

Middle East and Central Asia Regional Economic Outlook and Overview of Recent Economic Developments in the West Bank and Gaza

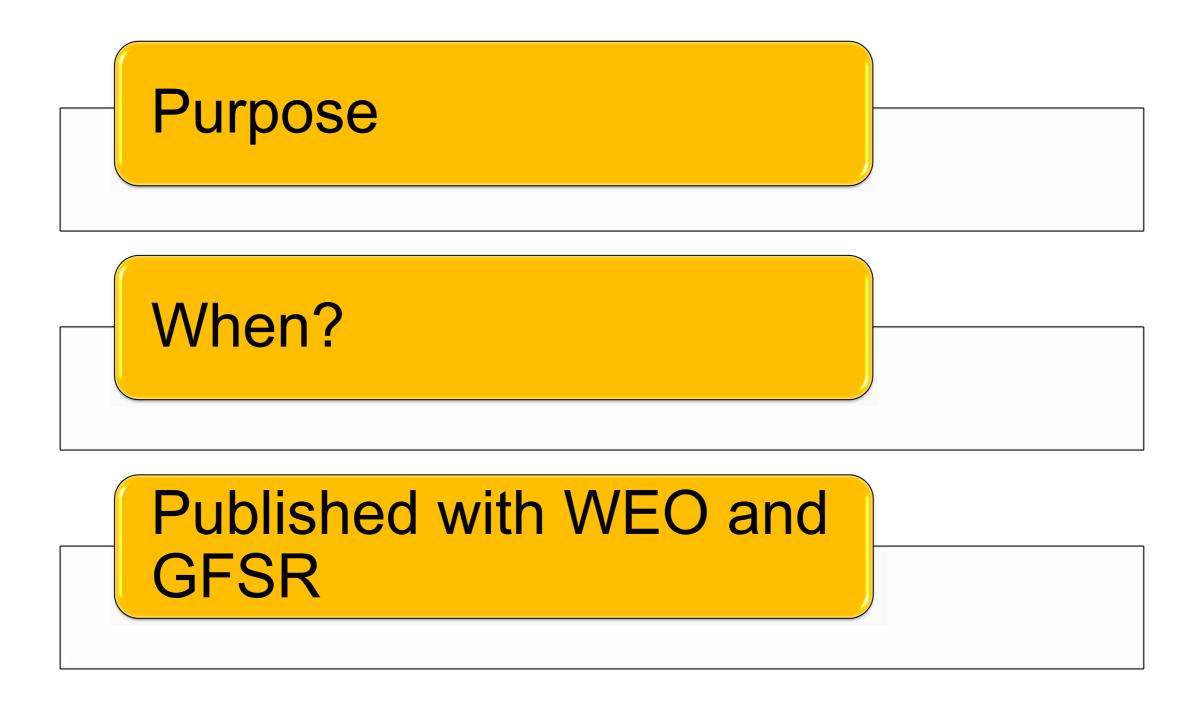
Ramallah, January 18, 2012

Udo Kock IMF Resident Representative for the West Bank and Gaza



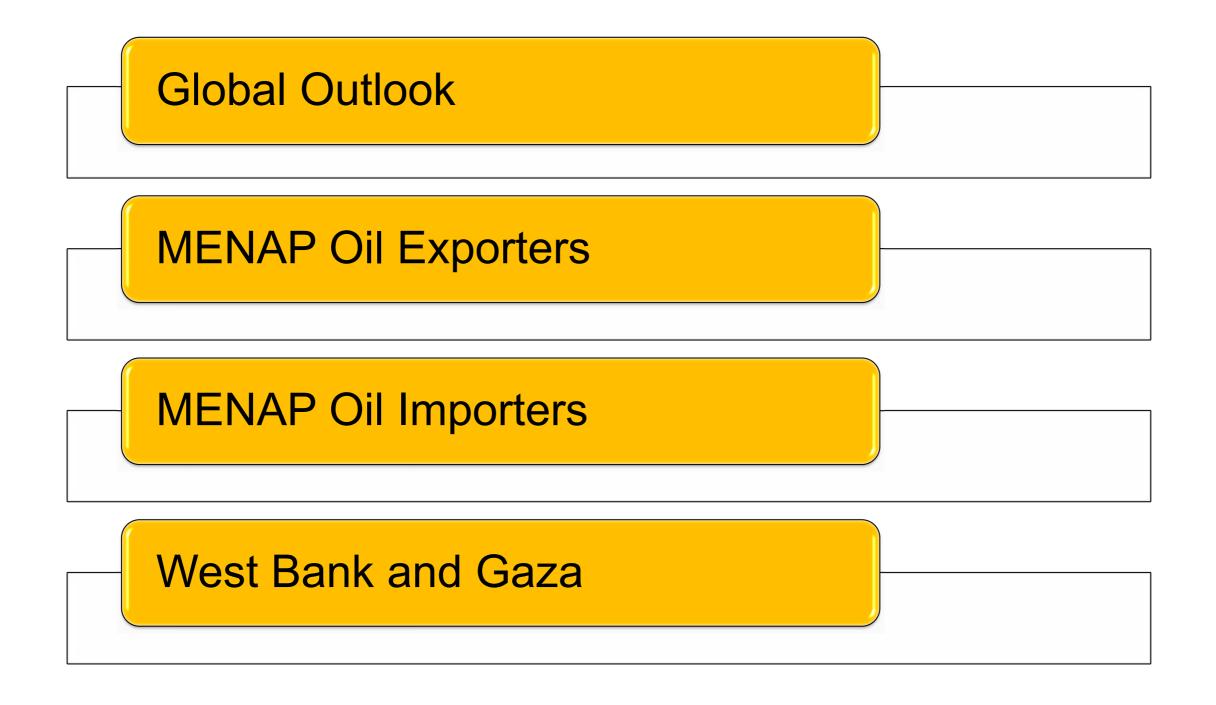


What is the Regional Economic Outlook?





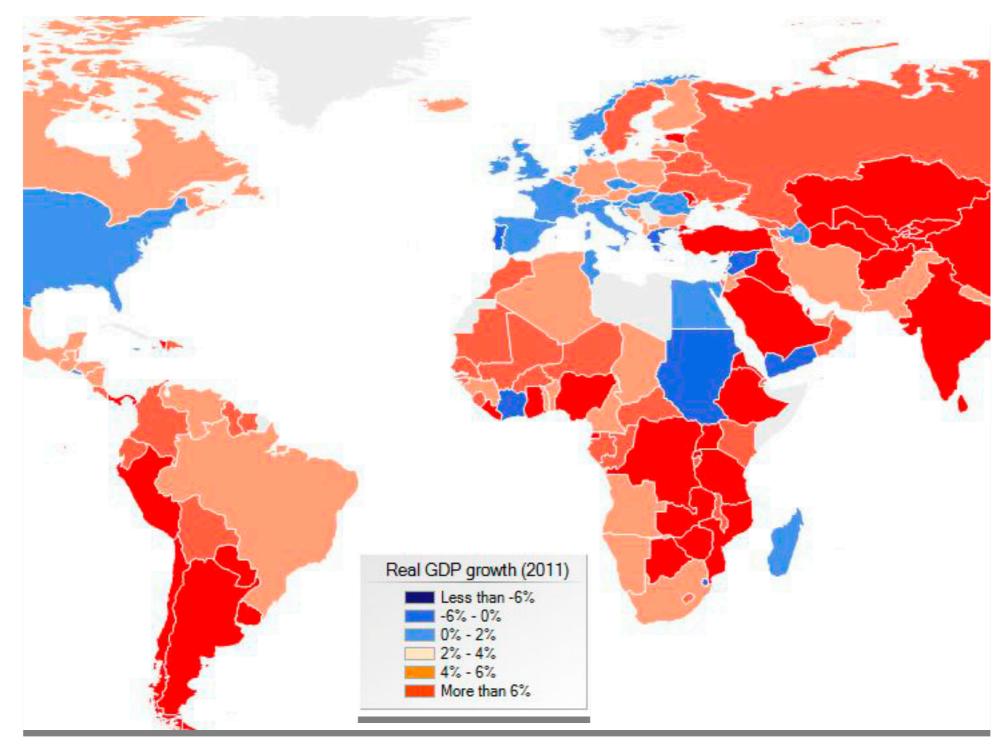
Overview



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Uneven recovery



Source: IMF, World Economic Outlook.

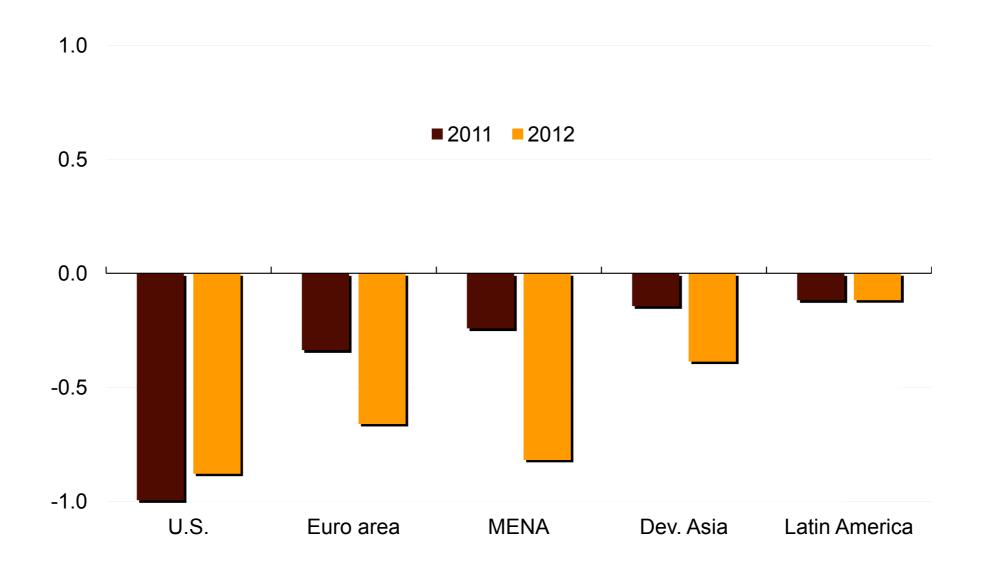
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Global outlook



Global outlook has weakened

Revisions to GDP growth (Percentage point change; June 2011 WEO to September 2011 WEO)



Sources: National authorities; and IMF staff calculations.

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Global outlook



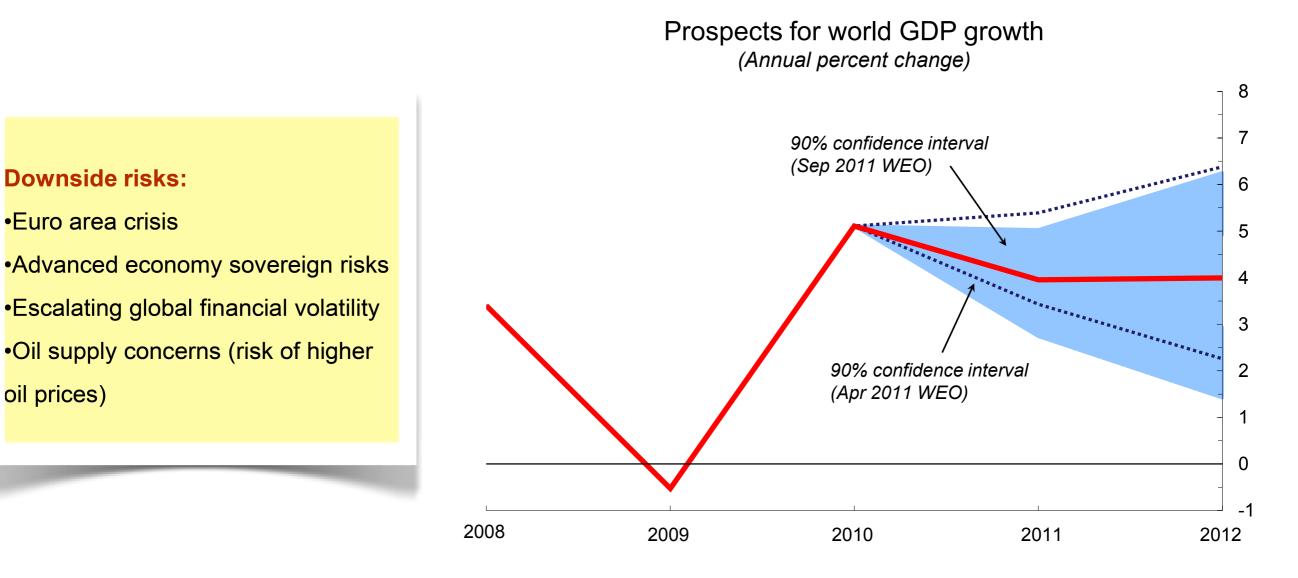
Downside risks:

•Euro area crisis

oil prices)

•Oil supply concerns (risk of higher

Downside risks have increased



Source: IMF, World Economic Outlook.

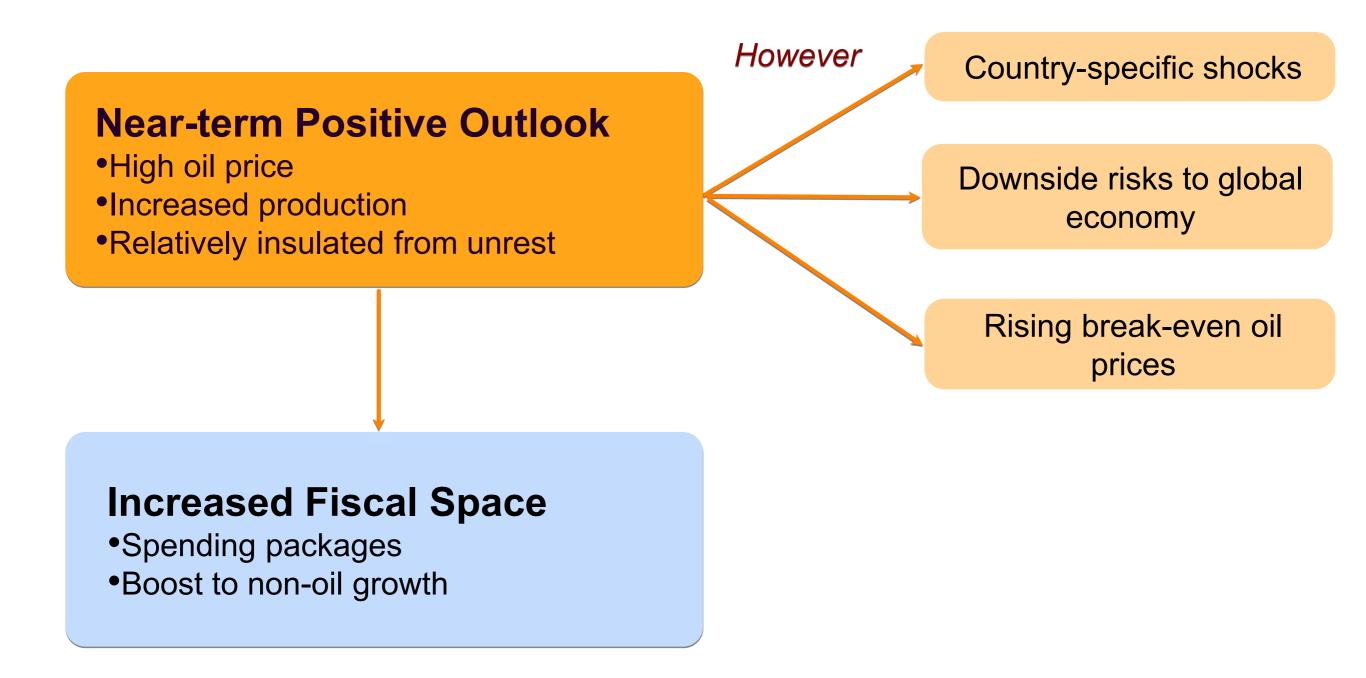
Global outlook



MENAP oil exporters

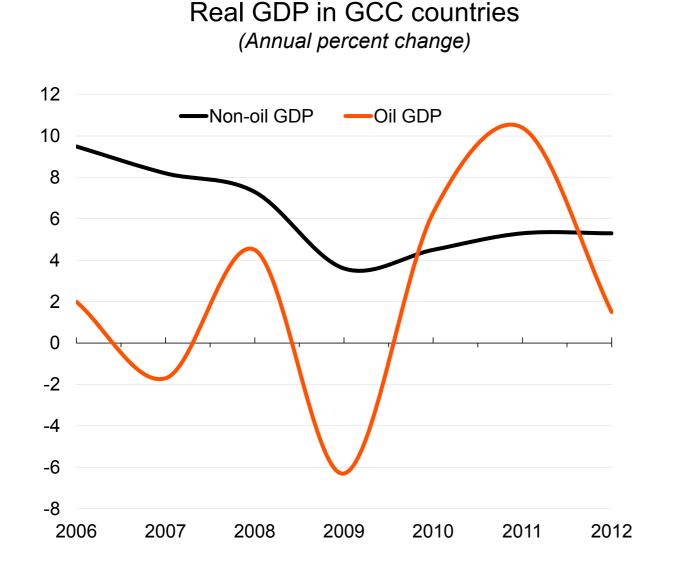


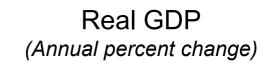
MENAP oil exporters: positive outlook, but growing risks

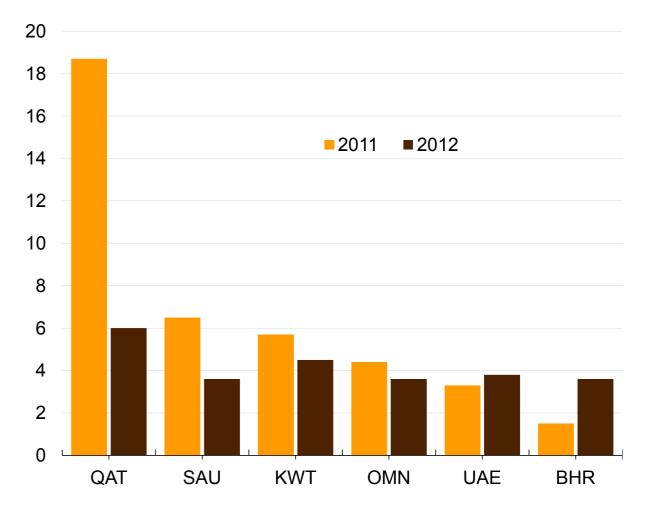




Oil sector spurs temporary uptick for the GCC







Sources: National authorities; and IMF staff calculations.

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Spending has been ratcheting up

70 60 50 40 30 59 54 53 48 20 33 30 24 10 19 0 -8 -9 -10 -20 UAE Kuwait Sudan Yemen Irad Algeria oman Iran Bahrain Saudi Arabia Qatar

Total government expenditures (2008 to 2011, percent change in expenditure in U.S. dollars)

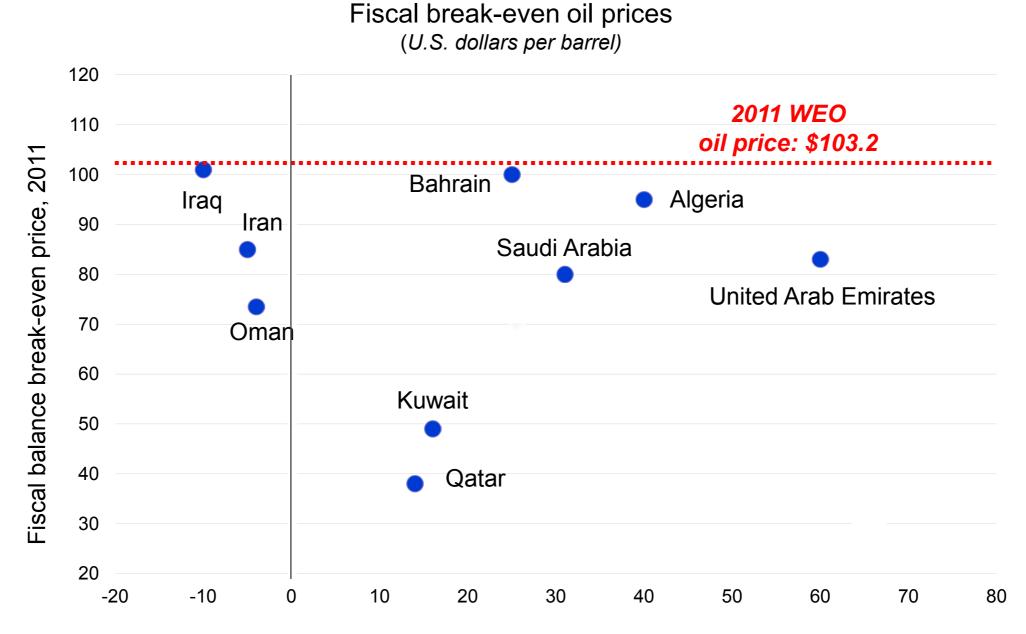
Sources: National authorities; and IMF staff calculations.

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MENAP oil exporters



Vulnerability to downward oil price shocks has increased



Change in the fiscal balance break-even price 2008-11

Sources: National authorities; and IMF staff calculations.

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Challenges ahead

Increased uncertainty:

- Slow pace of political transformation
- Declining investment and tourism
- Impatient popular expectations

Weaker global outlook:

- Growth below trend
- Moderating inflation

Advancing social cohesion with macroeconomic stability

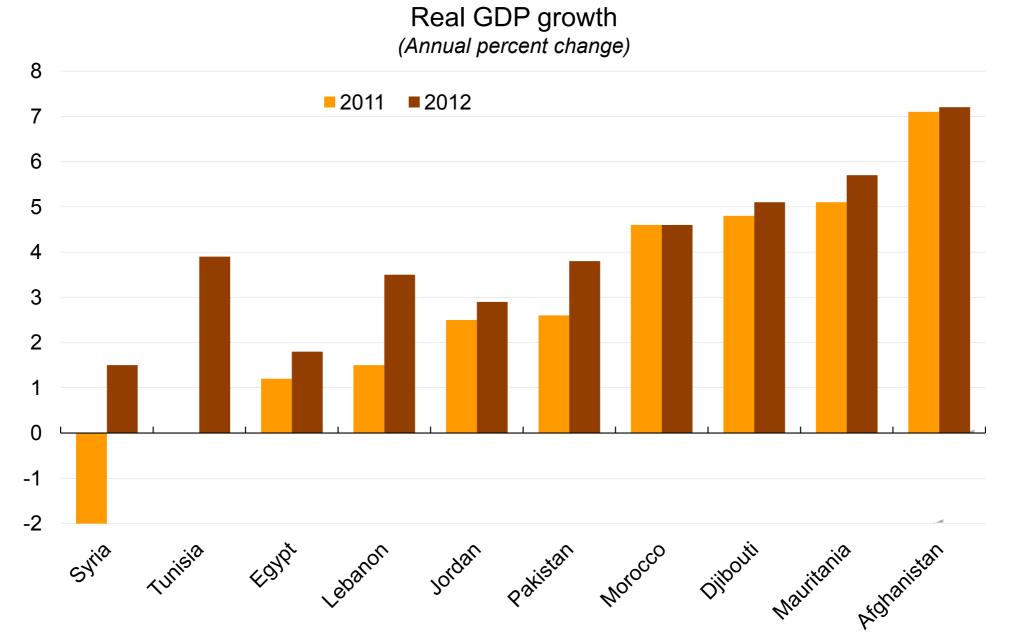
Policy space is tight:

- Increased subsidies and transfers
- Large financing needs and rising costs

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Uncertainty weighing on activity

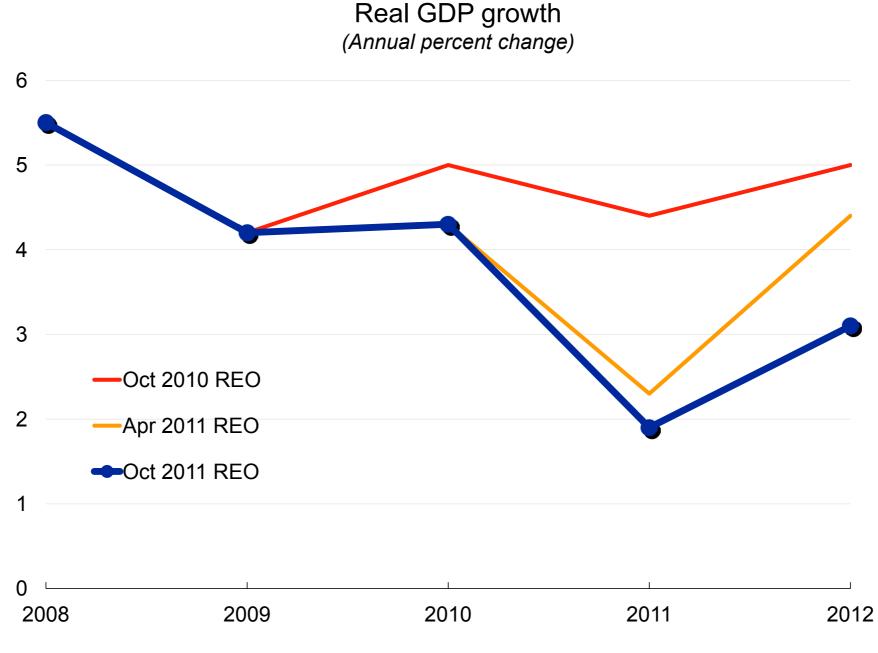


Sources: National authorities; and IMF staff calculations.

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Growth forecasts have been revised downward

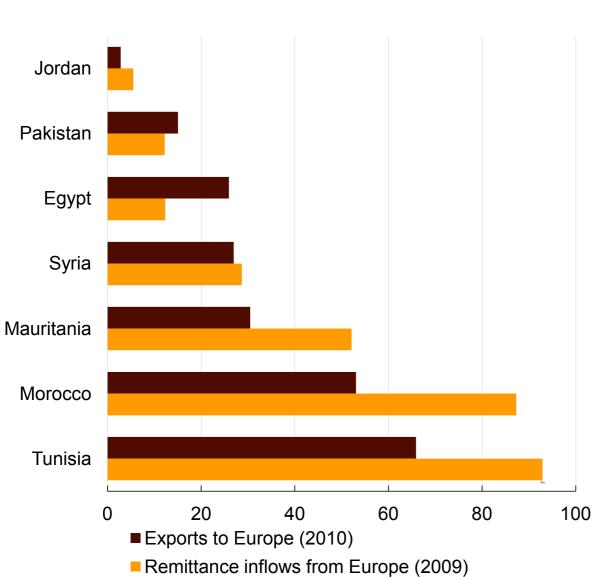


Sources: National authorities; and IMF staff calculations.

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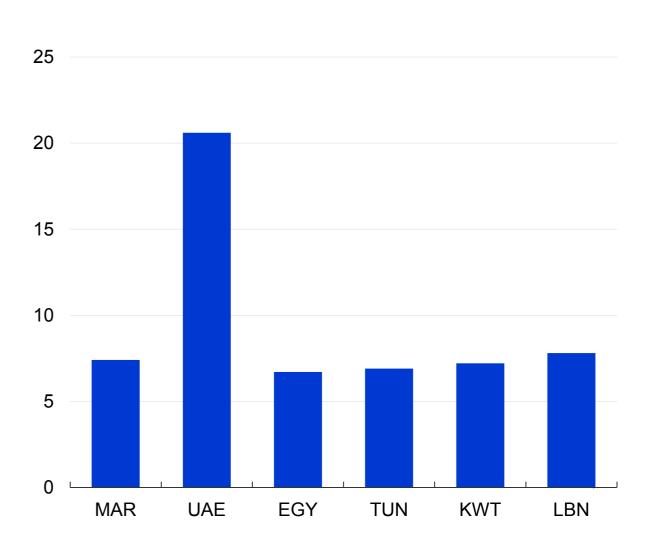
MENA links with Europe: downside risks



Sources: Bank for International Settlements; Bloomberg; and Markit.

Trade and remittances linkages with Europe (Percent of total)

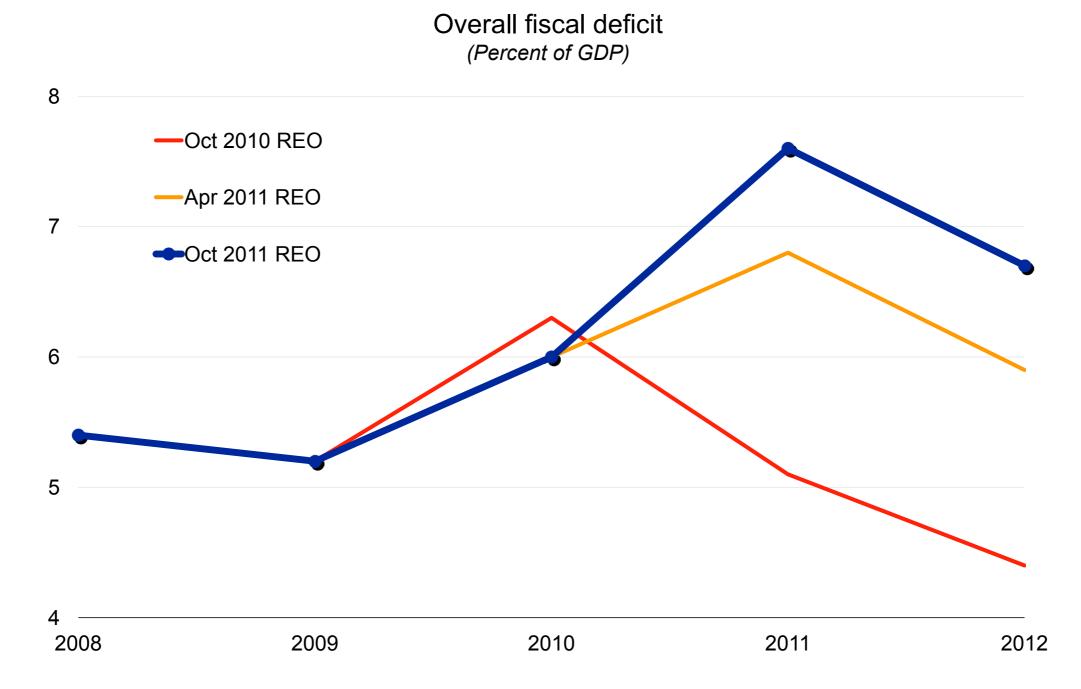
Cross-border lending by European banks (Percent of GDP, March 2011)



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The 2012 fiscal outlook has worsened

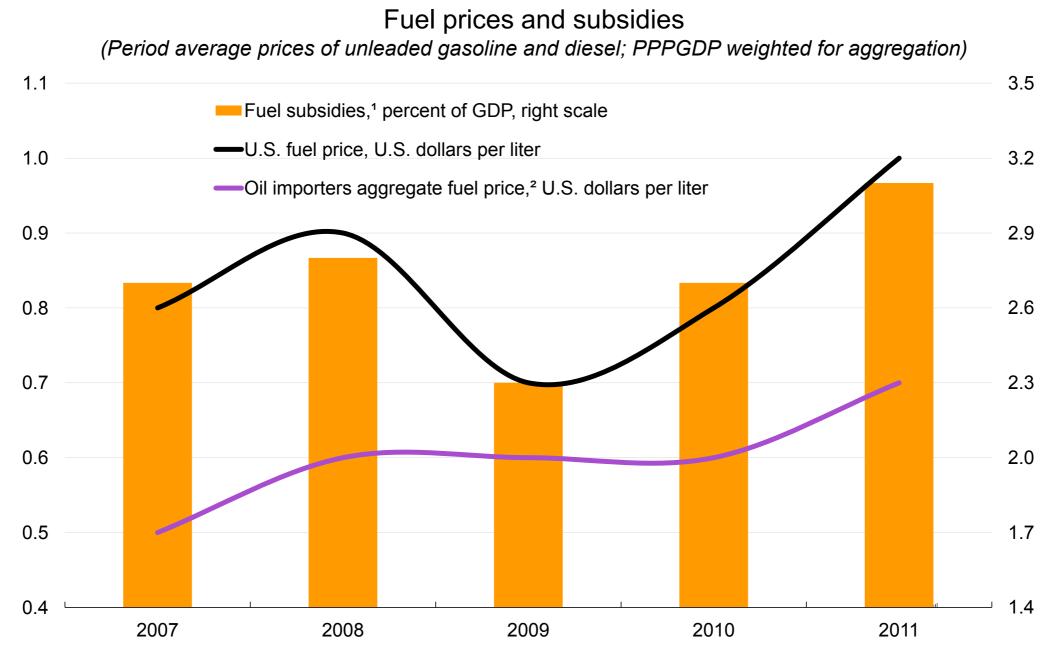


Sources: National authorities; and IMF staff calculations.

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Fuel price pass-through decreased, subsidies increased...

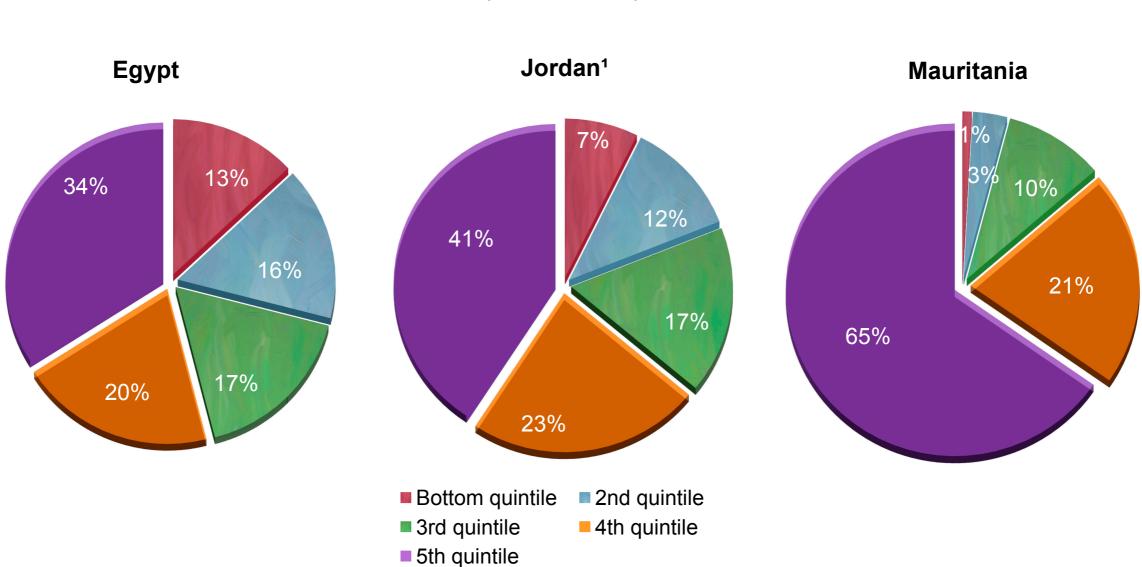


Sources: National authorities; and IMF staff calculations. ¹Includes Egypt, Jordan, Lebanon, Mauritania, Morocco, and Tunisia. ²Includes Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, and Syria.

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...and mostly benefit the wealthy



Share of benefits from energy subsidies (Percent of total)

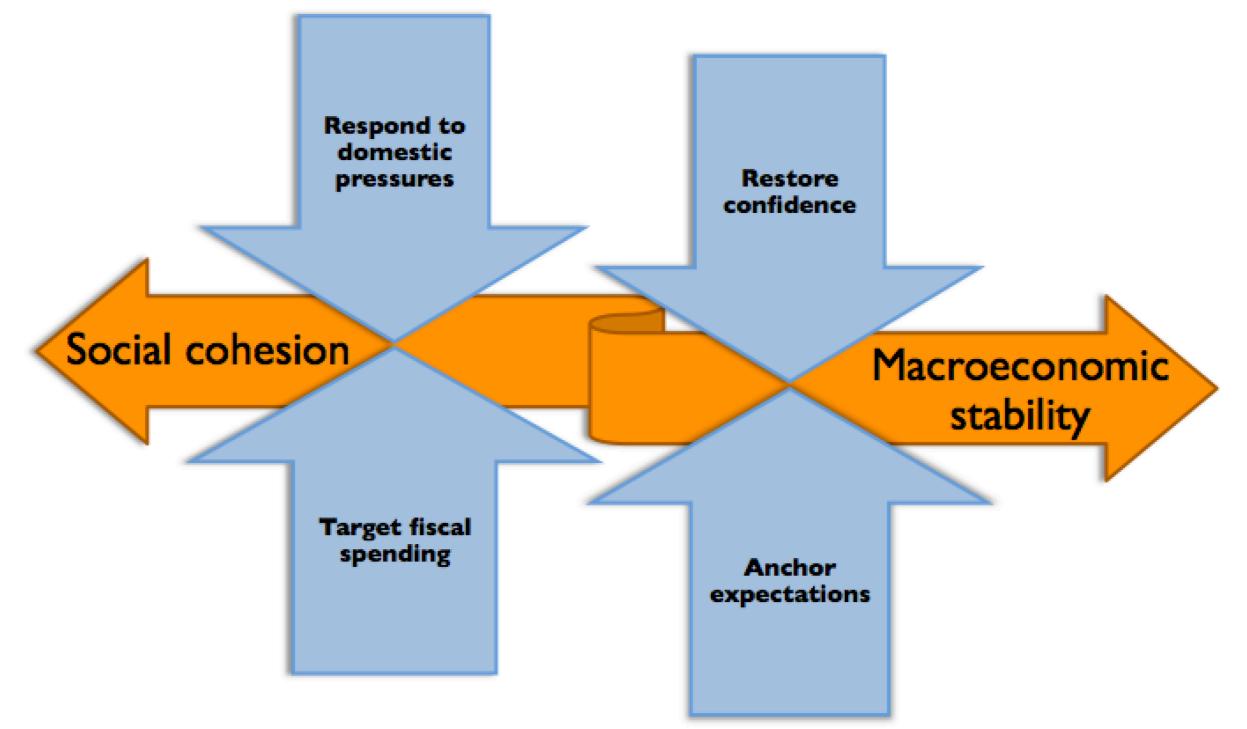
Sources: National authorities; IMF staff calculations based on information in the 2008 household survey for Jordan and Mauritania, and World Bank PSIA (2005) for Egypt.

¹For Jordan, the distribution of gains accounts for both the direct and indirect effect of price subsidies. The latter refers to the impact of energy price subsidies on the price of other consumed goods and services that use energy in their production and distribution.

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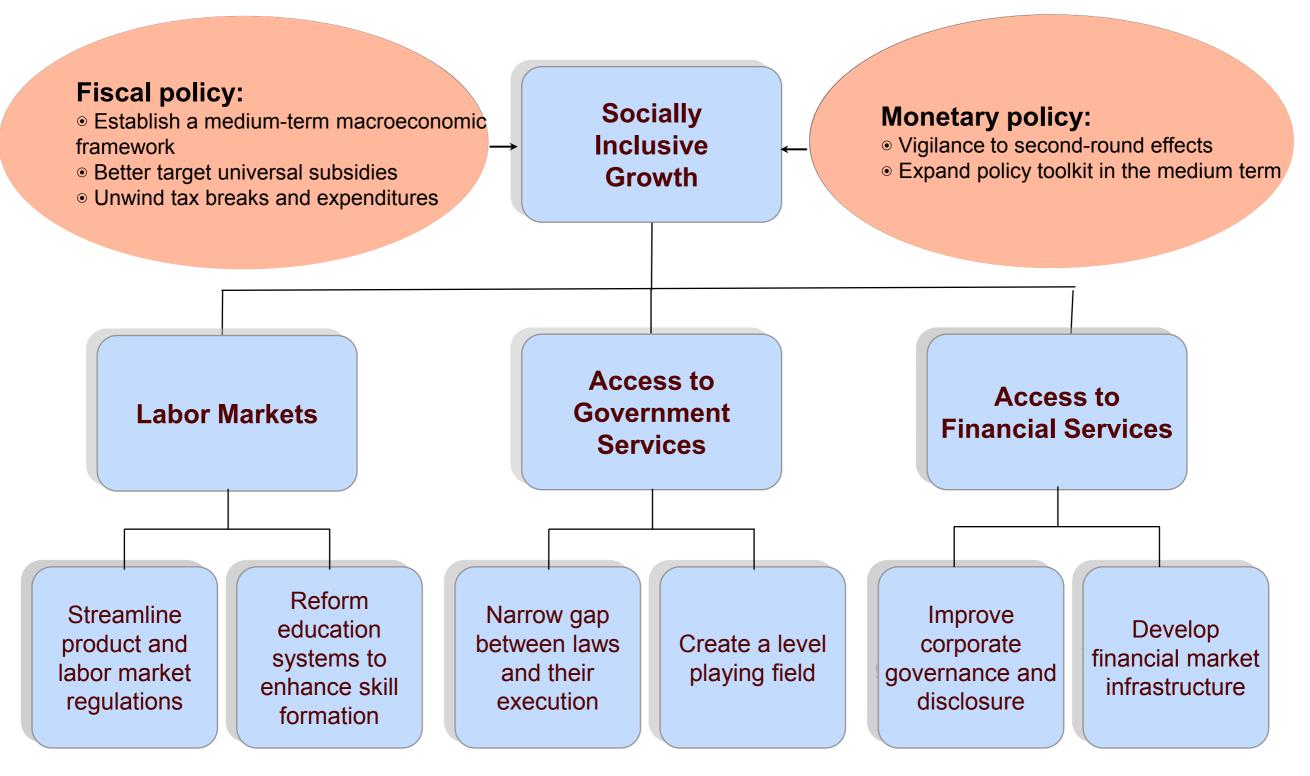


Short-term policy challenges



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



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West Bank and Gaza





Challenges ahead for West Bank and Gaza

Increased uncertainty

- Reconciliation
- Peace process
- Timely transfer of clearance revenues
- Donor aid

Some spillovers from Europe and the region

- Tight donor budgets
- Impact of Arab Spring
- Tourism and remittances

Sustaining inclusive growth while reducing aid dependence

Limited policy options

- Movement and access restrictions
- Burden is on fiscal policy, but...
- ...fiscal policy space is limited by political constraints, domestic and foreign financing constraints, and the need for continued fiscal consolidation

How WBG differs from regional economic trends

Relatively immune from regional and European shocks due to limited trade and finance links

Fiscal retrenchment instead of expansion; no consumption subsidies other than net lending

No signs of crowding out of private sector credit

How WBG is similar to regional economic trends

Slowdown in growth...but for different reasons

Need to make growth more inclusive

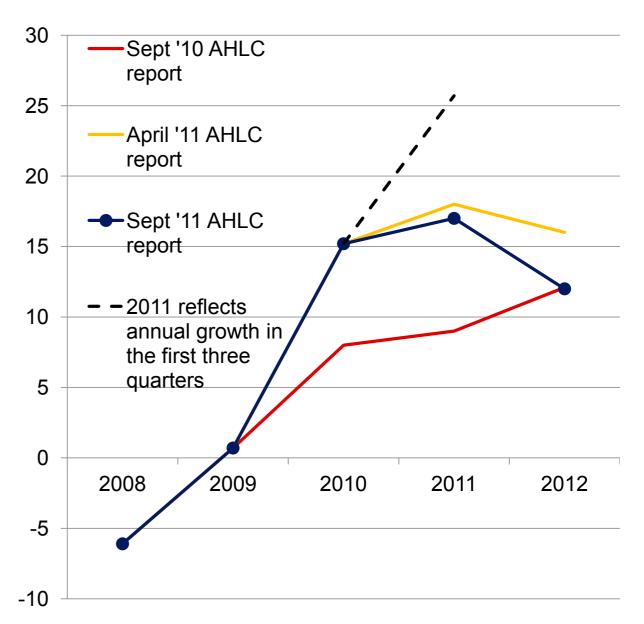
Real GDP growth is...

...slowing in the West Bank...

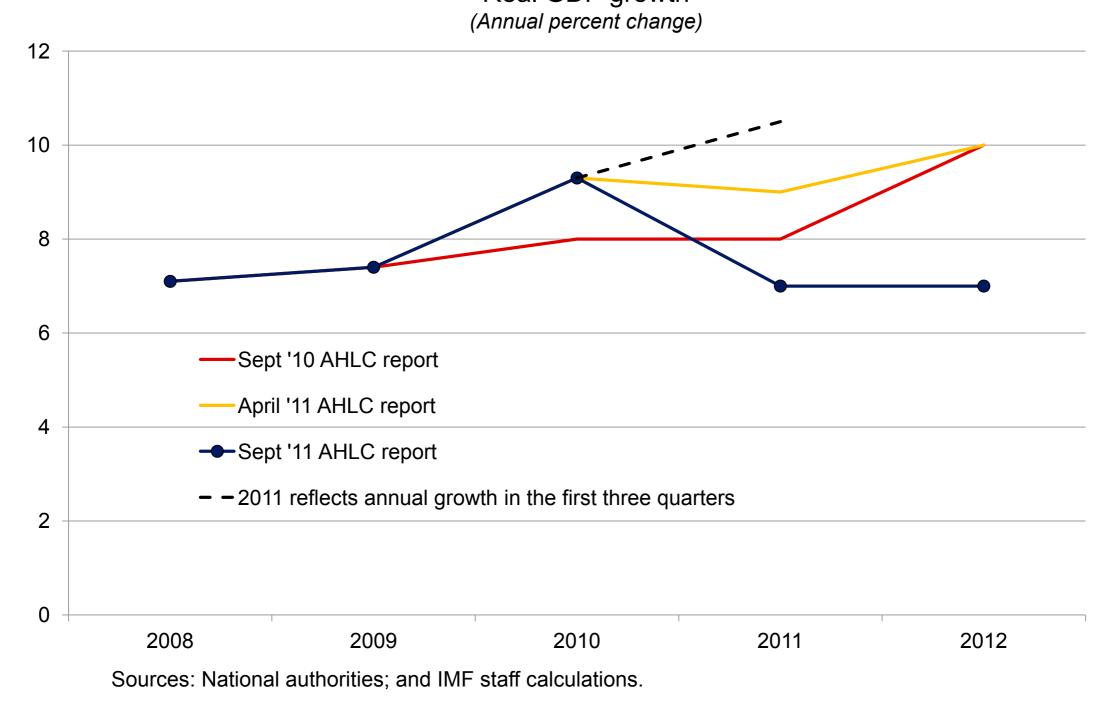
14 12 10 8 Sept '10 AHLC report 6 April '11 AHLC report 4 ---Sept '11 AHLC report 2 -2011 reflects annual growth in the first three quarters 0 2008 2010 2011 2012 2009

Sources: National authorities; and IMF staff calculations.

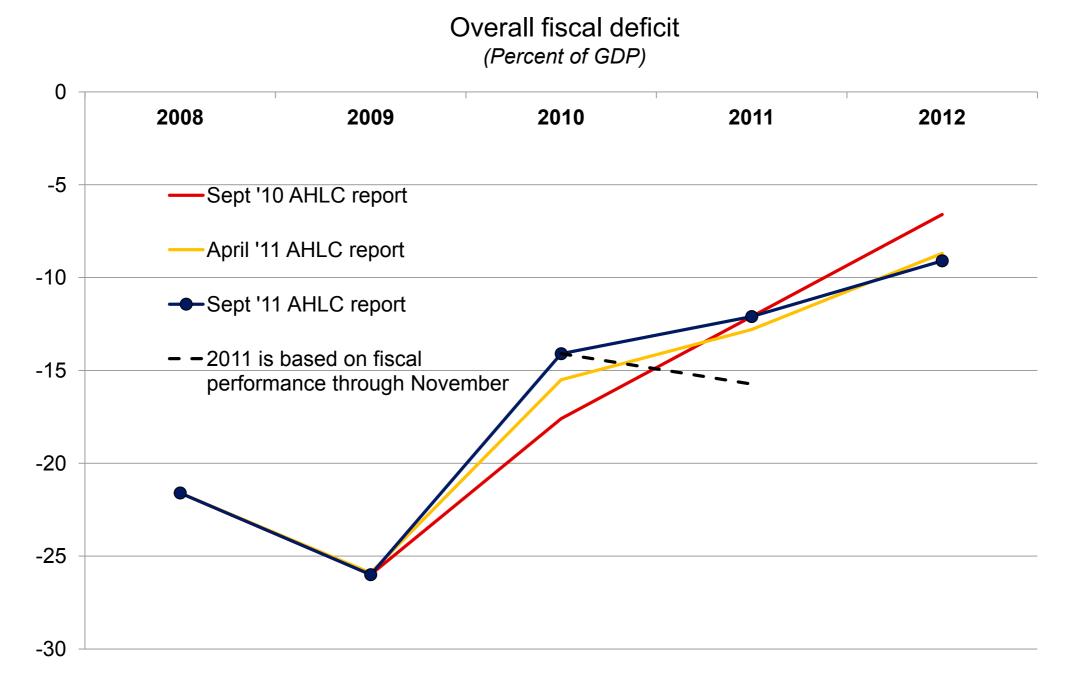
...but picking up in Gaza.



...and therefore fairly stable in the Palestinian Territory.



Fiscal consolidation is progressing



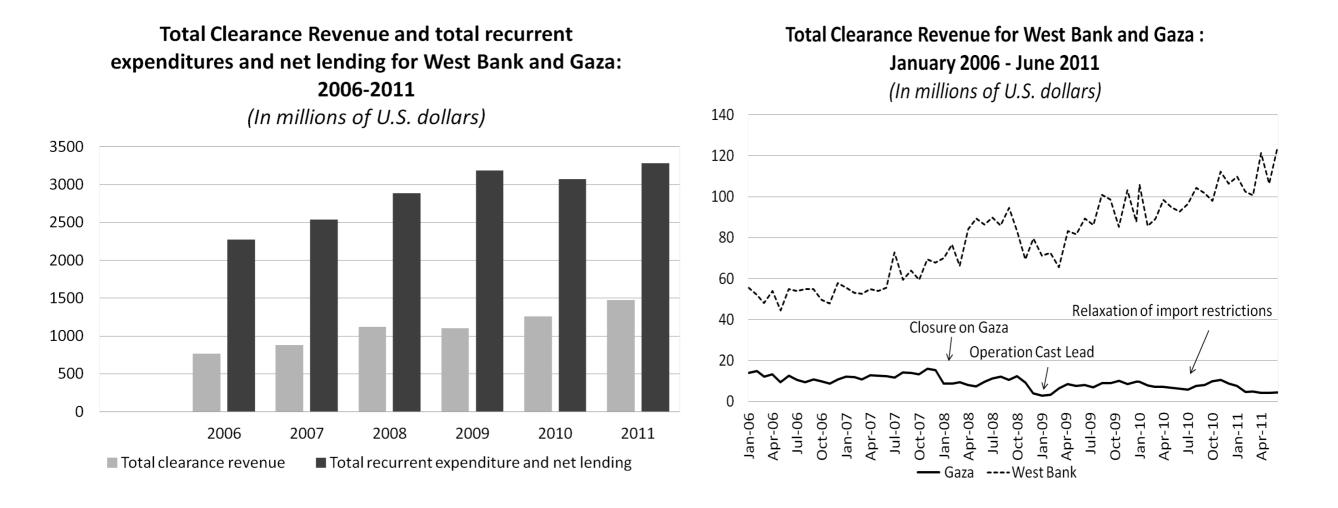
Shortfalls in donor aid continue

West Bank and Gaza: Cumulative

Financing Need and Financing Received, Financing Received as Percentage of 2011 Financing Need, 2010 and 2011 (in millions of US dollars) (as of December 12 2011) 120 1200 100 1000 80 800 60 600 400 40 200 20 0 0 Jarten War by Way In In Dry Dec Oct Hoy Dec rates way by way in in the cash of May Dec -Financing need -Financing received/projected

West Bank and Gaza: Cumulative

Clearance revenues are crucial



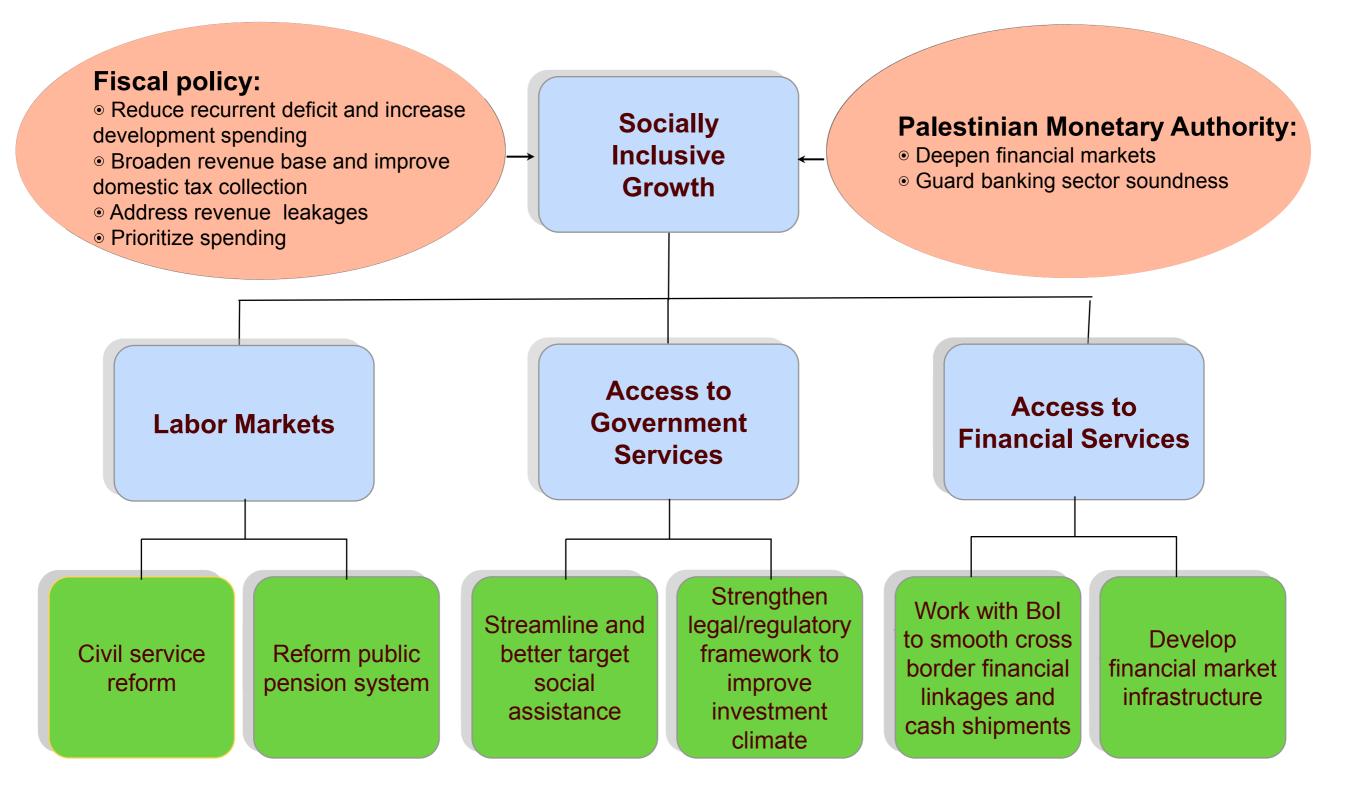
Revenue collection

35.0 30.0 2011 2012 25.0 20.0 15.0 10.0 5.0 0.0 West Bank & Gaza Mauritania Tunisia Afghanistan Pakistan Morrocco Dijibouti Jordan Egypt syria

Total Revenue

(Percent of GDP)

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



West Bank and Gaza



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