

# Regional Economic Outlook

May 25, 2010

# Outline

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Global Outlook

MENAP  
Overview

- Oil Exporters
- Oil Importers

# Multi-speed recovery

## Recovery so far

- Proceeding at varying speeds
- Steep falls in activity not followed by quick rebounds

## Recovery ahead

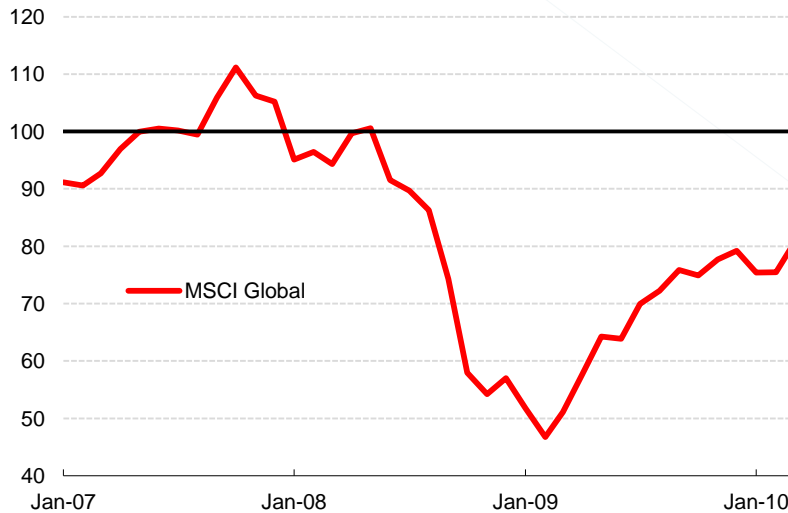
- Subdued growth prospects for many advanced economies
- Solid growth prospects for many emerging economies



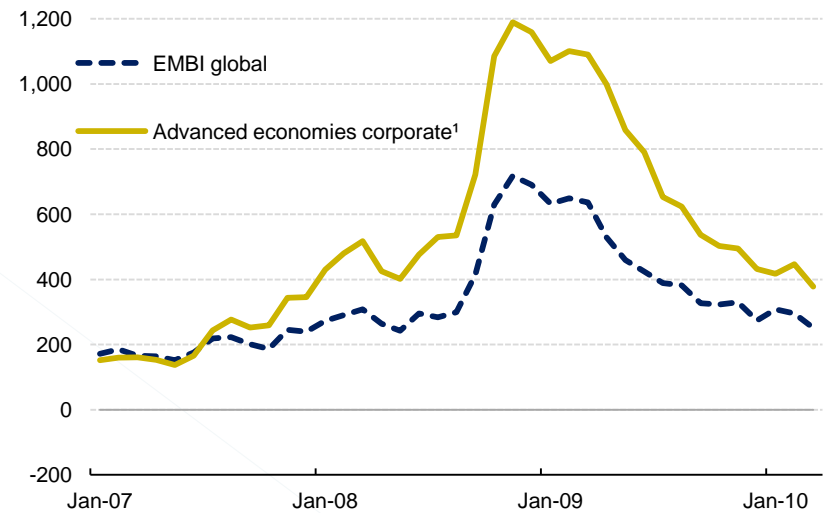
# Global financial markets have recovered faster than expected

## Global Stocks

(Morgan Stanley MSCI Stock Price Indices in U.S. Dollars, MER Weighted; 2007 = 100)



## Sovereign and Corporate Bond Spreads (Basis points)

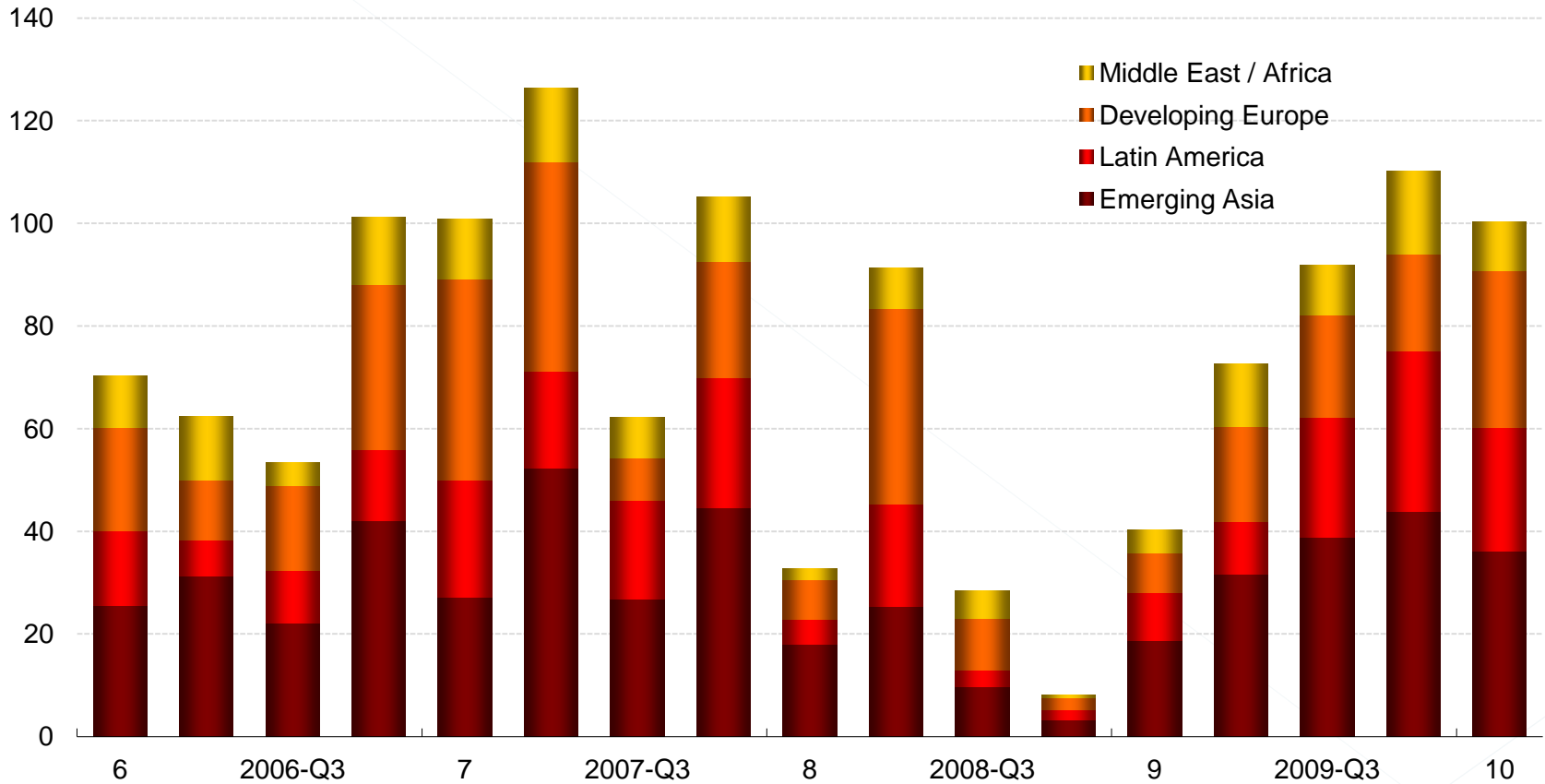


<sup>1</sup> Averages of BB-B US, BB-B Euro, and BBB Japan corporate bond spreads.



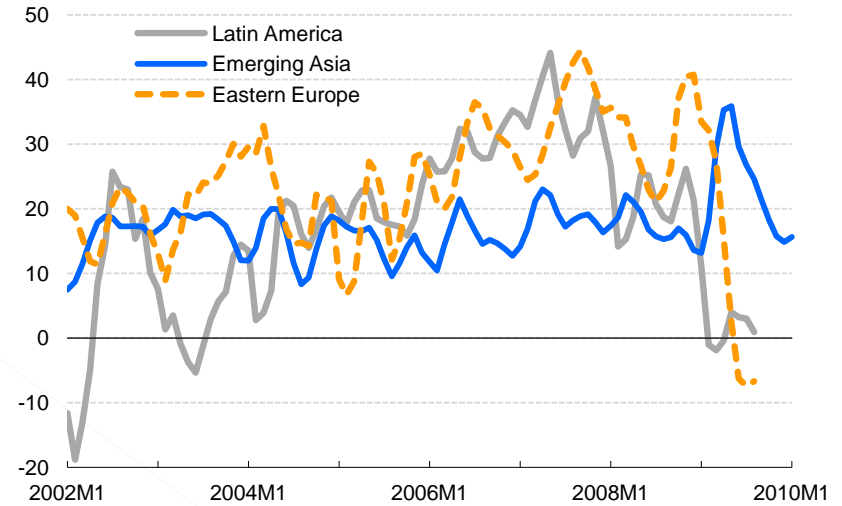
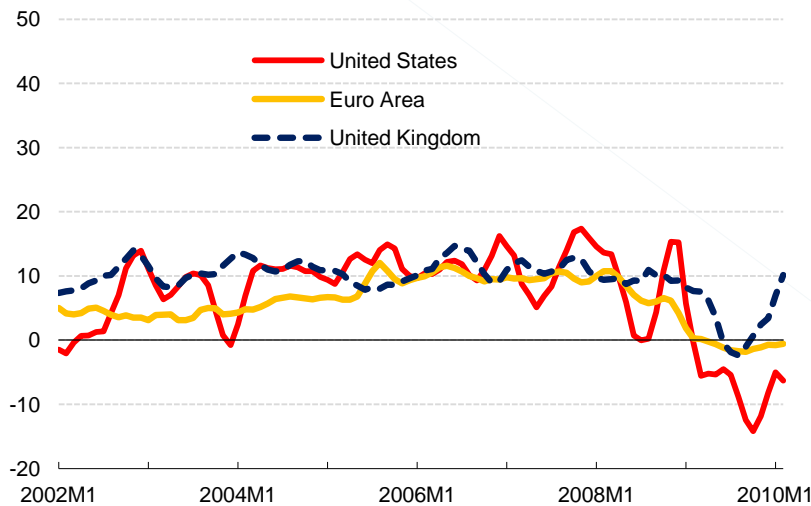
# Capital flows have returned to emerging markets after sudden stop

Emerging Market External Bond and Equity Issuance  
(Billions of U.S. dollars)



# Bank credit remains hard to come by in many countries

Private Credit Growth  
(Annualized percent change of 3mma over previous 3mma)



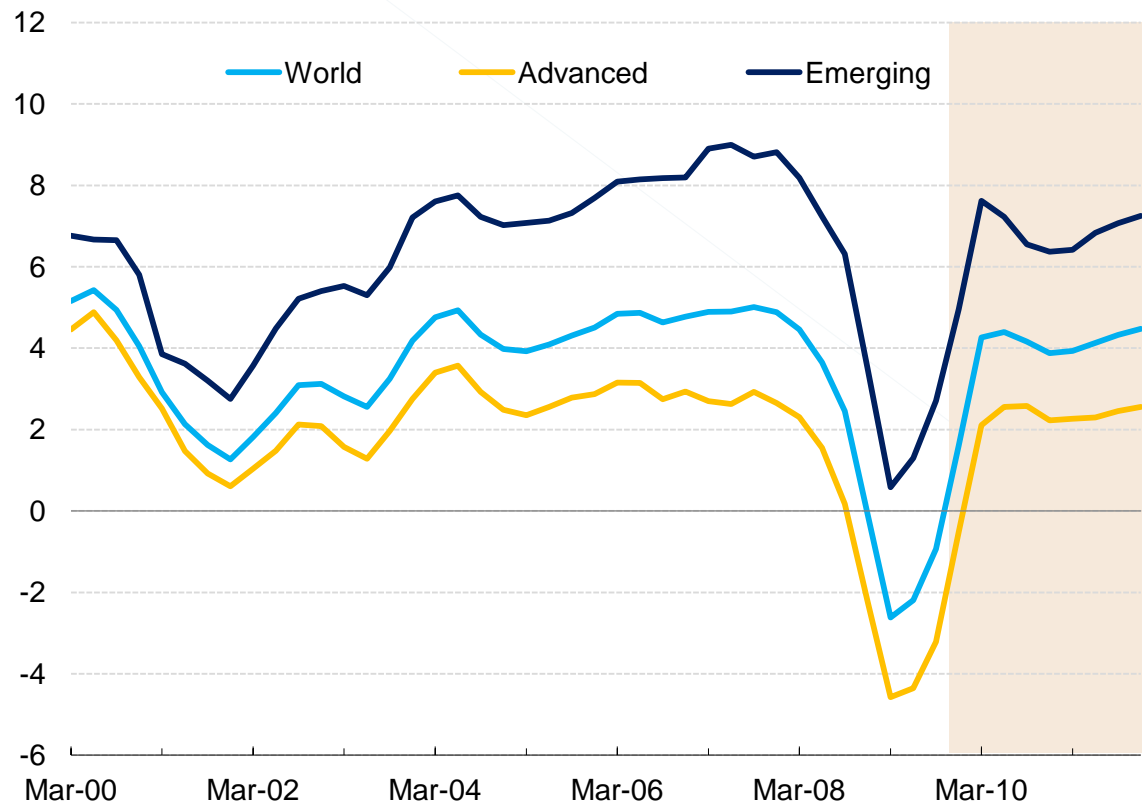
*Banks need to rebuild capital*

Source: Bank of England, European Central Bank, and the Federal Reserve Board.



# World economy set for a further recovery at varying speeds

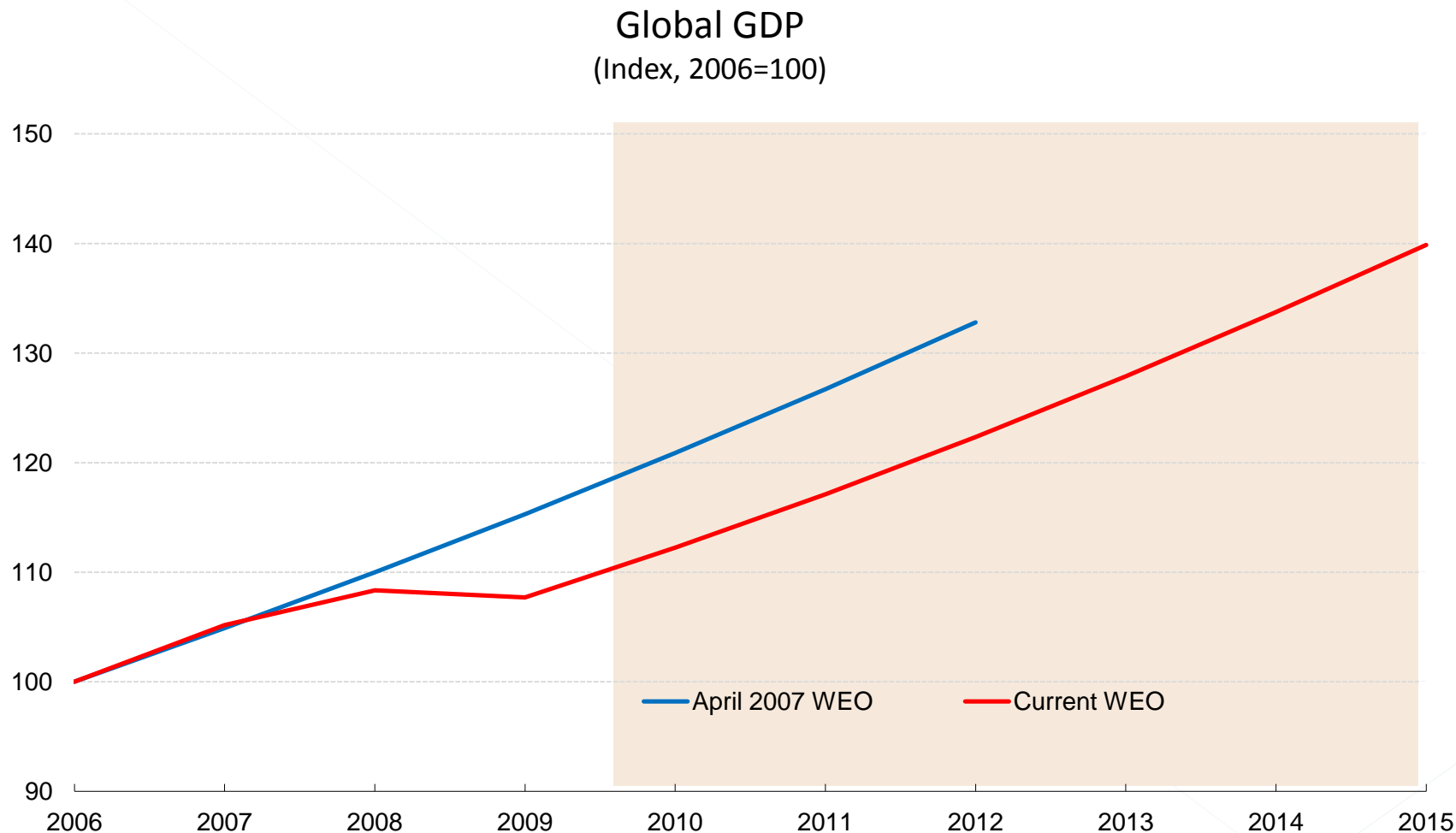
Real GDP Growth  
(Percentage growth from previous year)



- Fading fiscal stimulus
  - Less inventory restocking
- will hold back growth later in 2010 and 2011



# Global financial crisis is leaving lasting scars on output levels





# Global Policy Challenges

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- Devise credible exit strategies—medium-term fiscal consolidation plans urgently needed
- Repair and reform financial systems
- Combat unemployment
- Manage capital flows



# MENAP Oil Exporters



# Oil Exporters: Key Messages

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**Recovery is underway**, driven by rising oil demand and continued supportive policies

**Continue stimulus where there is fiscal room**, to boost non-oil sector activity

Barring signs of overheating, **accommodative monetary policy is appropriate** to mitigate the current credit bust

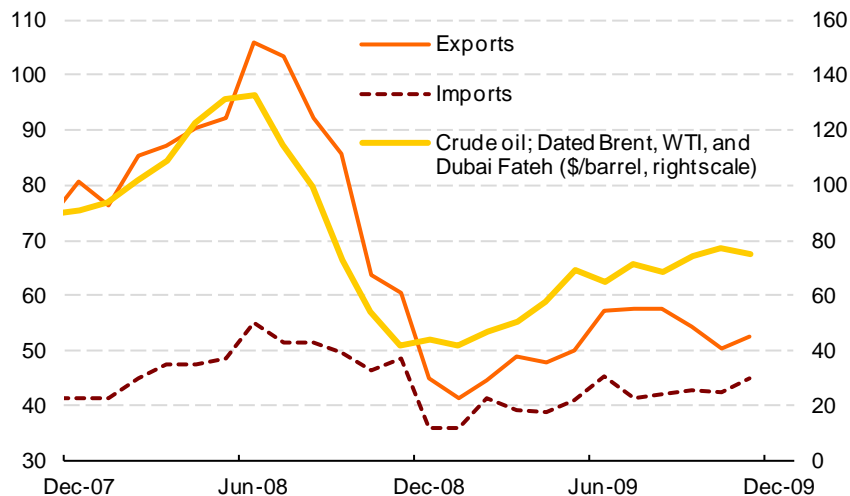
**Capital flows are recovering**, but greater differentiation of sovereign risk can be expected, following Dubai World and Greece events



# Rising oil prices have spurred recovery in exports and local stock markets

## Merchandise Trade and Crude Oil Prices

(Billions of U.S. dollars unless otherwise indicated)

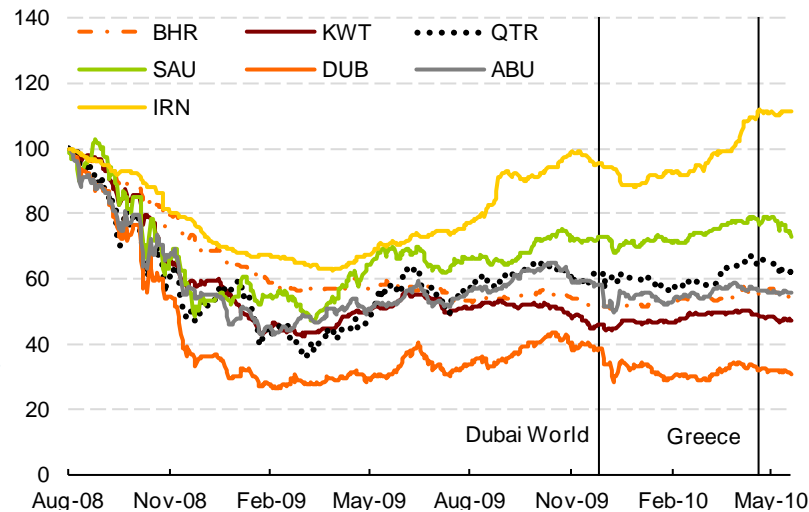


Source: IMF, Direction of Trade Statistics; IMF, International Financial Statistics.

*Exports are recovering from early 2009 lows*

## Stock Markets

(Indices: August 2008 = 100)

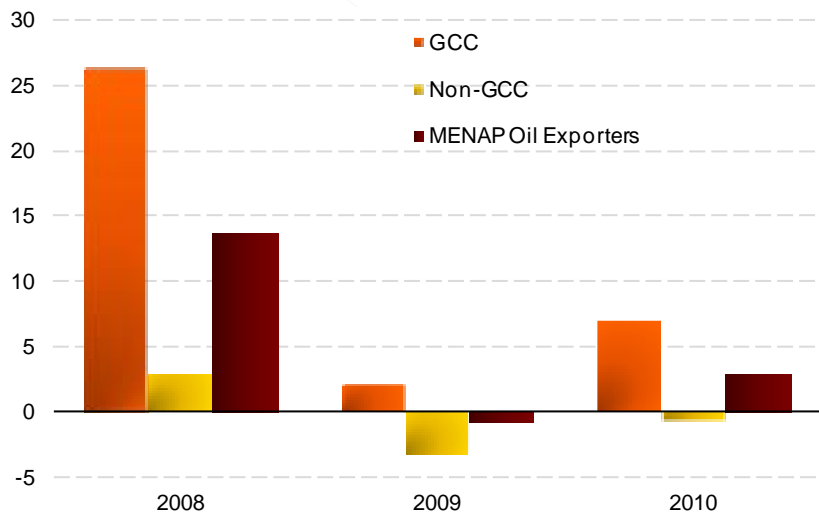


Source: Bloomberg.

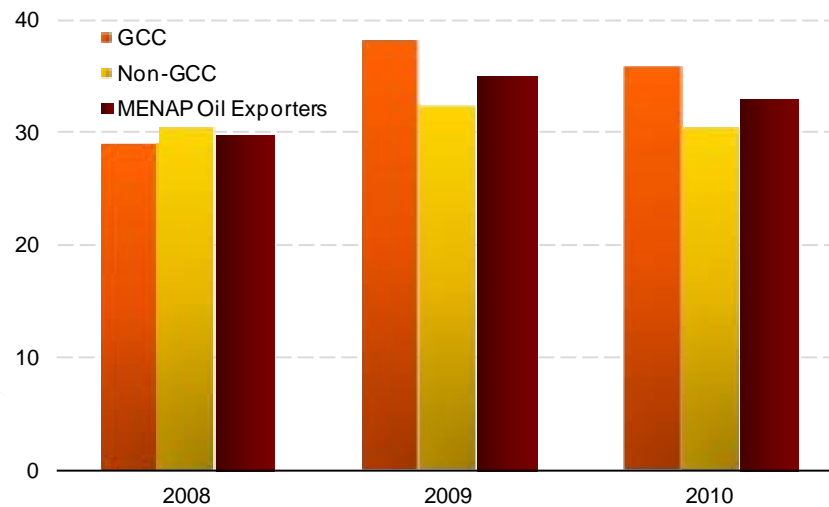
*Stock markets have risen, even after Dubai World event*

# Overall fiscal balances will also improve, even with continued stimulus

## Government Fiscal Balance (Percent of GDP)



## Government Expenditure (Percent of GDP)

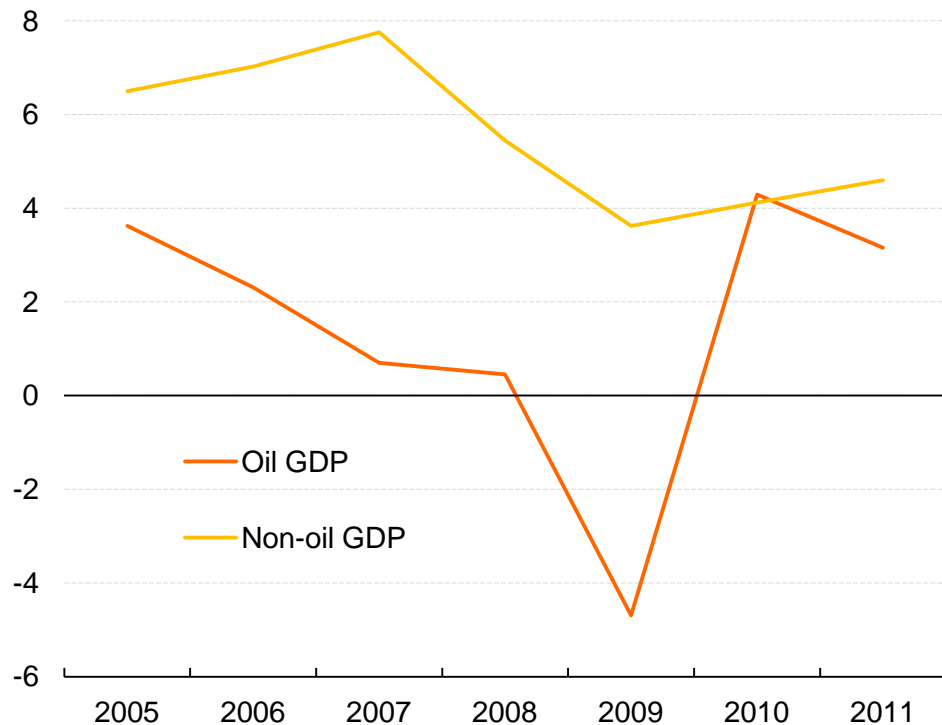


*...as oil-related revenues rise*

Sources: National authorities; and IMF staff estimates.

# Looking to 2010, recovery will continue

Real GDP Growth  
(Percent)



Source: National Authorities; and IMF staff estimates.

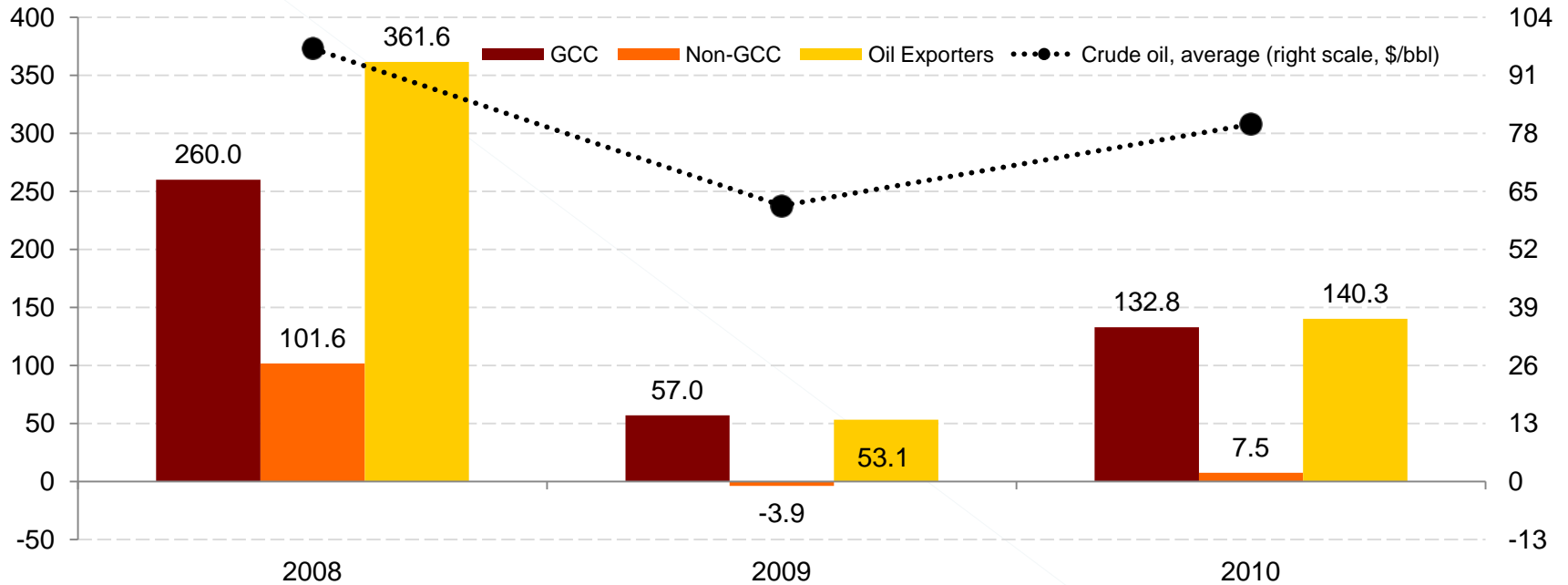
**External environment** is projected to be favorable to the oil sector

**Non-oil sector** will continue to be buoyed by accommodative macro policy

**Overall future growth rates** to remain lower than precrisis, but more sustainable

# External balances are projected to improve

Current Account Balances  
(Billions of U.S. dollars unless otherwise indicated)

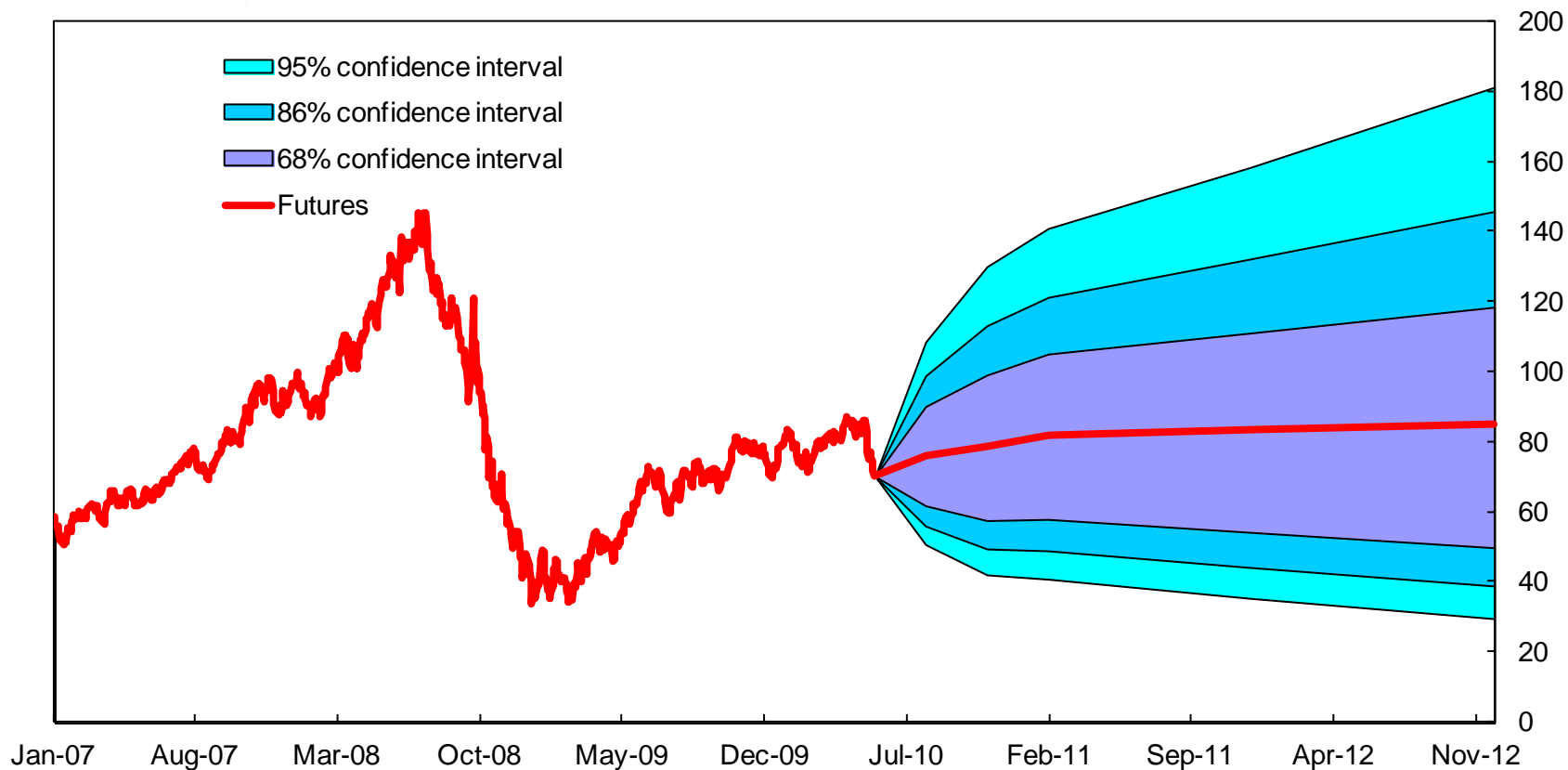


*...as oil prices and crude oil production rise in 2010*

Sources: National authorities; and IMF staff estimates.

# Oil price uncertainty going forward

WTI Oil Price Prospects<sup>1</sup>  
(U.S. dollars per barrel)



Sources: Bloomberg; and IMF staff calculations.

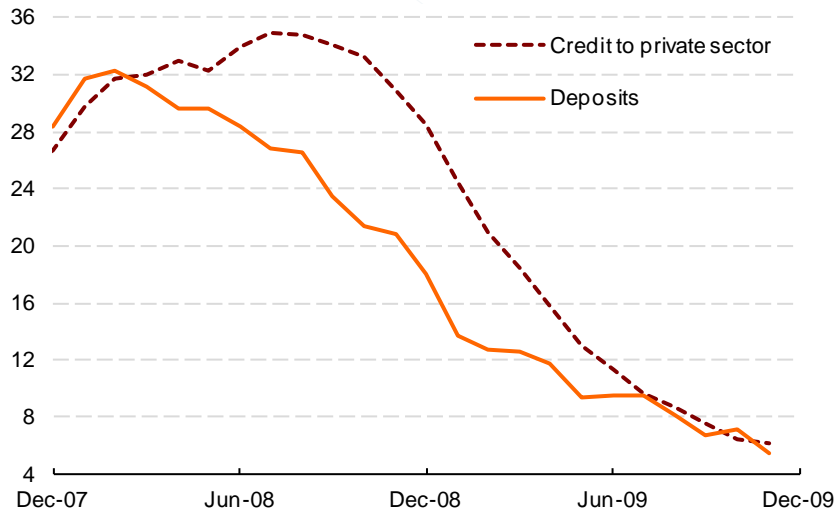
<sup>1</sup>Derived from prices of futures options on May 17, 2010.



# Clouding the horizon: sluggish post-crisis credit growth

## Credit and Deposit Growth<sup>1</sup>

(PPP GDP weighted year-on-year growth rates, percent)

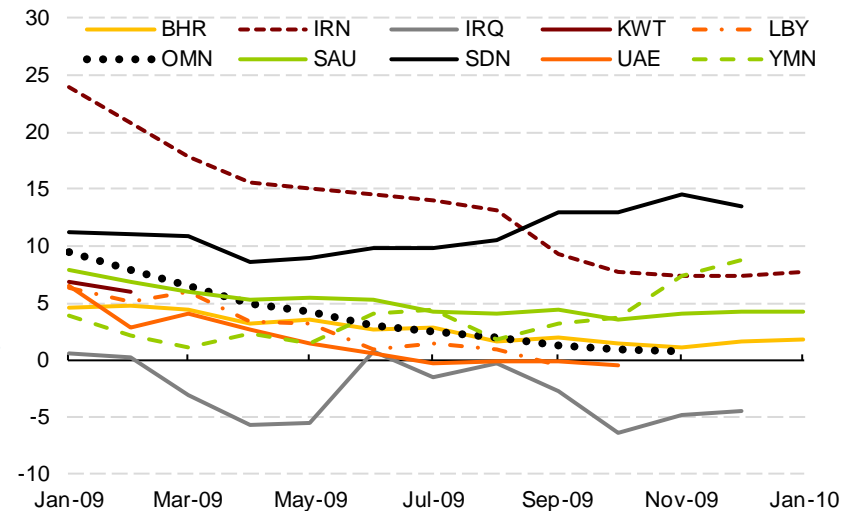


Sources: National Authorities; and IMF, International Financial Statistics.

<sup>1</sup>Excludes Iran, Iraq, and Libya due to data limitations.

## Inflation

(Consumer price index, year-on-year growth, percent)



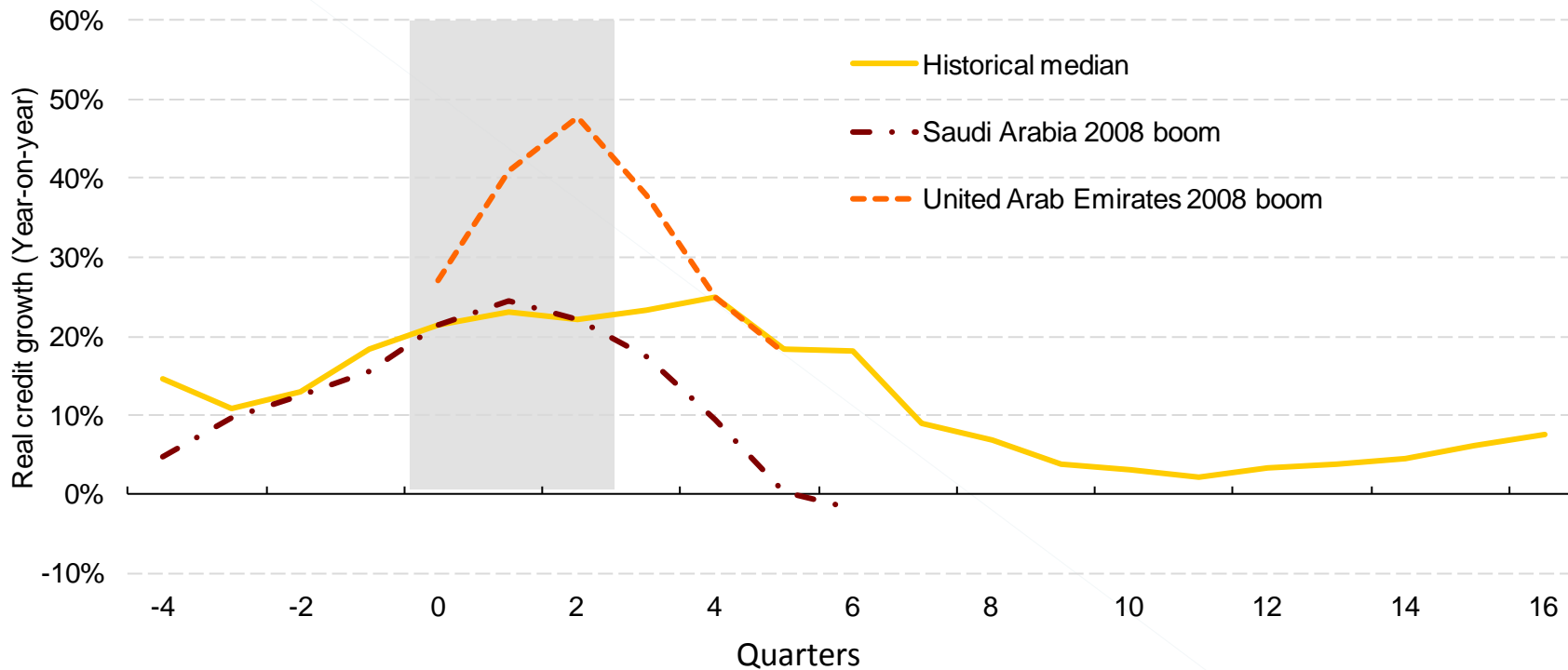
Sources: National authorities.

*Credit growth has slowed appreciably*

*...and inflation generally not a concern*

# Slow credit growth is likely to persist

Real credit surrounding credit booms  
(Percent change)



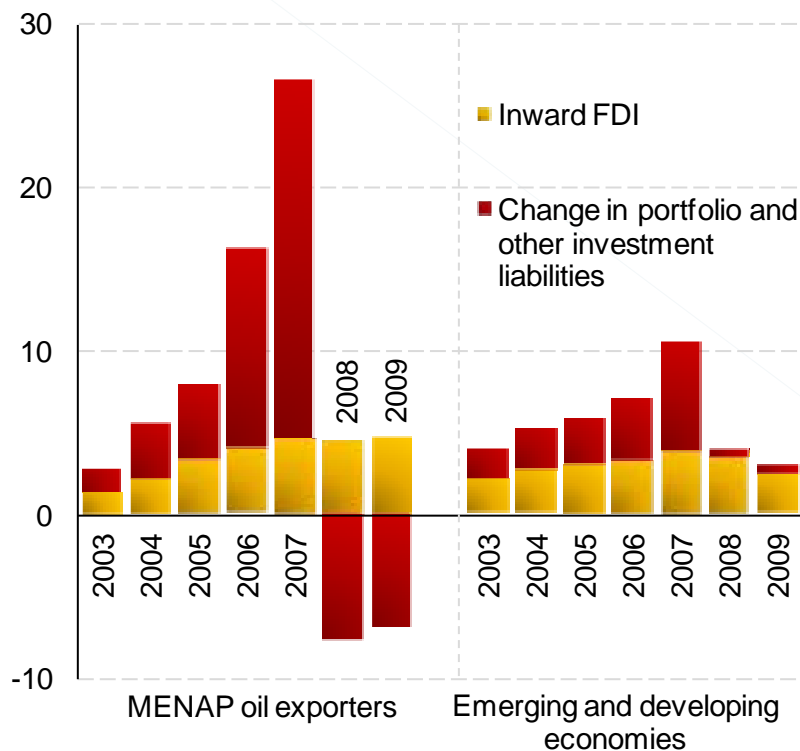
*Historical patterns show protracted period of sluggishness following booms*

Sources: IMF, International Financial Statistics; and staff calculations.

Note: Unweighted average of real credit growth around boom years identified between 1983 and 2008. Credit was deflated by the CPI index. Boom year in shaded area.

# Capital inflows: boom, bust, and partial recovery

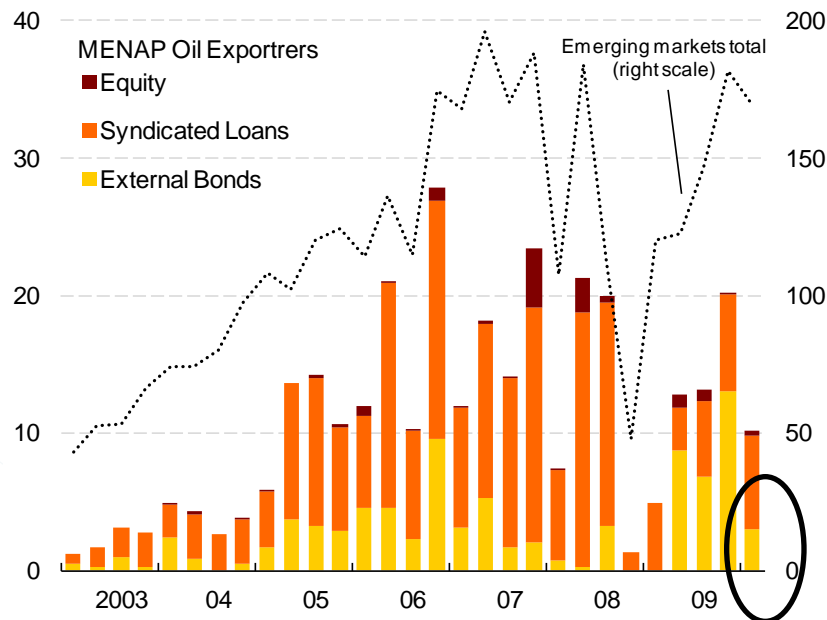
## Capital Flows (Percent of GDP)



Sources: IMF, World Economic Outlook.

Large increase in inflows to the Gulf up to 2007, followed by reversal of mainly non-FDI flows...

## International Issuance (Billions of U.S. dollars)



Dubai World event led to disruption in bond issuance

...while international issuance has begun to recover, concentrated in bonds and in the Gulf

# MENAP Oil Importers



# Oil Importers: Key Messages

The region is slowly recovering from last year's slowdown

- Trade is rising along with the global rebound
- Investment and bank credit are still subdued

Obstacles to growth ahead and room for stimulus is narrowing

- Persistent weakness in EU demand and competition from other emerging markets
- Governments facing high debt will need to cut back on fiscal expansion
- High inflation in some countries

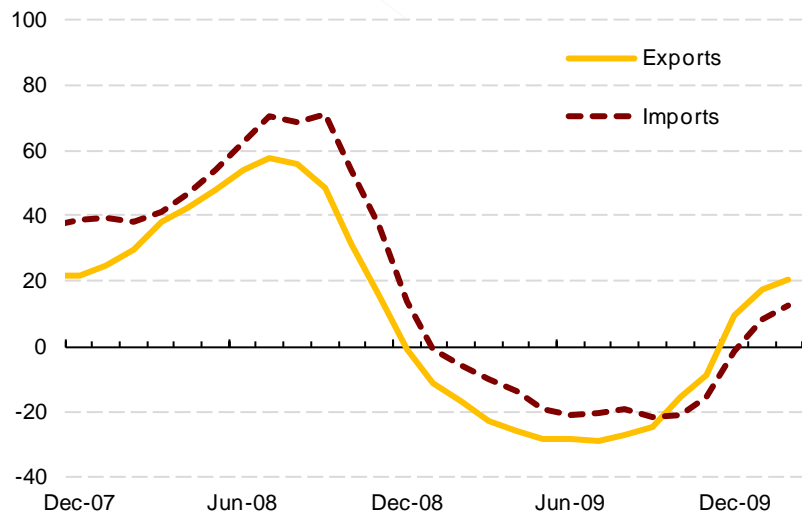
Policy focus will need to shift to medium-term structural agenda

- Raising growth and creating employment is again at center stage
- Developing capital markets can help revive credit and investment
- Structural reforms key to improving competitiveness



# International trade is mending...

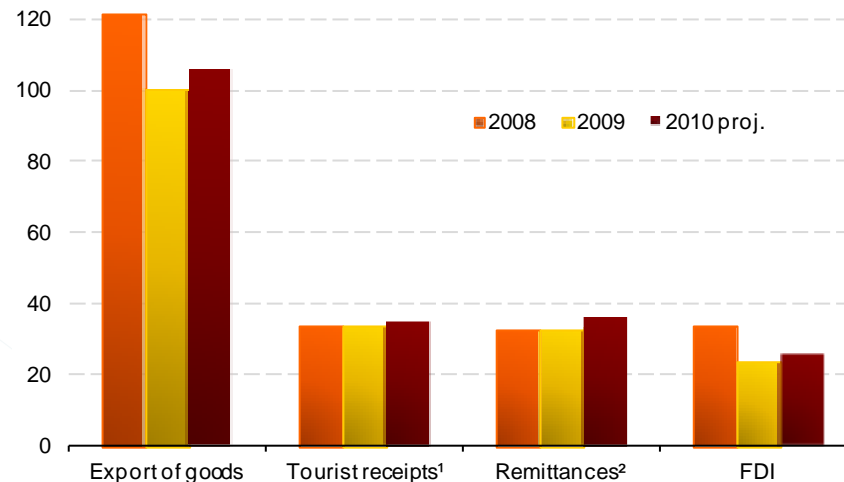
Merchandise Trade in U.S. dollars<sup>1</sup>  
(Annual percent change of 3-month moving average)



Sources: National authorities; and Haver Analytics.

<sup>1</sup> Egypt, Jordan, Lebanon, Morocco, Pakistan, and Tunisia.

External Receipts  
(Billions of U.S. dollars)



Sources: IMF, World Economic Outlook; National authorities; and IMF staff estimates.

<sup>1</sup> Excludes Afghanistan, Mauritania, and Pakistan.

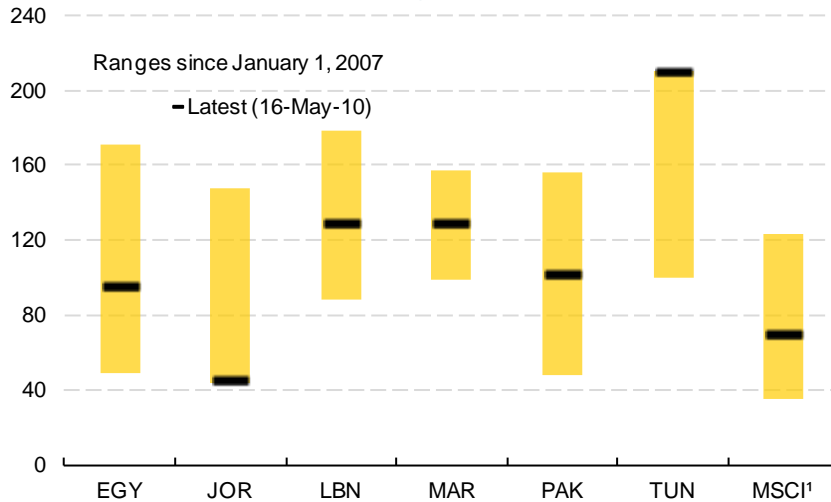
<sup>2</sup> Excludes Afghanistan and Djibouti.

Trade is recovering after the sharp fall during the global crisis

But expansion will be slow, with exports and FDI still well below 2008 levels

# ...and financial markets have rebounded

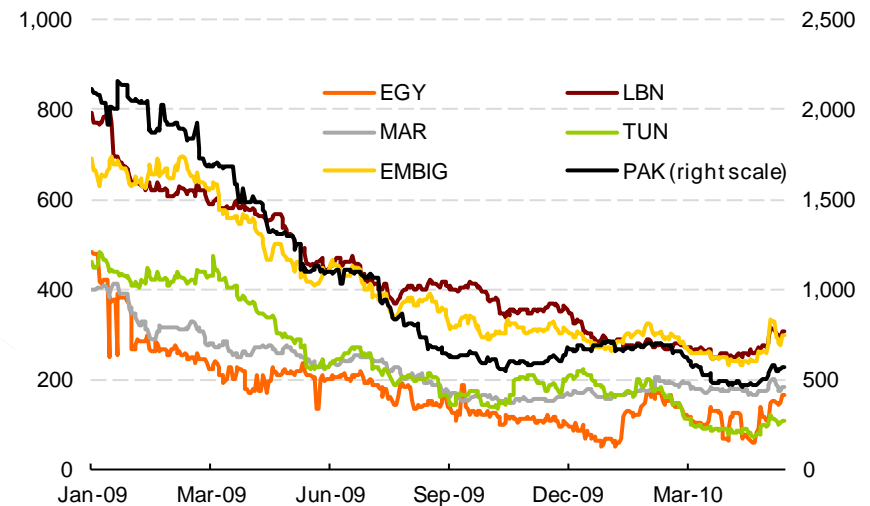
## Stock Market Indices (January 1, 2007 = 100)



Source: Bloomberg.

<sup>1</sup>Morgan Stanley Capital International Index, emerging markets.

## Sovereign Bond Spreads (Basis Points)



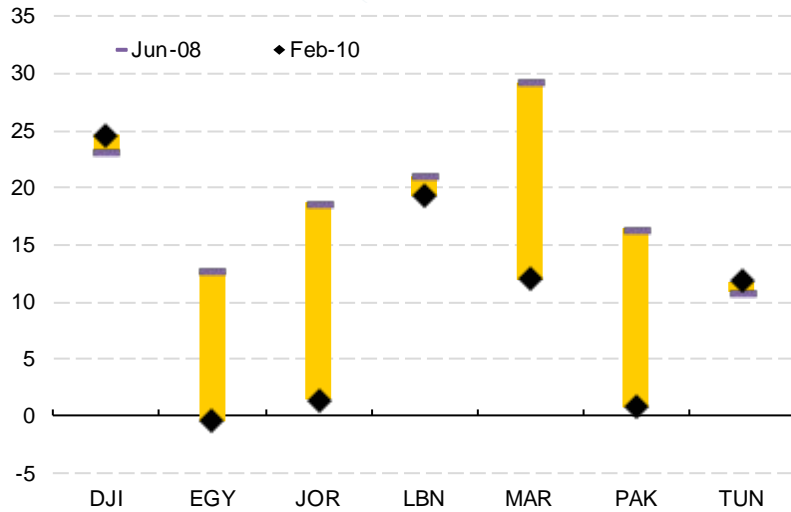
Source: Bloomberg.

*Stocks are up, but - aside from Tunisia - still well below earlier highs*

*Bond spreads have narrowed over the past year; little impact so far from Greece*

# But credit and capital inflows still sluggish

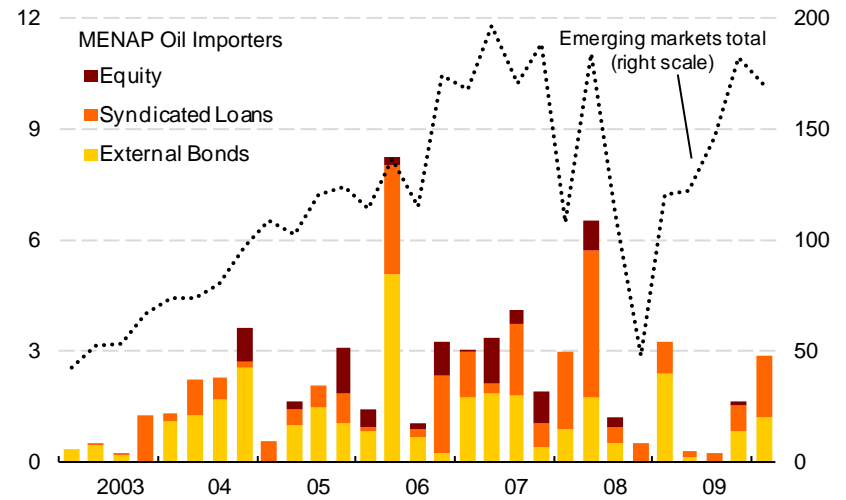
## Bank Credit to the Private Sector (Year-on-year growth, in percent)



Source: National Authorities and IMF staff calculations.

*Credit growth has fallen sharply in several countries*

## International Issuance (Billions of U.S. dollars)

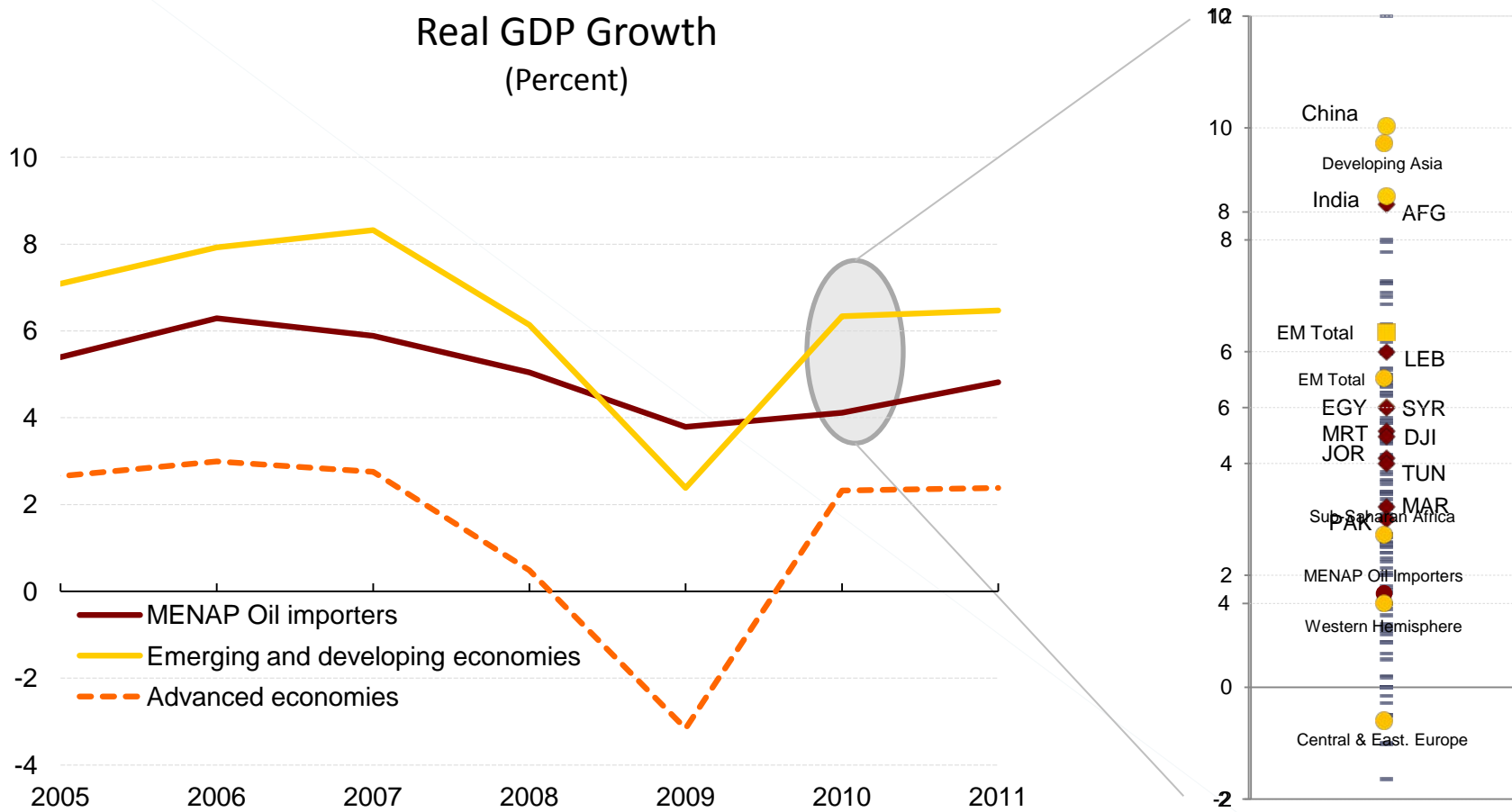


Source: Dealogic.

*Capital inflows to the region have been slow to come back and equity still lagging*



# Growth picking up, but falling short of other EMs



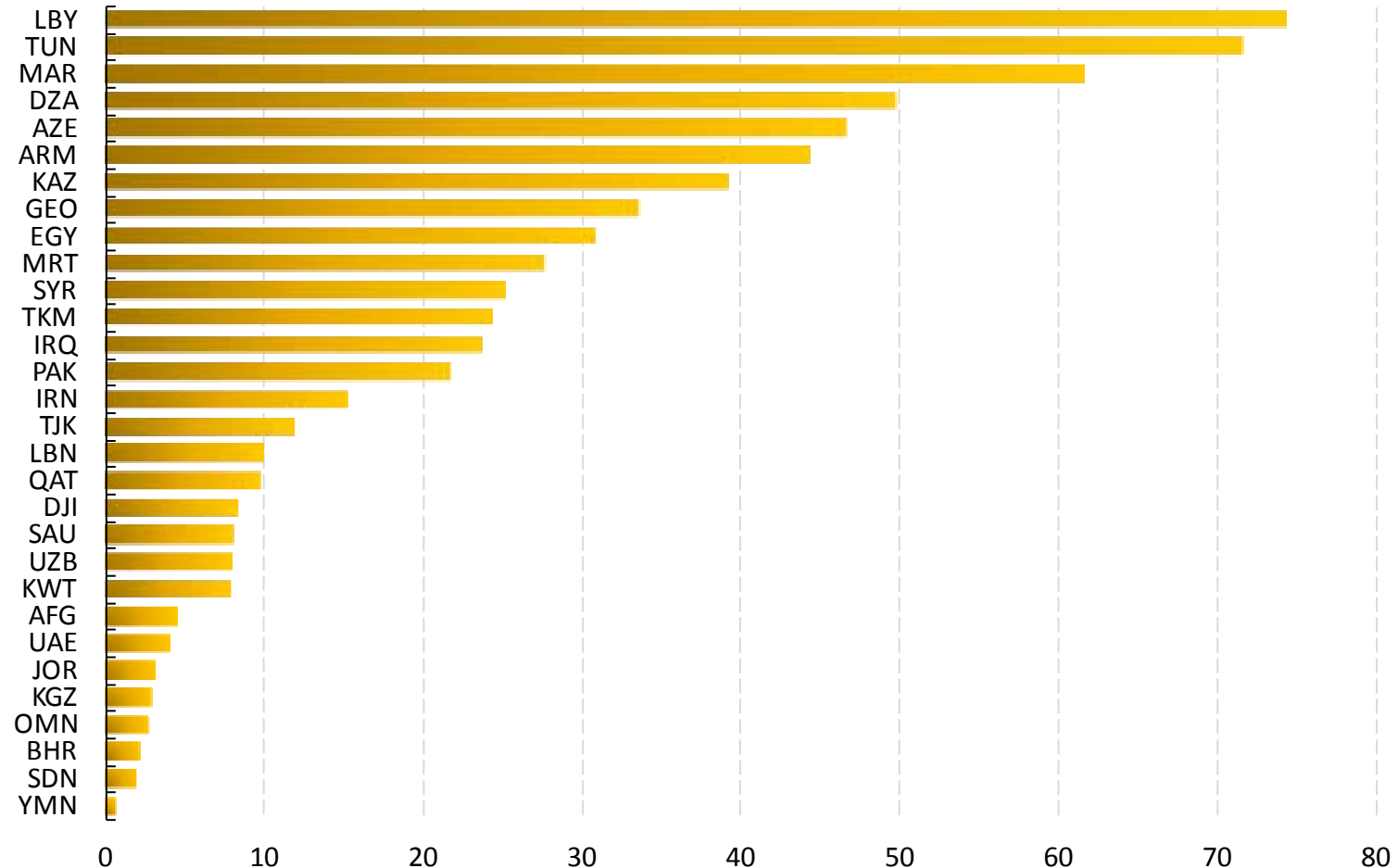
*Region is rebounding, but less so than comparators*

Source: National Authorities; and IMF staff estimates.



# Trade linkages to Europe highest in the Maghreb

Europe share of total merchandise exports, 2009  
(Percent)

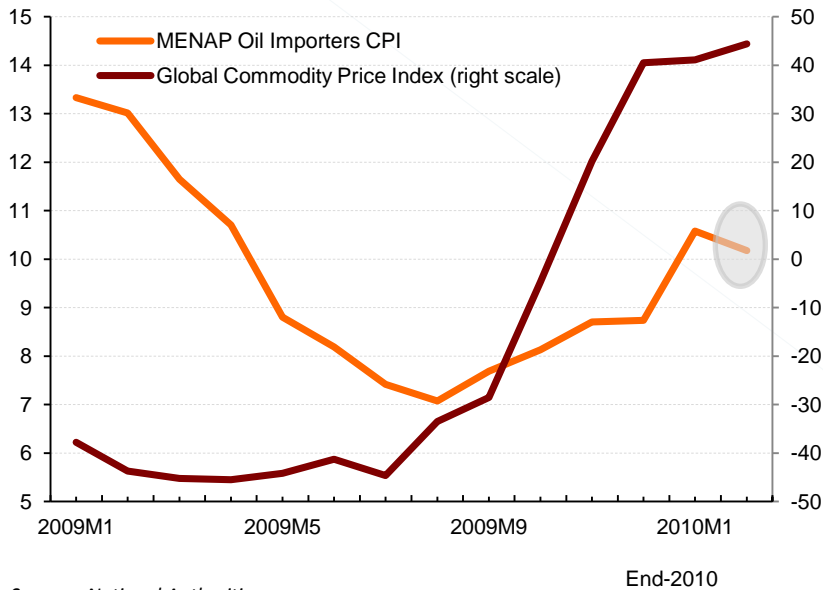


Sources: Direction of Trade Statistics, IMF



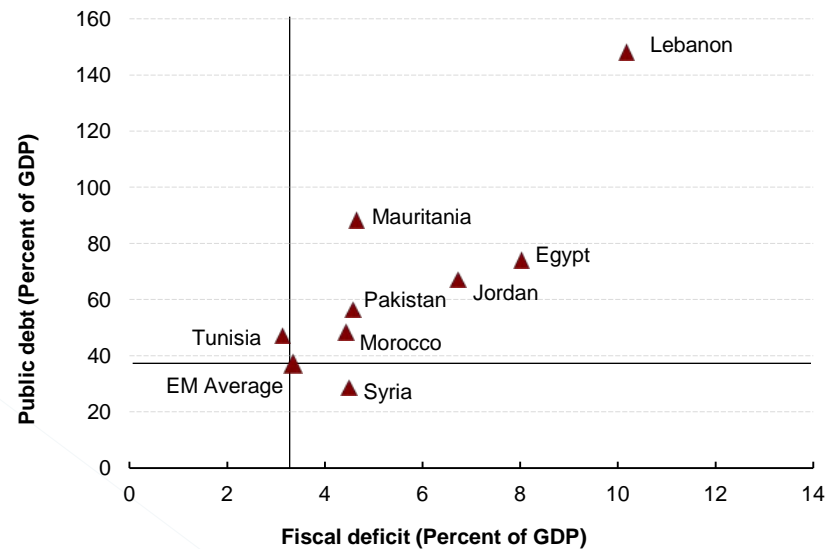
# Limited room for further policy stimulus

**Prices**  
(Annual percent change)



Sources: National Authorities.

**Fiscal Deficit and Public Debt, 2010**  
(Percent of GDP)



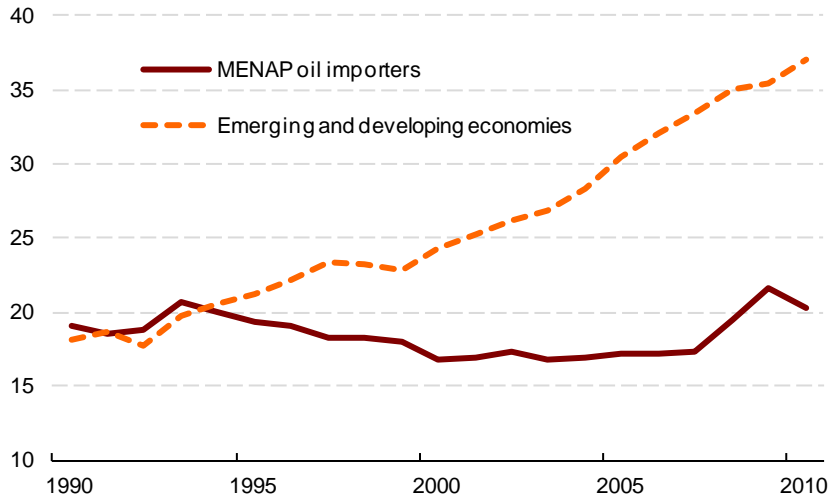
Sources: National Authorities; and IMF staff estimates.

*Inflation pressures mount in several countries, limiting room for monetary policy*

*High public debt levels constrain fiscal policy options*

# Competitive challenges are again at the fore

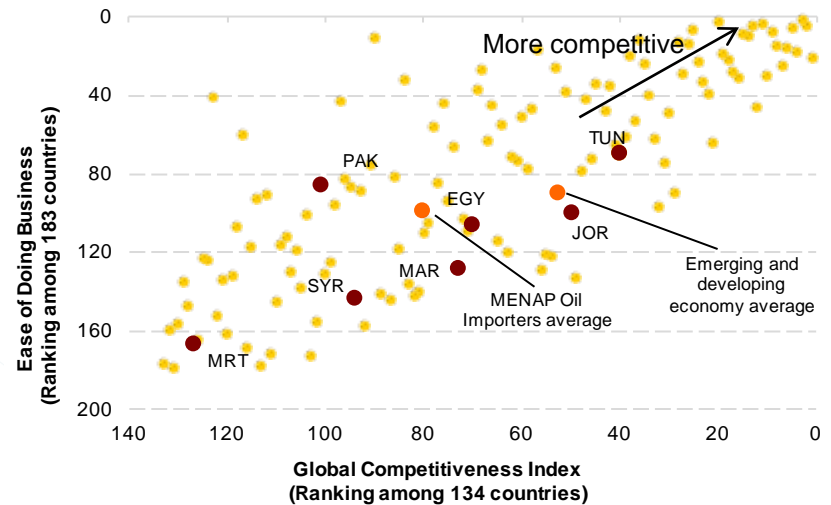
Exports Per Capita  
(Percent of world average)



Source: IMF, World Economic Outlook.  
Note: Excludes oil exports.

*Exports continue to underperform*

Competitiveness Indicators  
(Latest rankings)

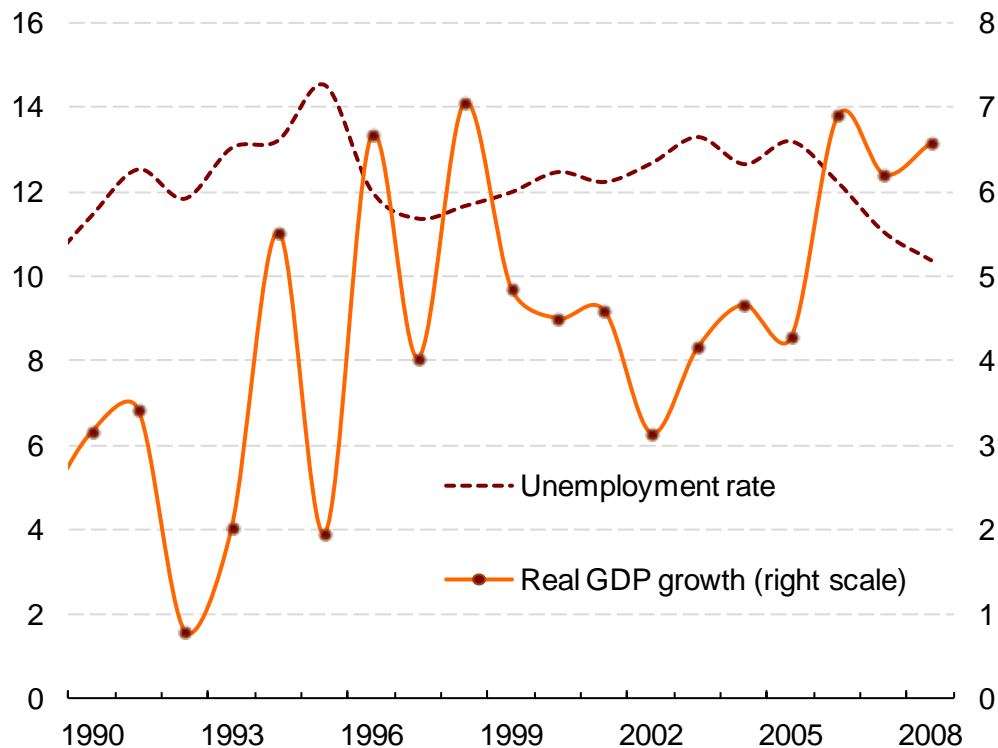


Sources: World Bank; and World Economic Forum.

*Business environment mostly lagging*

# Unemployment looms large

Unemployment and Growth<sup>1</sup>  
(Percent)



## High unemployment

- Large structural component
- Government jobs not the solution

## Spillovers from a tepid recovery in Europe

- Weakened prospects for exports and remittances
- Impact on development aid?

Sources: National Authorities; and IMF staff estimates.

<sup>1</sup>Egypt, Jordan, Morocco, and Tunisia.

# Policy Priorities

## Oil Exporters

Maintain fiscal and monetary stimulus as conditions permit

- Fiscal stimulus: until private-sector activity regains momentum
- Monetary support/regulatory policy: balance goal of supporting credit growth with that of financial stability
- Ensure smooth process of cleanup of bank balance sheets: upfront recognition of losses and bank recapitalization if needed

## Oil Importers

Structural reforms to improve competitiveness

- Growth and job creation will have to come from the private sector
- Focus on enhancing business environment, labor market flexibility, and education systems
- Gear fiscal and monetary policy to creating supportive conditions: strengthening revenue, scaling back subsidies, and addressing NPLs

Develop local capital markets to provide alternatives to bank credit



Please visit the IMF's website

**Full report:**

<http://www.imf.org/external/pubs/ft/reo/2010/MCD/eng/mreo0510.htm>

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