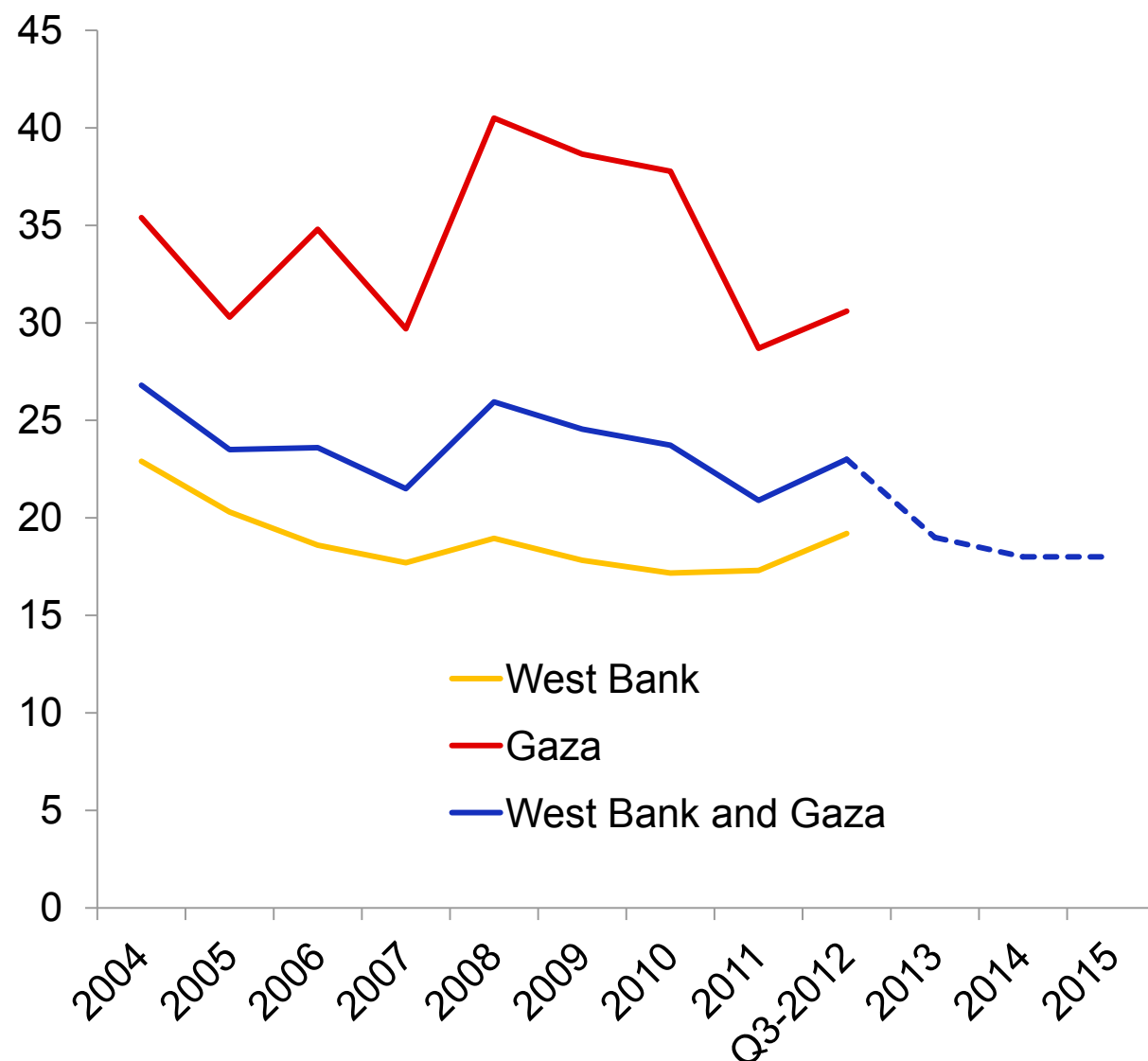
The Palestinian Authority's Debt to Banks
(In U.S. million dollars)



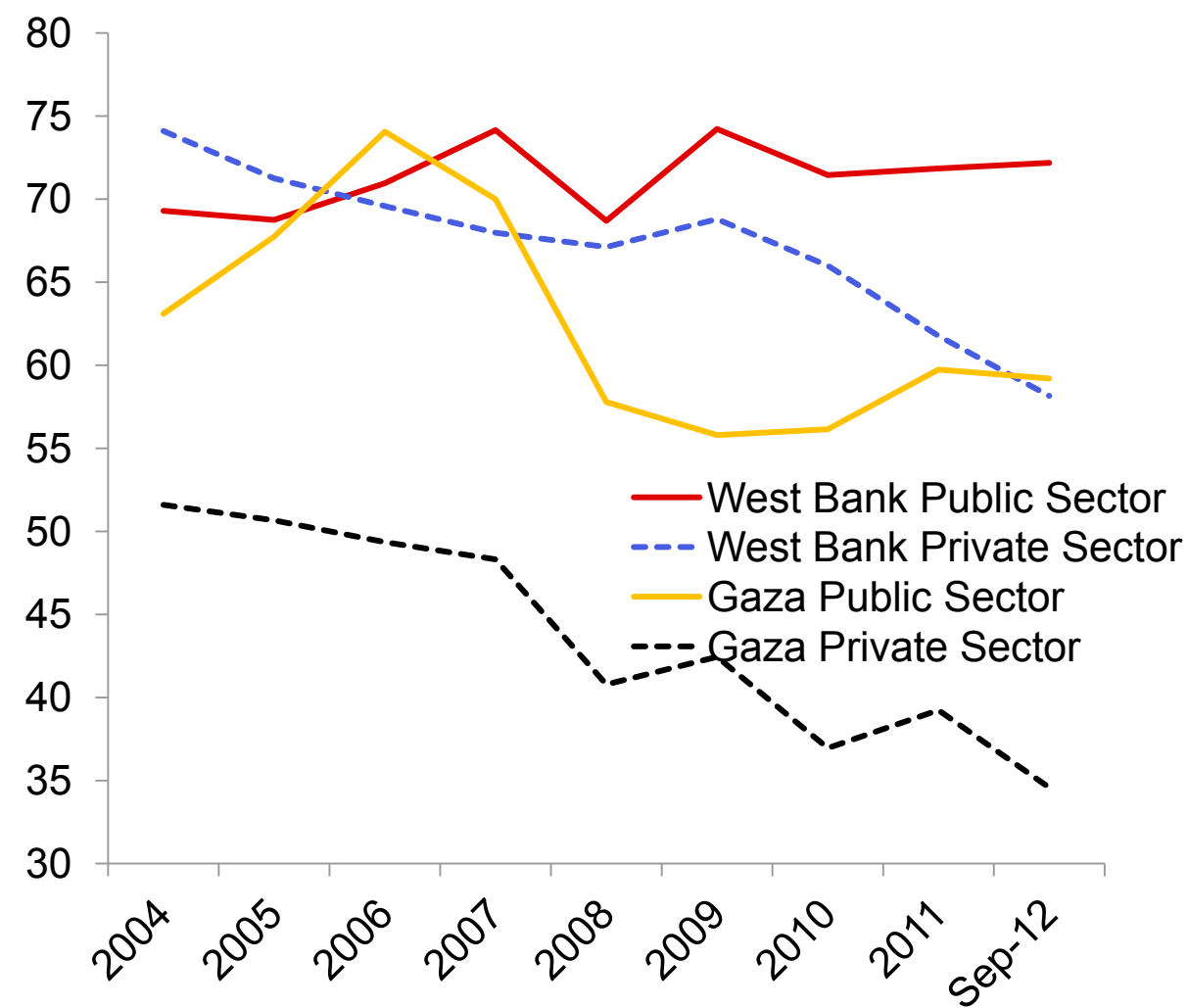
Source PMA

Labor Market

Unemployment remains high...

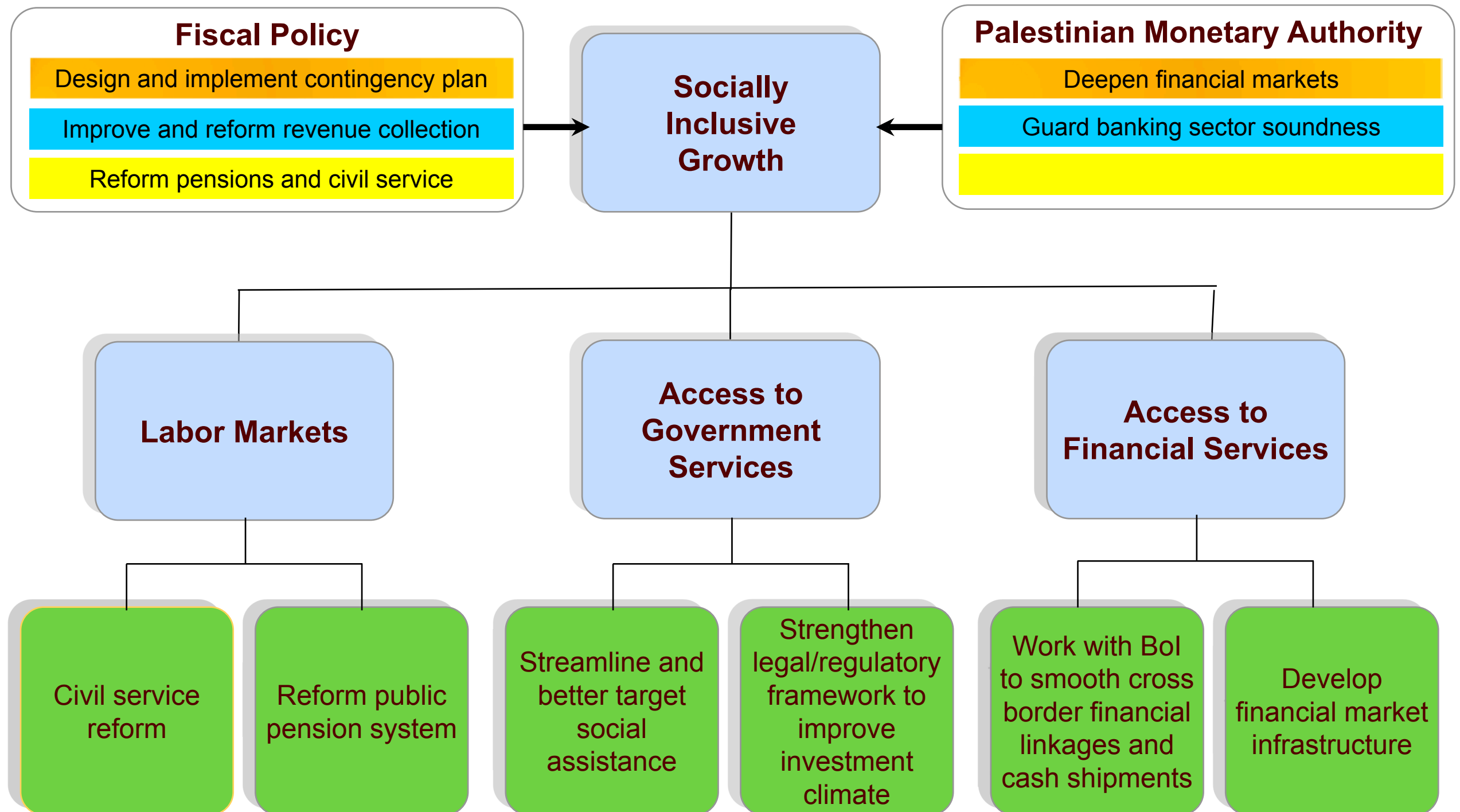


...and real wages are under pressure.



Source: Palestine Central Bureau of Statistics

WBG policy agenda to achieve fiscal sustainability and economic progress



Regional Economic Outlook

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Regional Economic Outlook

Middle East and Central Asia

UPDATE

REO Statistical Appendix

WORLD ECONOMIC AND FINANCIAL SURVEYS

Regional Economic Outlook Update: Middle East and Central Asia

April 2012
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Middle East and North Africa: Historic Transitions under Strain

Read report in English عربي Français

The Middle East and North Africa (MENA) region is going through a period of unprecedented change. In the 'Arab Spring' countries, political transition, pressing social demands, and an adverse external environment have combined to increase the near-term risks to macroeconomic stability. These risks were contained during 2011 but, with growth faltering, unemployment rising, and continued fiscal and external pressures, 2012 will be an equally challenging year. Moreover, many countries are faced with diminished policy

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