

# Middle East and Central Asia

## Regional Economic Outlook April 2011



الشرق الأوسط وآسيا الوسطى  
آفاق الاقتصاد الإقليمي – عدد إبريل ٢٠١١

# Overview

Global outlook

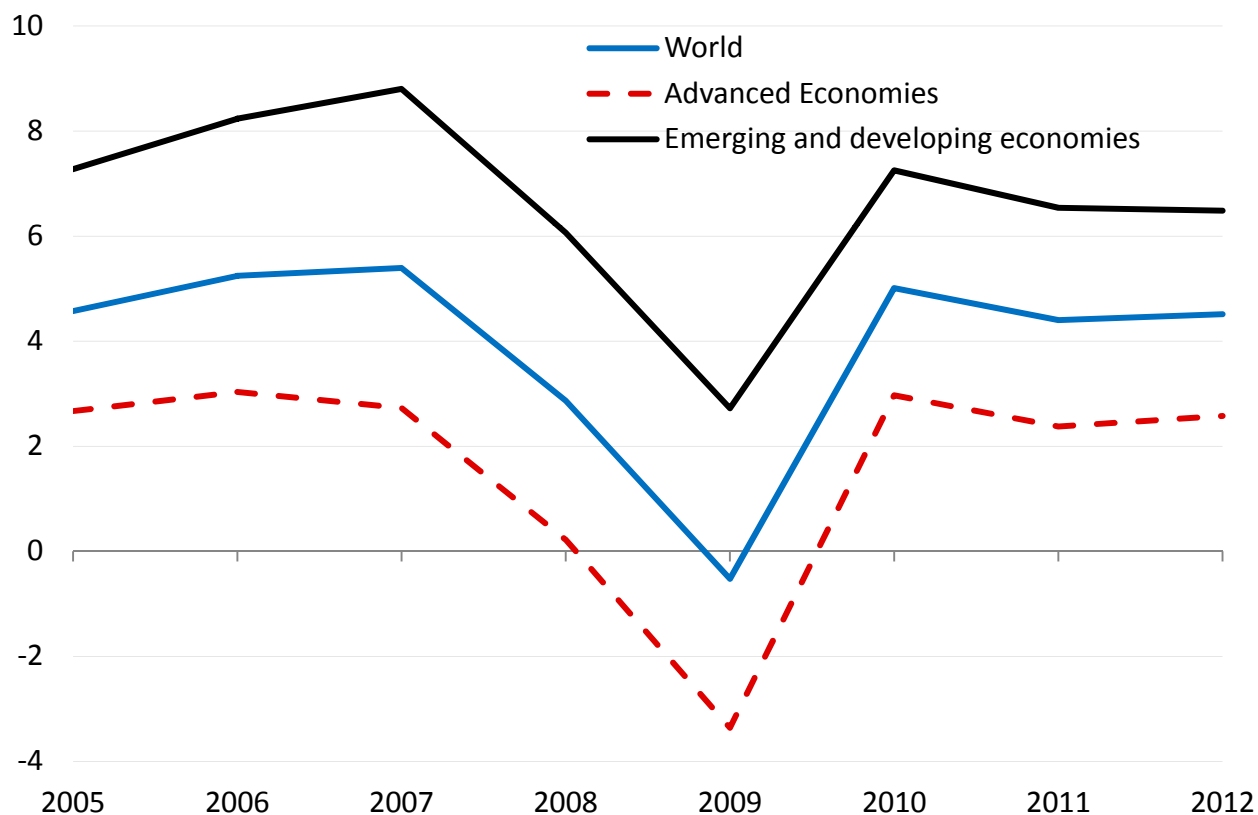
Oil exporters: Outlook and policy challenges

Oil importers: Outlook and policy challenges



# Global growth: A multi-speed world

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



**Upside risks:**

- Buoyant EM activity
- Strong corporate balance sheets

**Downside risks:**

- Sovereign/financial risks
- Oil supply concerns

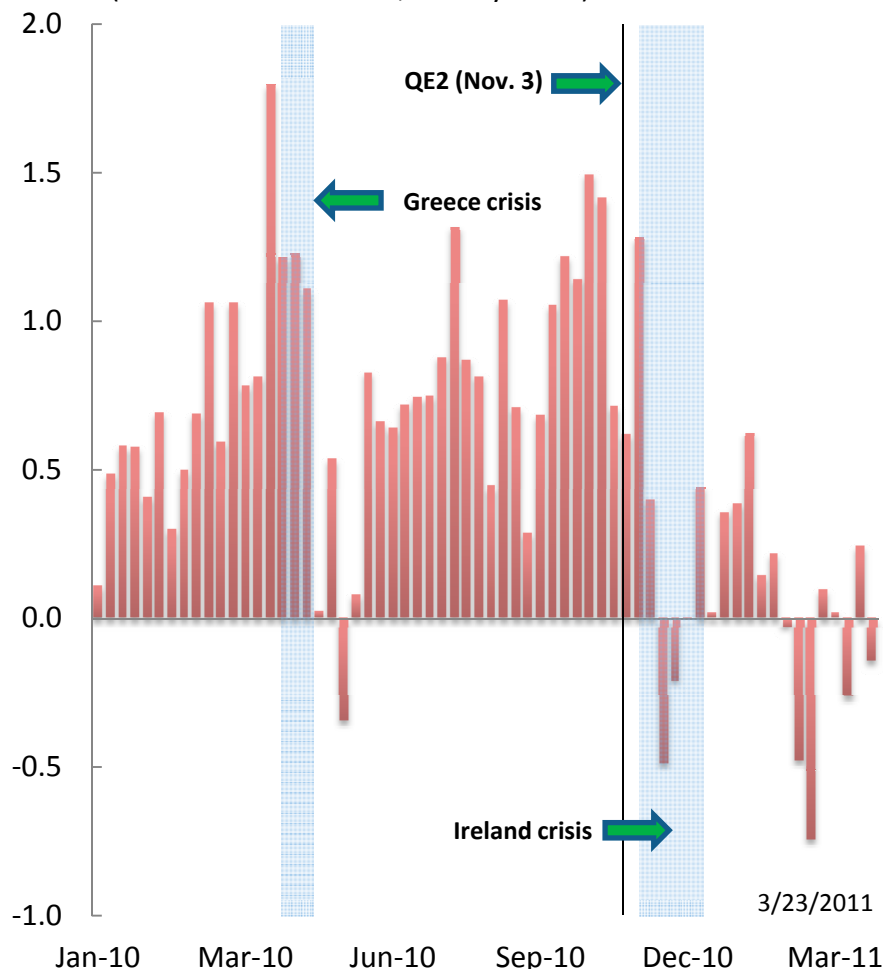
Source: IMF, *World Economic Outlook*.



# Capital flows to emerging markets have slowed

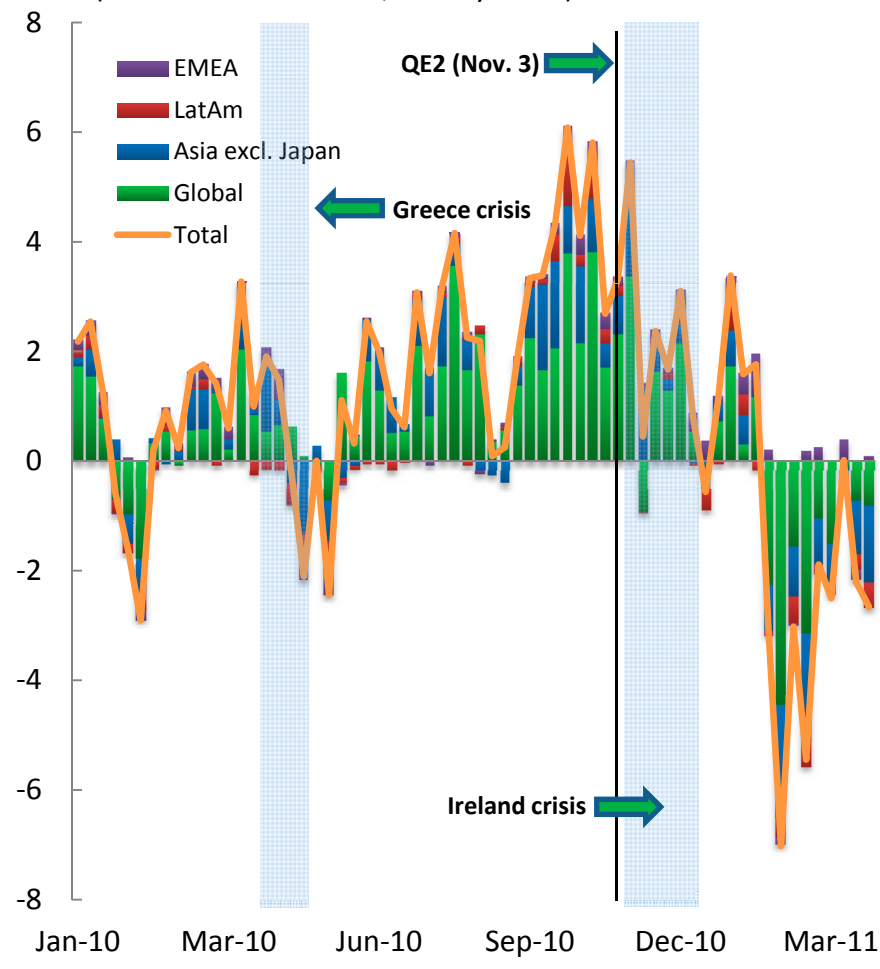
## Emerging Bond Funds

(Billions of U.S. dollars, weekly flows)



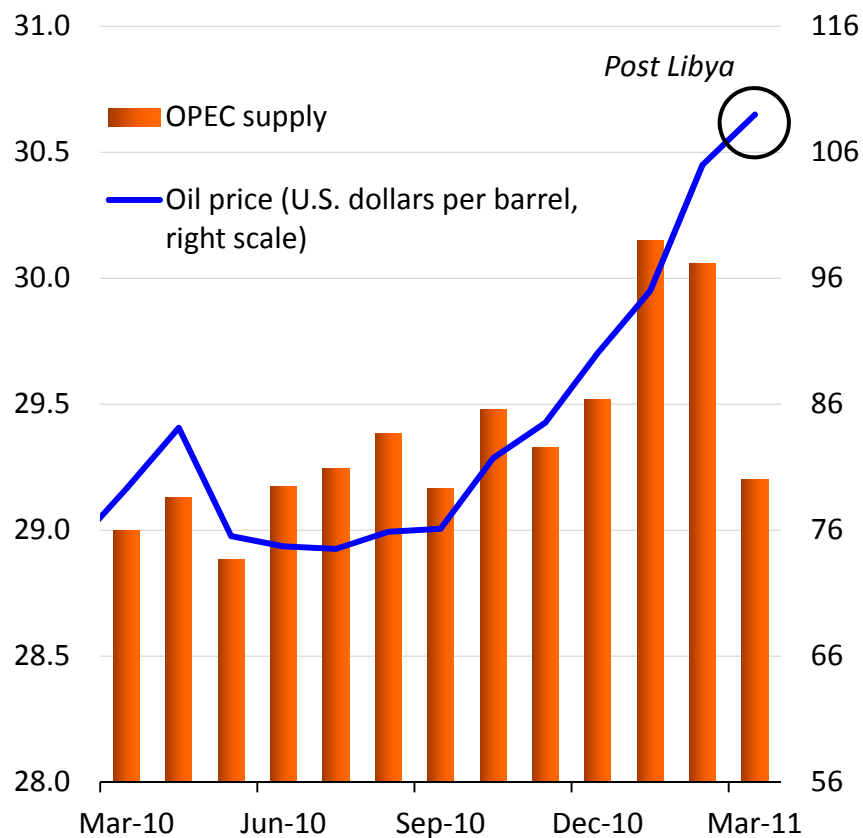
## Emerging Equity Funds

(Billions of U.S. dollars, weekly flows)

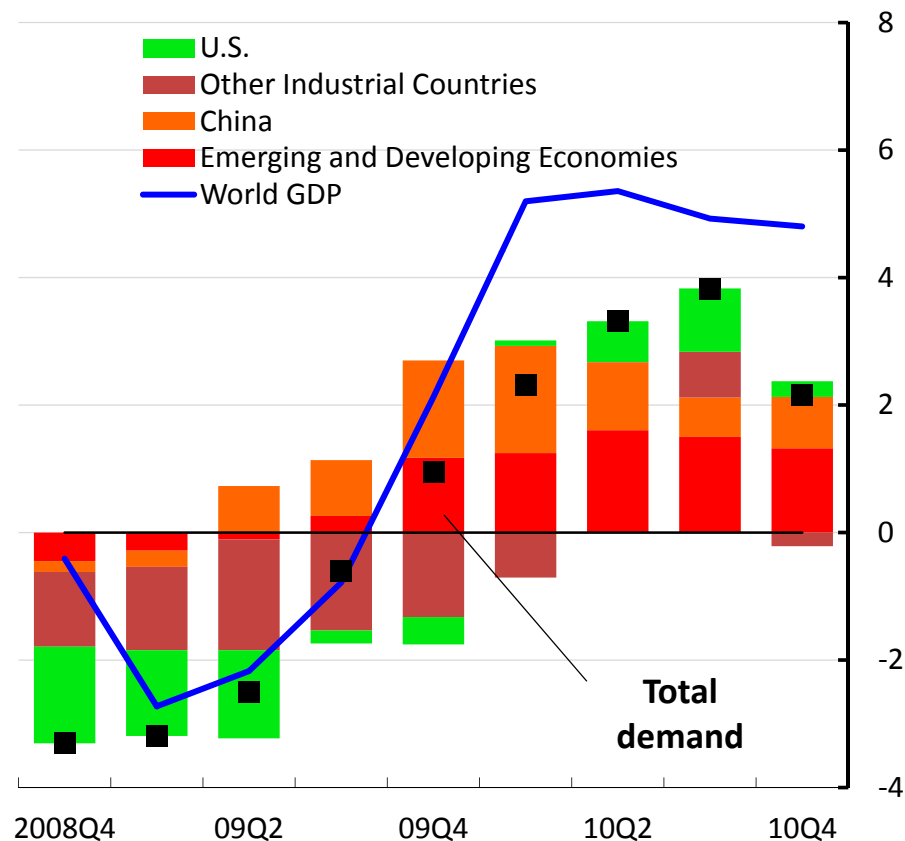


# Oil prices driven by uncertainty in the short-run

**Crude Oil Prices Rise Sharply**  
(Millions of barrels per day)



**Global Annual Growth of Oil Demand**  
(Percent)



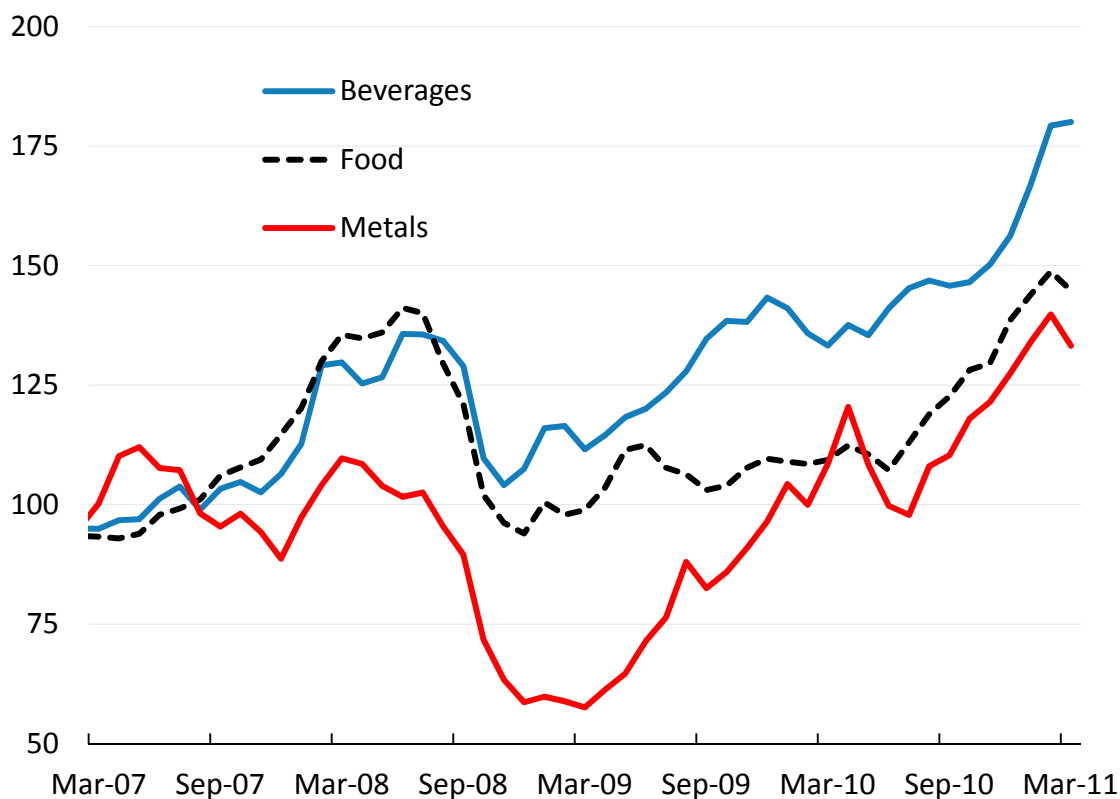
Sources: International Energy Agency; IMF, *World Economic Outlook*; national authorities; and IMF staff calculations.



# Food and non-oil commodity prices also rising

## Commodity Price Developments in the World

(Price indices; 2007=100)



Source: IMF, *World Economic Outlook*.

**BUT:** Commodity exporters to benefit

*Aluminum:* Bahrain

*Copper:* Mauritania

*Cotton:* Egypt, Pakistan

*Food:* Afghanistan, Egypt, Iran, Iraq, Morocco, Pakistan, Syria

*Gold:* Djibouti, Lebanon

*Iron ore:* Bahrain, Lebanon, Mauritania



# MENAP oil exporters: Opportunities for reforms

## External environment

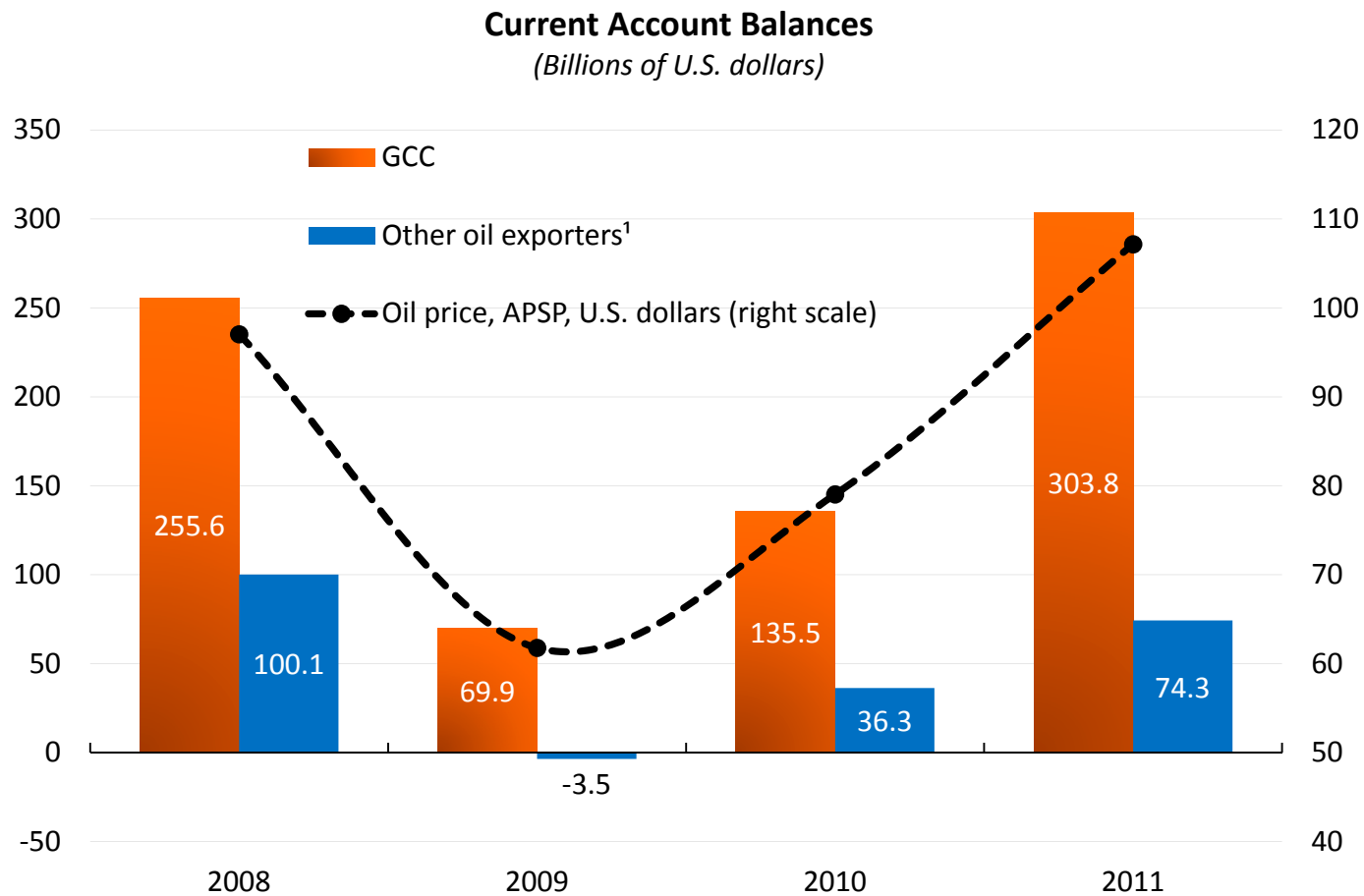
- Increased uncertainty
- Higher oil revenue

## Political events

- Limited impact on output for most
- Large fiscal responses



# External balances improving with the oil price



Sources: National authorities; and staff calculations and projections.

<sup>1</sup>Excludes Libya in 2011.

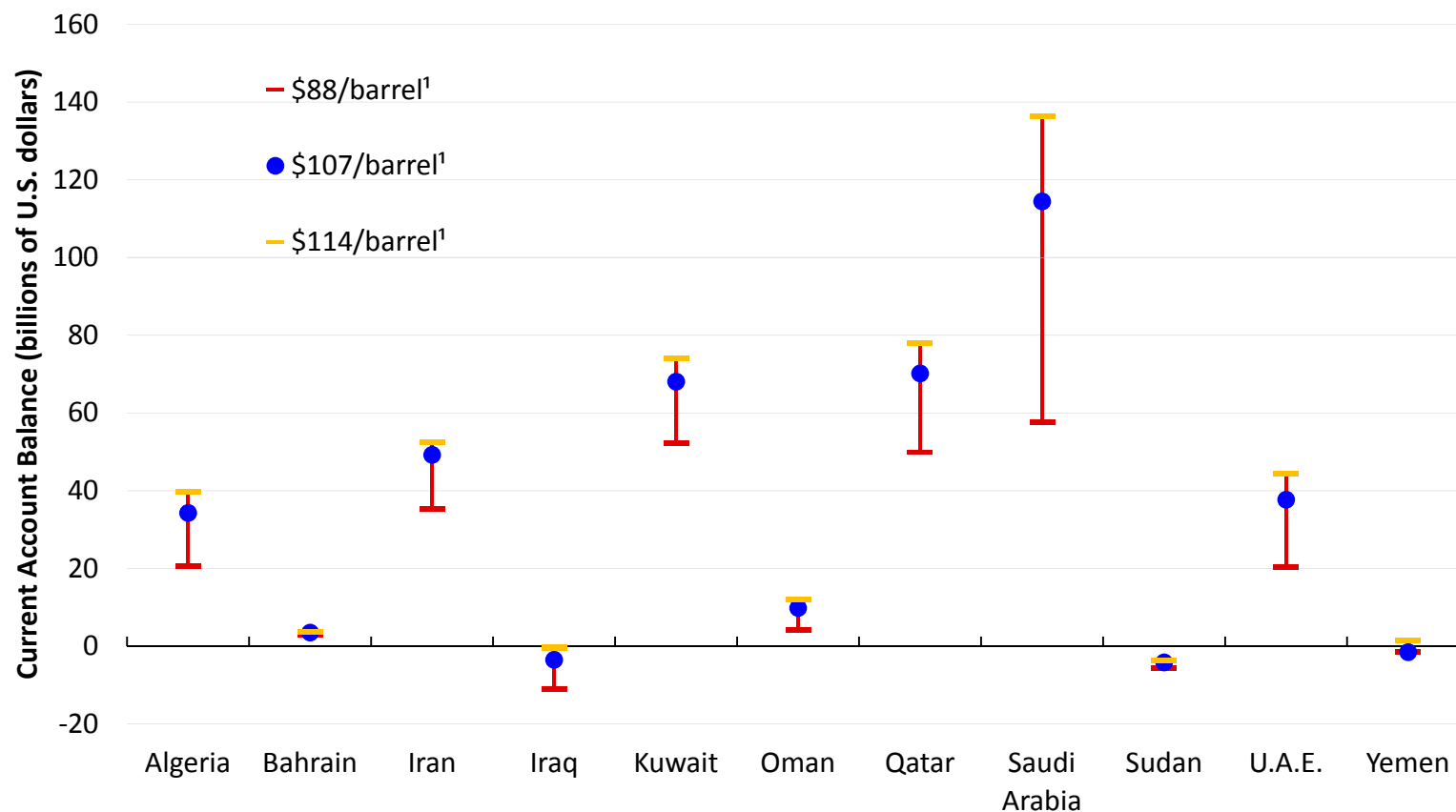




# Oil price volatility brings uncertainty

2011 Current Account Surpluses under Alternative Oil Price Scenarios

(Billions of U.S. dollars)



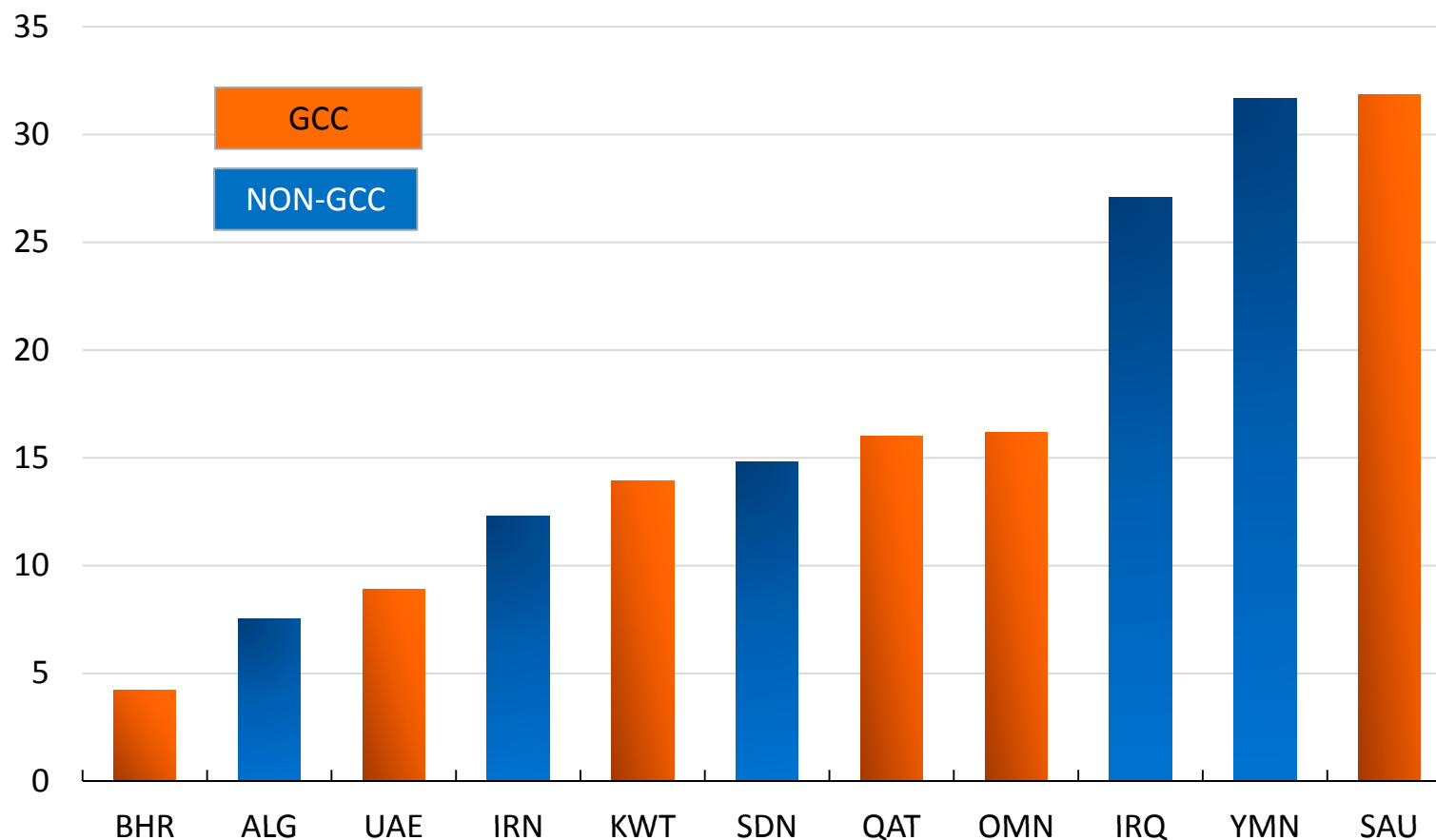
Sources: National authorities; and staff calculations.

<sup>1</sup>Minimum, maximum oil prices between January 1, 2011 - March 22, 2011; and baseline forecast for 2011.



# Unprecedented responsiveness across the region

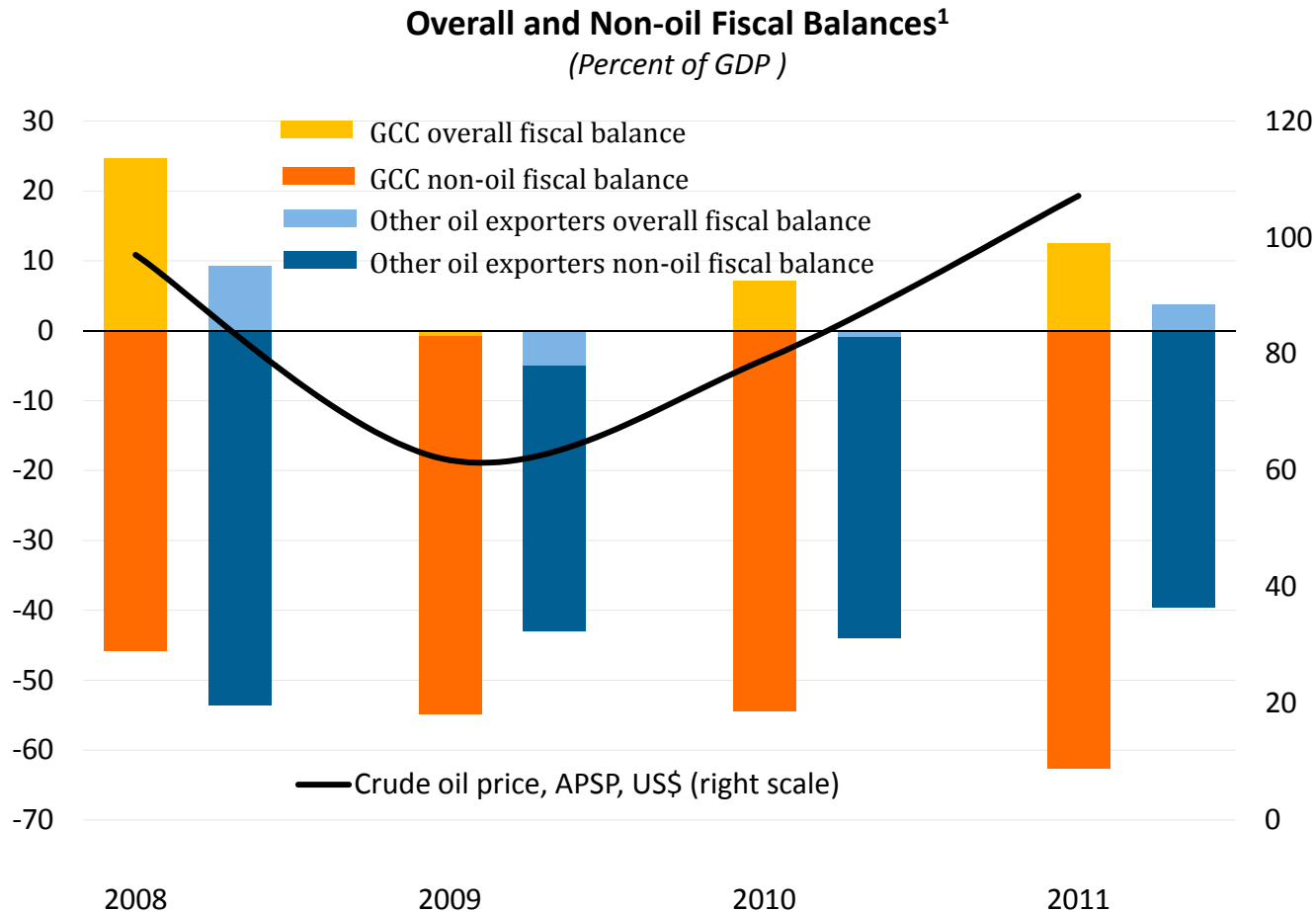
Percent Change in Total Government Expenditures in U.S. dollars  
(From 2010 to 2011)



Sources: National authorities; and IMF staff estimates.



# Fiscal balances improve, despite higher spending



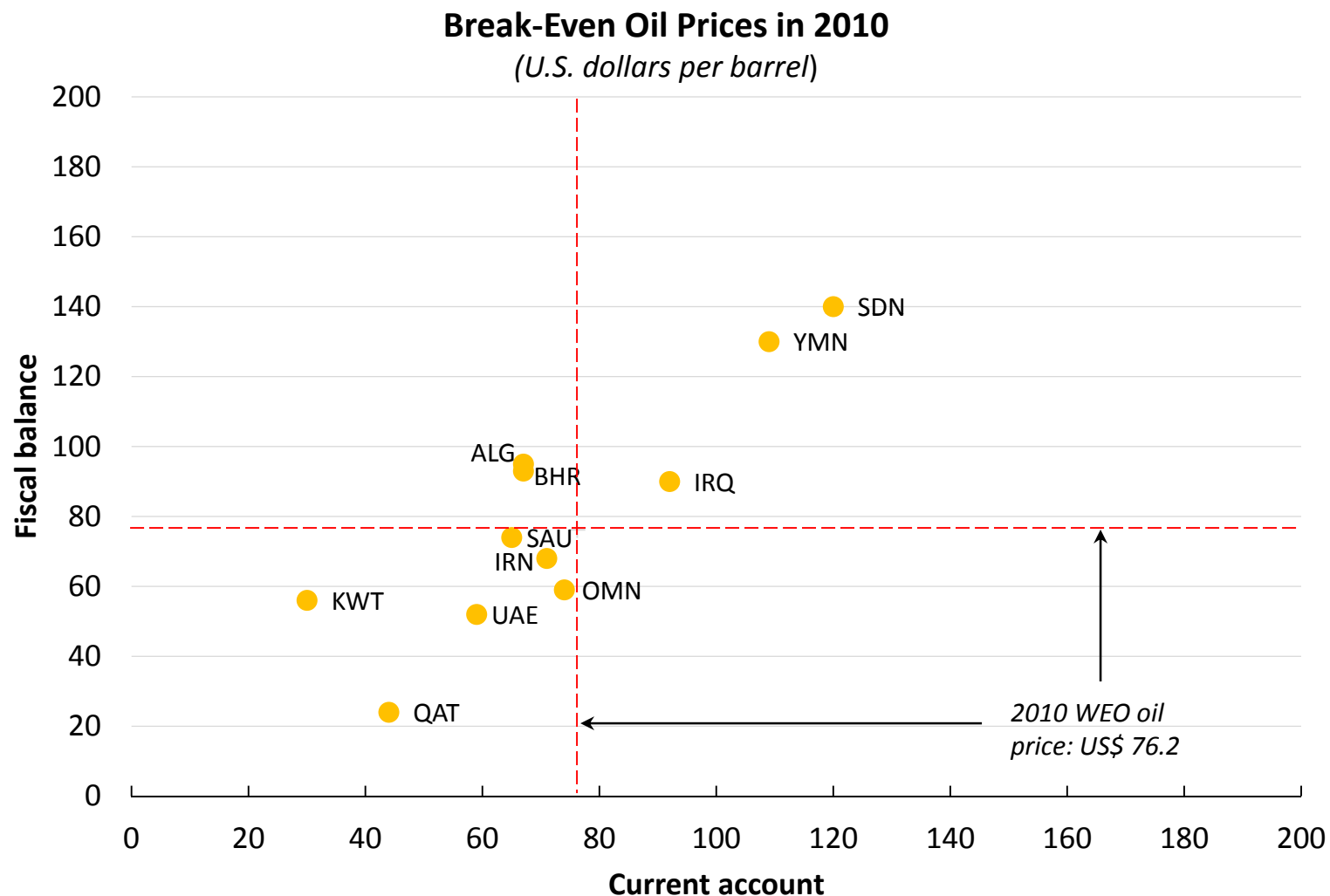
However, break-even prices also going up

Sources: National authorities; and IMF staff estimates.

<sup>1</sup>Excludes Libya in 2011

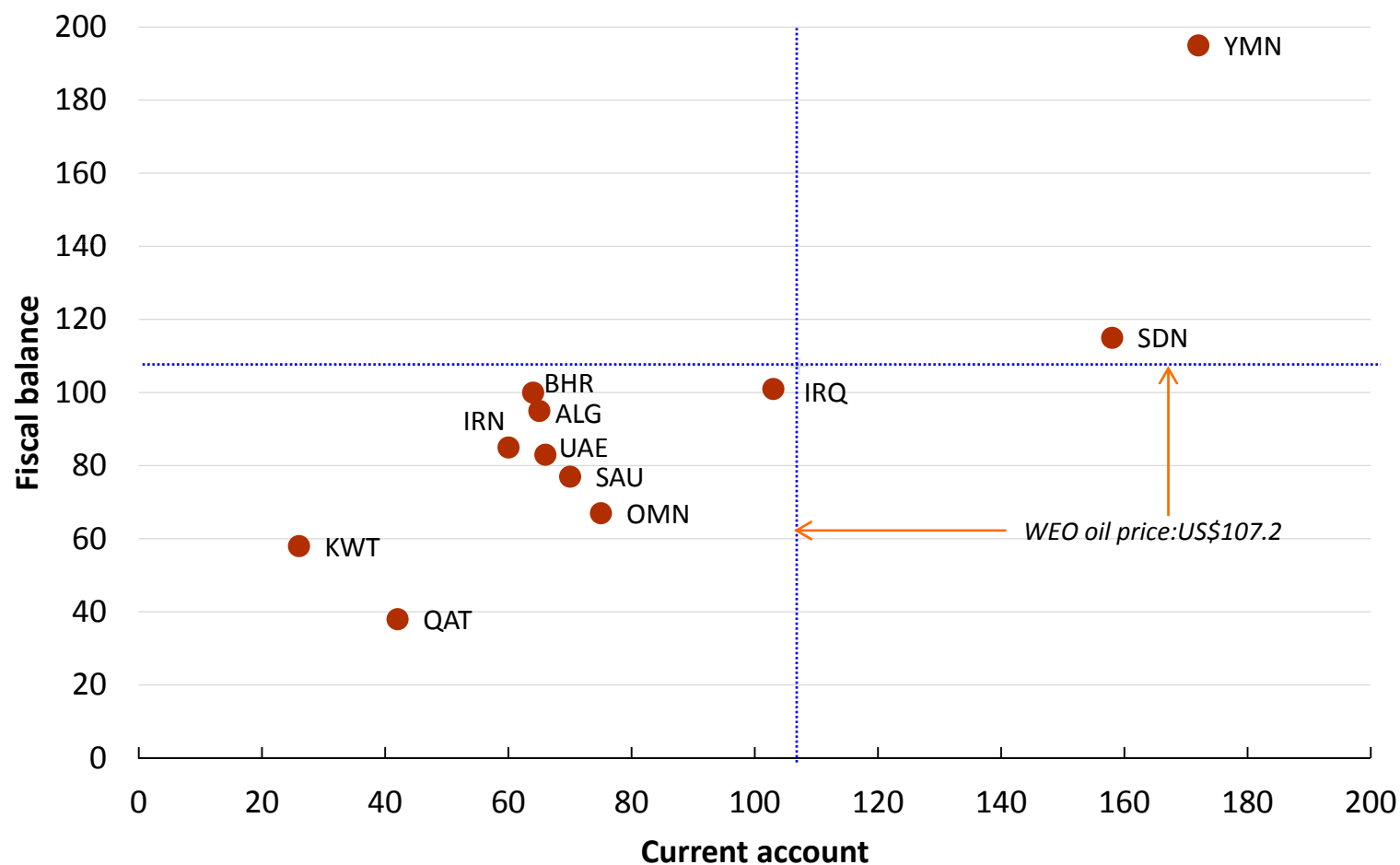


# Break-even prices going up

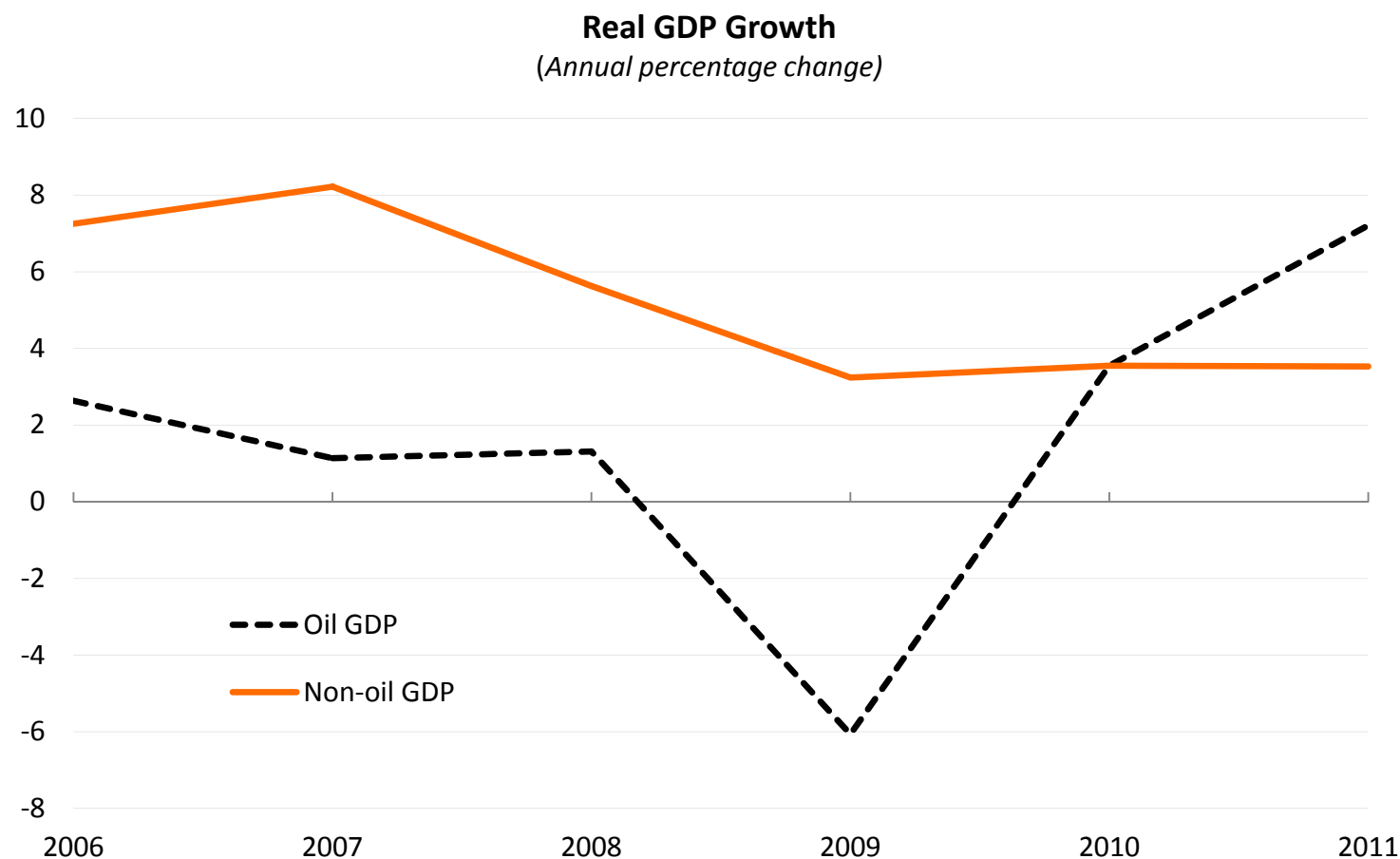


# Break-even prices going up

**Break-Even Oil Prices in 2011**  
(U.S. dollars per barrel)



# Growth is progressing amidst uncertainty

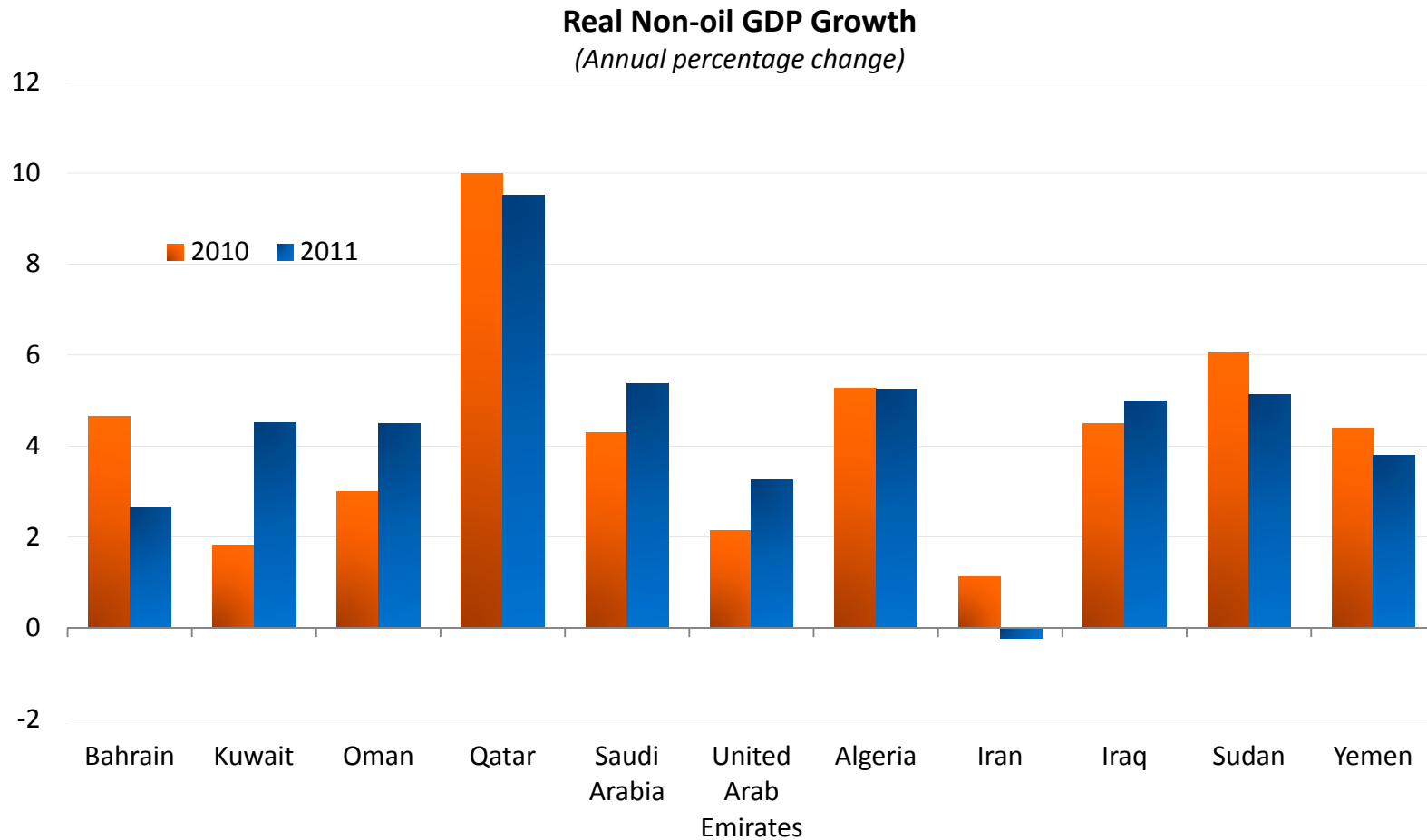


Sources: National authorities; and IMF staff estimates.

<sup>1</sup>Excludes Libya in 2011.



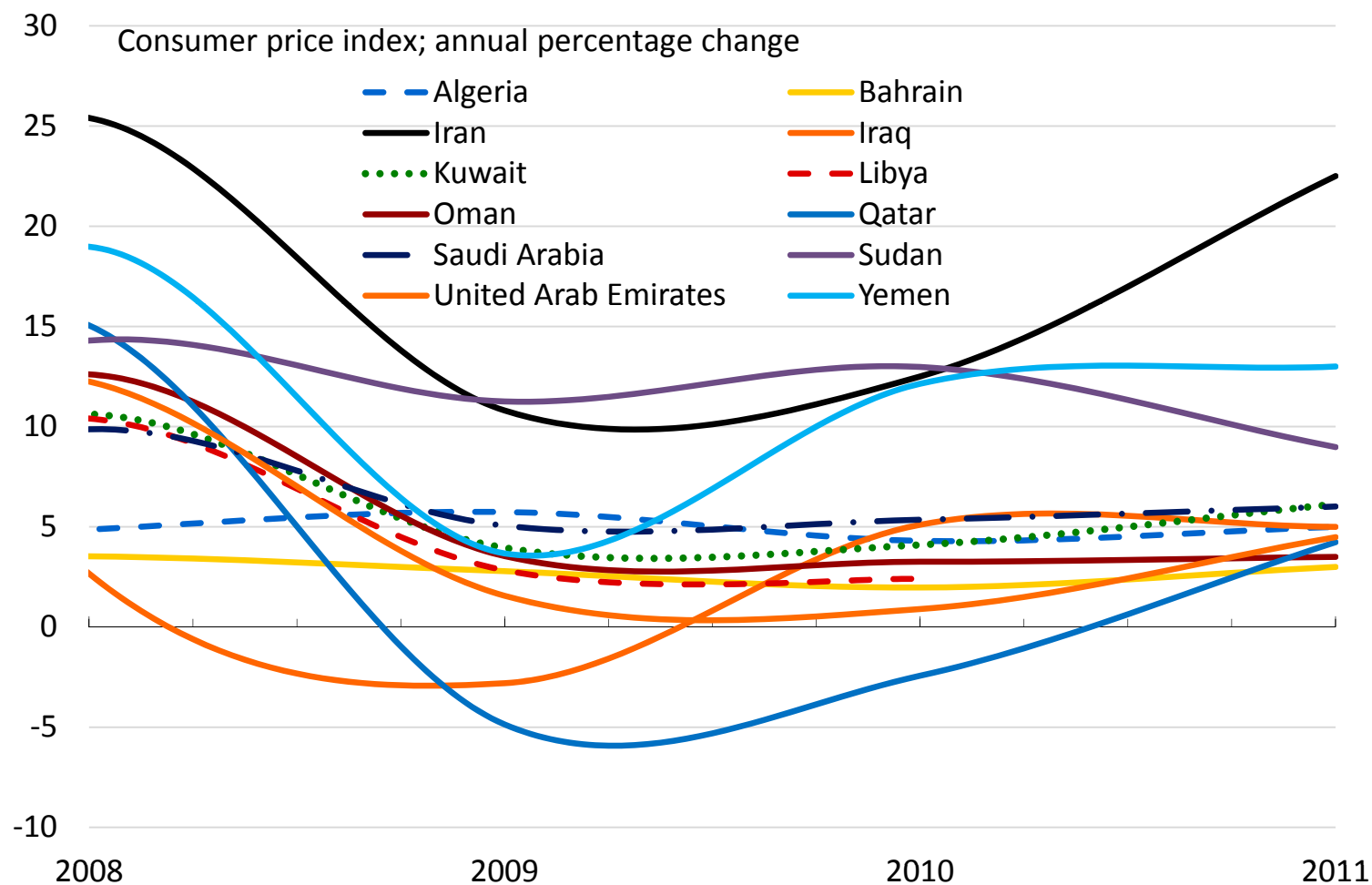
# Non-oil growth holding up, with few exceptions



Sources: National authorities; and IMF staff estimates.



# Keep an eye on inflation pressures



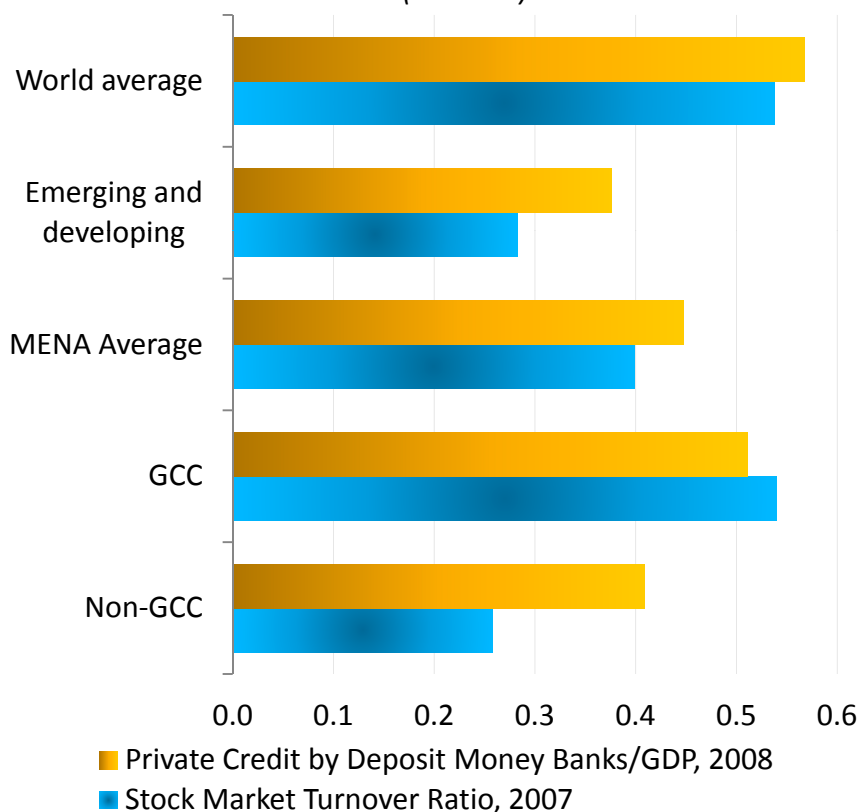
Source: National authorities; and staff calculations and projections.





# Financial sector depth: similar to peers

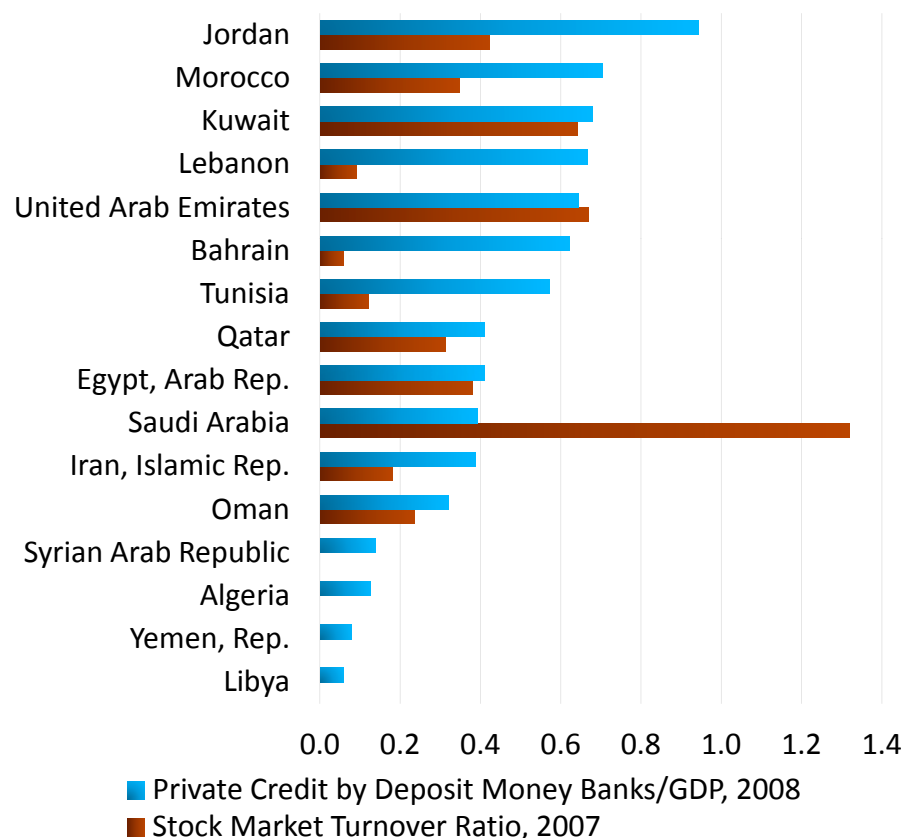
**Financial Depth Across Regions:  
Banks and Stock Markets<sup>1</sup>**  
(2007-08)



Sources: World Bank Database on Financial Structure, 2008; and IFS.

<sup>1</sup>Stock Market Turnover: Ratio of value of shares traded to market capitalization.

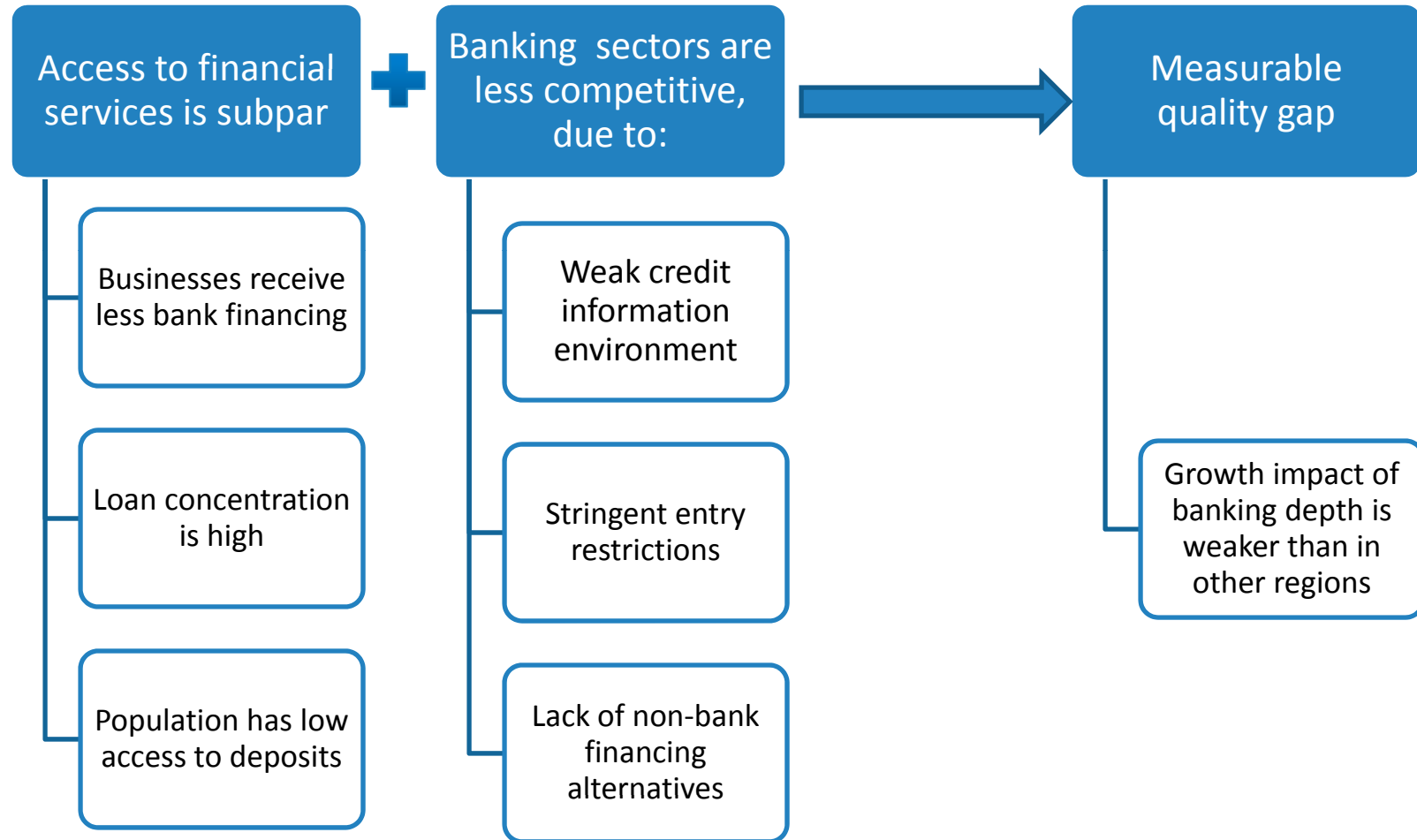
**Financial Depth in MENA Countries**  
(2007-08)



Sources: World Bank Database on Financial Development and Structure, 2010; International Financial Statistics; and authors' calculations.



## ...but banks are falling short in key areas



# MENAP oil exporters: Opportunities for reforms

## External environment

- Increased uncertainty
- Higher oil revenue

## Political events

- Limited impact on output for most
- Large fiscal responses



## Short-term challenge

- Inflation

## Medium-term challenges

- Diversification and employment
- Strengthen resource management
- Financial sector development



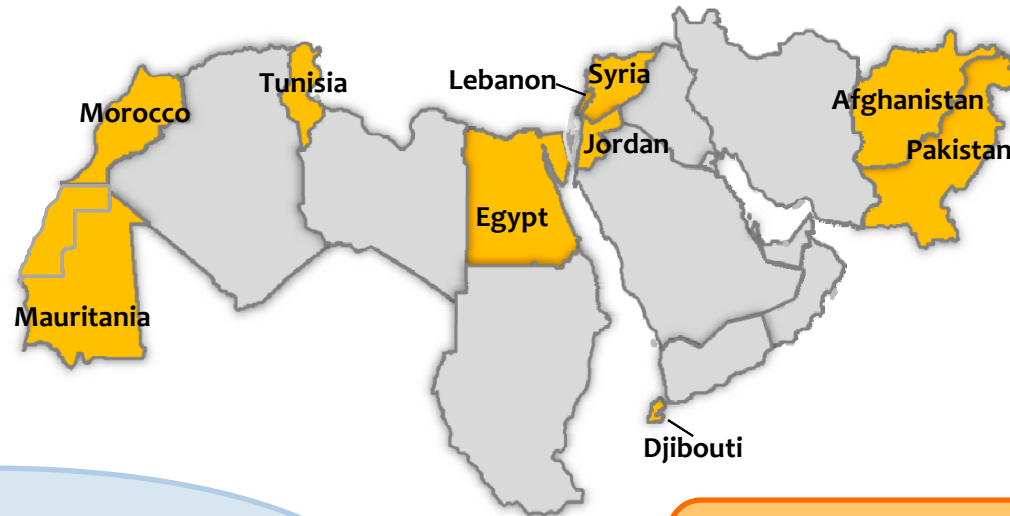
# MENAP oil importers: Navigating change

## Before the protests

- Mostly growing at steady pace
- Persistently high unemployment

## Unrest and commodity price shocks

- Output disruptions in some countries
- Higher import costs



## Policy space is tight

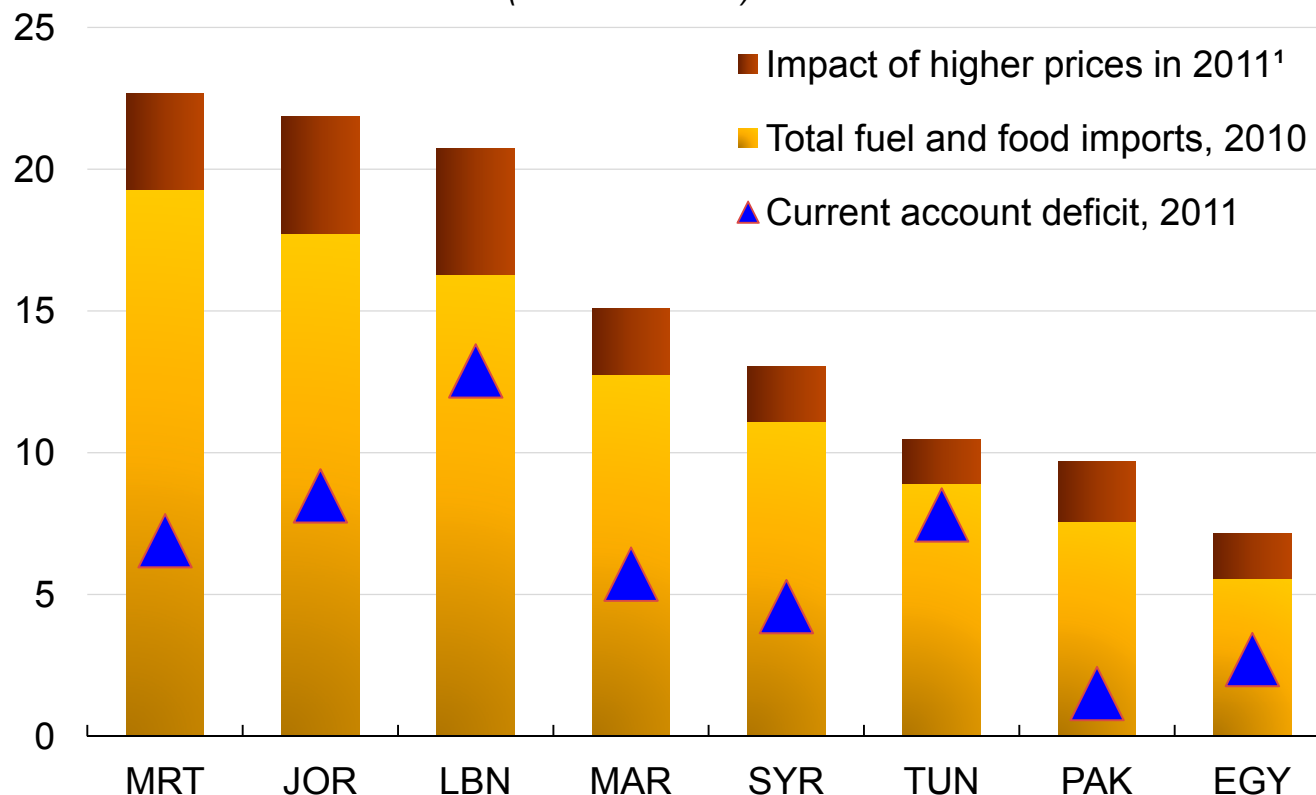
- Pressure to spend on social protection
- Higher risk premia and rising inflation

With change comes challenges, but also opportunities for more inclusive growth



# Surge in commodity prices increases cost of imports

**Impact of Higher Fuel and Food Costs**  
(Percent of GDP)



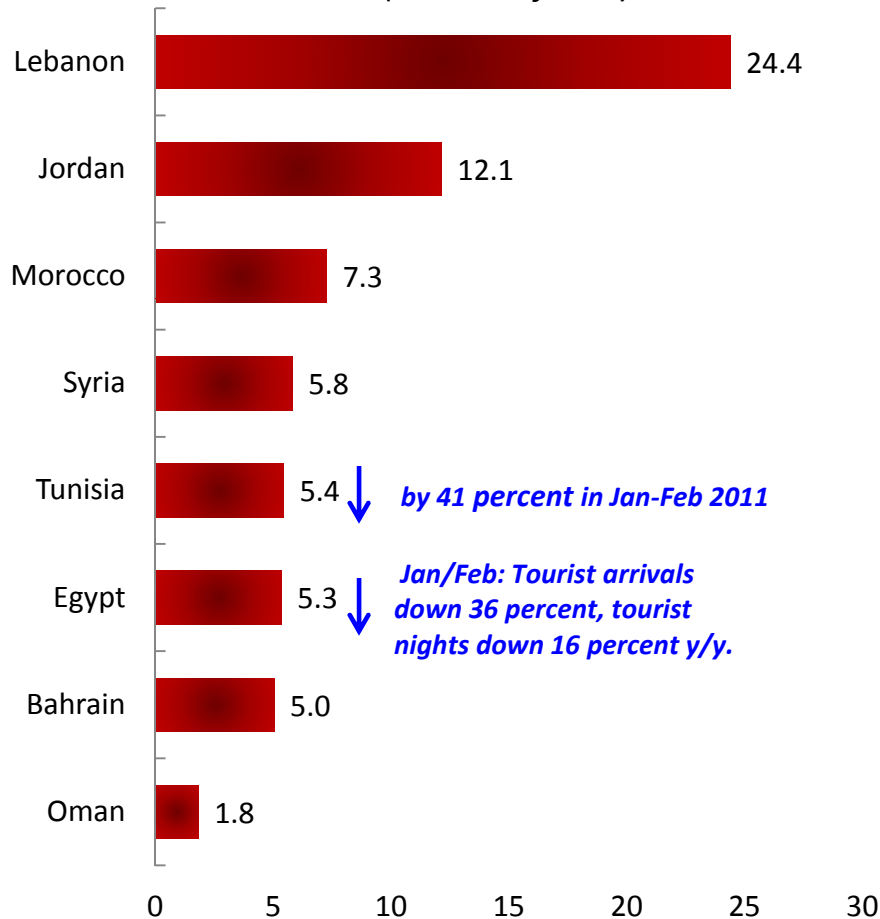
Sources: National Authorities; and IMF staff estimates.

<sup>1</sup>Direct impact -- holding policies and quantities constant -- of price increases of 32 percent for fuel and 24 percent for food, as implied by WEO projection for 2011 compared to 2010.



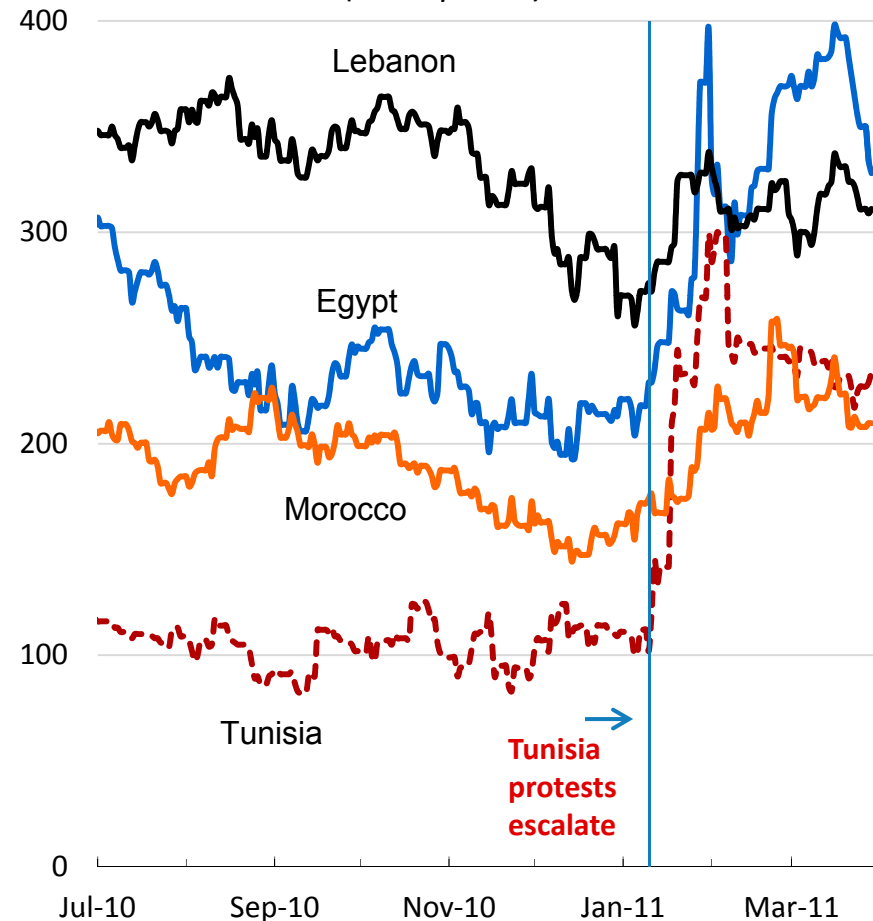
# Spillovers from regional instability: Lower tourism and FDI, higher borrowing costs

**Tourism Receipts**  
(Percent of GDP)



Sources: IMF, *World Economic Outlook*; and World Travel and Tourism Council.

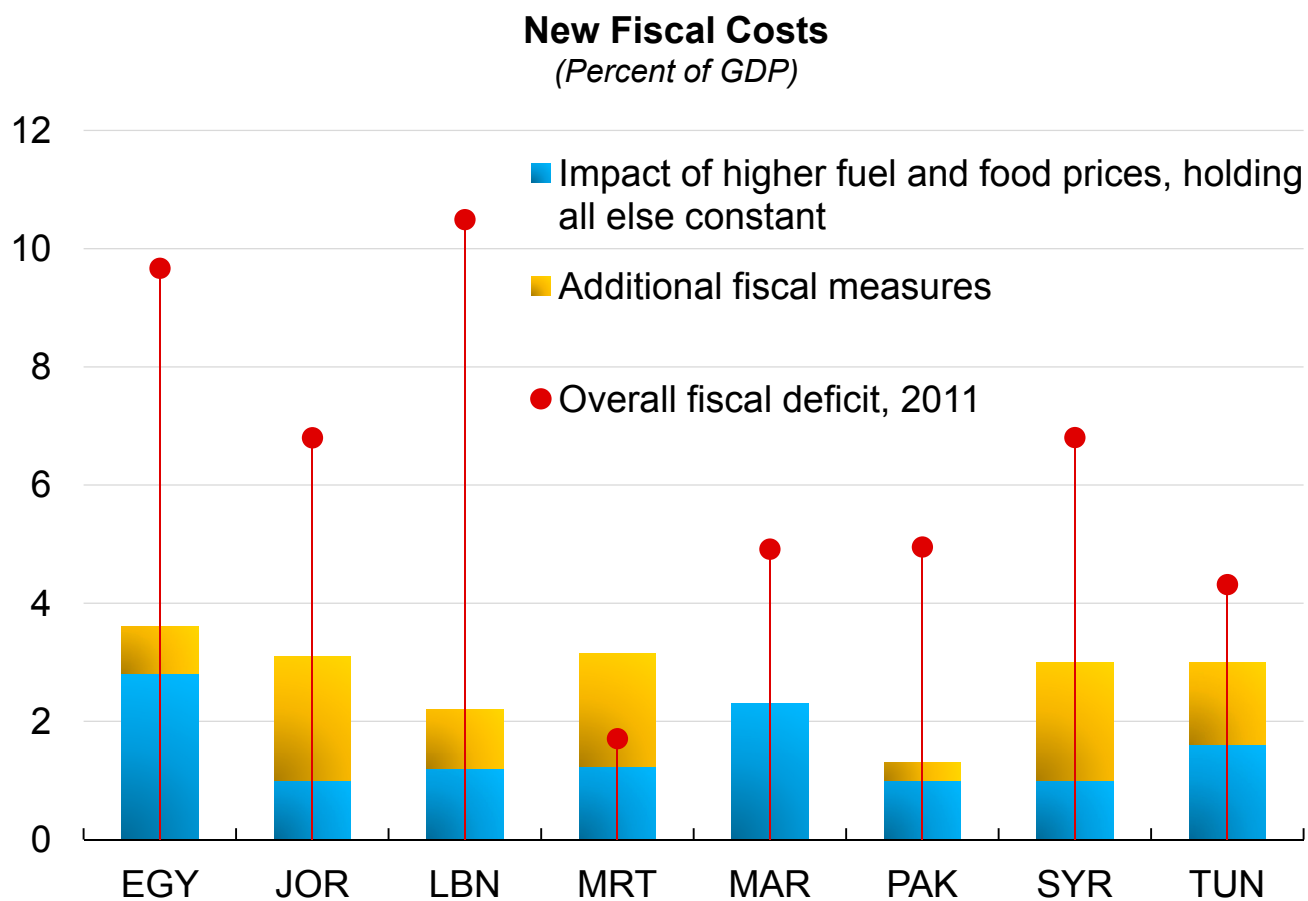
**Sovereign Spreads**  
(Basis points)



Sources: Bloomberg; and Markit.



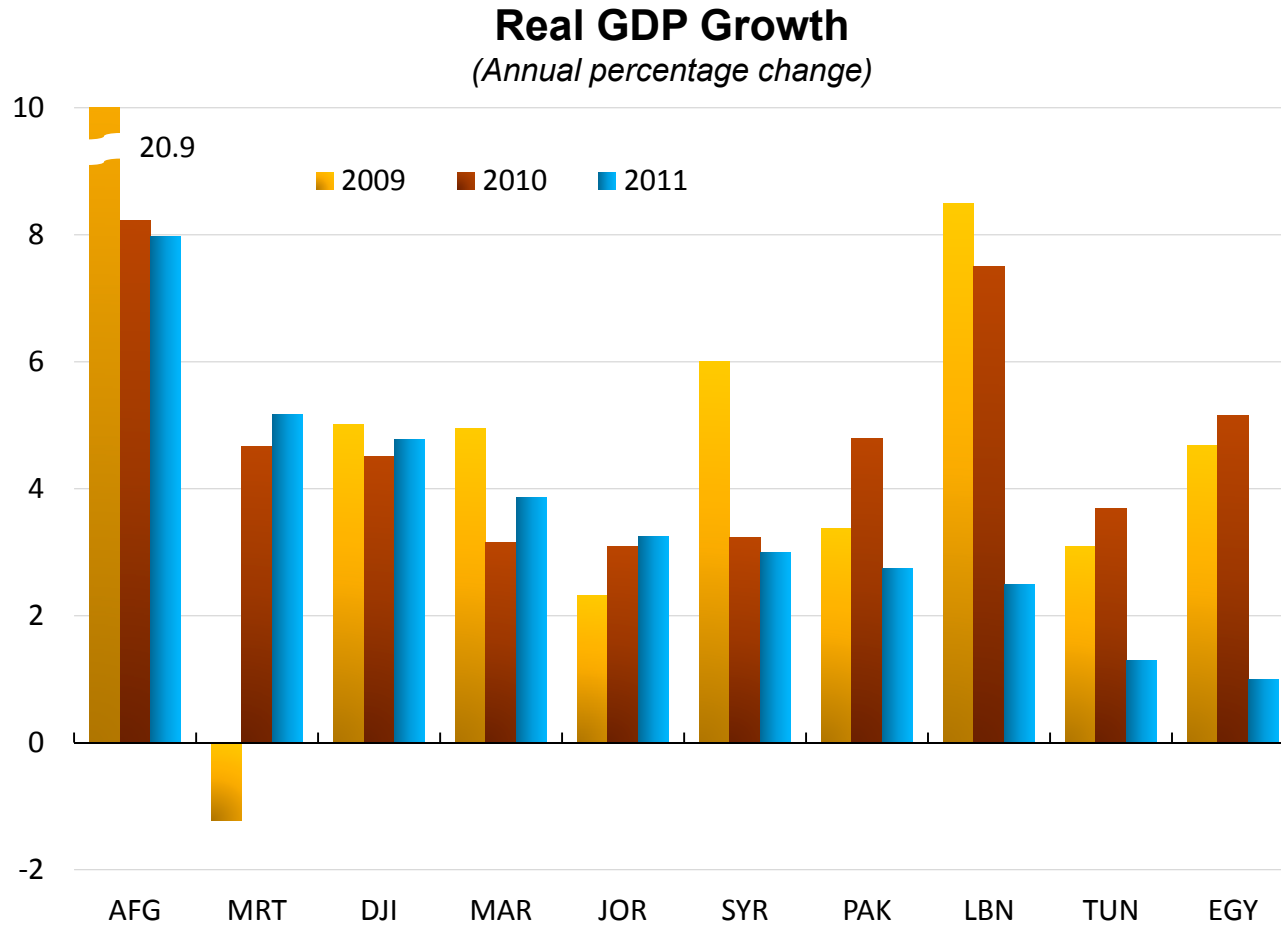
# Higher government spending



Sources: National authorities; and IMF staff calculations.



# Net impact on growth mostly limited

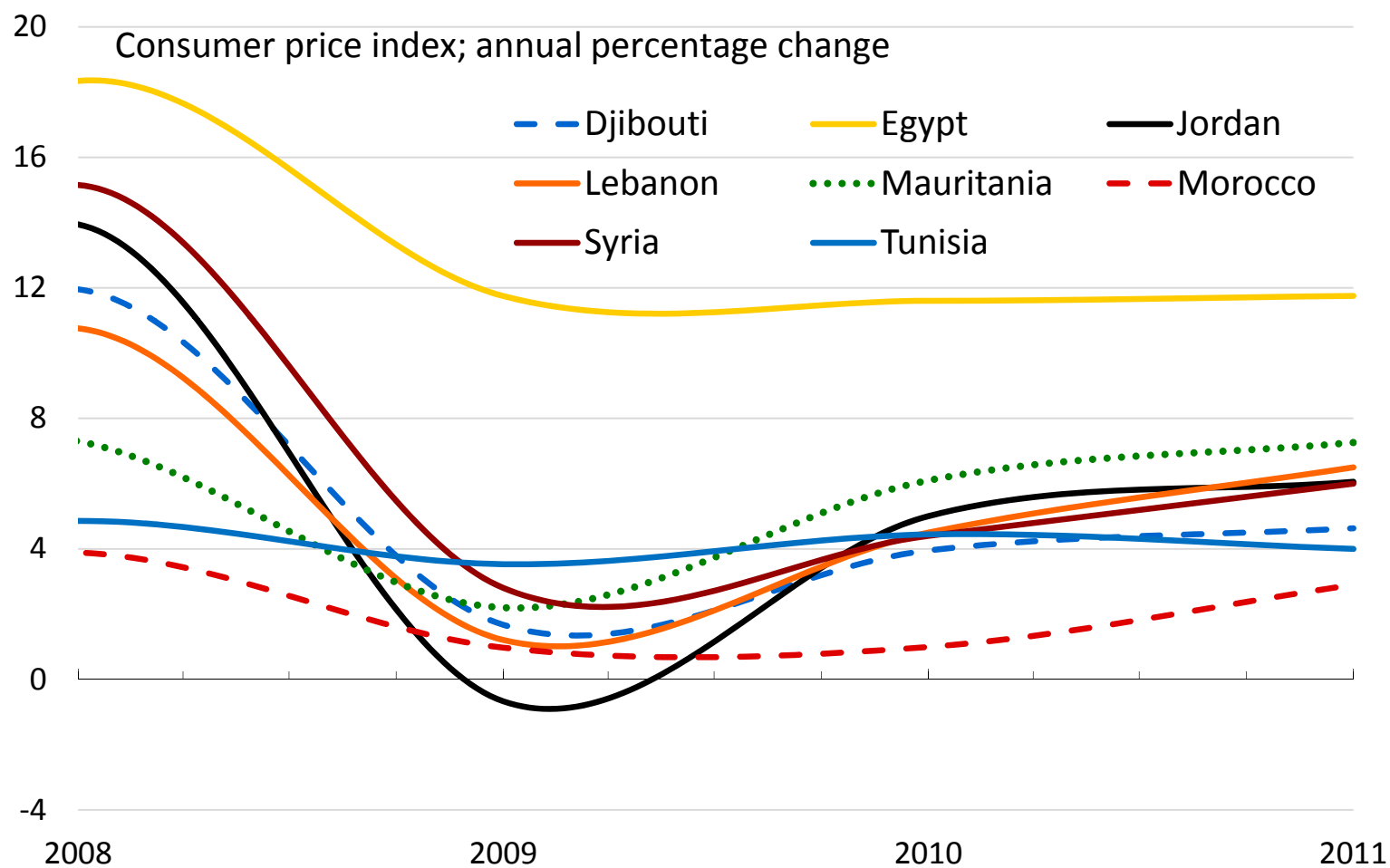


Sources: National authorities; and IMF staff estimates.





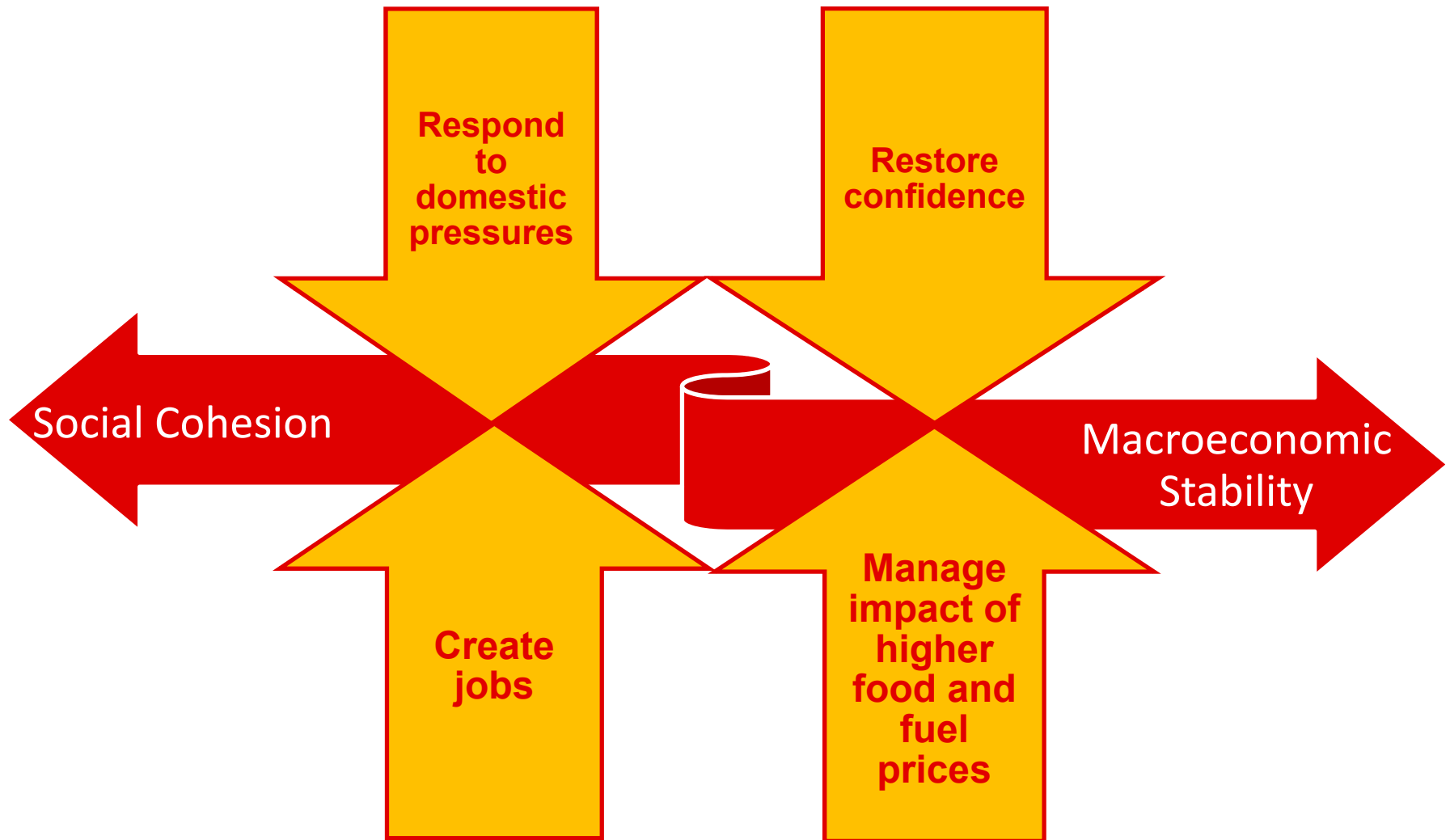
# Keep an eye on inflation pressures



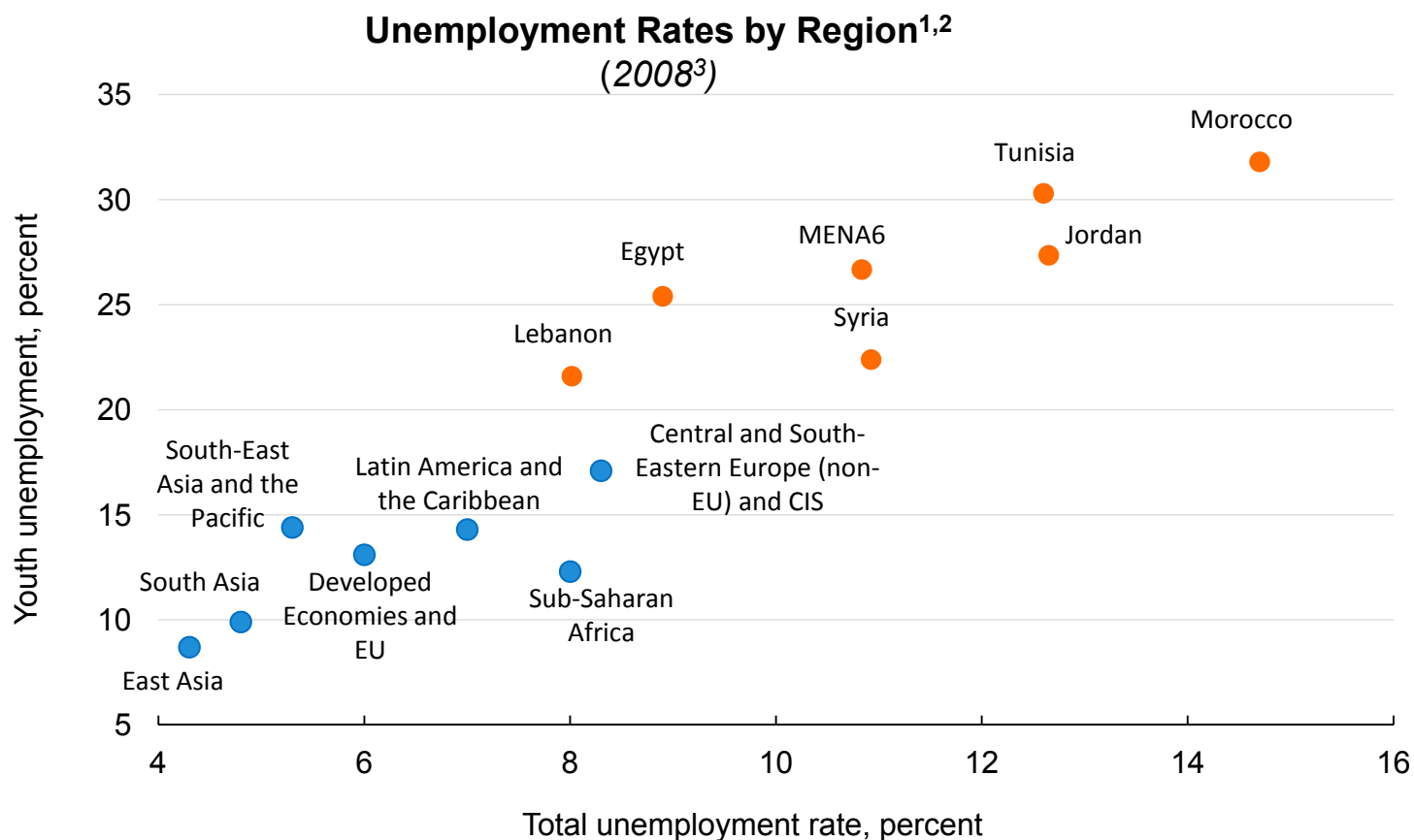
Source: National authorities; and IMF staff calculations and projections.



# Short-term policy challenge: Ensuring social cohesion while maintaining macroeconomic stability



# Policy challenge: Unemployment



Sources: International Labor Organization; national authorities; IMF, *World Economic Outlook*; and IMF staff estimates.

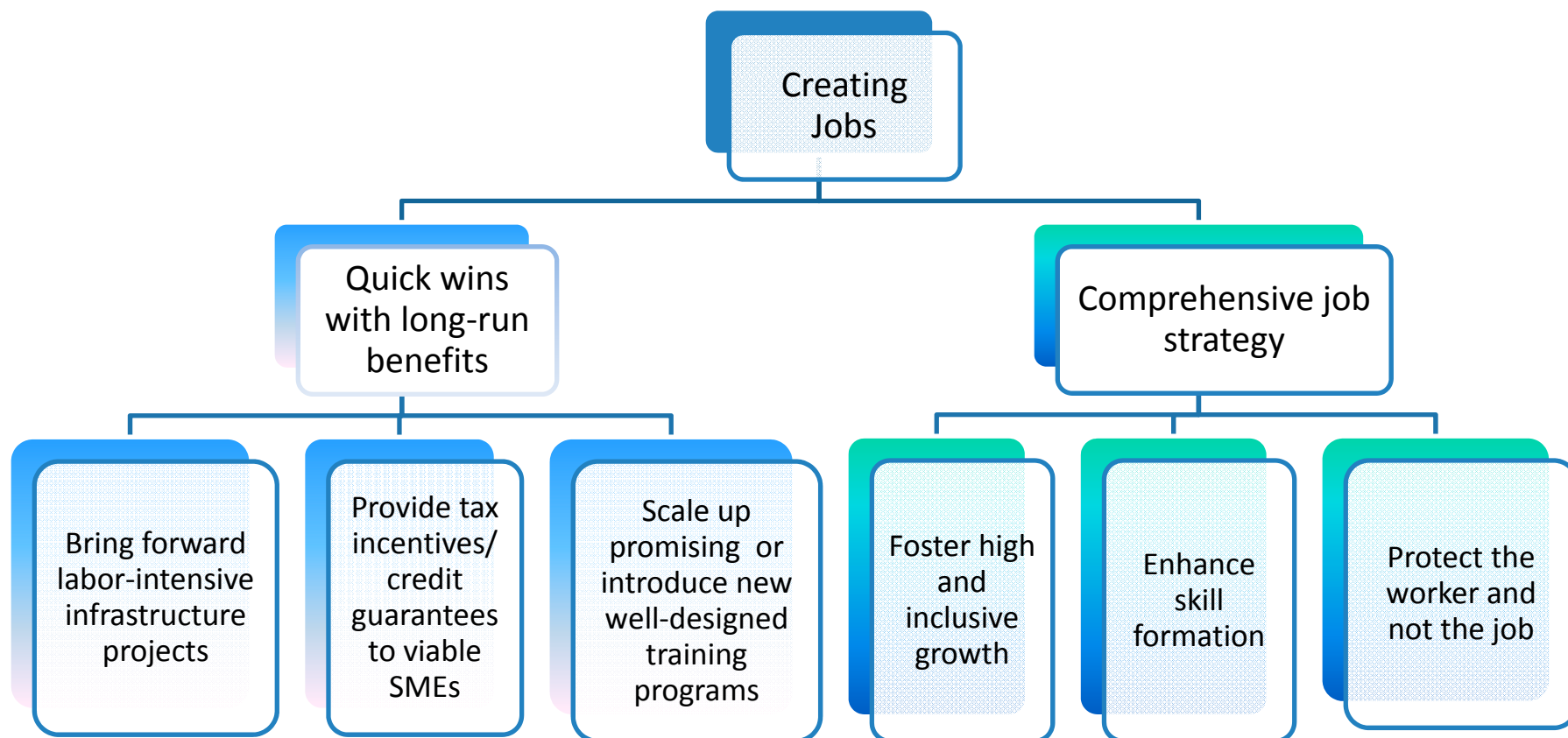
<sup>1</sup>MENA6 countries are Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia.

<sup>2</sup>Total and youth unemployment rates for Morocco reflect data from Urban Labor Force Survey.

<sup>3</sup>Or most recent earlier year for which data are available.



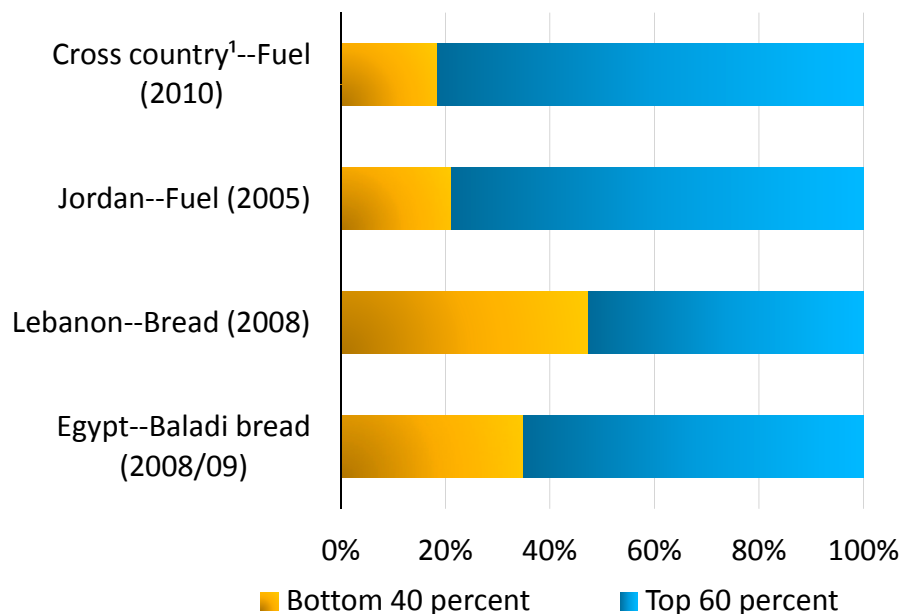
# Creating jobs



# Heavy reliance on untargeted subsidies

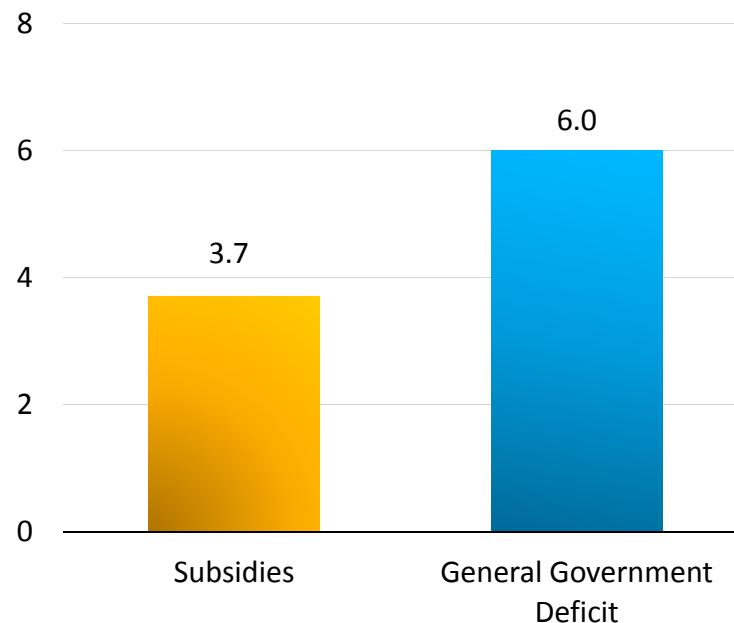
Price subsidies are poorly targeted...

Distribution of Subsidies Across Income Groups



... and costly.

MENAP Oil Importers: Subsidies and Deficits in 2010  
(Percent of GDP)



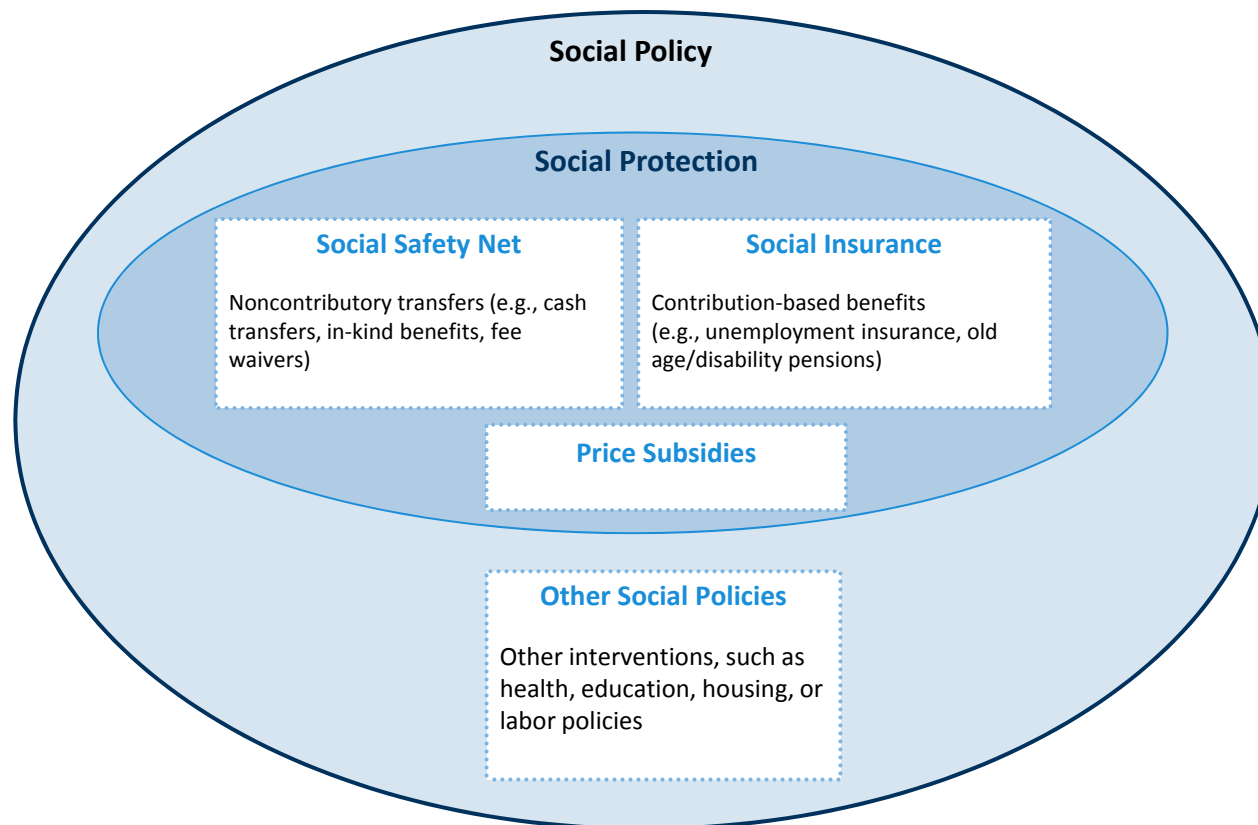
Sources: Jordan-The Distributional Effects of Eliminating Subsidies for Petroleum Products, R. Gillingham & M. El-Said, IMF (2005), The Unequal Benefits of Fuel Subsidies: A Review of Evidence for Developing Countries, J. Del Granado, D. Coady & R. Gillingham, IMF (2010), Egypt's Food Subsidies: Benefits Incidence and Leakages, September 2010, World Bank.

<sup>1</sup>Average across 21 countries.



# Social Protection Instruments

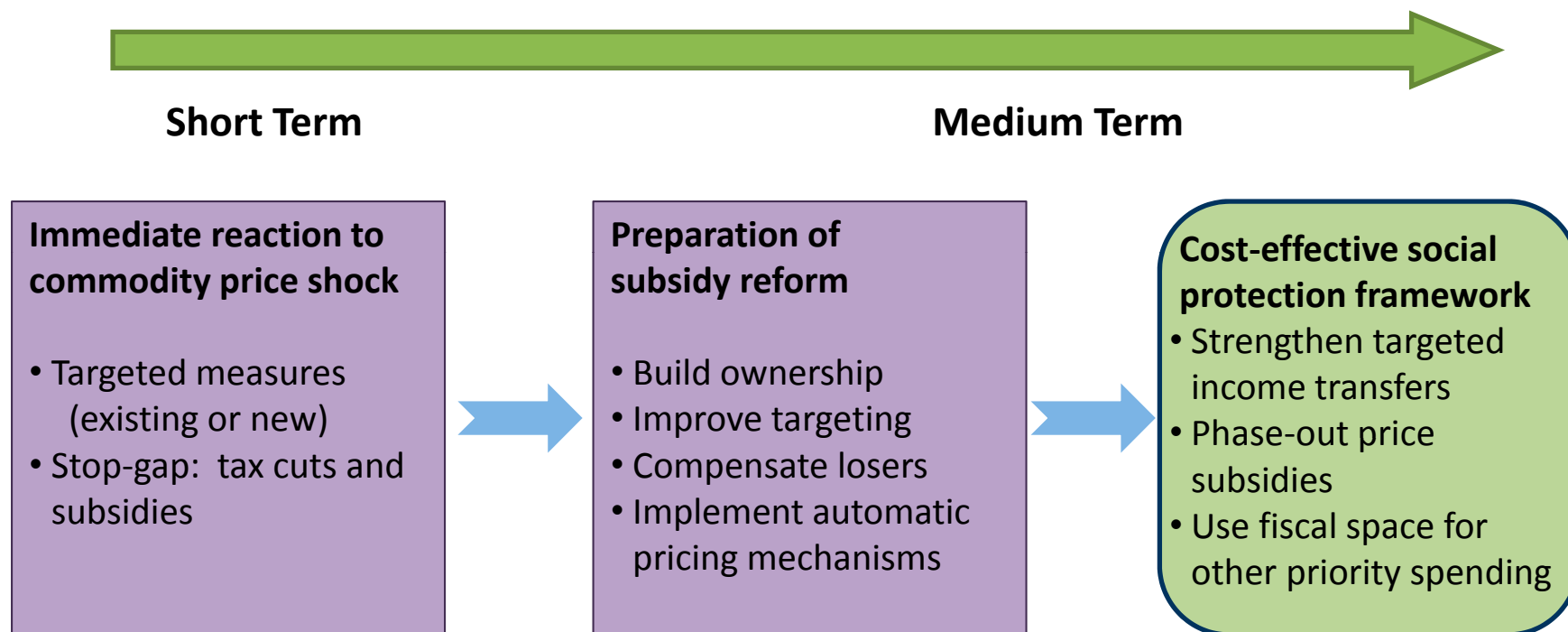
## Taxonomy of Social Policy Interventions



Source: IMF staff illustration.



# Enhancing social protection



# Opportunity to develop a medium-term policy agenda for shared prosperity





For an online version of the full report, please visit:

<http://www.imf.org/external/pubs/ft/reo/2011/mcd/eng/mreo0411.htm>

