

# Regional Economic Outlook

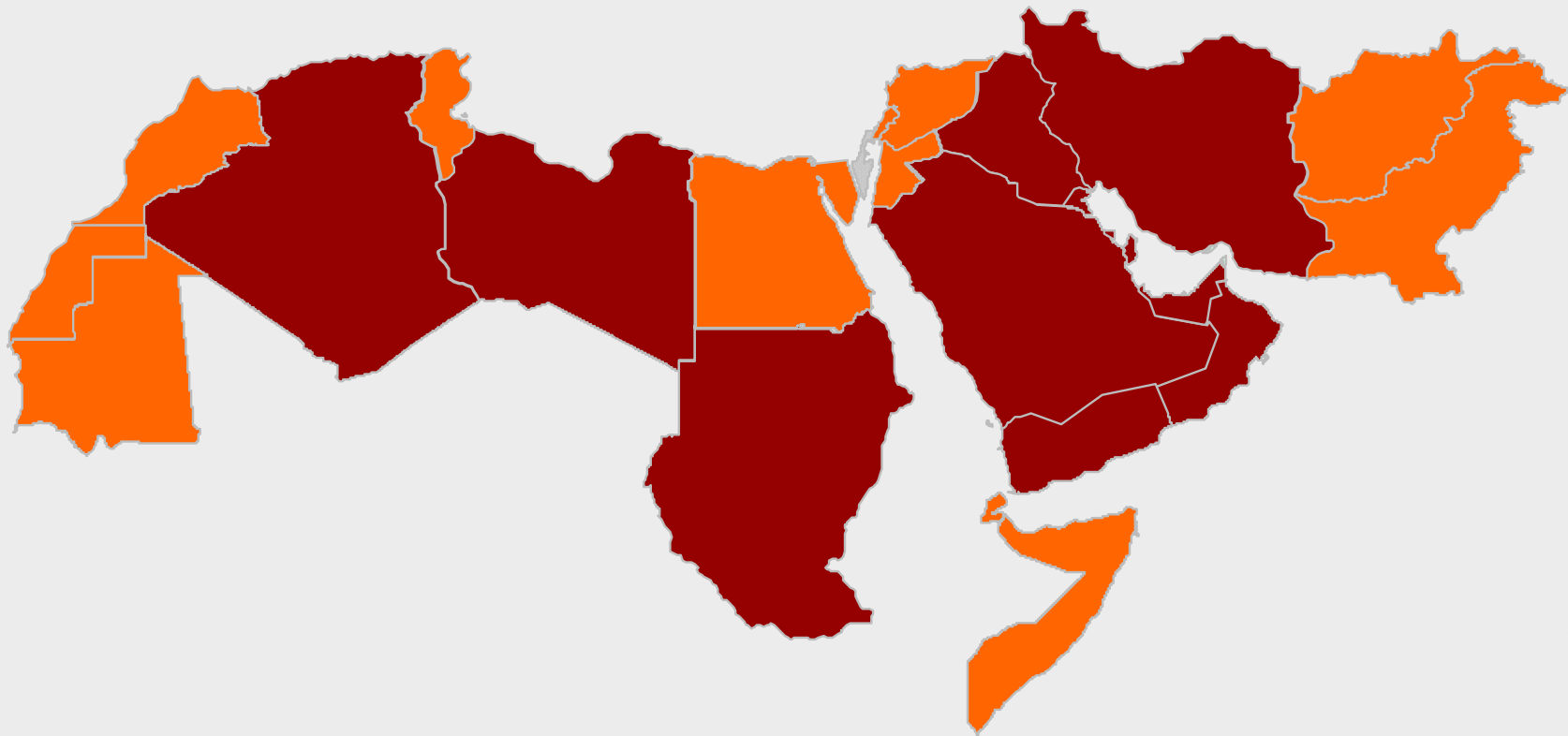
**Middle East and Central Asia Department**

**International Monetary Fund**

October 2009



- MENAP Oil Exporters
- MENAP Oil Importers



# Outline

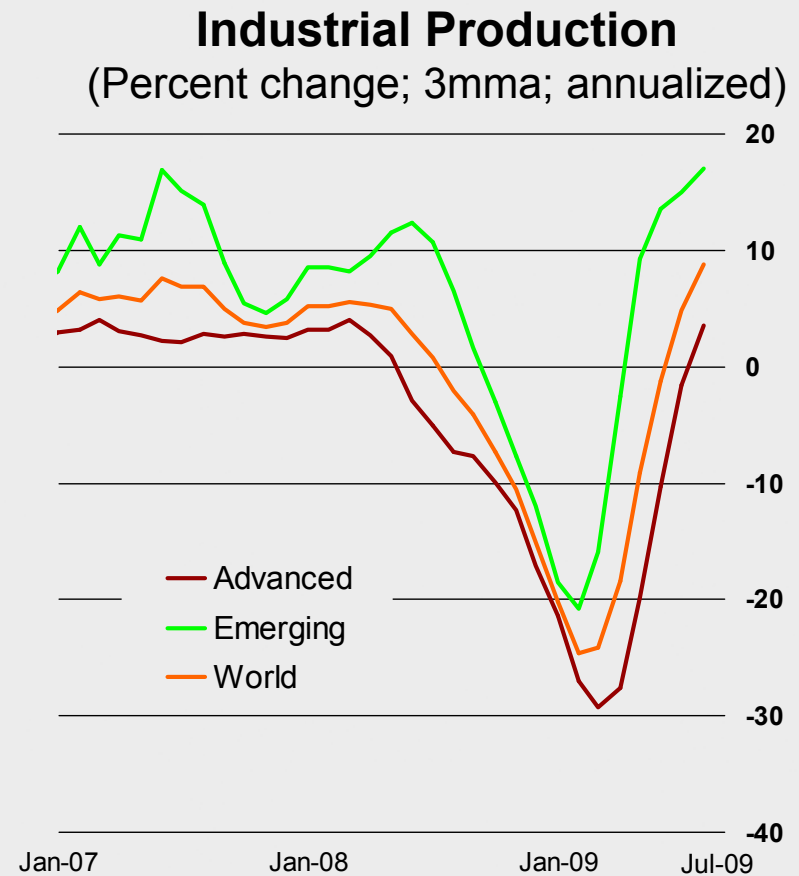
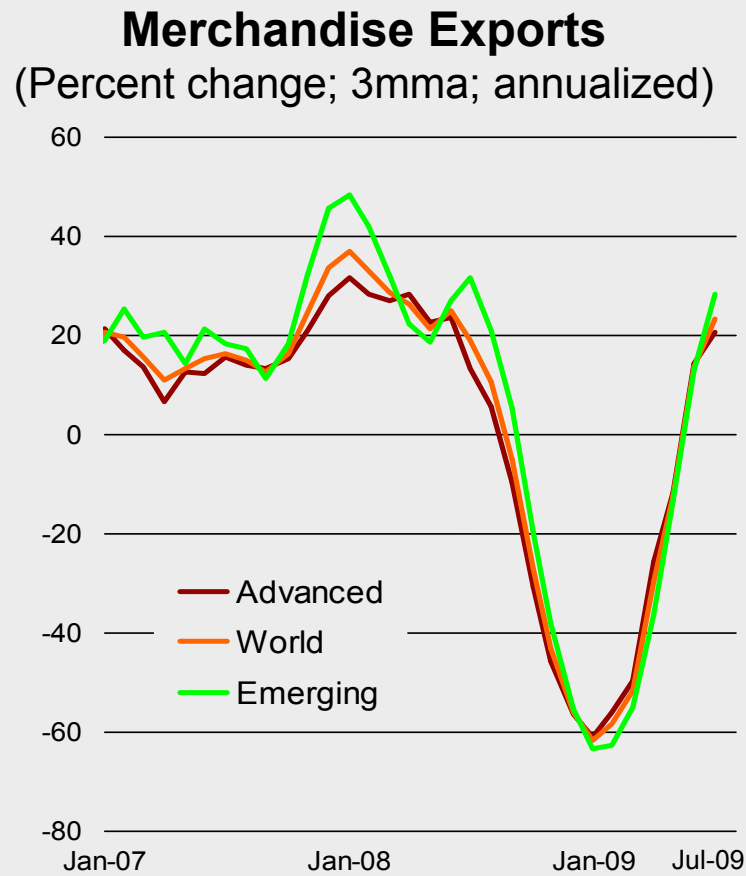
- **World Economic Outlook**
- **MENAP Economic Outlook**



## **World Economic Outlook: Key Messages**

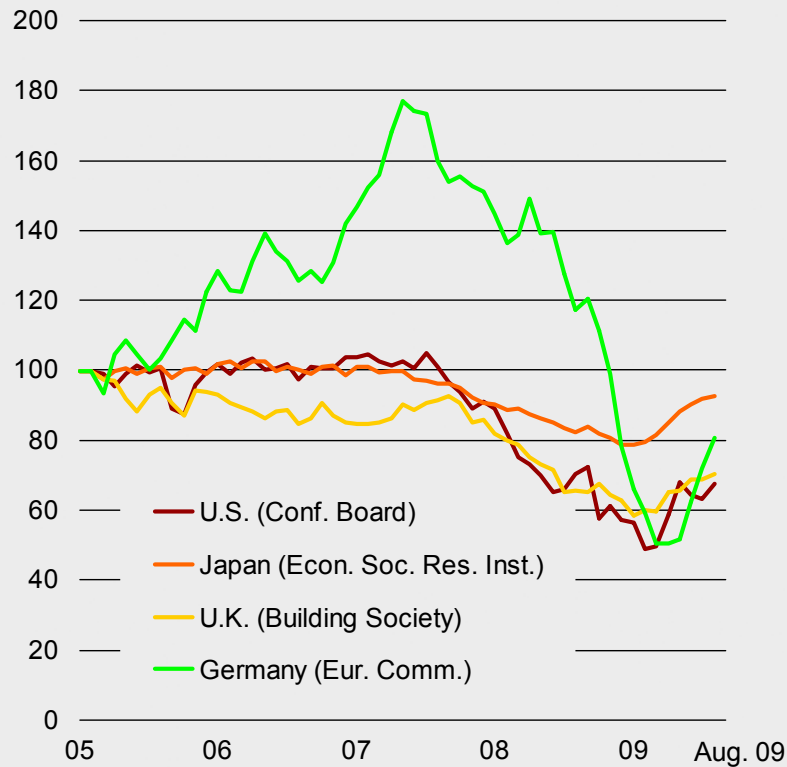
- The global economy is beginning to grow again, but recovery is likely to be sluggish. The slow recovery calls for sustained policy support until the expansion is firmly entrenched.
- Financial market conditions continue to improve but remain tight, with the global financial system remaining far from normal.
- Expansionary monetary and fiscal policy will continue to underpin the global recovery, but to safeguard price and financial stability and the soundness of public finances, credible exit strategies will be needed.
- Two key factors for the medium-term: private demand replacing public demand; and demand in external surplus economies rising to make up for shrinking demand in external deficit economies.

# Exports and manufacturing helped by a turn in the inventory cycle

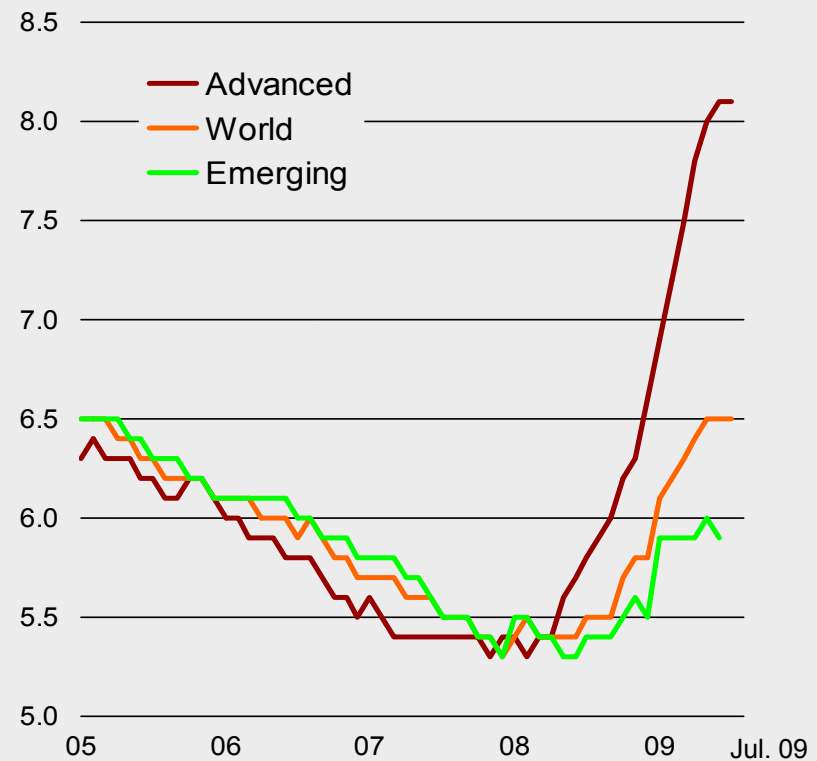


## Consumer confidence slowly recovering, but unemployment still rising

**Consumer Confidence**  
(January 2005=100)

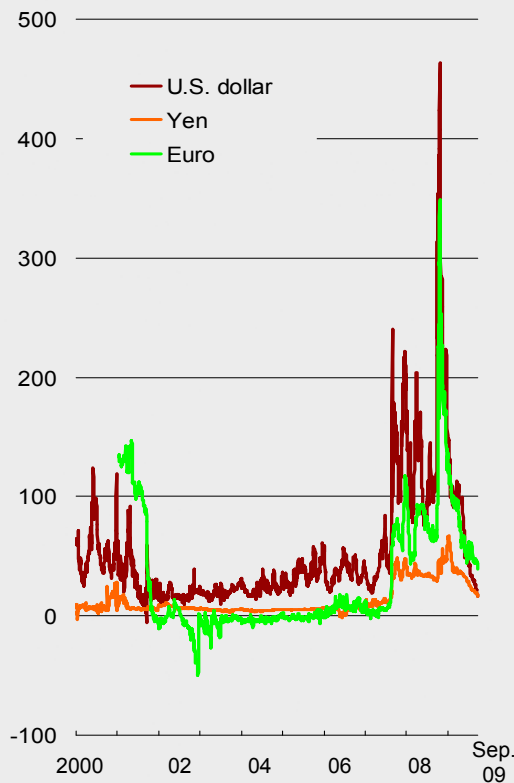


**Unemployment**  
(Percent; weighted by labor force)

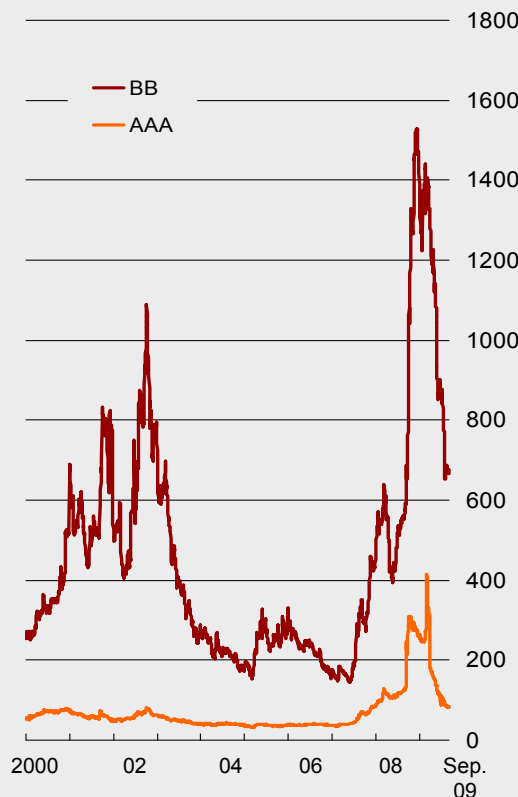


# Policy has taken risk of another Great Depression off the table, but financial conditions remain tight

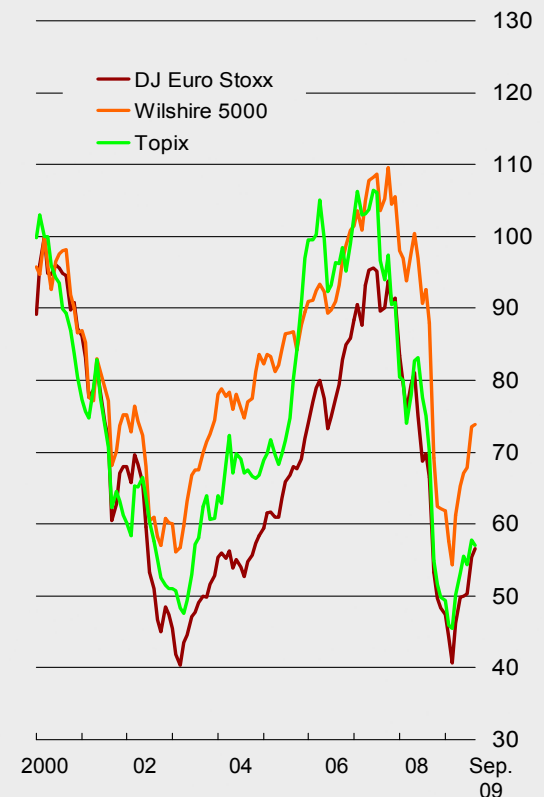
**Interbank Spreads**  
(Basis points)



**Corporate Spreads**  
(Basis points; averages of Europe and United States)



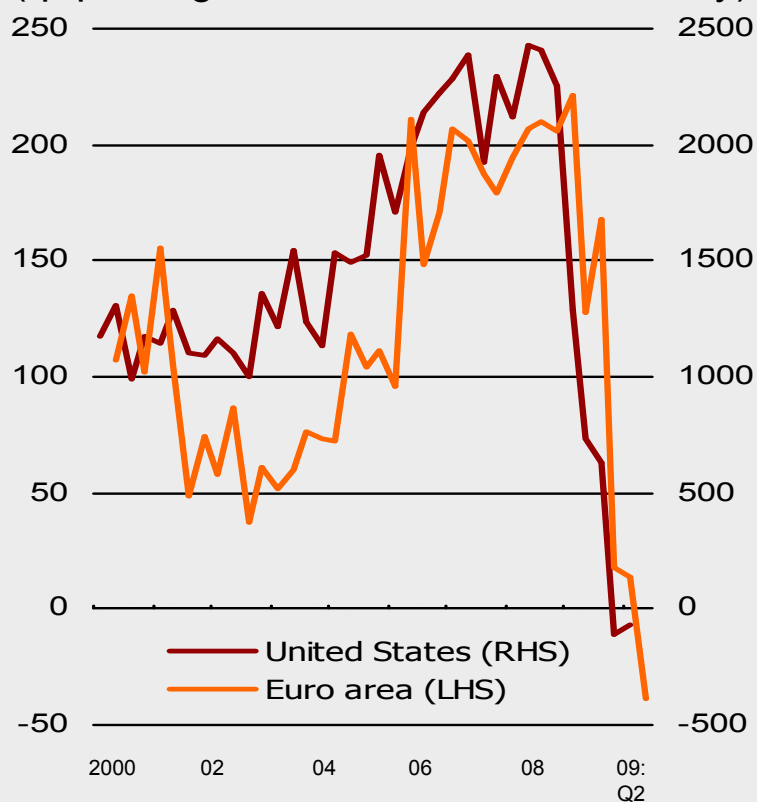
**Equity Markets**  
(March 2000 = 100; national currency)



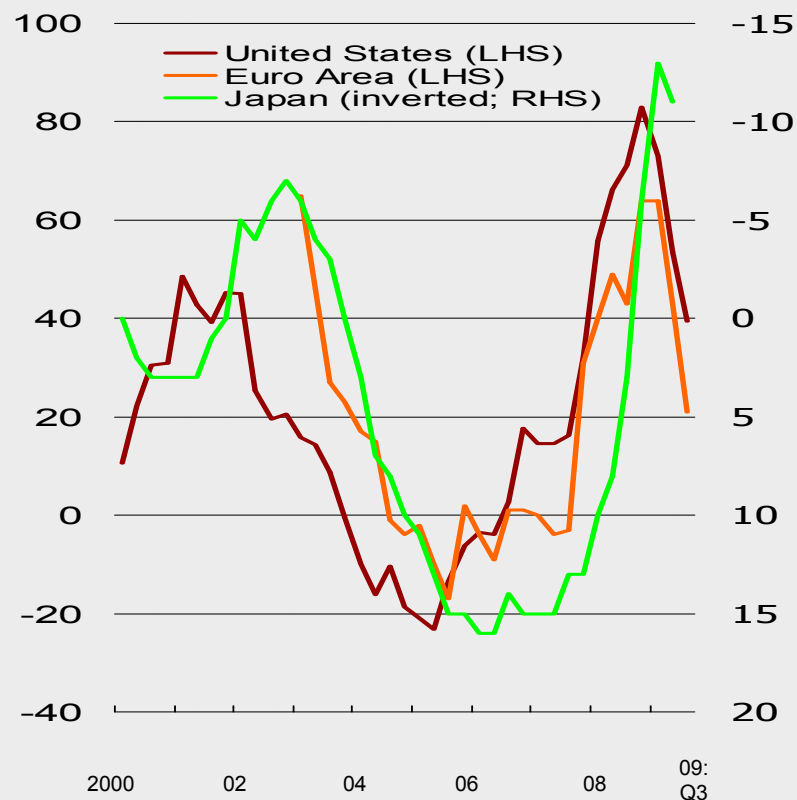
# Expansionary monetary policy has been key, but will not forestall a credit crunch

## Credit Growth in Private Nonfinancial Sectors

(q/q changes; billions of local currency)



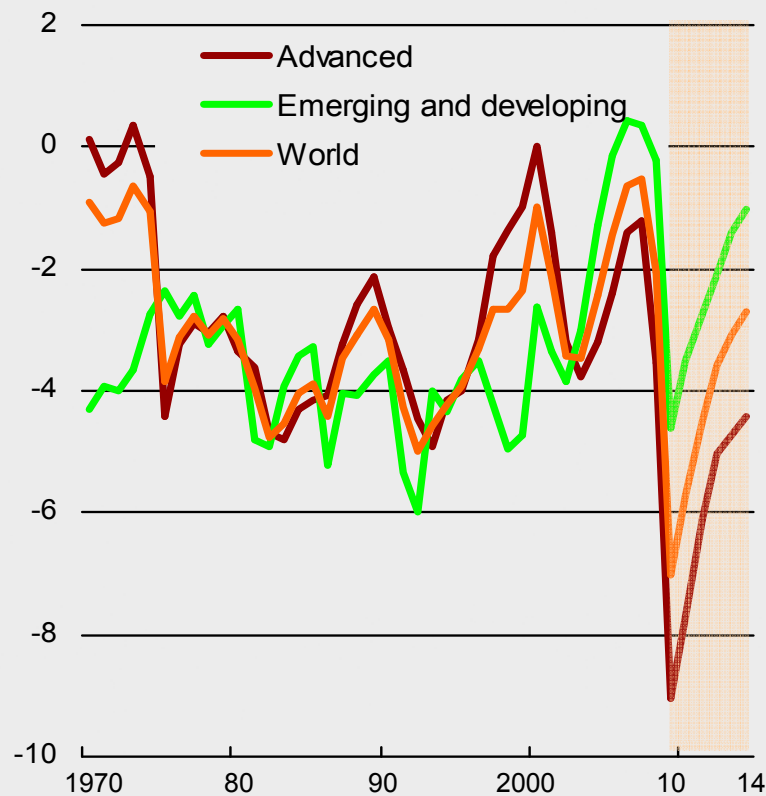
## Bank Lending Conditions



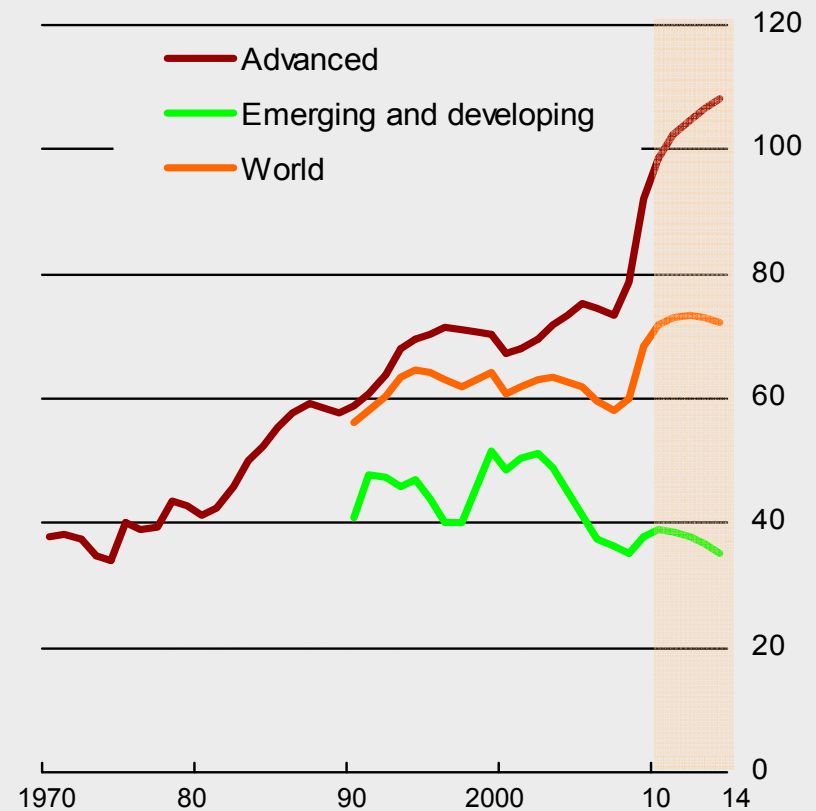


## Fiscal policy, too, has played a major role, but fiscal support will diminish

**Fiscal Balance**  
(Percent of GDP)

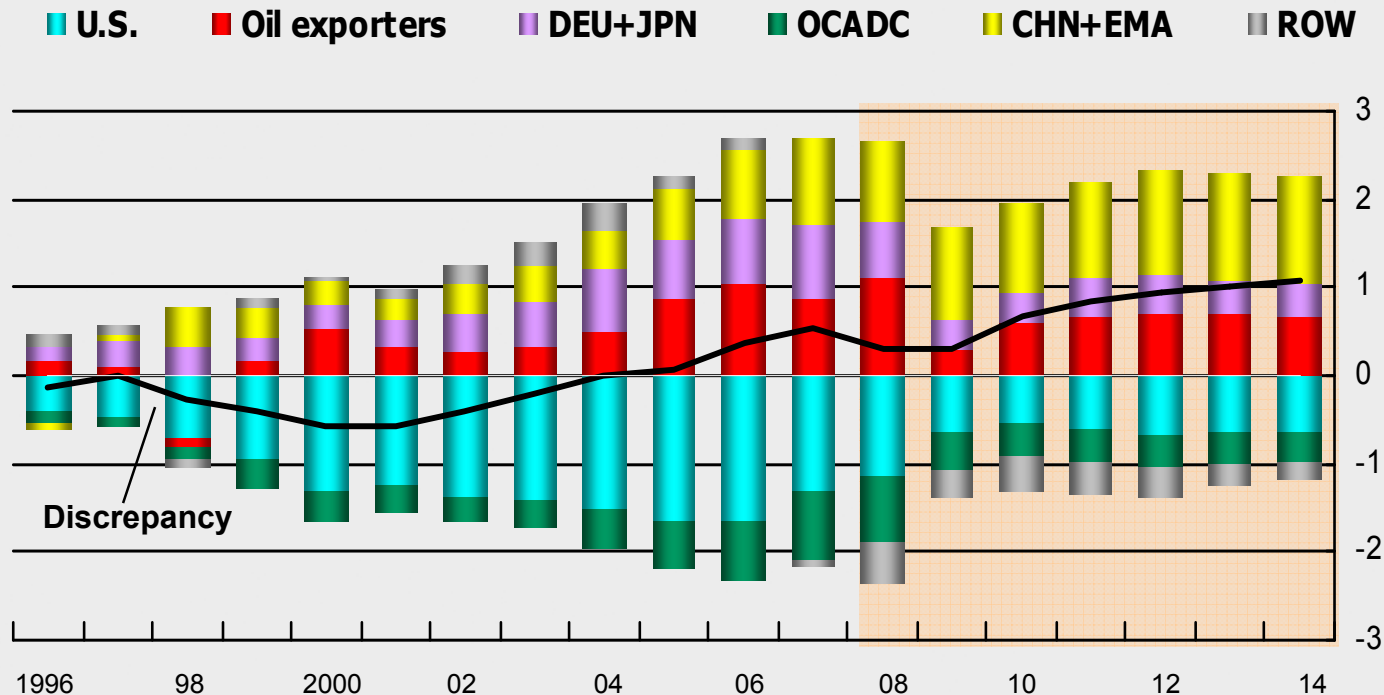


**Public Debt**  
(Percent of GDP)



# Rebalancing will be a drawn-out process, implying slow global growth

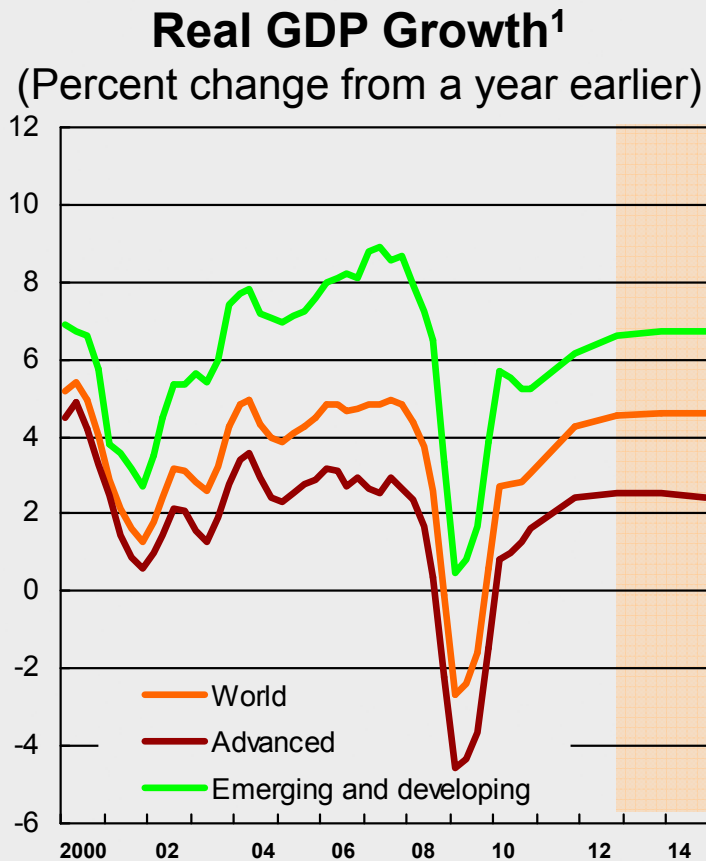
**Global Imbalances<sup>1</sup>**  
(Percent of world GDP)



<sup>1</sup> OCADC: Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, and United Kingdom.

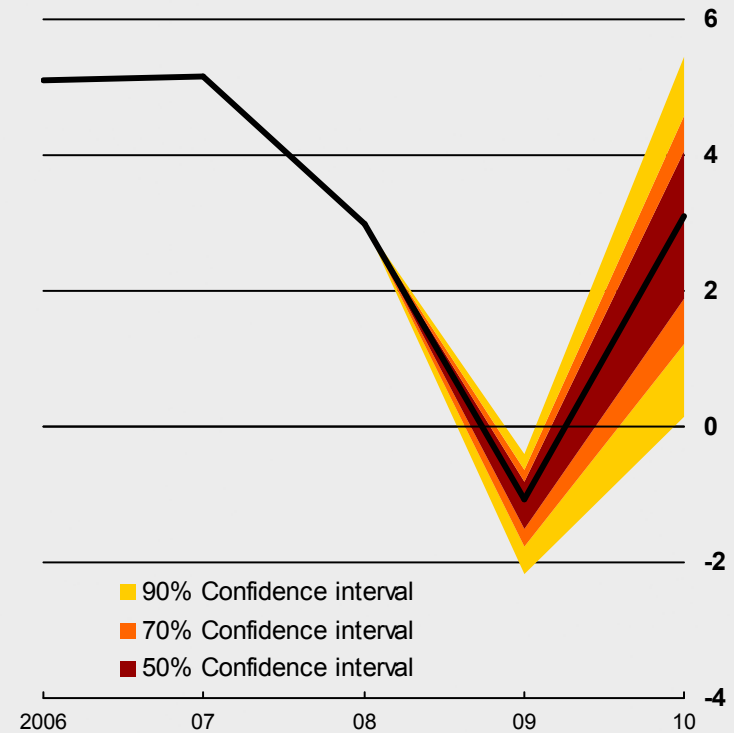


# Global growth is expected to pick up in 2010, but the recovery will be sluggish



<sup>1</sup> Quarterly data through 2010 and annual data afterwards.

### Prospects for World GDP Growth (Percent change)



## **Key risks, mainly on the downside**

- Premature withdrawal of public support, because recovery seemingly self-sustaining—public's appetite for fiscal support seems low.
- New financial disaster, geopolitical issues/oil price surge, swine flue: economy's capacity to absorb new shocks is very low.
- Fiscal credibility loss or questions about continued independence of central banks.
- **Upside:** we may underestimate effects of reduced uncertainty/greater confidence.

# **MCD Economic Outlook**

## **MENAP**

**▶ Oil Exporters**

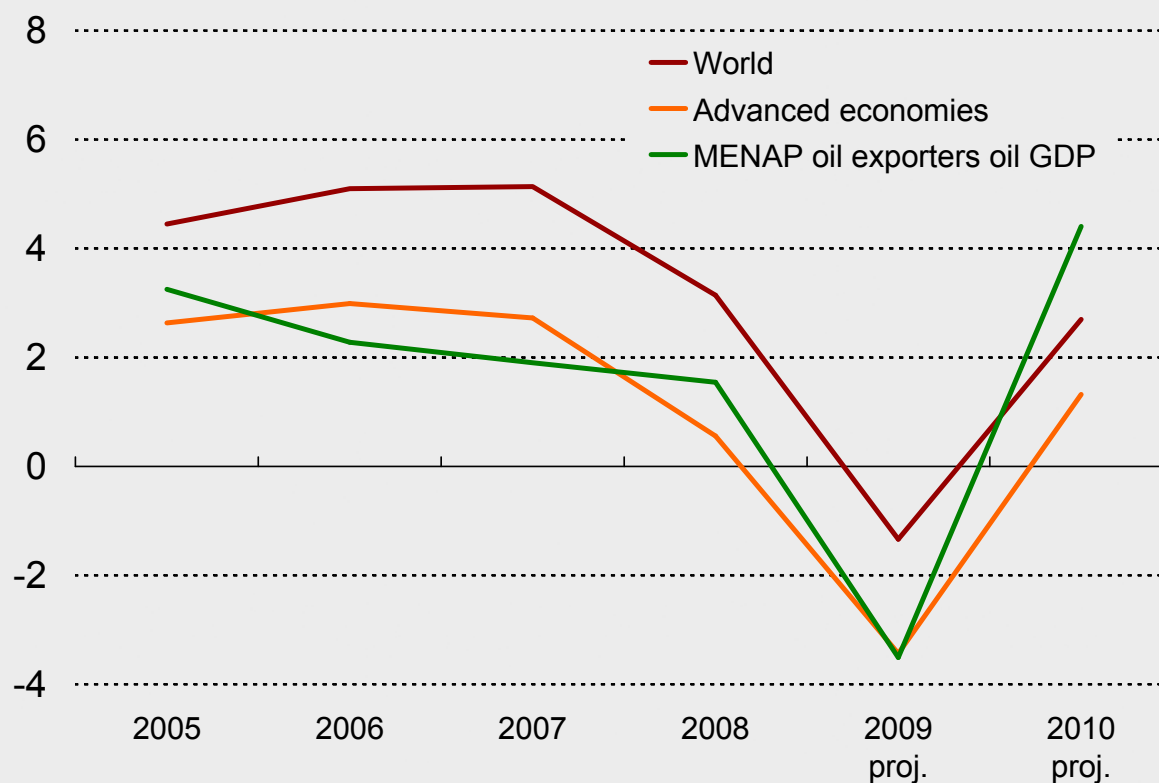
**▶ Oil Importers**

## **Oil Exporters: Key Messages**

- Oil sector was hit hard during the crisis.
- Authorities responded quickly and decisively.
- Early signs of recovery, and future prospects are brightening.
- Financial sector vulnerabilities need addressing.

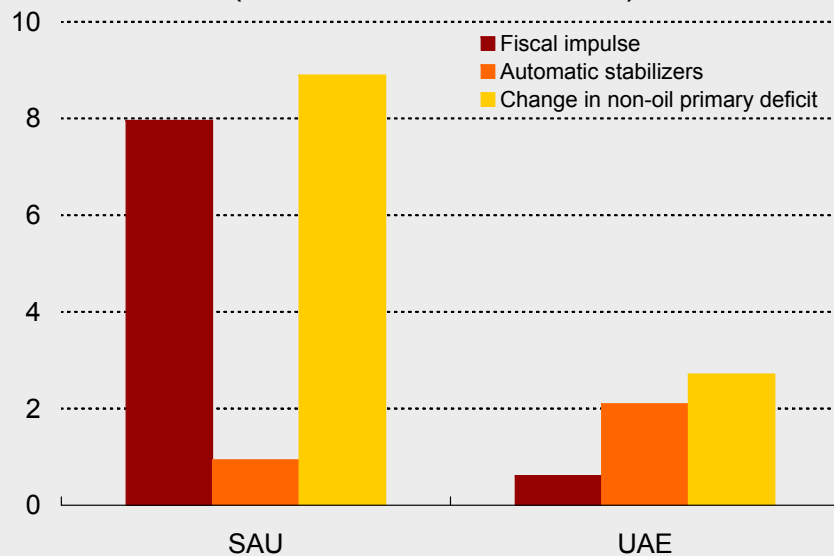
# Global crisis strikes the oil sector

**Real GDP Growth**  
(Annual change; percent)

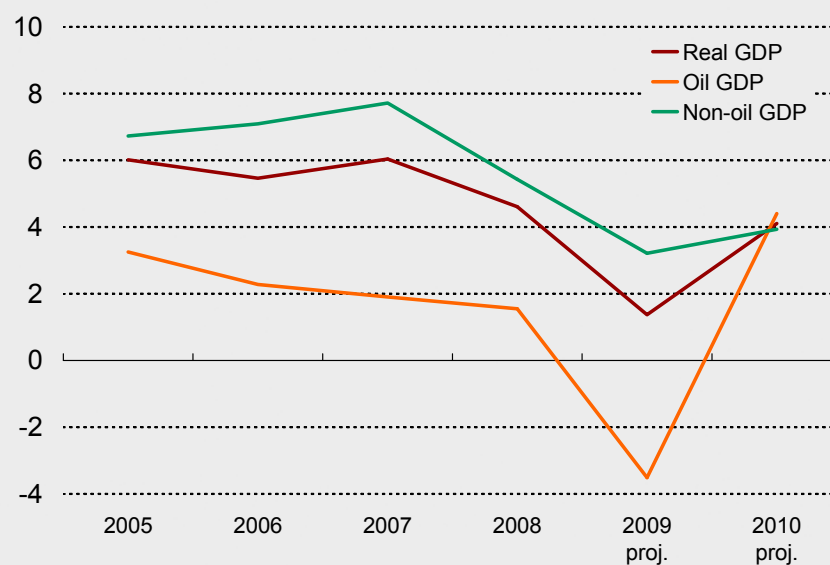


## In response, countercyclical policies were pursued, dampening the downturn in the non-oil sector

**Change in the Non-Oil Primary Fiscal Deficit, 2009**  
(Percent of non-oil GDP)



**Real GDP Growth**  
(Annual change; percent)





**As oil prices fell and government spending rose, current account surpluses fell sharply**

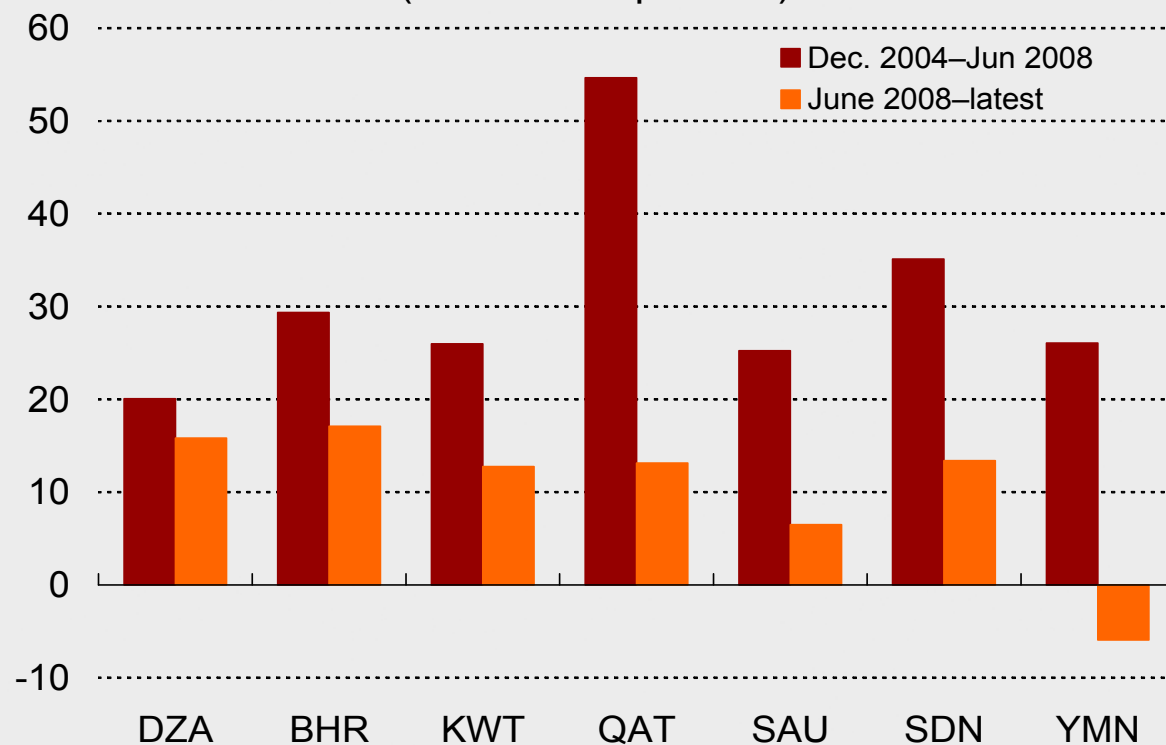
**Current Account Balance**

(Billions of U.S. Dollars)



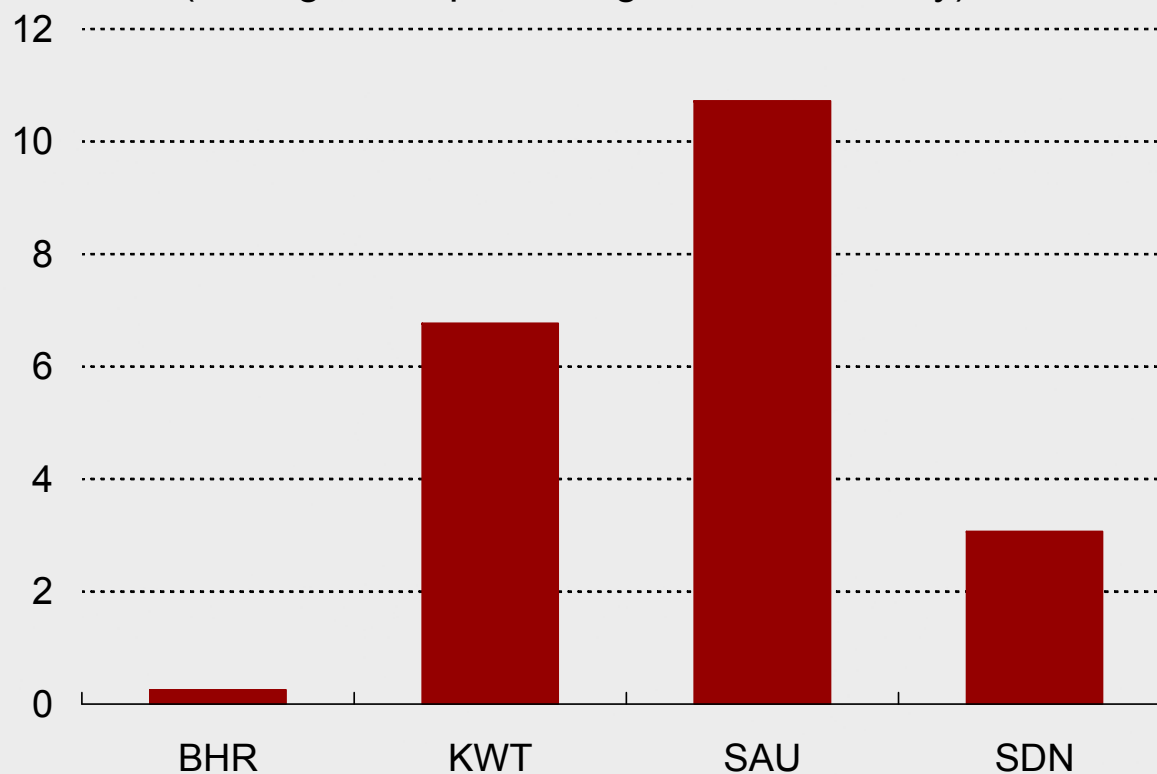
## Liquidity and funding problems also hurt the banking sector, hampering its ability to lend

**Growth in Credit to the Private Sector**  
(Annualized percent)



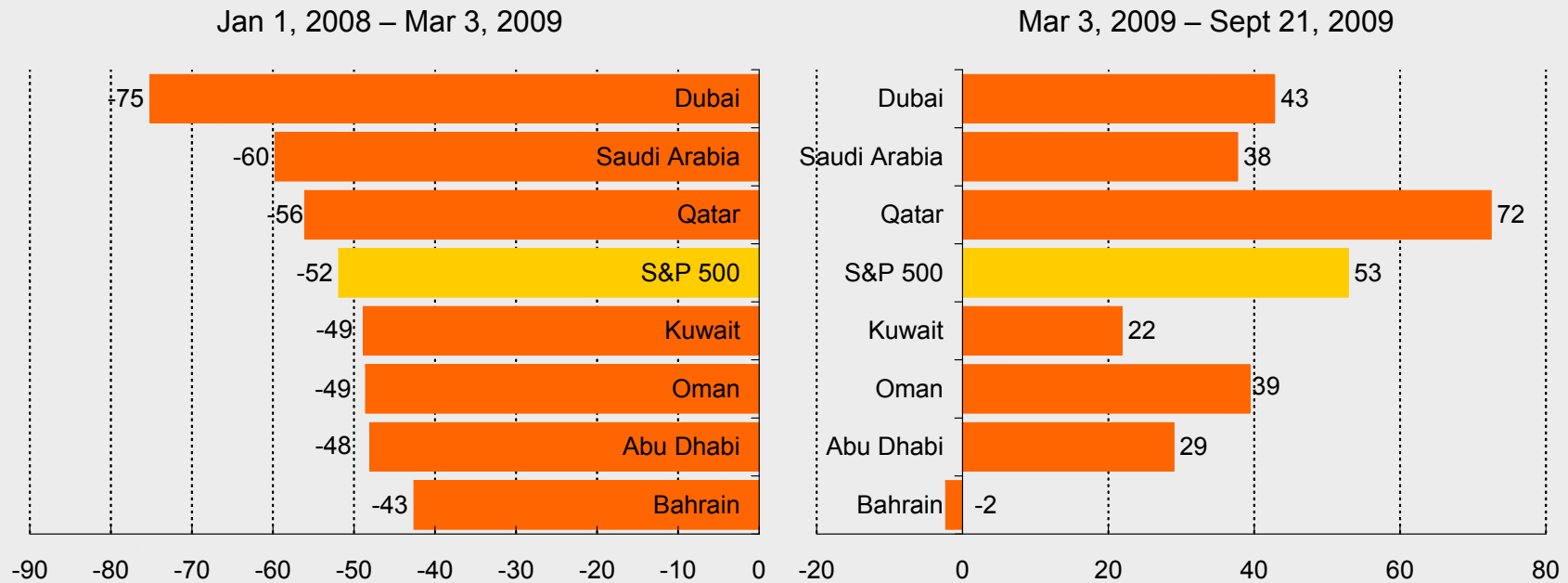
## Authorities also responded quickly to stabilize the financial sector

**Central Bank Net Credit to the Banking System**  
(Change as a percentage of base money)



# Local stock markets are recovering...

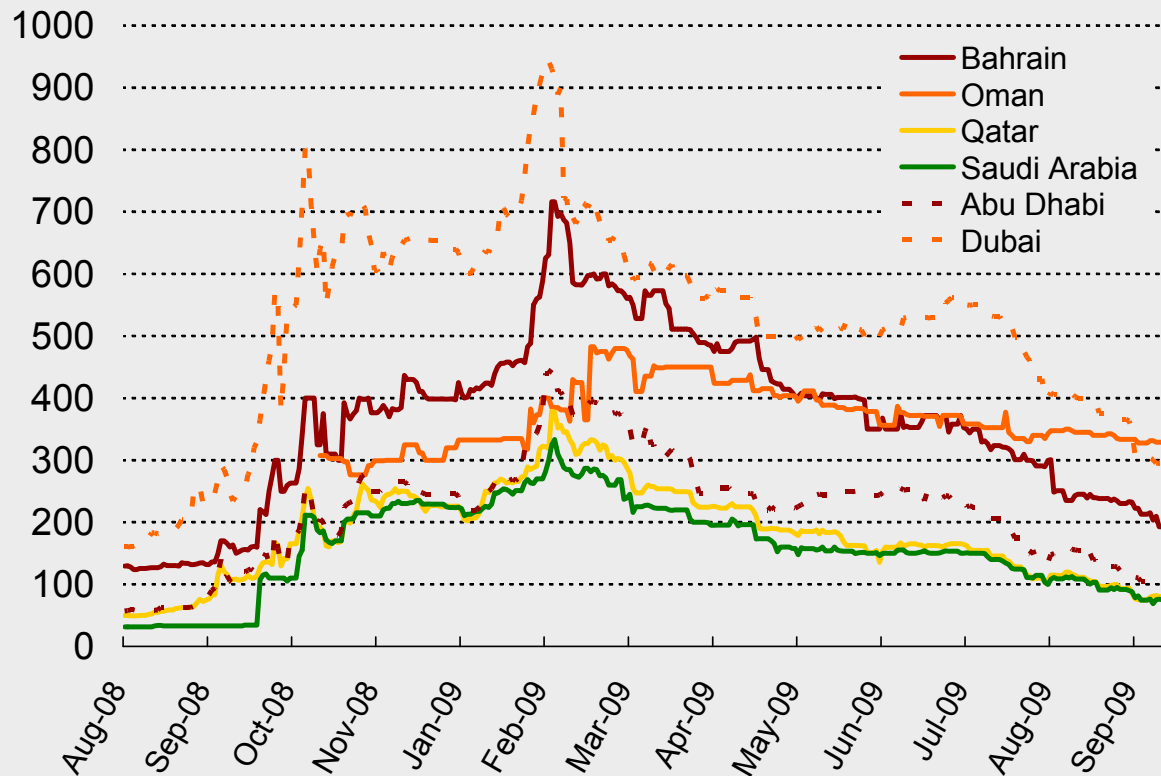
## Percentage Change in Stock Market Indices



# External financing conditions are improving

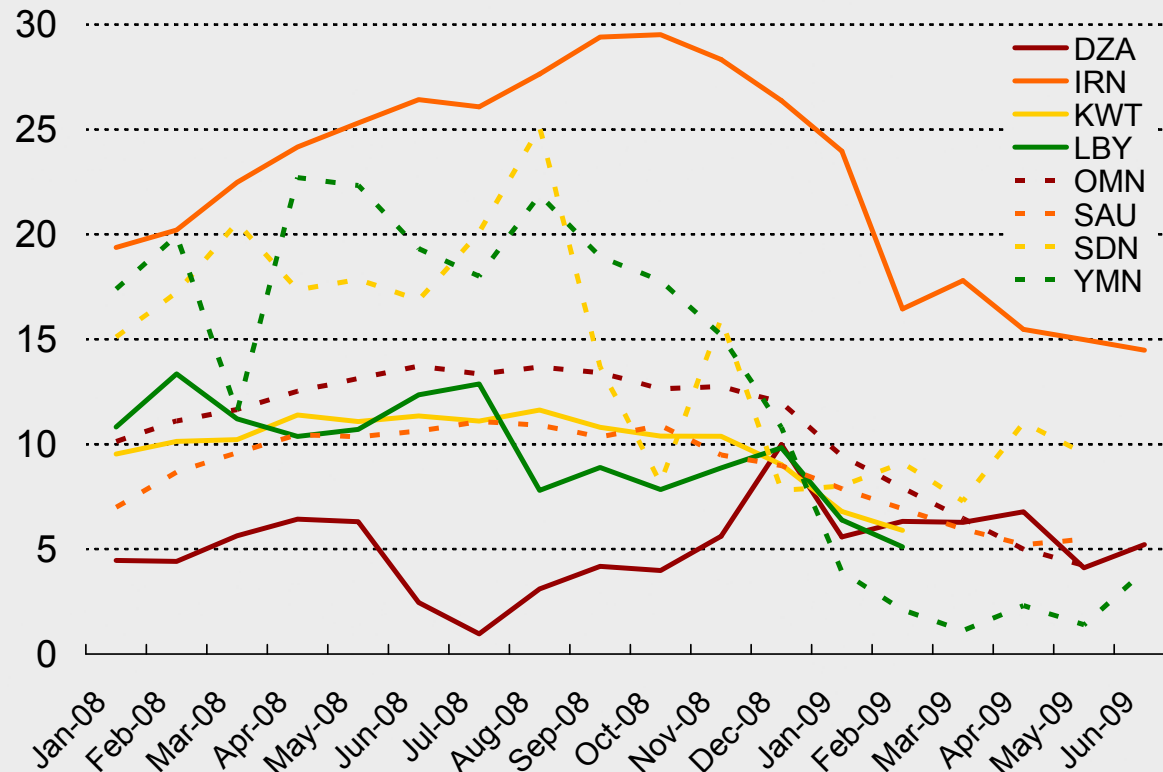
## CDS Spreads

(Basis points)



# Despite a boost to domestic demand, no signs of inflationary pressures so far

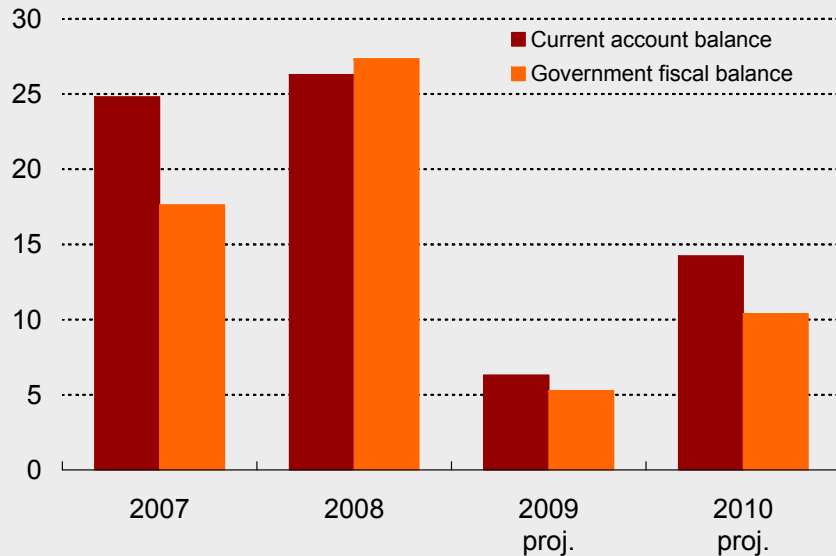
**Consumer Price Index**  
(Percent change; year-on-year)



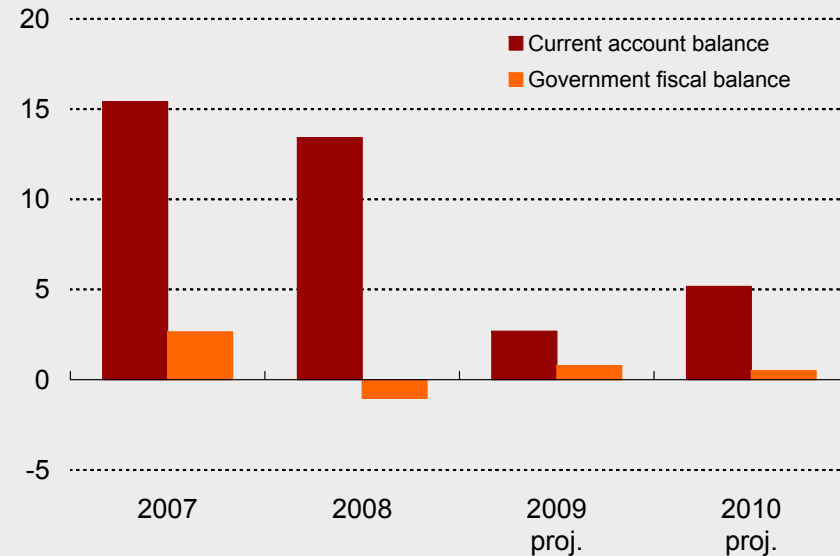
# Looking forward, external and fiscal balances should improve: scope for continued spending

## External Current Account and Fiscal Balances (Percent of GDP)

### GCC Countries



### Non-GCC Countries



## **Policy Priorities**

- Maintain public spending in countries with fiscal space
- Orderly workout of financial/corporate balance sheet effects of asset price falls
- Promote broad-based financial development



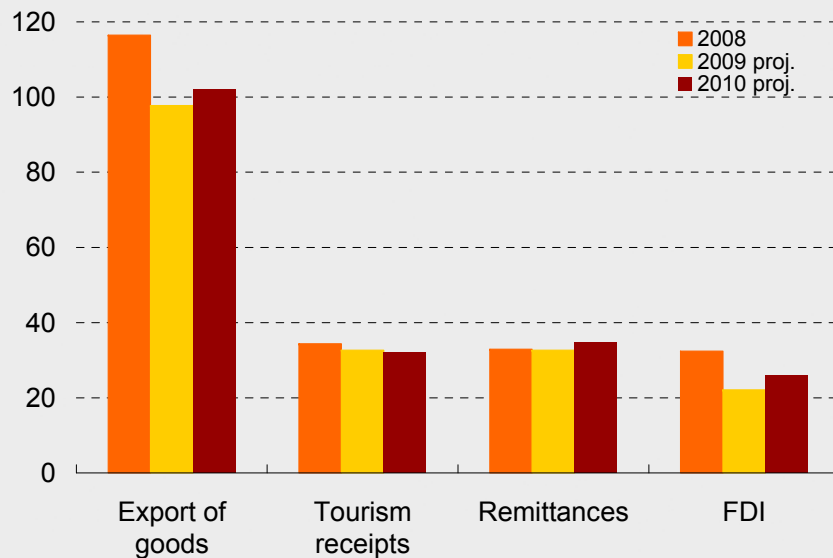


## **Oil Importers: Key Messages**

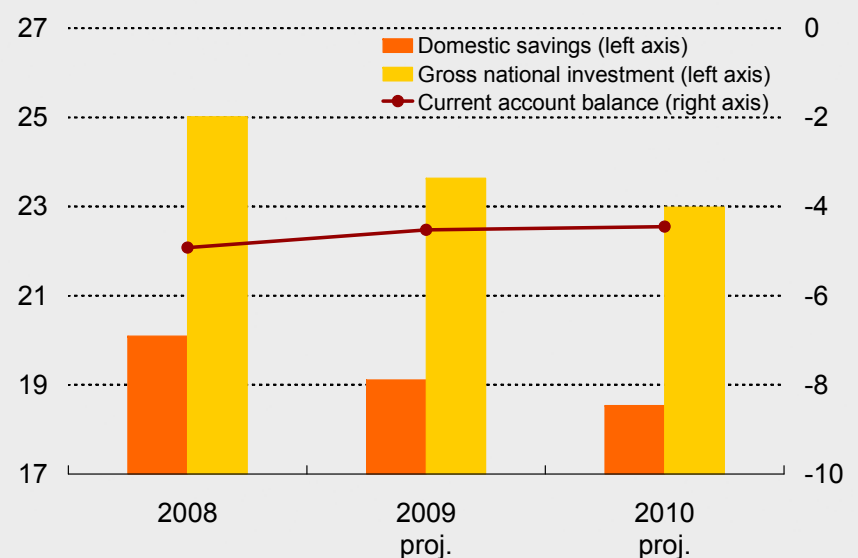
- Impact of global crisis has been limited, with growth slowing modestly to 3.6 percent in 2009.
- Low integration in international financial markets and manufacturing have contained the fallout. Proactive policy responses and positive spillovers from regional oil exporters have helped.
- Limited fiscal space, currency appreciation, and sluggish external receipts imply recovery will be muted.
- As the rebound takes hold, policy focus will need to shift towards private sector development.

# Lower external receipts, but even greater drop in imports

**MENAP Oil Importers:  
External Receipts**  
(Billions of U.S. dollars)



**MENAP Oil Importers:  
Saving and Investment Balance**  
(Percent of GDP)



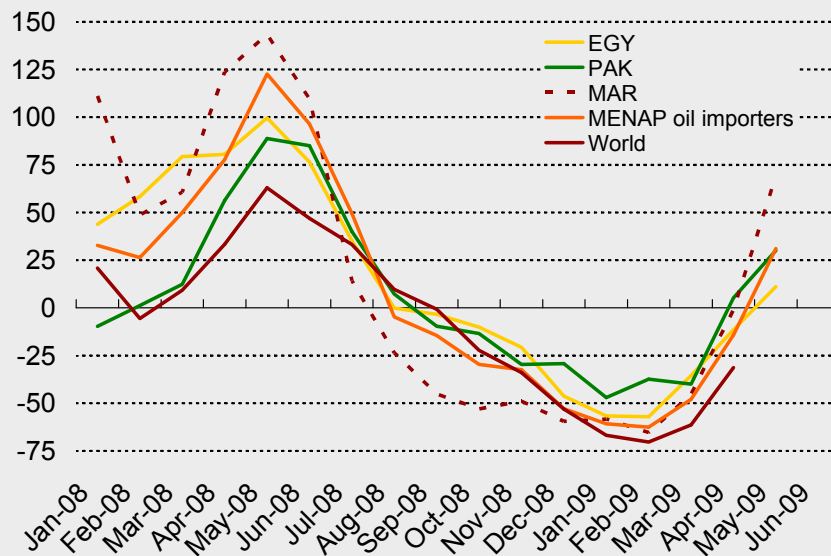
Note: Excludes Afghanistan and Djibouti. Tourism receipts also excludes Pakistan.



# Economic indicators are now picking up

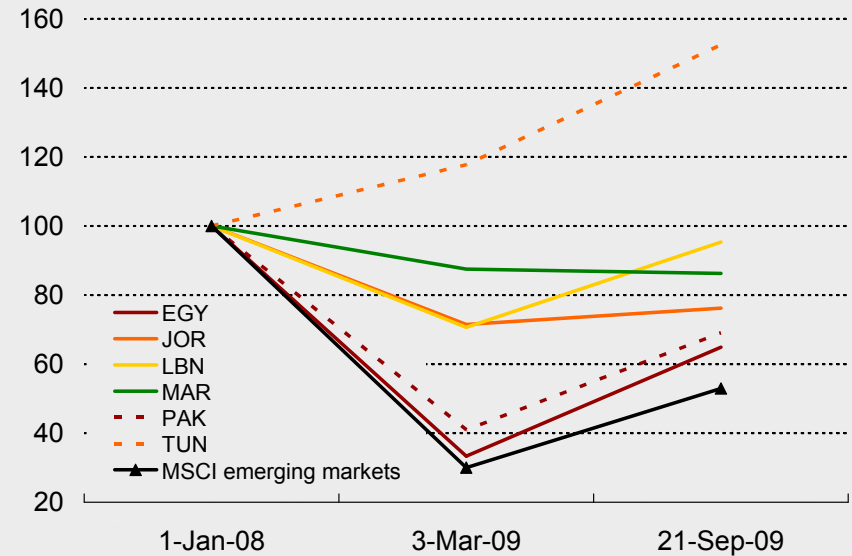
## Merchandise Exports

(Annualized percent change of 3-month moving average over previous 3-month moving average)

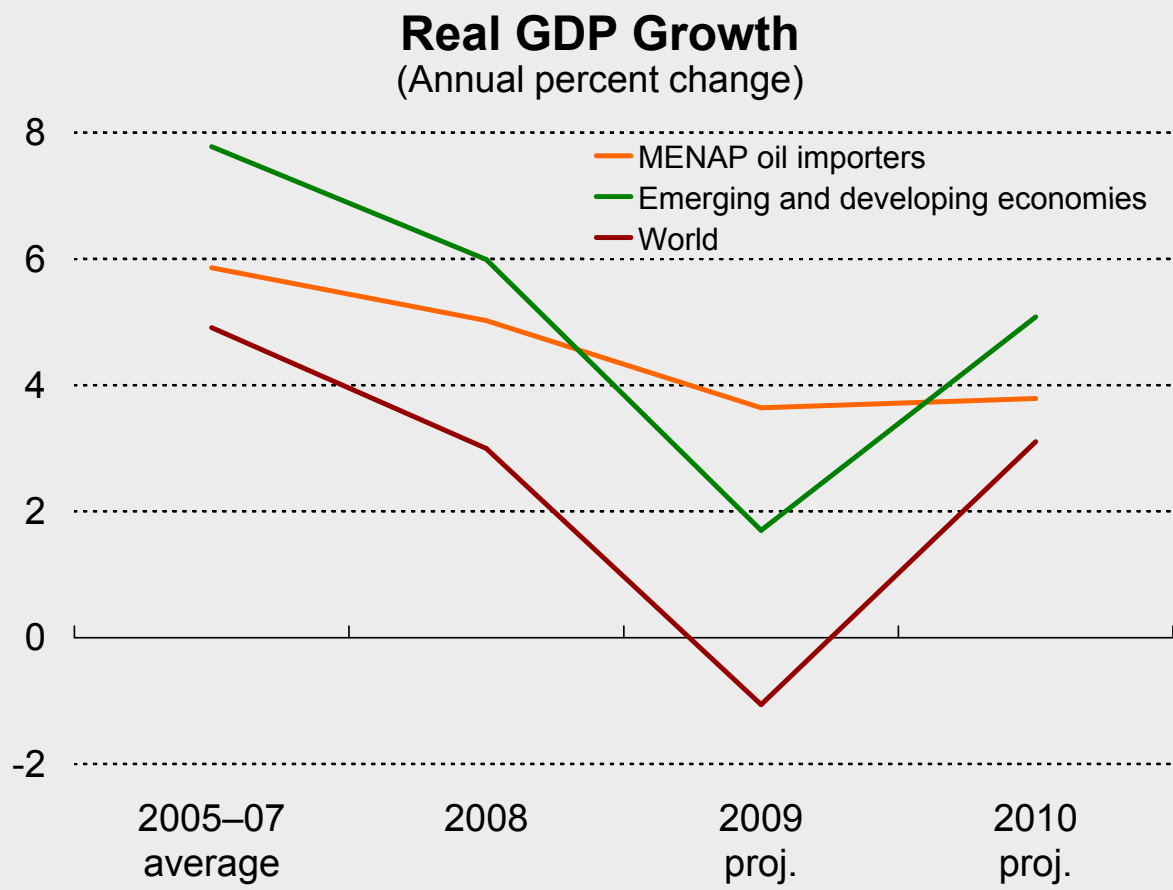


## Stock Market Performance

(Index, January 1, 2008 = 100)

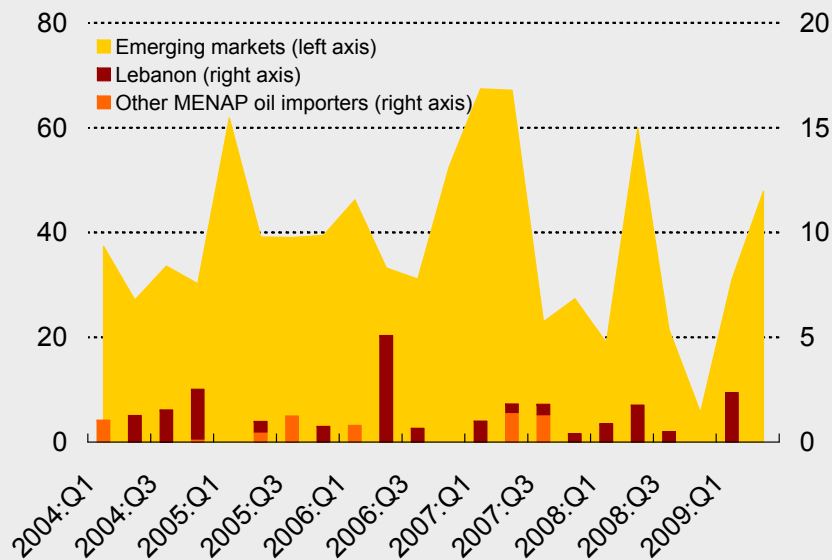


# Growth improvement will remain muted

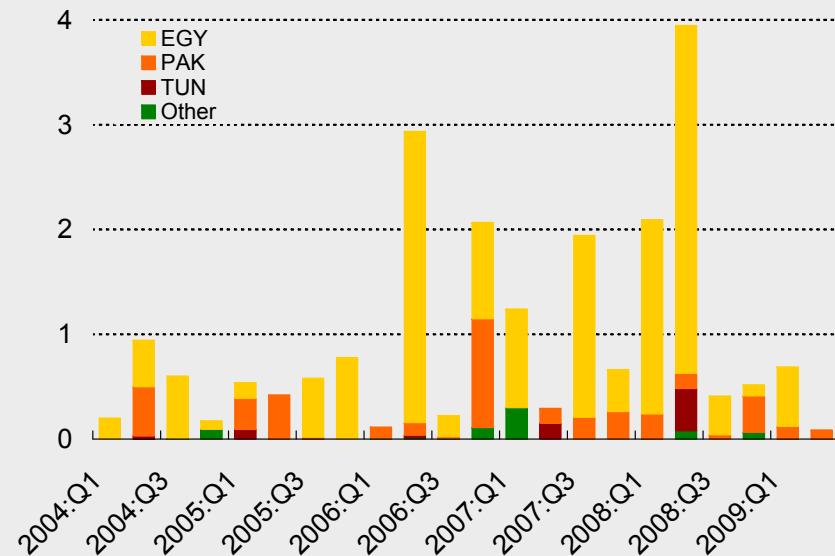


# Limited reliance on international capital flows...

**Emerging Market Bond Issuance**  
(Billions of U.S. dollars)

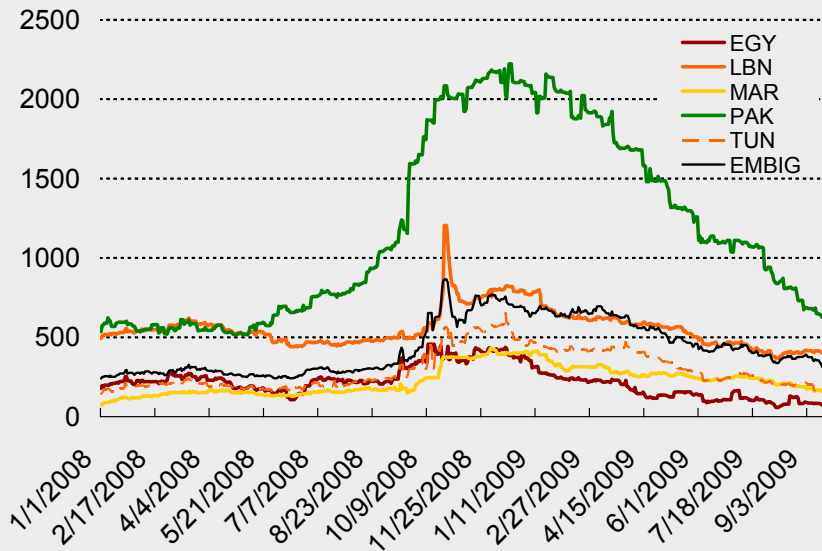


**Cross-Border Loans**  
(Billions of U.S. dollars)

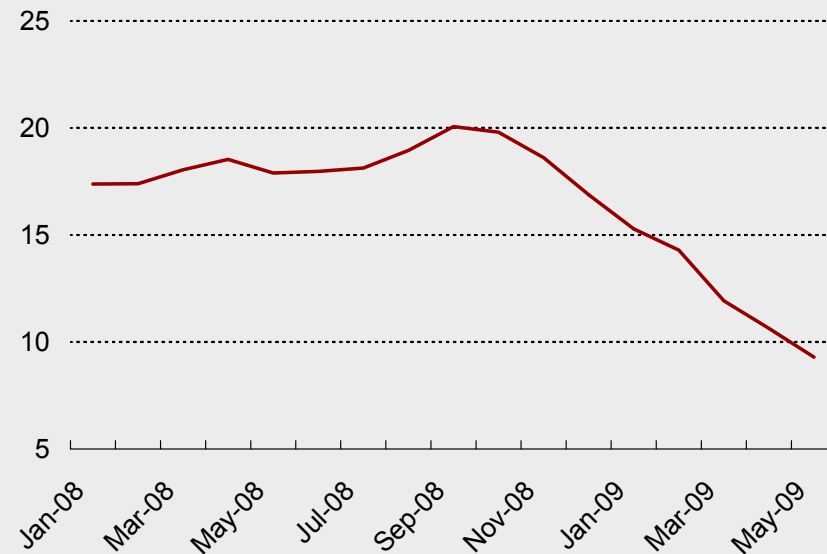


# ... contained the disruption of local credit markets

**Sovereign Bond Spreads**  
(Basis points)

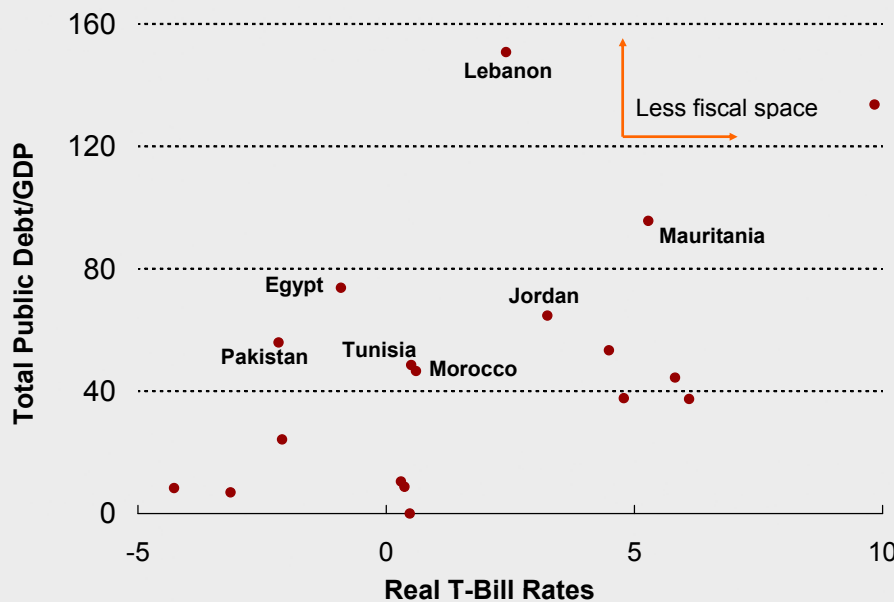


**MENAP Oil Importers: Private Credit Growth**  
(Annual percentage change)

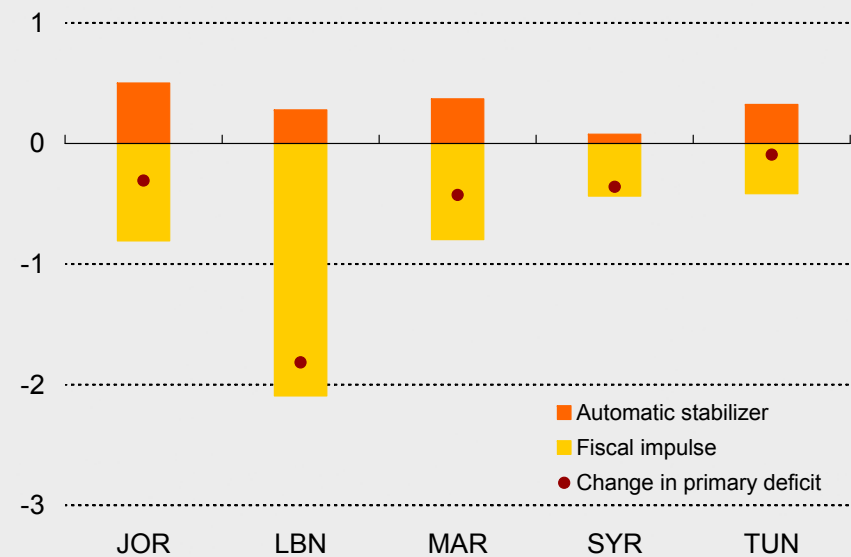


# Policy responses constrained by limited fiscal space

**Real T-Bill Rates and Total Public Debt/GDP, 2009**  
(Percent)



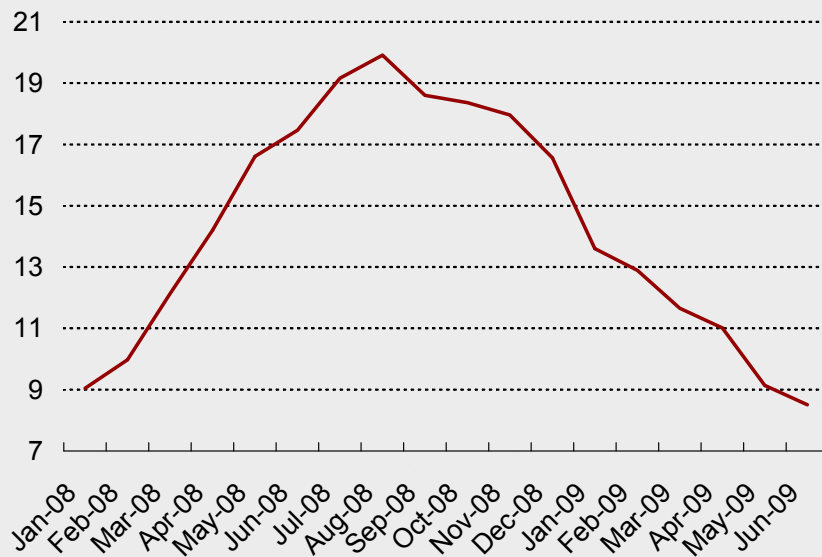
**Change in Non-oil Primary Fiscal Deficit, 2010**  
(Percent of non-oil GDP)



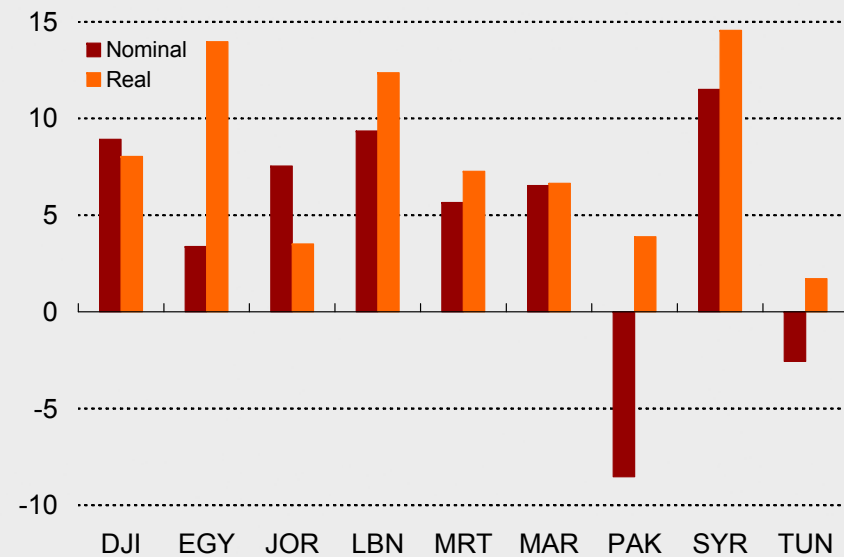
Note: Excludes countries where fiscal years differ from calendar years.

# Inflation has receded, but real effective exchange rates have appreciated

**MENAP Oil Importers:  
Consumer Price Inflation**  
(Annual percentage change)



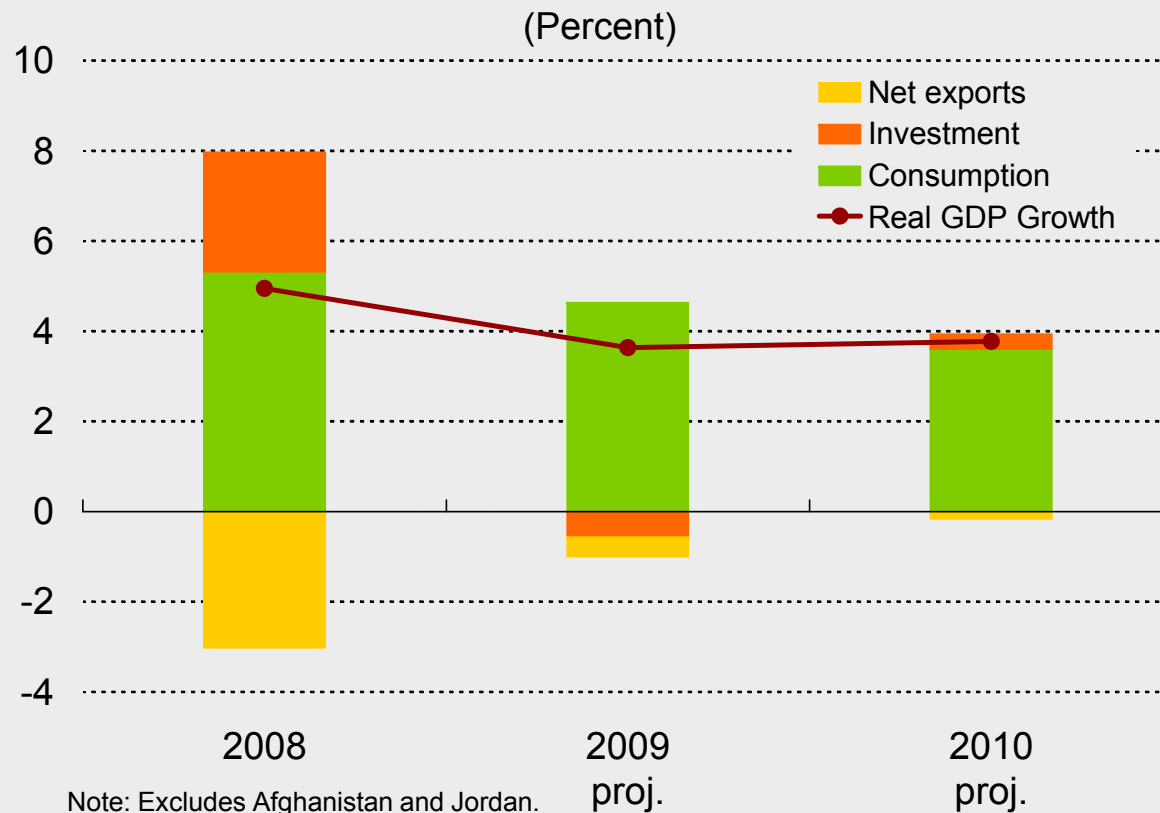
**Effective Exchange Rates**  
(Percent change, year to July 2009)





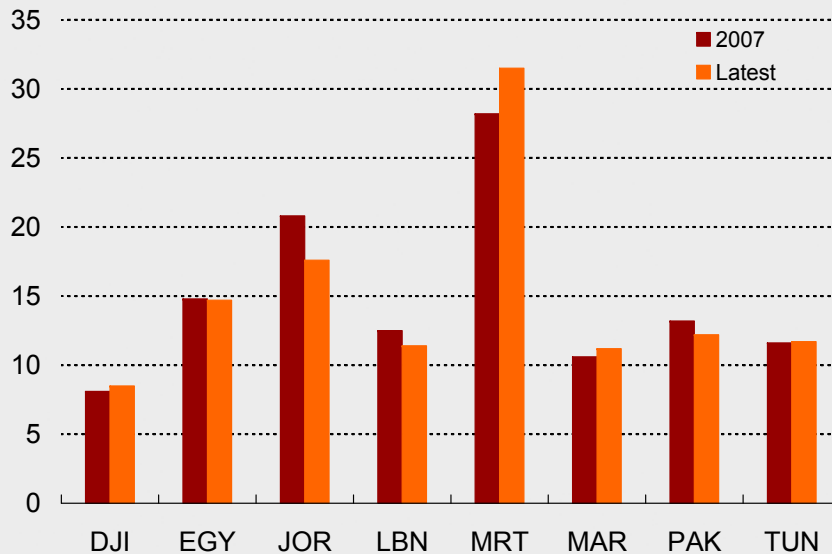
# With tight budgets, and exports under pressure, growth hinges on private consumption

## MENAP Oil Importers: Contribution to Real GDP Growth

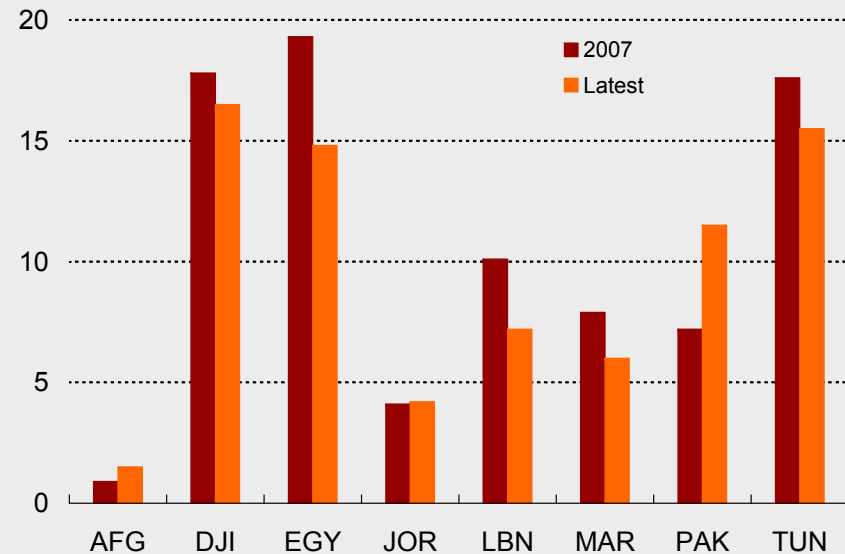


## Banks are generally well capitalized, but NPLs remain high in some cases

**Capital Adequacy Ratio**  
(Percent)



**Nonperforming Ratio to Total Loans**  
(Percent)



## **Risks to the Outlook**

*given . . .*

- Private demand fails to pick up
- Limited scope for continued policy stimulus

**lead to**

- A worsening unemployment problem
- Further hit on bank portfolios

## **Policy Priorities**

- As recovery takes hold, focus will need to shift toward raising countries' productive capacity.
- Addressing unemployment calls for greater private sector-led growth.
- Low integration with global economy means losing out on the upside potential.

## **Please visit the IMF's website**

***Full report and copy of the presentation:***

[http://www.imf.org/external/pubs/  
ft/reo/2009/MCD/eng/mreo1009.htm](http://www.imf.org/external/pubs/ft/reo/2009/MCD/eng/mreo1009.htm)

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