

**International Monetary Fund**  
**April 2011 Regional Economic Outlook**  
**Middle East and Central Asia**

**MENAP Highlights**

The Middle East and North Africa is going through a period of unprecedented change. Even though it is clear today that the popular uprisings are born of a desire for greater political, social, and economic freedom, their timing came as a surprise to everyone, including the IMF. The roots of these uprisings are political, but economic causes are inextricably entwined.

Until late 2010, the region was on track for a recovery from the global crisis. Growth accelerated to 3.9 percent in 2010 from 2.1 percent in 2009, mainly driven by the region's oil exporters. Nevertheless, the slow growth equilibrium of the past years did not generate enough jobs for the growing labor force.

The unfolding events make it clear that reforms, and even rapid economic growth as seen periodically in Tunisia and Egypt, cannot be sustained unless they create jobs for the rapidly growing labor force and are accompanied by social policies for the most vulnerable. For growth to be sustainable, it must be inclusive and broadly shared, and not just captured by a privileged few. Endemic corruption in the region is an unacceptable affront to the dignity of its citizens, and the absence of transparent and fair rules of the game will inevitably undermine inclusive growth.

At the same time, a socially inclusive agenda will not survive unless macroeconomic and financial stability prevails. Its absence can test even countries with strong institutions, as the recent global crisis has shown. During the current period of turmoil and uncertainty in the region, it is all the more vital to contain rising fiscal imbalances, growing debt and debt-servicing costs, inflation, and capital flight. These threats to macroeconomic and financial stability—if not arrested quickly—could undermine confidence and derail the pursuit of any new social agenda.

Two developments mark the outlook: the unrest in the region and the surge in global fuel and food prices. As a result, the near-term economic outlook is subject to unusually large uncertainties stemming from the fluid political and security situation in a number of countries.

For most oil exporters, the expected increase in oil prices—from US\$79 per barrel to US\$107 per barrel—and production volumes will lead to higher growth in 2011 and stronger fiscal and external balances, notwithstanding recent increases in government spending. Average real GDP growth (excluding Libya) is projected to reach 4.9 percent in 2011 compared with 3.5 percent in 2010, while non-oil growth is projected to stay at 3.5 percent in 2011. For the GCC, growth is projected to reach 7.8 percent in 2011 as oil production expands to stabilize global oil supply in the face of supply disruptions elsewhere. GCC non-oil growth is set to accelerate by more than 1 percentage point to 5.3 percent in 2011. The oil exporters' combined external current account surplus is estimated to increase from US\$172 billion to US\$378 billion (excluding Libya), and for the GCC from US\$136 billion to US\$304 billion.

The economic outlook for the oil importers is mixed. For Egypt and Tunisia we project this year's growth to be 2½–4 percentage points lower than in 2010, reflecting disruptions to economic activity during the protests, a decline in tourism, and lower investment. Political uncertainty is also weighing on Lebanon's economy, and growth in Pakistan is still held back by the effects of last year's floods. In most other countries, however, growth has continued to pick up, with Jordan, Mauritania, and Morocco benefiting from high prices for phosphate and iron ore.

Governments across the region are responding to political developments—and higher commodity prices—with expansions of fuel and food subsidies, civil service wage and pension increases, additional cash transfers,

tax reductions, and other spending increases. The size of the national fiscal packages in 2011 ranges from less than ½ percent of GDP in some MENA oil importers to about 22 percent of GDP in Saudi Arabia (with the spending spread over several years). While some countries can easily afford this extra spending, others will find it straining public finances and debt levels: support from the international community would help bridge financing needs and contain the buildup of debt.

Headline inflation has accelerated across the region, mainly driven by higher international commodity prices. However, there are indications that food and fuel inflation are spilling over into core inflation. More generally, with food and fuel accounting for about half of MCD countries' consumer price indices, and commodity price shocks likely to be rather persistent, regional central banks will need to pay greater attention to headline inflation when setting policy rates and the overall stance of monetary policy. Upward pressure on policy rates will also come from a rising global interest rate environment and increasing sovereign risk premiums.

Beyond the immediate challenges, the recent uprisings provide a great opportunity to lay the foundation for a socially inclusive growth agenda for the Middle East. Each country must find its own homegrown path for change that is broadly owned, but all will need to respond to some common goals to realize the region's longer-term potential: a stable macroeconomic environment to provide confidence and attract investment; enough private-sector jobs to absorb the currently unemployed and a fast-growing labor force; access to economic opportunity for citizens to realize their potential; social protection for the vulnerable; and strong and transparent institutions that ensure accountability and good governance. The aim is not just sustained high growth, but also growth that is more inclusive and results in broadly shared development gains.

At the time of writing this *Regional Economic Outlook*, there were many uncertainties about the MENA region's future. Nonetheless, the region has many strengths on which to build: a dynamic and young population, vast natural resources, a large regional market, an advantageous geographic position, and access to key markets. While the months ahead will be challenging and inevitably marked by setbacks, there is a momentum for change to build upon.

## MENAP Region: Selected Economic Indicators, 2000–11

(Percent of GDP, unless otherwise indicated)

	Average 2000–07	2008	2009	2010	Proj. 2011
<b>MENAP<sup>1</sup></b>					
Real GDP (annual growth)	5.4	4.7	2.1	3.9	3.9
Current Account Balance	9.5	13.3	1.7	5.9	11.7
Overall Fiscal Balance	3.2	6.7	-3.6	-0.2	2.4
Inflation, p.a. (annual growth)	6.2	14.3	7.6	7.5	10.8
<b>MENAP Oil Exporters<sup>1</sup></b>					
Real GDP (annual growth)	5.6	4.7	0.7	3.5	4.9
Current Account Balance	13.4	18.8	4.2	9.2	16.9
Overall Fiscal Balance	7.3	12.9	-2.7	3.0	7.5
Inflation, p.a. (annual growth)	6.9	14.8	5.8	6.8	10.9
<b>Of Which: Gulf Cooperation Council</b>					
Real GDP (annual growth)	5.6	7.2	0.2	5.0	7.8
Current Account Balance	15.7	22.5	7.6	12.5	21.7
Overall Fiscal Balance	11.9	24.7	-0.8	7.2	12.6
Inflation, p.a. (annual growth)	2.2	11.0	3.0	3.2	5.3
<b>MENAP Oil Importers</b>					
Real GDP (annual growth)	4.8	4.8	4.7	4.7	2.3
Current Account Balance	-0.8	-4.6	-4.6	-3.3	-4.1
Overall Fiscal Balance	-5.1	-5.4	-5.2	-6.0	-6.8
Inflation, p.a. (annual growth)	4.7	13.3	11.1	8.8	10.7
<i>Memorandum</i>					
<b>MENA<sup>1</sup></b>					
Real GDP (annual growth)	5.4	5.1	1.8	3.8	4.1
Current Account Balance	10.4	14.9	2.4	6.5	12.7
Overall Fiscal Balance	4.1	8.6	-3.4	0.6	3.3
Inflation, p.a. (annual growth)	6.2	14.5	6.1	7.0	10.2
<b>MENA Oil Importers</b>					
Real GDP (annual growth)	4.7	6.4	4.8	4.5	1.9
Current Account Balance	-1.0	-3.1	-4.2	-3.8	-5.2
Overall Fiscal Balance	-6.6	-4.5	-5.4	-6.2	-7.9
Inflation, p.a. (annual growth)	4.2	13.5	7.0	7.6	8.3

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

<sup>1</sup>2011 data exclude Libya.

MENAP: (1) Oil Exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, the United Arab Emirates, and Yemen; (2) Oil Importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia.

MENA: MENAP excluding Afghanistan and Pakistan.