MENAP Highlights

The current period of unprecedented change holds the promise of improved living standards and a more prosperous future for the peoples of the Middle East and North Africa region. Although the long-term benefits of the Arab Spring are indisputable, since the beginning of this year, the region has witnessed unparalleled uncertainty and economic pressures, from both domestic and external sources. The recent worsening of the global economy will likely add to these pressures.

To build confidence, anchor expectations, and reap the longer-term benefits of the ongoing historical transformation, countries will need to take decisive action in formulating a broad reform agenda—aimed at fostering inclusive growth—while maintaining macroeconomic stability. Moreover, across the region, additional spending measures should be designed in a way that maximizes their short-term benefits while limiting their long-term liabilities. The benefits of some fiscal support measures (such as generalized subsidy schemes) do not necessarily go to those with the greatest need. Governments should therefore move quickly to better target subsidies and transfers, which will also help free resources for investment in infrastructure, education, and health.

Oil Exporters: Benefiting from High Oil Prices amid Growing Risks

Economic activity in MENAP oil-exporting countries, along with their fiscal and external situations, has clearly improved, underpinned by continued high energy prices. Real GDP growth is expected to pick up in 2011—to almost 5 percent—then moderate to about 4 percent in 2012. For the GCC, growth is projected at more than 7 percent in 2011. Several countries (Saudi Arabia in particular) have stepped up production temporarily in response to higher oil prices and shortfalls in production from Libya. The additional fiscal space is being used by many countries to ratchet up spending and provide continued support to the non-oil sector, which is projected to grow at 4½ percent in 2011–12. In 2011, the oil exporters' combined external current account surplus is expected to increase from US$202 billion to US$334 billion (excluding Libya), and from US$163 billion to US$279 billion for the GCC.

At the same time, palpable downside risks cloud the outlook, most notably a possible sharp downturn in global activity resulting from advanced economies' difficulties in effectively addressing their debt and fiscal challenges. If these risks materialize and global growth deteriorates sharply, activity in MENAP oil exporters would be adversely affected, most likely through a fall in international energy prices. A downturn in key emerging market trading partners, and further political unrest in the region, could also dampen growth prospects for MENAP oil exporters.

Fiscal vulnerability has increased as a consequence of the substantial spending packages that have been implemented over the past three years. In particular, fiscal break-even oil prices—the price levels that ensure that fiscal accounts are in balance at the given level of spending—have been trending upward in most countries and are gradually approaching the actual spot market oil price. In addition, heightened sovereign risk premiums could raise borrowing costs for some MENAP oil exporters.

The current supportive fiscal and monetary stances remain appropriate as long as inflationary pressures or other signs of overheating do not emerge, which is the case in most of the region's oil exporters. Looking ahead, reforms to ensure inclusive growth should be pursued to improve the business environment and governance, and to provide labor force entrants with skills required by employers and with incentives to participate in the formal economy. Improvements in bank governance, along with efforts to develop domestic debt markets, should help to increase the depth, quality, and inclusiveness of financial intermediation.

Oil Importers: Meeting Social Needs, Restoring Economic Confidence

The political and economic transformations in several of the region's oil-importing countries are advancing slowly and are expected to extend well into 2012. Moreover, global activity and confidence have weakened, adding to a marked increase in economic uncertainty in the region. Average real GDP growth for MENAP oil importers is projected to drop from the 4⅓ percent achieved in 2010 to below 2 percent in 2011. The recovery in 2012 is expected to be weaker than previously anticipated, with growth projected at just over 3 percent.

External and financial conditions have deteriorated. While remittances have largely remained robust, tourism and capital inflows have experienced sizable declines. These, together with higher commodity prices, have led to a weakening in external reserves. Sovereign bond and credit default swap spreads have widened, raising borrowing costs for governments and corporations in international markets. In addition, banking sector balance sheets in some countries are projected to deteriorate.

Fiscal deficits are expected to widen by about 1½ percent of GDP in 2011–12, as authorities have maintained a countercyclical fiscal stance. Universal subsidies and transfers, which provide only limited benefits to the poor, have increased sharply as governments attempt to cushion the impact of the downturn and high commodity prices. In some countries, capital expenditures have been cut, hurting future growth. In 2011–12, oil importers' financing needs are estimated to reach about US$50 billion a year, and in many countries, excessive government financing from domestic banks is squeezing the availability of private-sector credit.

Some of the near-term pressures can be alleviated through external and fiscal financing from regional and international partners. At the same time, macroeconomic stability must be preserved to anchor expectations, and a comprehensive reform agenda implemented that can improve social mobility through better access to economic opportunities. This agenda should include plans to unwind recent tax breaks and expenditure measures and replace untargeted subsidies with targeted social safety nets to free up room for growth-enhancing public investment expenditures. Reforms in a number of areas, including labor markets, education systems, the business environment, and governance, will help leverage the many assets of the region to achieve higher growth rates and employment over the medium and long term.

MENAP: Selected Economic Indicators, 2000–12

(Percent of GDP, unless otherwise indicated)

	Average 2000–07	2008	2009	2010	Projections 2011	Projections 2012
MENAP[1]						
Real GDP (annual growth)	5.5	4.5	2.6	4.4	3.9	3.7
Current account balance	9.5	13.4	1.8	7.0	10.4	8.2
Overall fiscal balance	3.5	6.7	-2.9	-0.2	0.4	0.1
Inflation, p.a. (annual growth)	5.9	14.4	7.7	7.4	10.6	8.3
MENAP oil exporters[1]						
Real GDP (annual growth)	5.8	4.0	1.8	4.4	4.9	3.9
Current account balance	13.3	18.7	4.1	10.6	15.0	12.4
Overall fiscal balance	7.7	13.0	-1.6	2.9	4.6	3.6
Inflation, p.a. (annual growth)	6.6	14.9	5.9	6.7	11.1	7.7
***Of Which:* Gulf Cooperation Council**						
Real GDP (annual growth)	5.6	6.4	0.3	5.4	7.2	4.0
Current account balance	15.7	22.5	7.1	15.0	20.6	16.9
Overall fiscal balance	11.9	24.7	-0.4	6.1	9.7	8.3
Inflation, p.a. (annual growth)	2.2	11.0	3.0	3.2	4.3	4.2
MENAP oil importers						
Real GDP (annual growth)	4.9	5.5	4.2	4.3	1.9	3.1
Current account balance	-0.7	-4.4	-4.4	-3.3	-3.3	-3.8
Overall fiscal balance	-5.2	-5.4	-5.2	-6.0	-7.6	-6.7
Inflation, p.a. (annual growth)	4.7	13.3	11.1	8.7	9.8	9.6
Memorandum						
MENA[1]						
Real GDP (annual growth)	5.5	4.6	2.6	4.4	4.0	3.6
Current account balance	10.3	15.0	2.4	7.7	11.2	9.0
Overall fiscal balance	4.5	8.6	-2.6	0.5	1.2	0.8
Inflation, p.a. (annual growth)	6.0	14.6	6.1	6.9	10.2	7.7
MENA oil importers						
Real GDP (annual growth)	4.7	6.4	4.9	4.5	1.4	2.6
Current account balance	-0.9	-2.9	-3.9	-3.9	-4.8	-4.7
Overall fiscal balance	-6.6	-4.5	-5.3	-6.3	-8.4	-7.5
Inflation, p.a. (annual growth)	4.2	13.5	7.0	7.5	7.7	7.6

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

[1]2011 and 2012 data exclude Libya.

MENAP: (1) Oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, the United Arab Emirates, and Yemen; (2) Oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia.

MENA: MENAP excluding Afghanistan and Pakistan.