

Middle East and North Africa Regional Economic Outlook

October 2015



Roadmap

Global Environment

Regional Themes

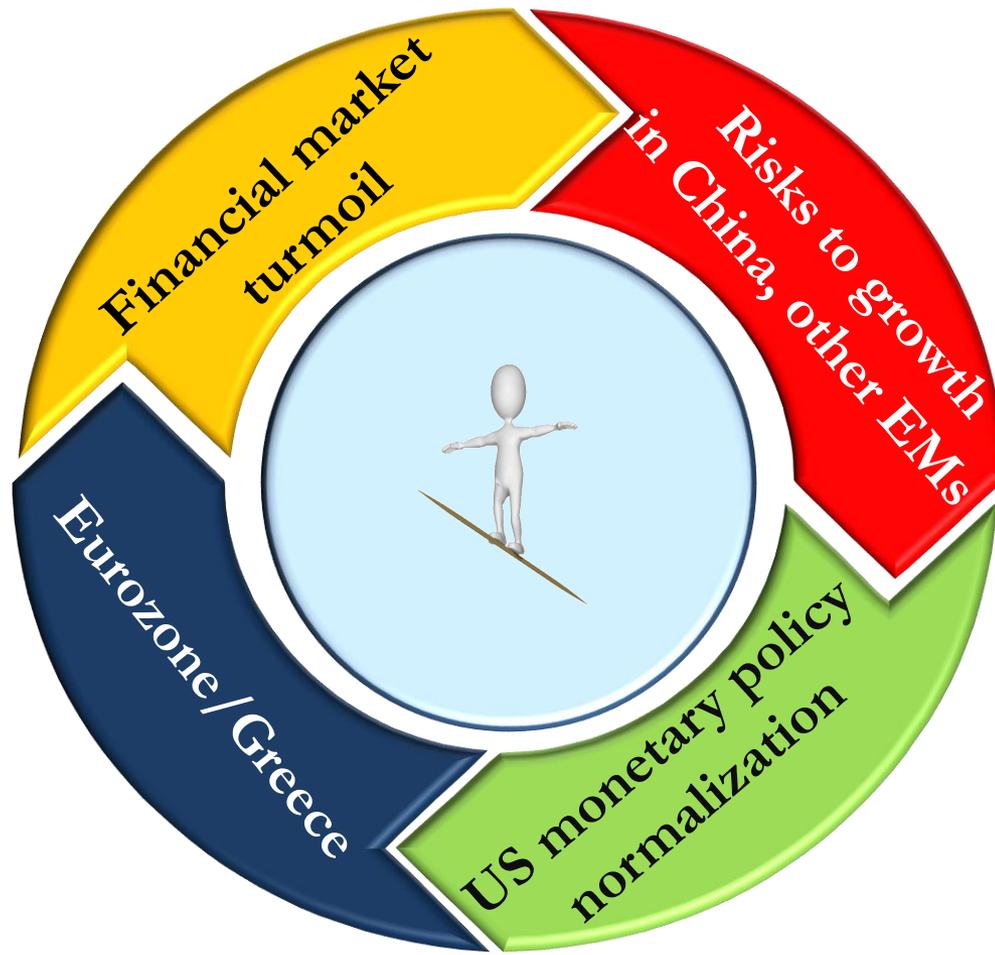
**MENAP Oil Exporters and
Importers**

Near-term Global Outlook Is for Moderate and Uneven Growth



	World	U.S.	Euro Area	Emerging markets	China
2014	3.4	2.4	0.9	4.6	7.3
2015	3.1	2.6	1.5	4.0	6.8
2016	3.6	2.8	1.6	4.5	6.3

Global Risks Are Tilted to the Downside, Rising in Emerging Markets



Roadmap

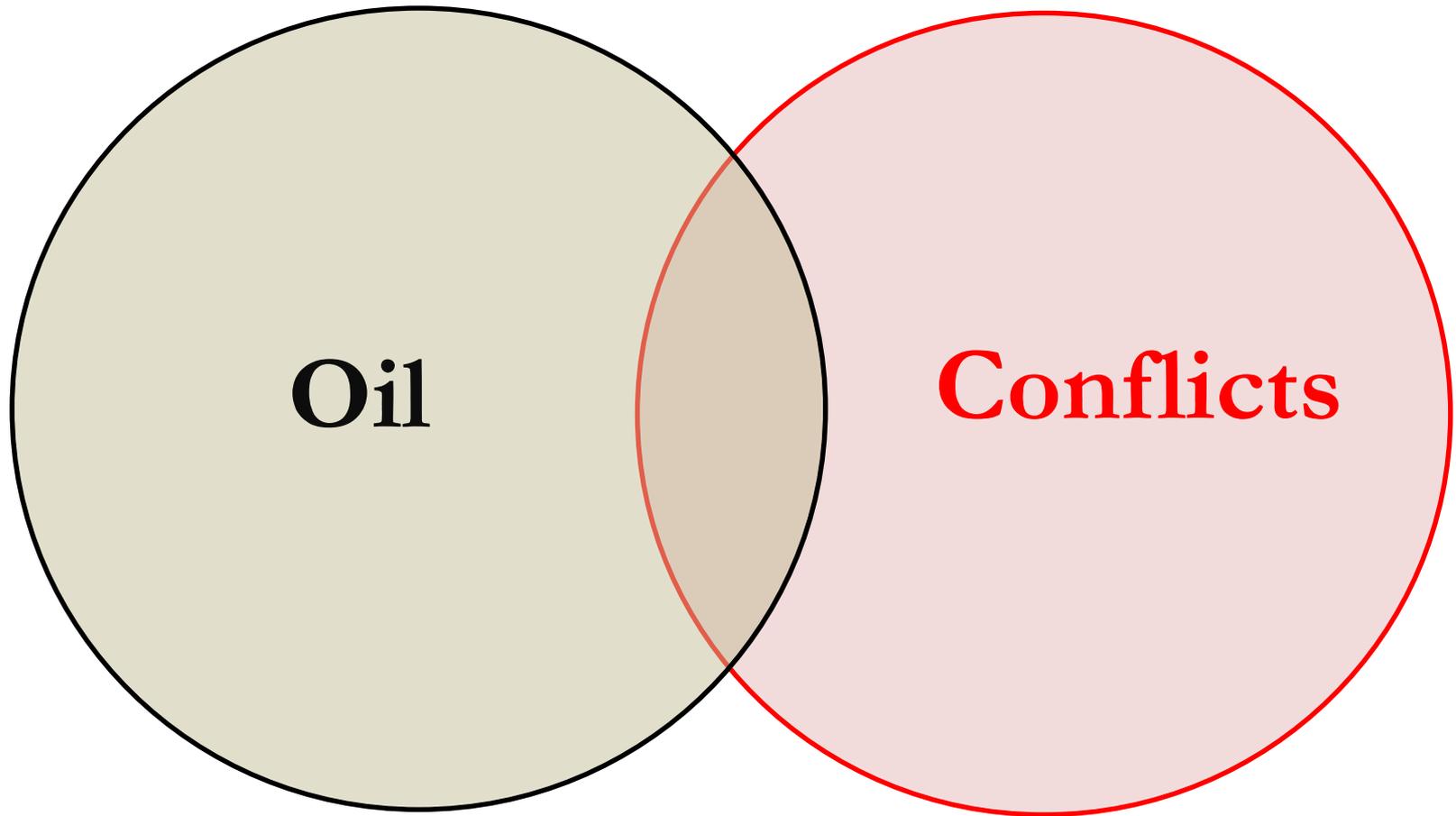
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MENAP Oil Exporters and Importers



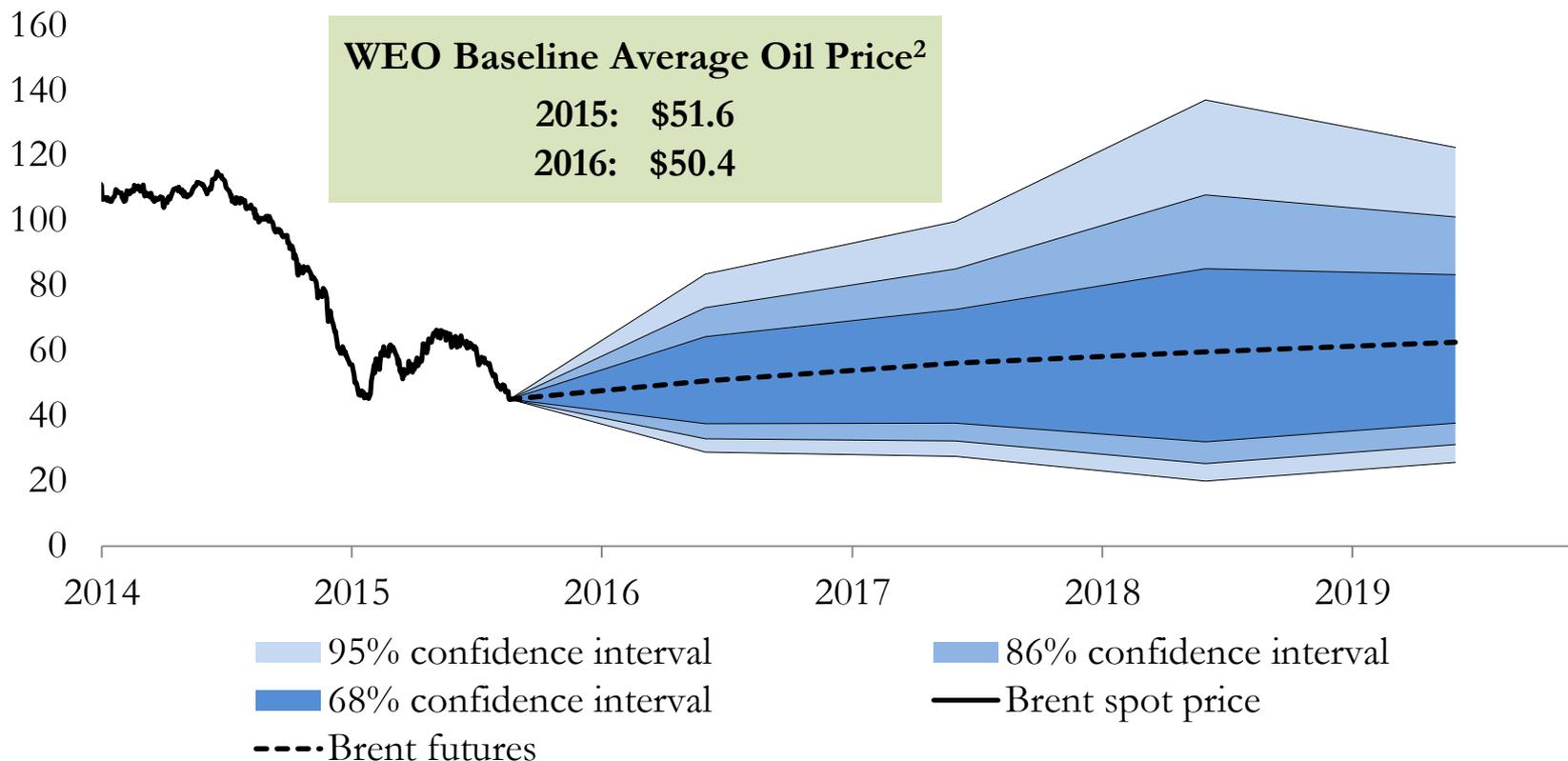
Oil and Conflicts Are the Key Factors Shaping the Economic Outlook for MENAP



The Slump in Oil Prices Is Expected To Persist

Brent Crude Oil Price ¹

(U.S. dollars per barrel)



Sources: Bloomberg; and IMF staff calculations.

¹ As of August 20, 2015.

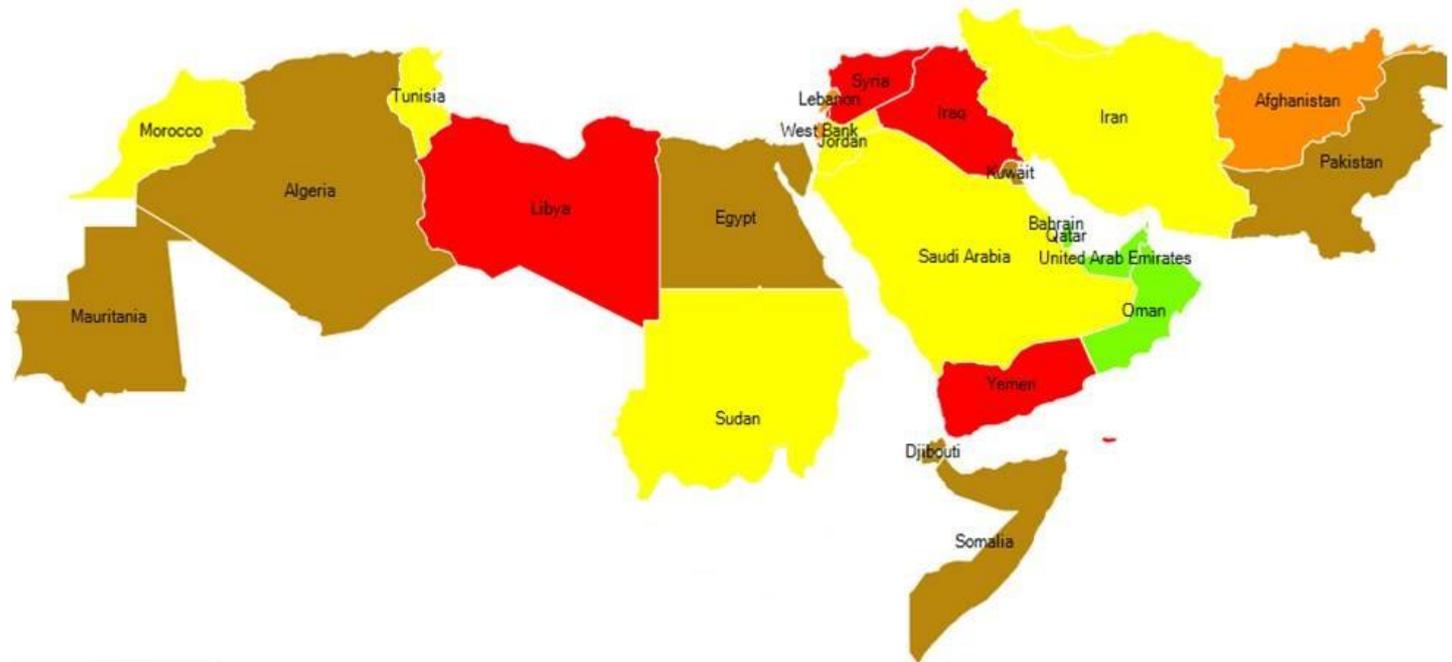
² Average of WTI, Brent, and the Dubai Fateh prices.



Conflicts Are Spreading and Deepening, Putting a Heavy Toll on the Region and Spilling Across Borders

16 million
refugees and
internally
displaced

Afghanistan	3.4
Iraq	2.4
Libya	0.1
Syria	9.6
Yemen	0.3

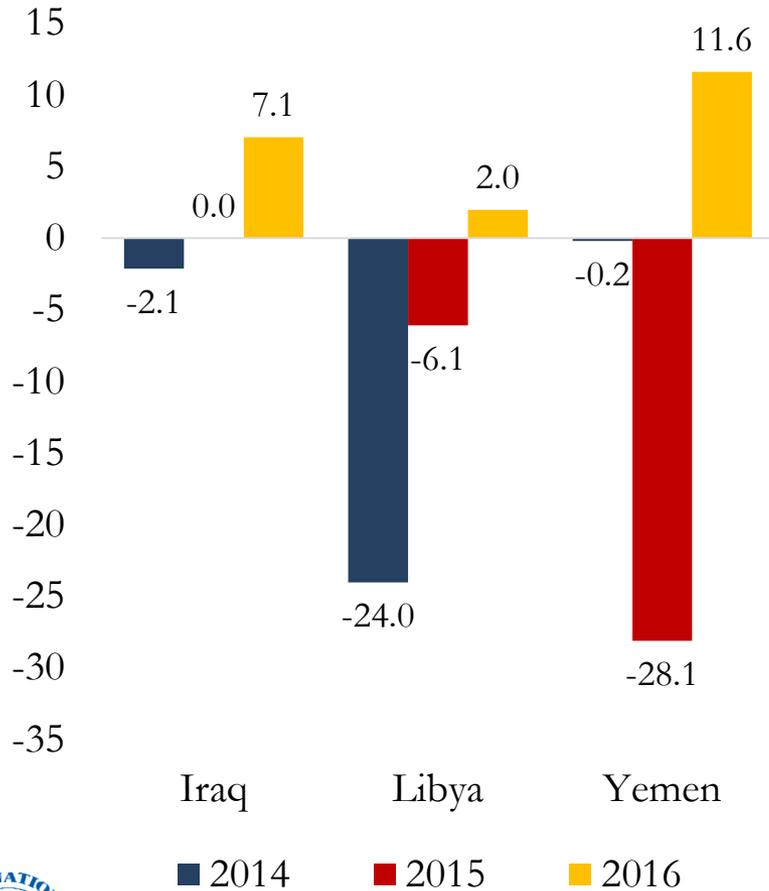


Refugees account for 25 percent of population in Lebanon and 20 percent in Jordan

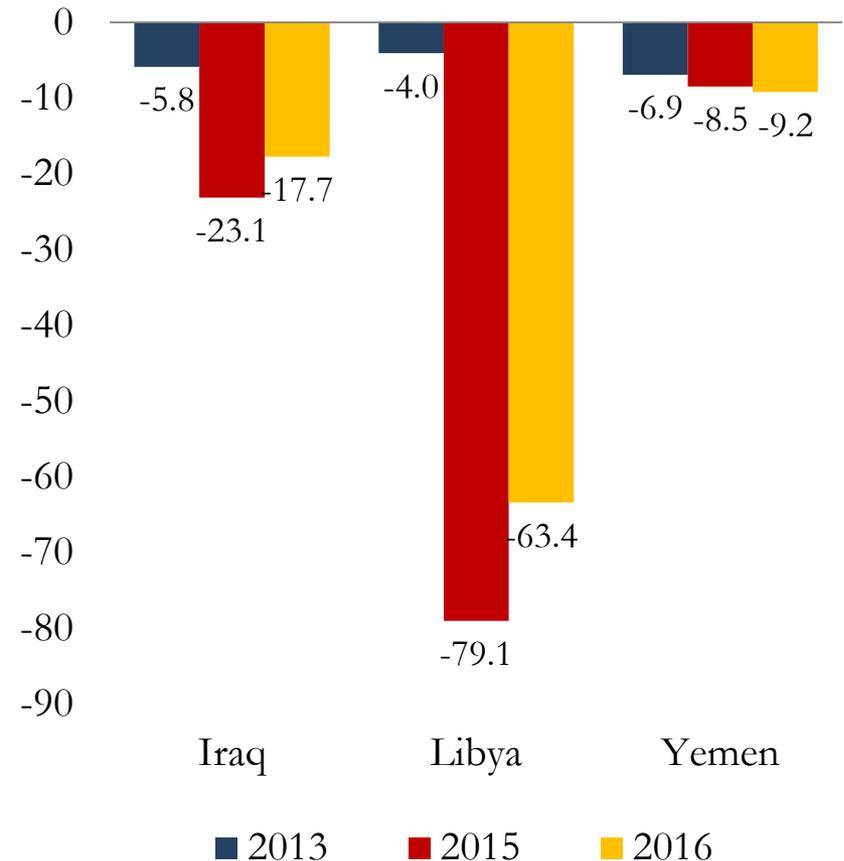


Conflicts Have Caused Collapse in Economic Activity and Mounting Fiscal Pressures in Iraq, Libya, Yemen

Economic Growth in Conflict Countries
(Percent of GDP)

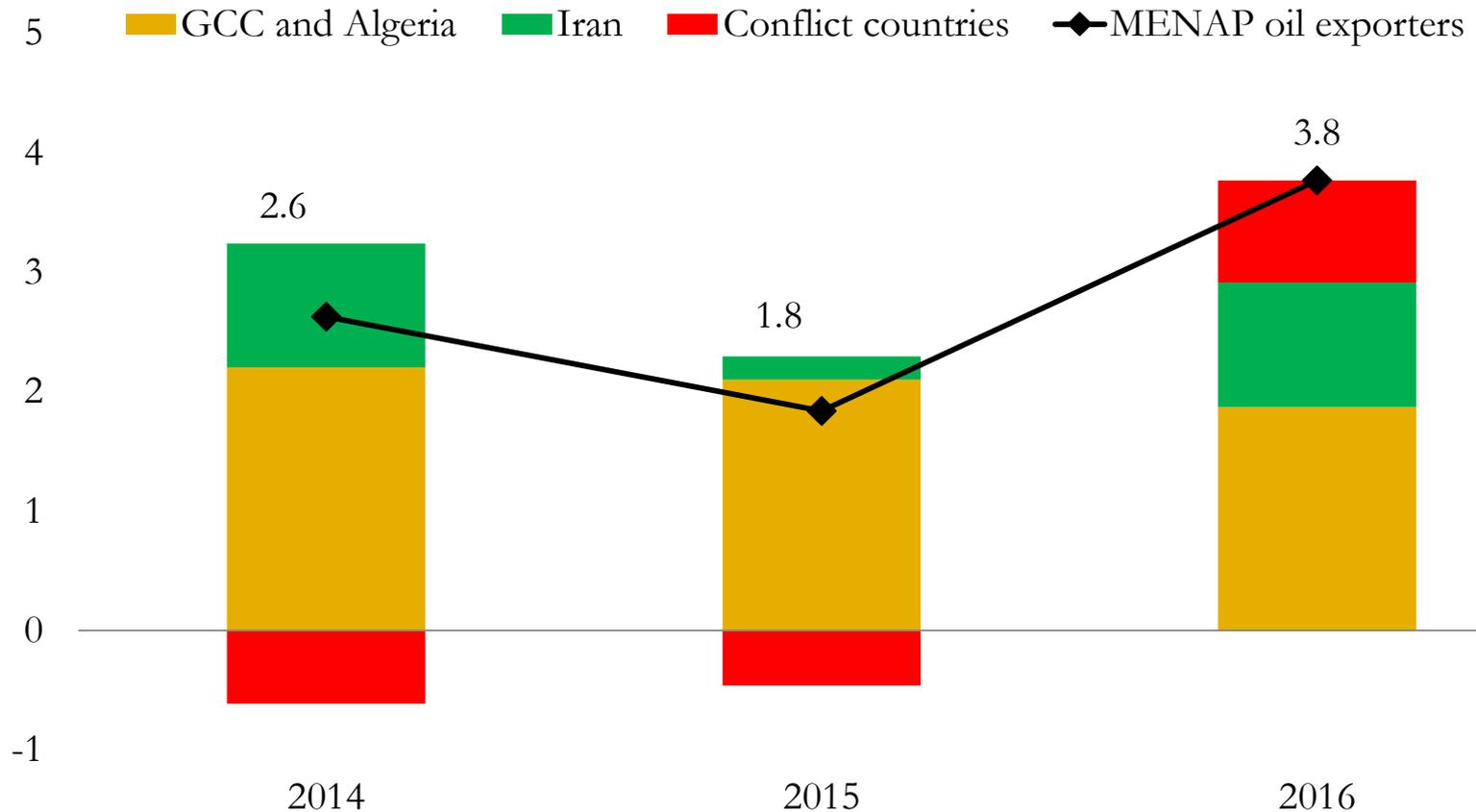


Fiscal Balance
(Percent of GDP)



Conflict Countries and Iran Developments Drive Changes in Oil Exporters' Growth

Oil Exporters
(Percent)



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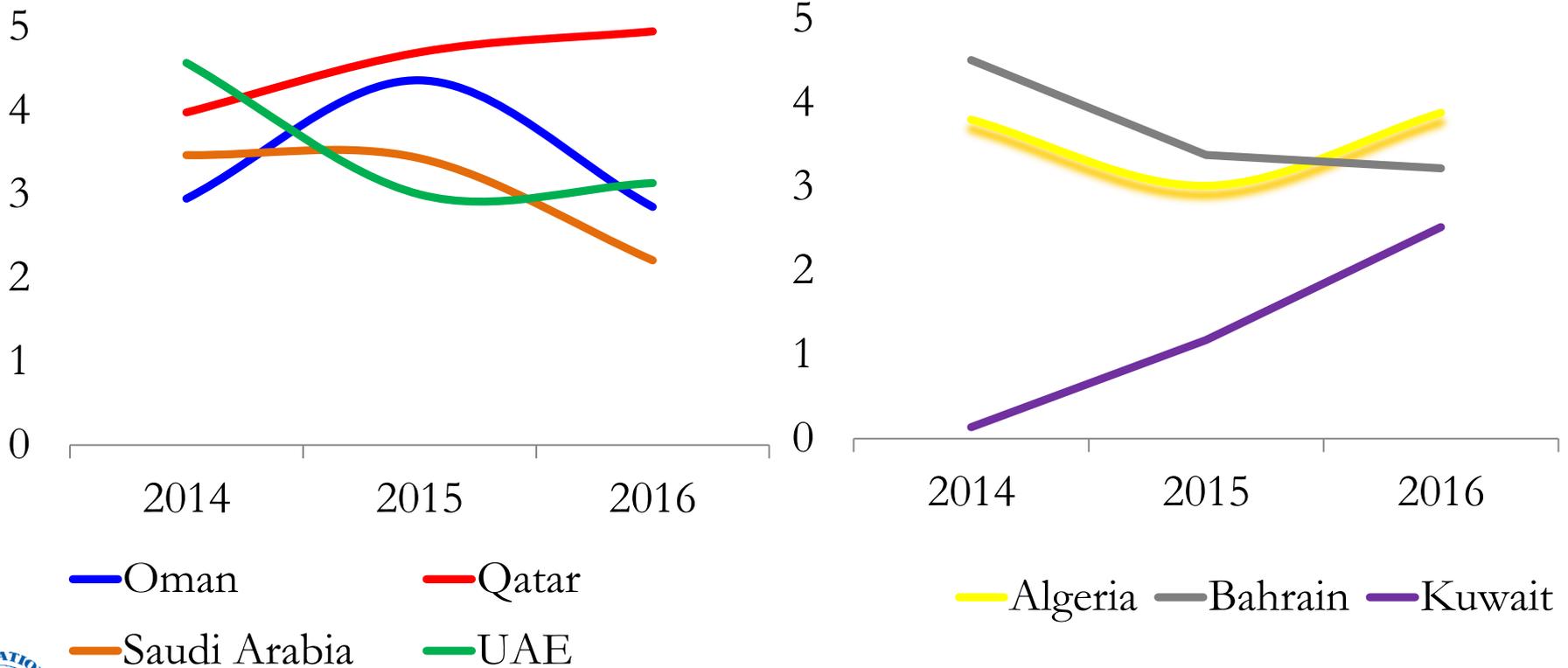


Growth Slowdown Will be Gradual Because of Buffers

**GCC growth to slow from 6 percent in 2000-07
to 3 percent in 2015-20**

Real GDP Growth

(Percent)

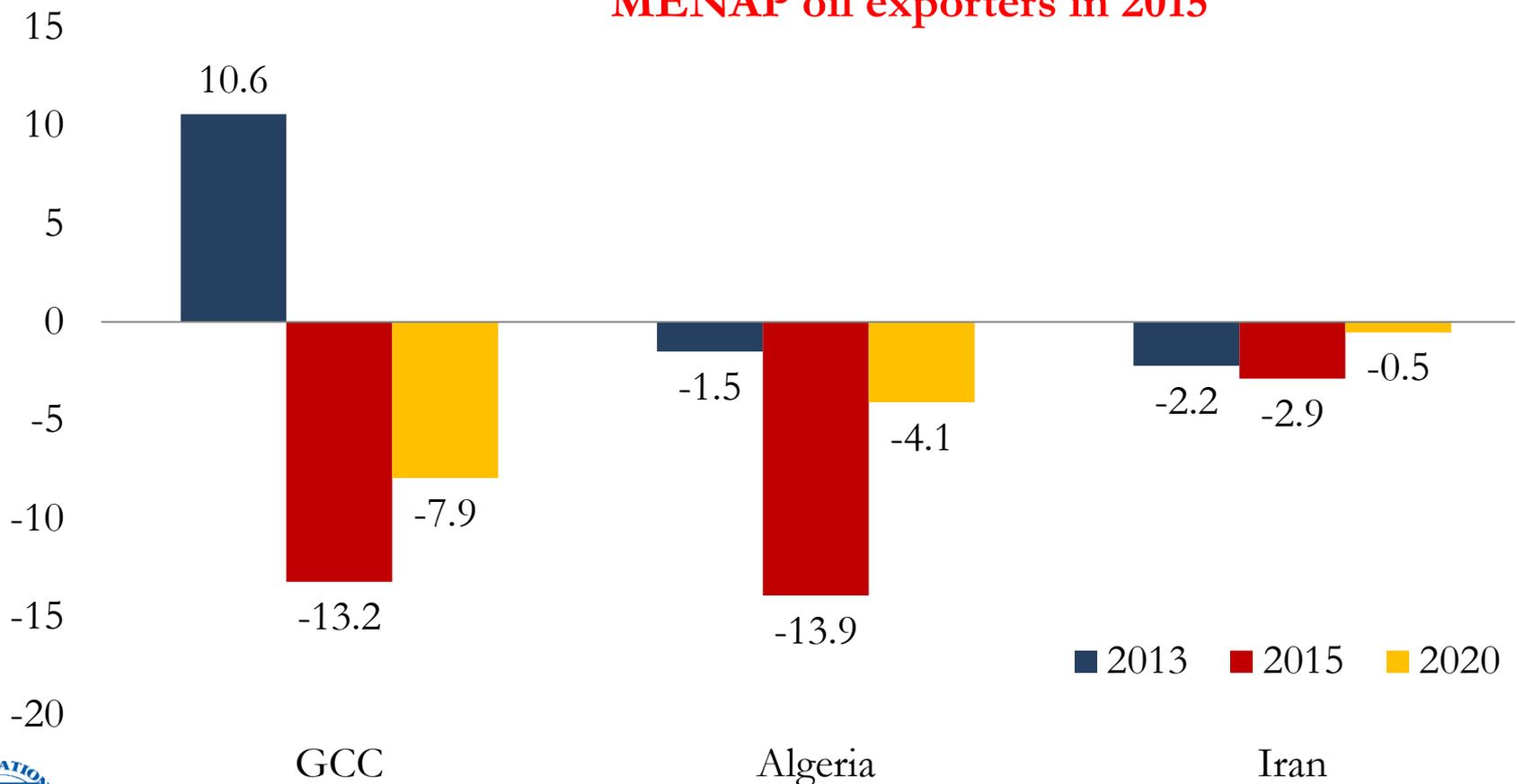


Low Oil Prices Lead to Persistent Fiscal Pressures for Oil Exporters

Fiscal Balance

(Percent of GDP)

Fiscal deficits around 13 percent of GDP in MENAP oil exporters in 2015

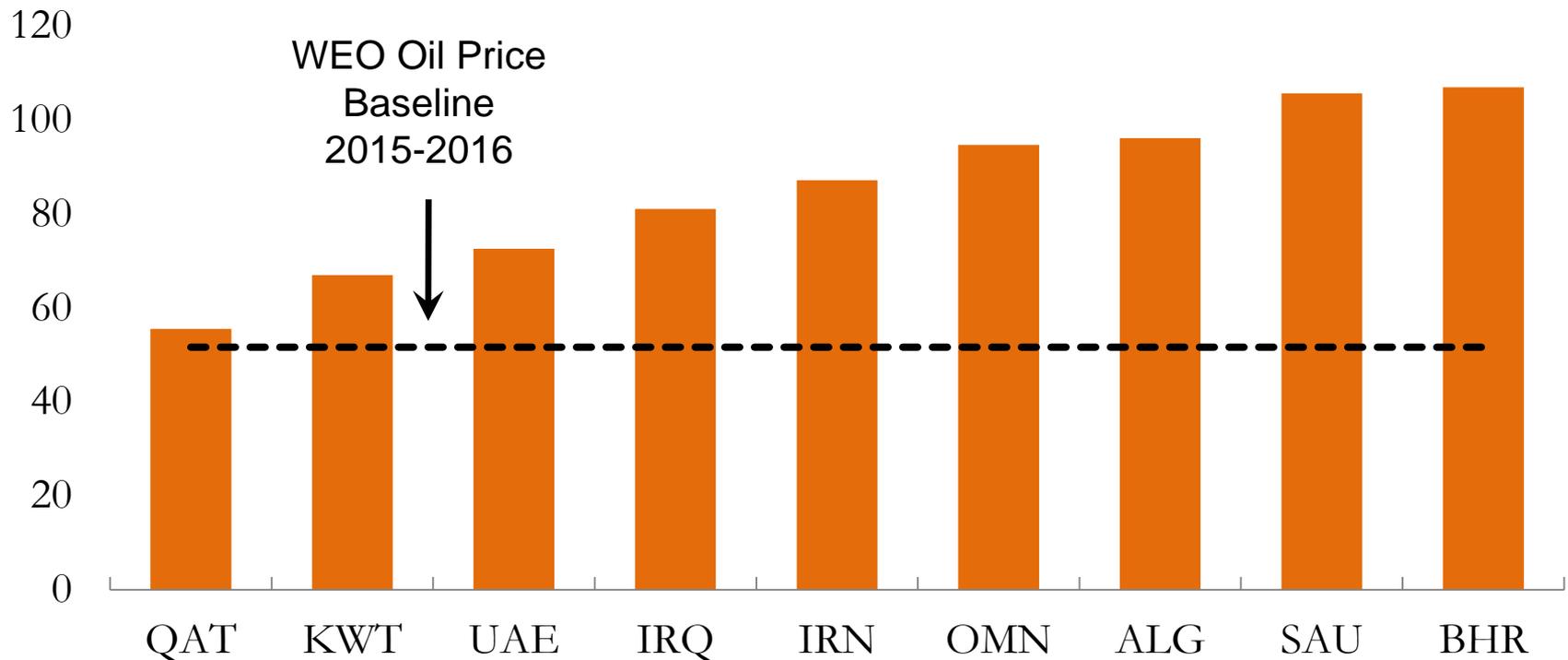


Dwindling Fiscal Space Underscores Need for Fiscal Action

Breakeven Oil Prices, 2015
(U.S. dollars per barrel)

Most MENAP oil exporters will exhaust their financial buffers in less than 5 years.

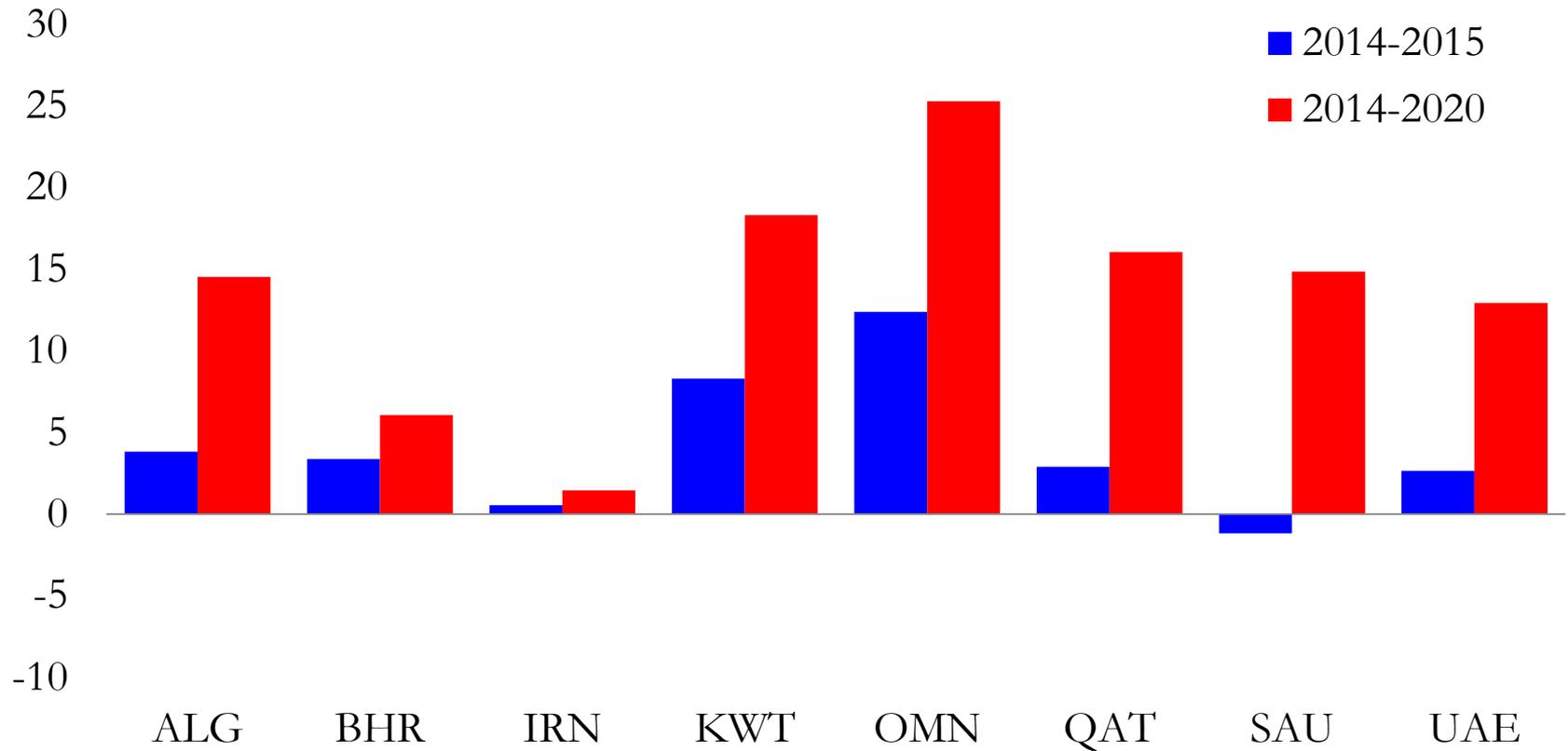
Financing needs to reach \$1 trillion over 5 years.



Some Countries Have Started To Tighten the Public Purse, But Credible Medium-Term Consolidation Needed

Change in Non-Oil Primary Balances

(Percentage points of non-oil GDP)

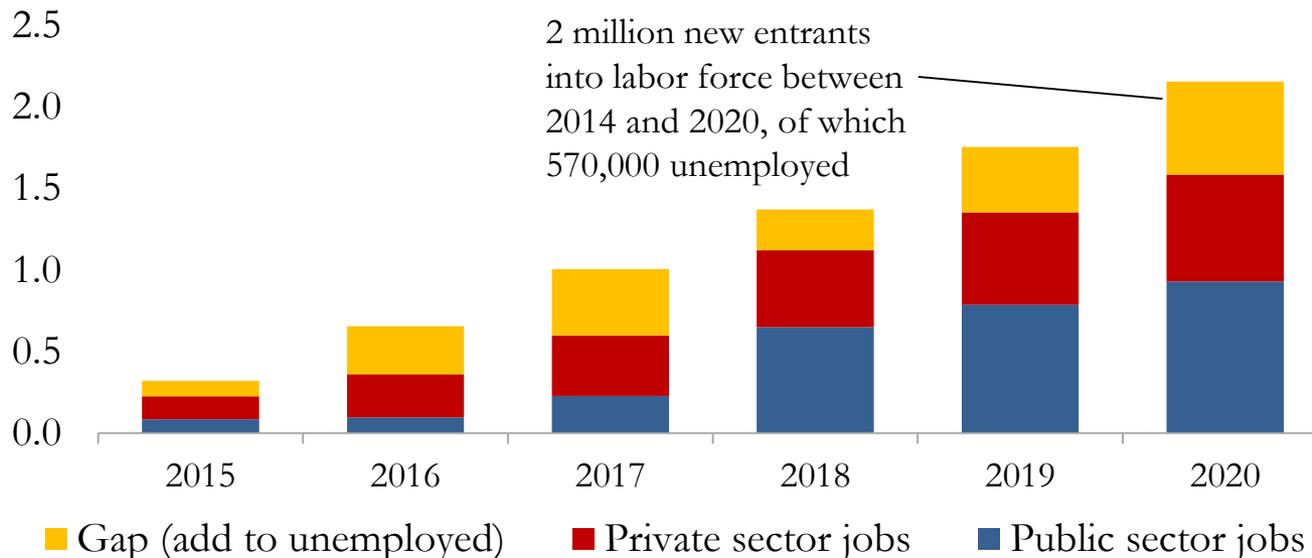


How to Create Jobs while Controlling Public Spending

Labor force will grow by 10 million in MENAP oil exporters by 2020, of which almost 3 million will be unemployed on current trends.

Employment Outlook in the GCC

(Millions of new labor market entrants, cumulative)



Sources: National authorities; and IMF staff calculations.

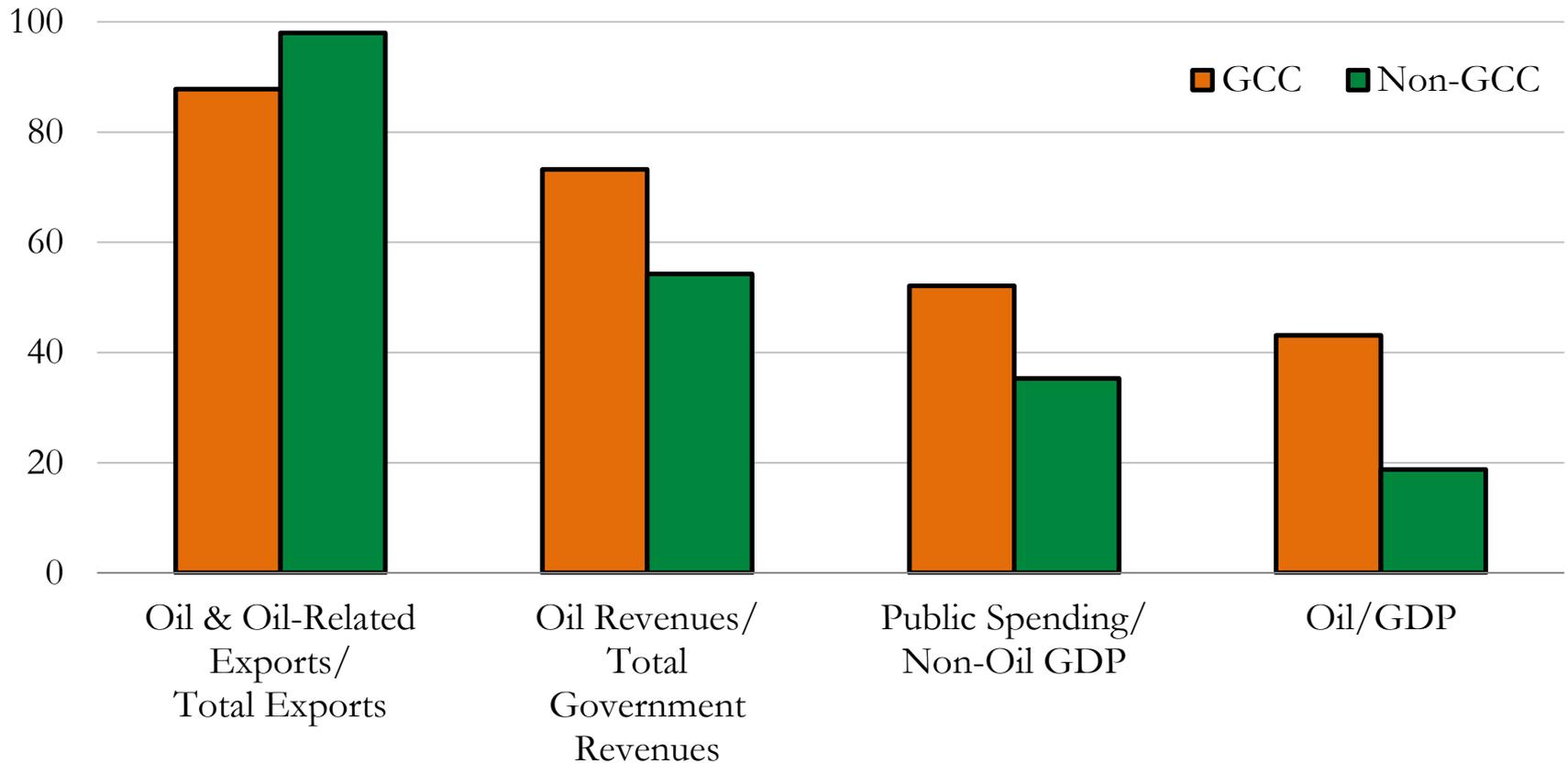
¹ Note: Data for U.A.E. not included. Public sector jobs are projected based on wage bill forecasts. Private sector jobs are projected by using historical employment-non-oil growth elasticities and non-oil growth forecasts (see Behar, 2015).



Private Enterprises Need To Take Over As Engine of Growth, Driving Diversification

Diversification

(Higher is less diverse)



Sources: WTO; UN Comtrade; national authorities; and IMF staff calculations.

*Calculated using three-year averages ending in the specified year, or latest three year period for which data are available.

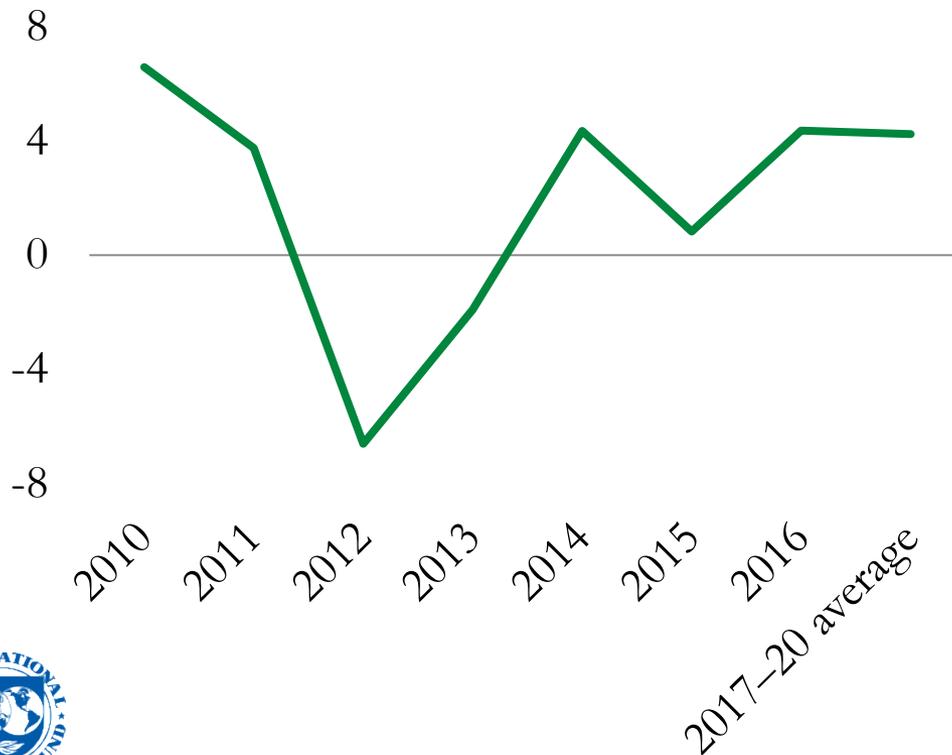


Iran's Economic Prospects To Improve With Sanctions Relief... but by How Much?

- Oil exports are projected to rise by 1.2 mbd by 2020.
- Iran's cumulative imports over the next 5 years will be \$525 billion (22 percent of GDP)

Iran: Real GDP Growth

(Percent)



Conditions for Raising Potential Growth

Macroeconomic stability

Financial sector reforms

Improved business environment



MENAP Oil Exporters

GCC and Algeria

- Good policy to use buffers to smooth growth impact of oil price decline
- But deeper and more sustained fiscal adjustment will be needed in most cases
- The need for a diversified private sector has become more urgent

Countries in Conflict (Iraq, Libya, Yemen)

- Stabilization is a pre-requisite; growth outlook depends on oil production and conflicts

Iran

- Sanctions Relief will boost the economy but growth dividend would be much larger if accompanied by structural reforms.
- Substantial regional and global economic spillovers through oil markets, trade, and investment.



Roadmap

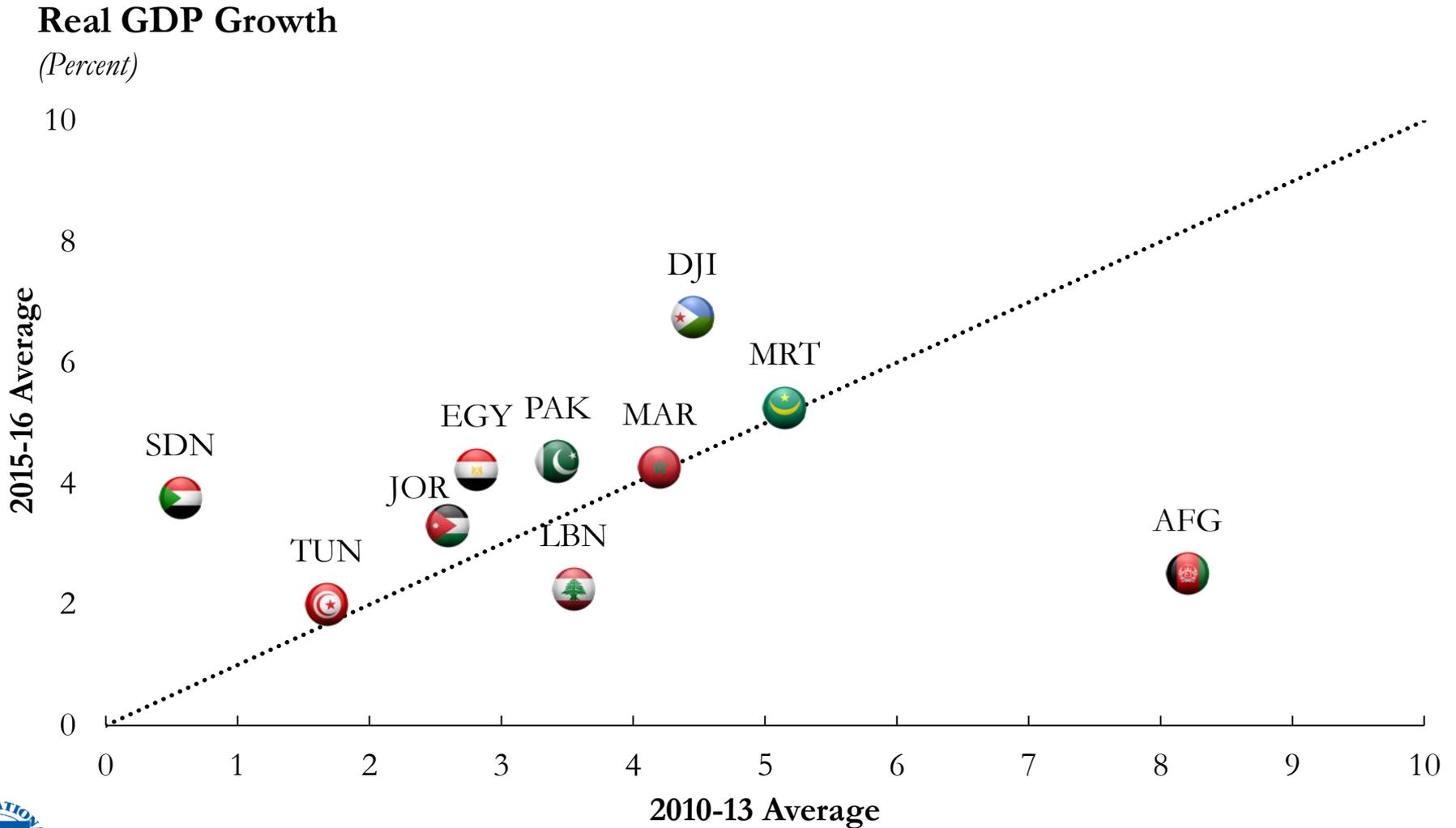
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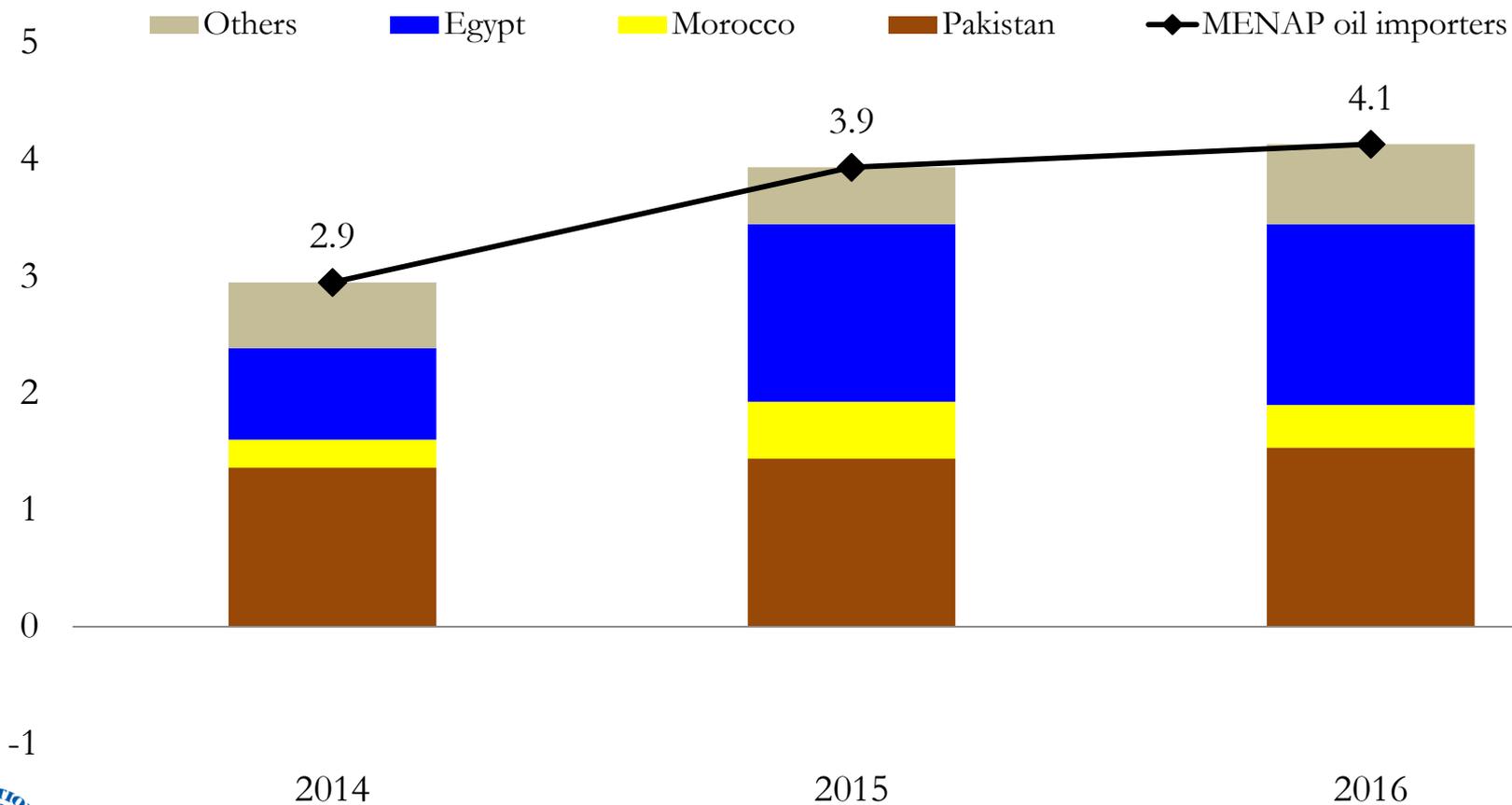


Recovery Is Gaining Momentum But Some Countries Still Lagging



Three Countries Have a Large Impact on Overall Growth

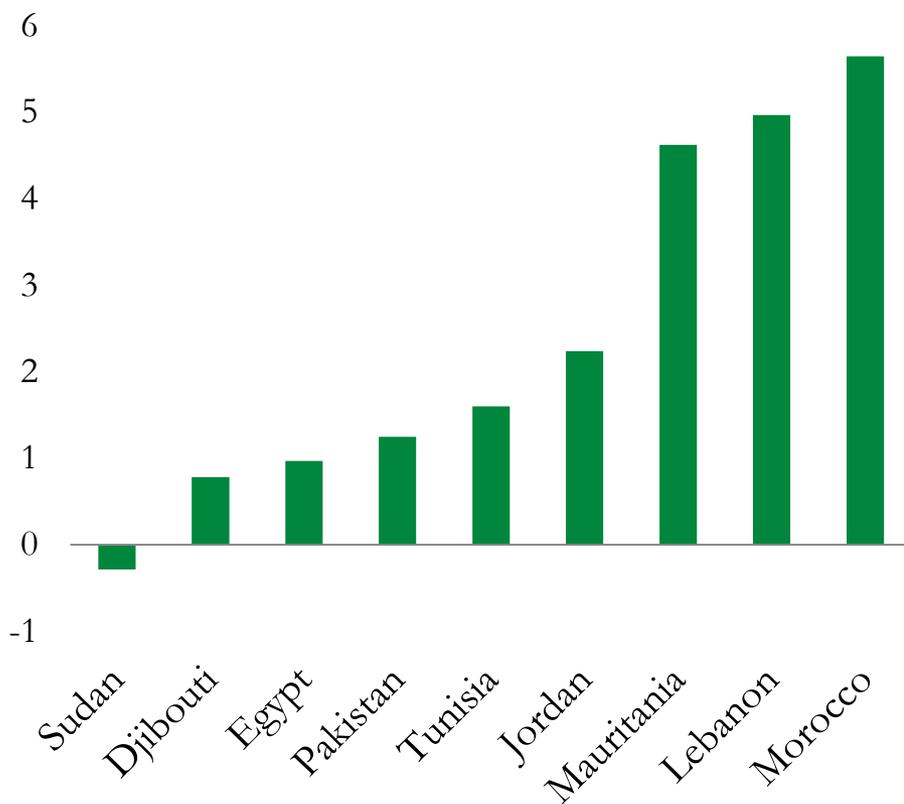
Oil Importers (Percent)



Recovery Driven by Improved External Environment and...

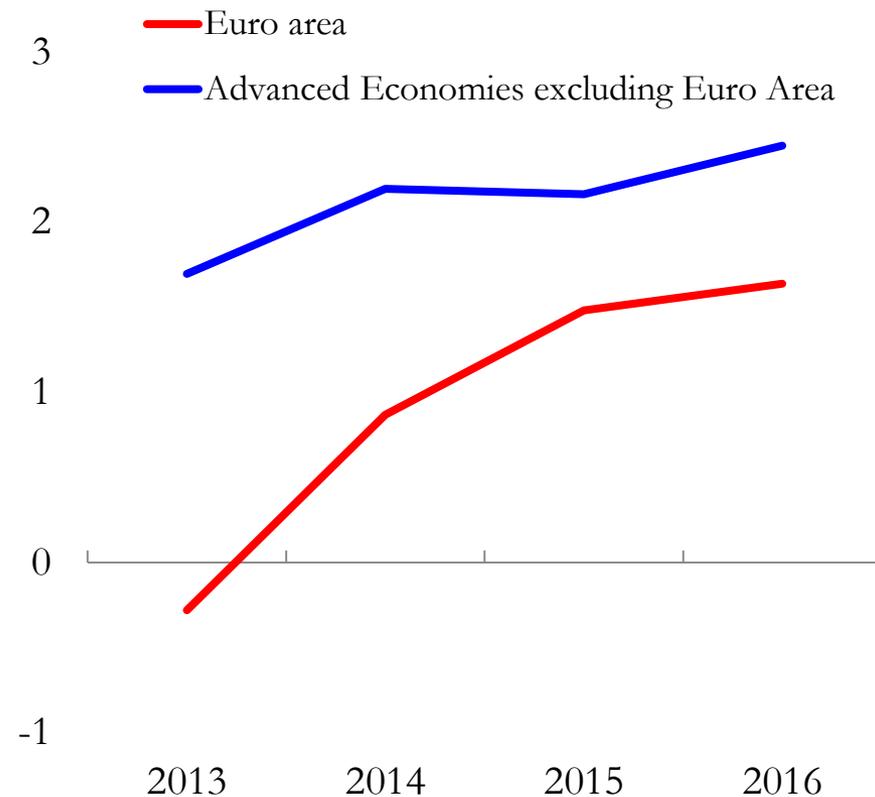
MENAP Oil Importers: External Gains from Lower Oil Prices

(Percent of GDP, 2015–16 average)



Advanced Economies: Real GDP Growth

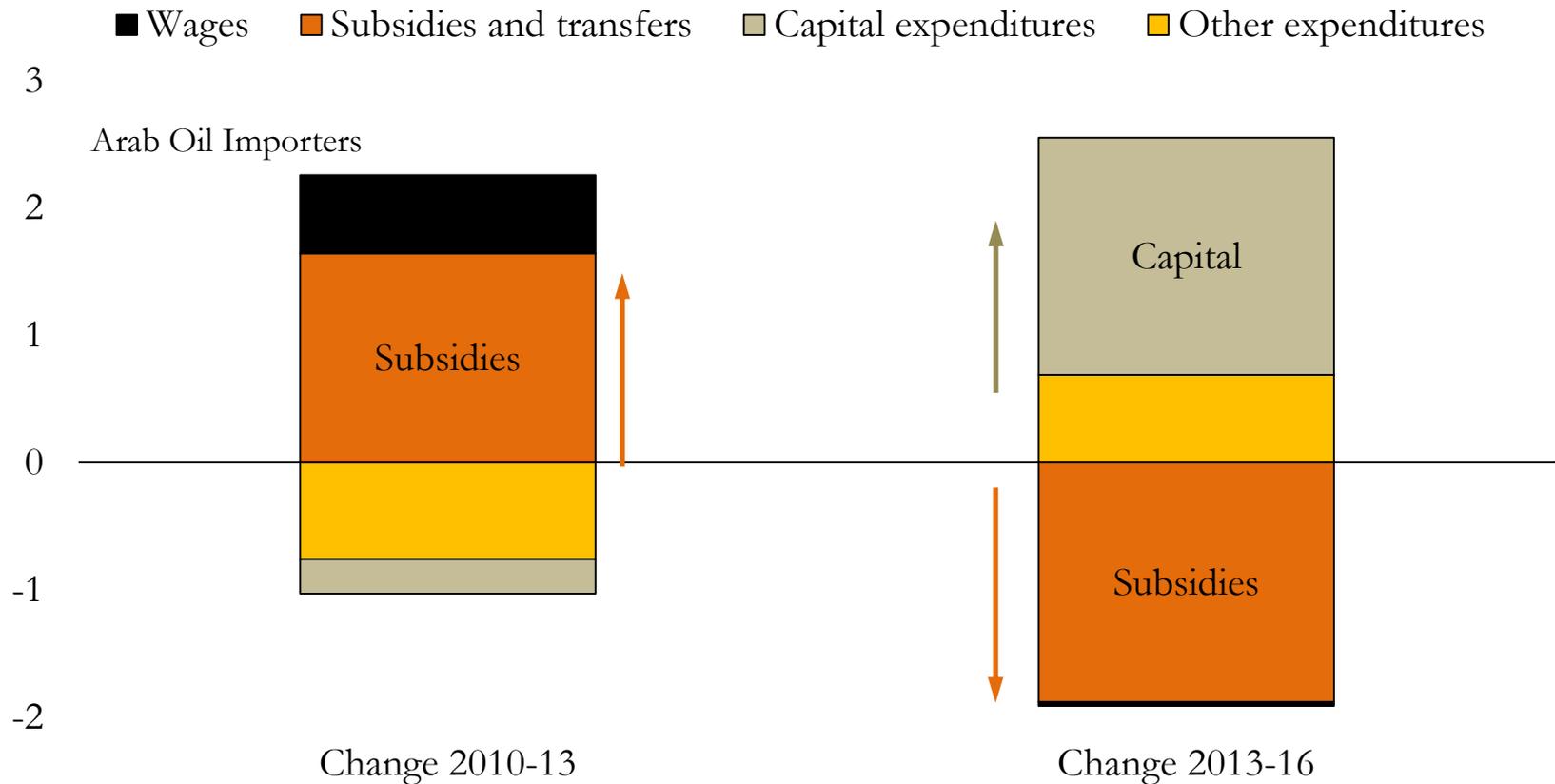
(Percent)



...Subsidy Reforms Combined with Lower Oil Prices Creating Space for Growth-Enhancing Spending

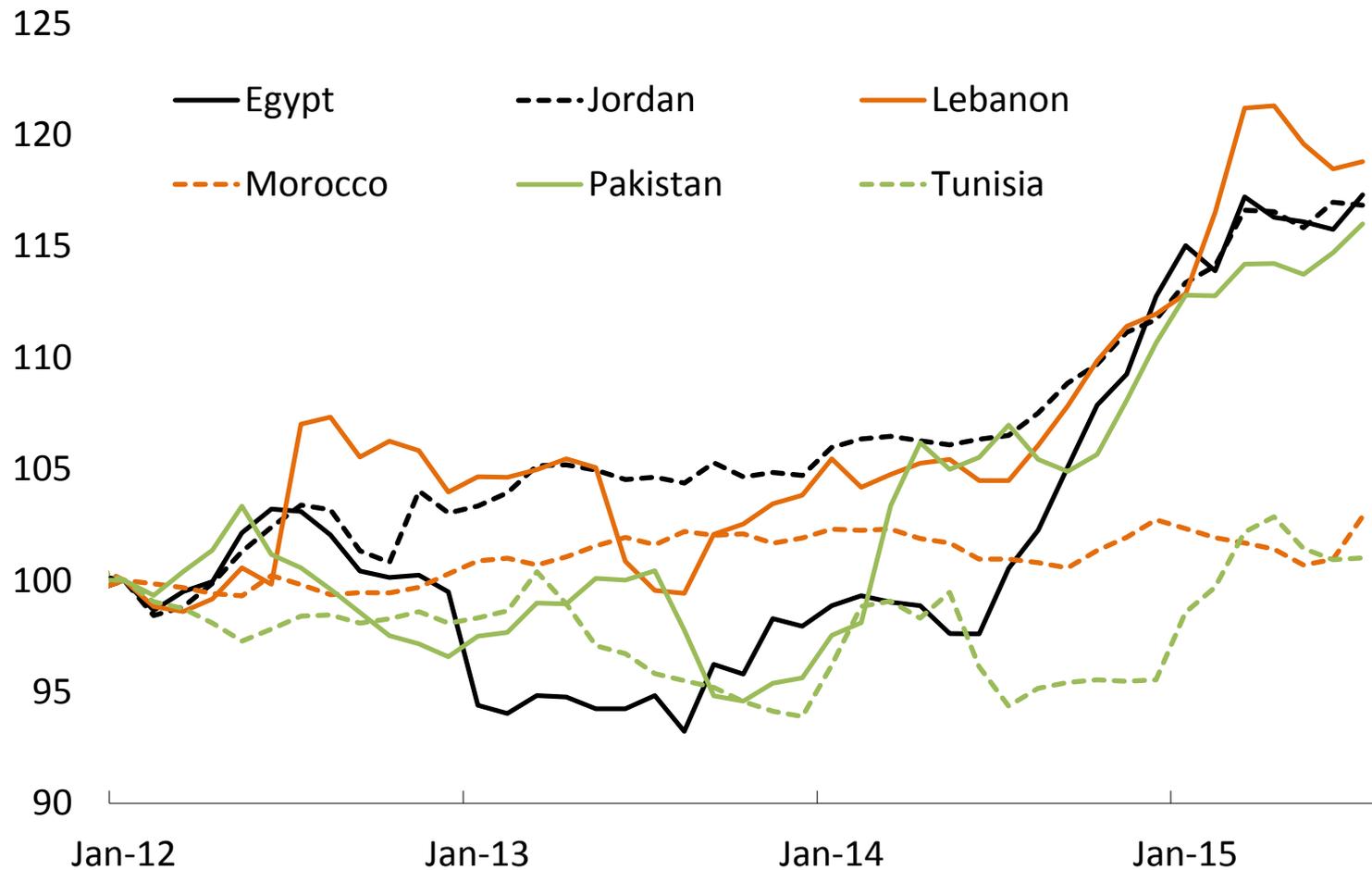
Change in Budget Expenditure Components

(Percent of GDP)



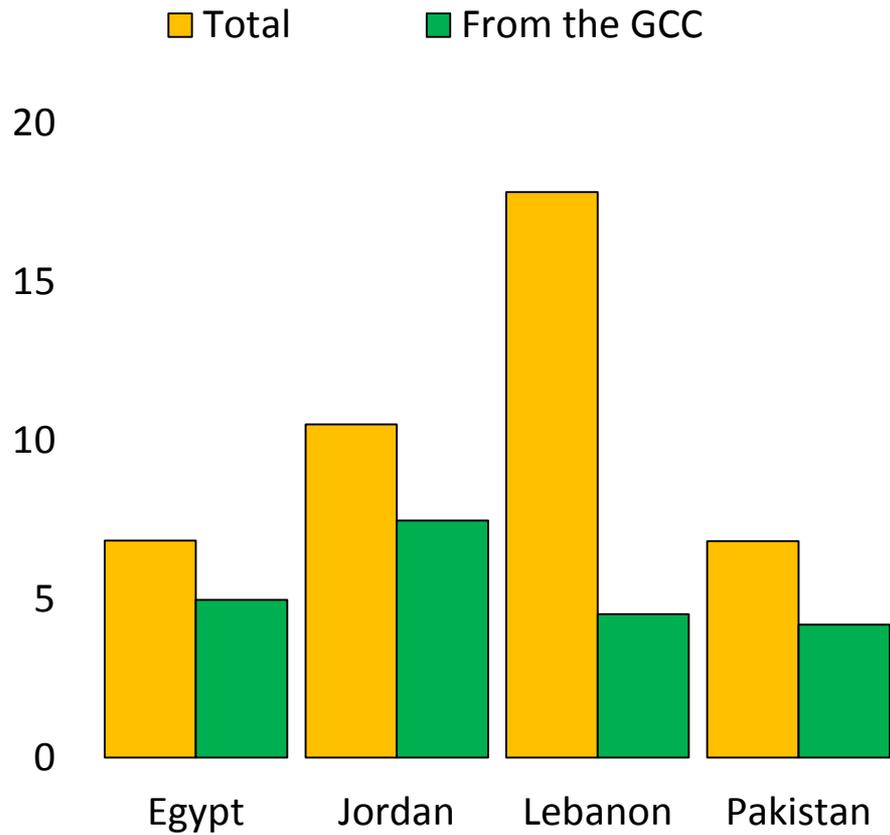
Competitiveness Is Deteriorating As Currencies Follow the Appreciating U.S. Dollar

REER Index, Jan 2012 = 100

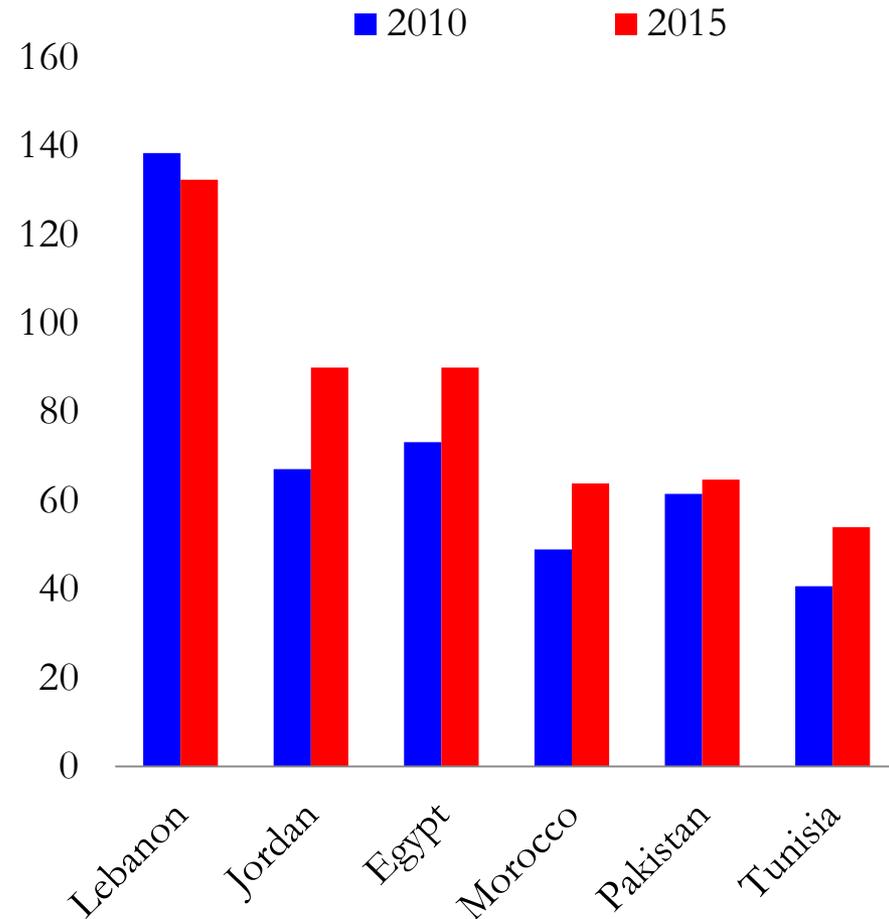


Vulnerabilities Remain Significant Despite Lower Oil Prices, Requiring Well-Balanced Policy Choices

Remittances, 2014
(Percent of GDP)



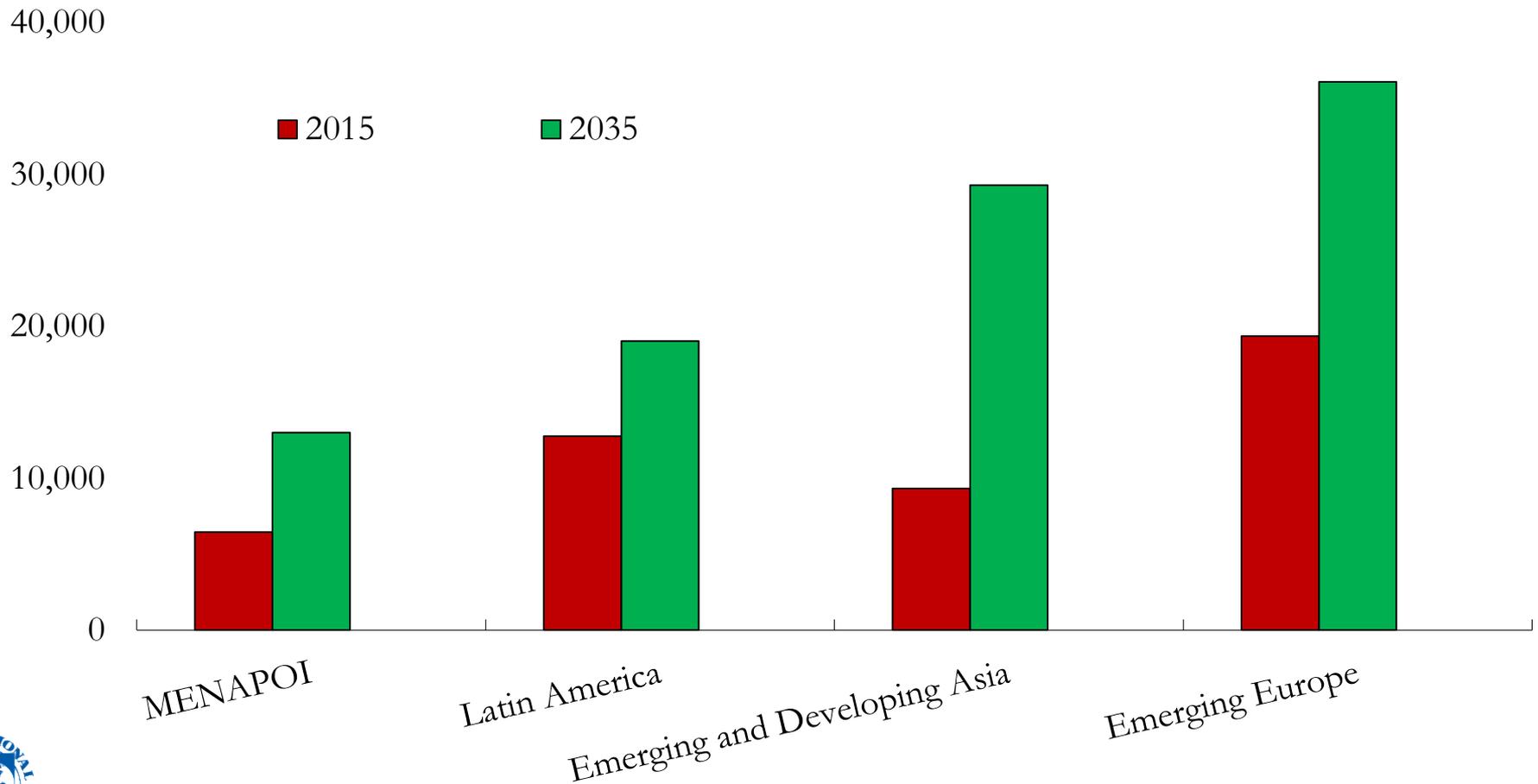
Public Debt
(Percent of GDP)



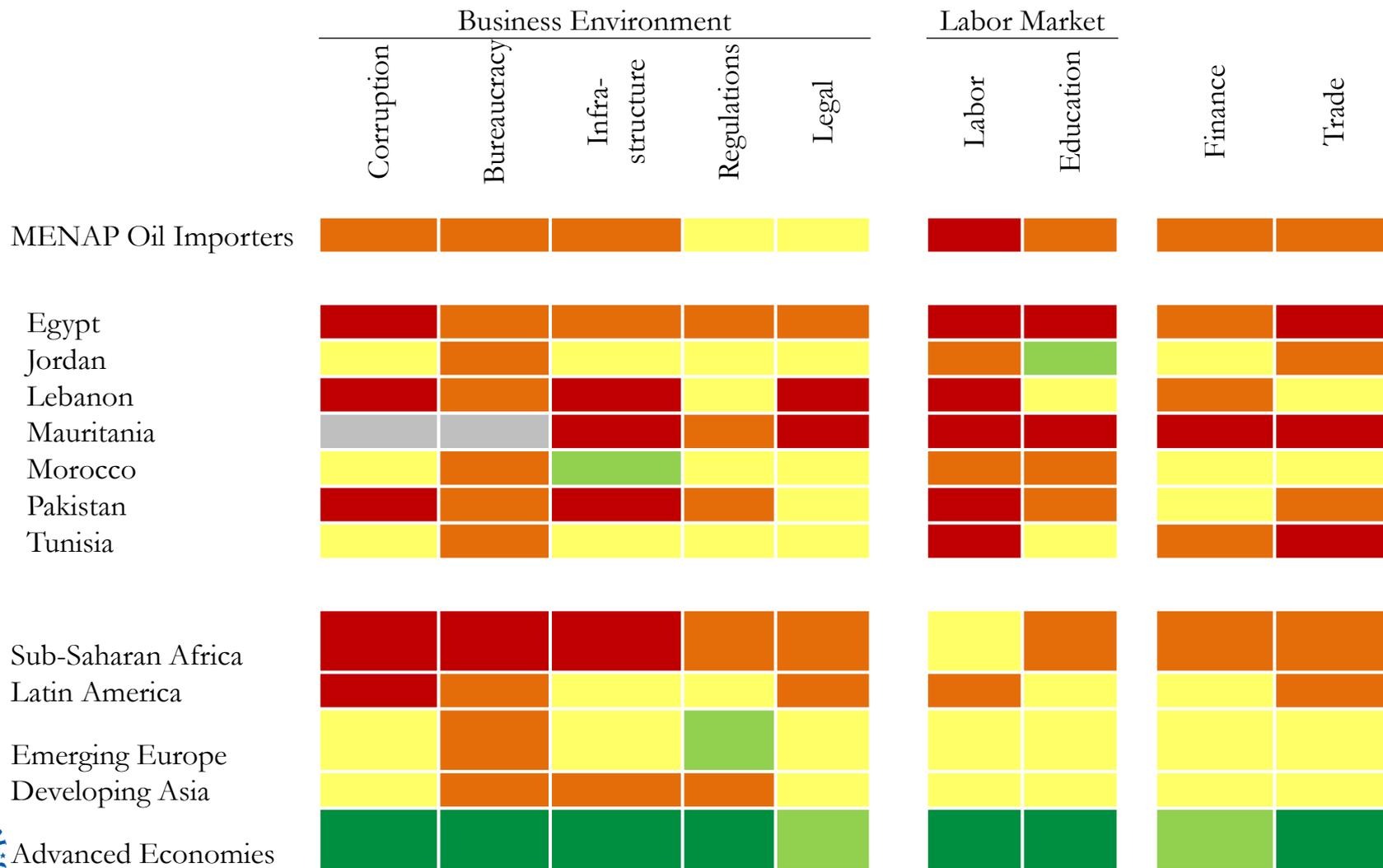
Leap in Growth Is Needed To Raise Living Standards and Employment

Striving for Higher Growth

(PPP Income per Capita, in Constant 2012 U.S. Dollars)



Structural Reforms Would Help Improve Business Climate and Functioning of Labor Market



MENAP Oil Importers

- Growth rising with confidence and better external environment but some countries lagging
- Large downside risks and vulnerabilities remain high
- Need for further fiscal consolidation, including more subsidy reforms
- Channel budget savings into growth-enhancing spending and raise exchange rate flexibility to support recovery
- Structural reforms needed for higher and more inclusive medium-term growth

MENAP: Stable Growth in 2015, Improved Outlook for 2016

Real GDP Growth (Percent)

	MENAP	MENAP Oil Exporters		MENAP Oil Importers
		GCC	Non-GCC	
2014	2.7	3.4	1.7	2.9
2015	2.5	3.3	0.1	3.9
2016	3.9	2.8	4.9	4.1

Thank you!

To download the latest IMF's *Regional Economic Outlook*
for the Middle East and Central Asia,
please visit

<http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/mreo1015.htm>

