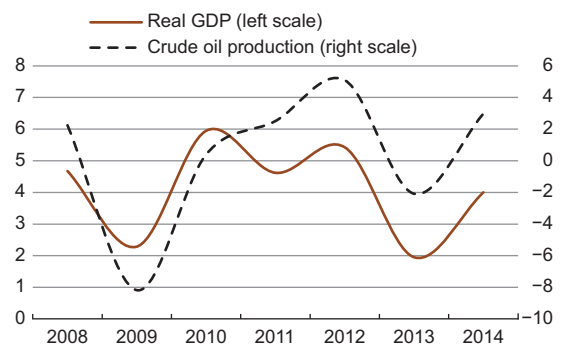
1. MENAP Oil Exporters: Heightened Risks to Oil and Fiscal Positions

Lower global demand and domestic oil supply disruptions are set to reduce growth in MENAP oil exporters[1] this year, after several years of strong performance. These factors are expected to unwind in 2014, lifting economic activity back to the levels experienced in the recent past; however, the region is not saving enough of its oil windfall and, on current policies, will run an aggregate fiscal deficit beginning in 2016. Together with substantial oil revenue risks, this prospect underscores the need for countries to build or strengthen their fiscal and external buffers. Medium-term economic prospects will depend on the ability of oil exporters to diversify their economies and create jobs in the private non-oil sector for their rapidly growing populations.

Growth Outlook Defined by Volatile Oil Production

Declining oil production will reduce economic growth in MENAP oil exporters in 2013, but this shock is expected to be temporary. Growth is expected to decline to about 2 percent, less than one-half of the growth rates experienced in recent years. However, the non-oil economy continues to expand strongly in most countries, supported by high levels of public spending and a gradual recovery in private credit growth. In 2013, growth is projected to rebound to 4 percent as oil production recovers, despite a projected slight softening in oil prices (Figure 1.1).

Figure 1.1
Crude Oil Production to Drive Recovery in 2014
(MENAP oil exporters: GDP and oil production, percent change)



Sources: National authorities; and IMF staff calculations.

- Oil GDP is projected to fall by about 1 percent in 2013. Libya's progress toward restoring oil output to pre–civil war levels has been reversed by workers' strikes and deteriorating security; Iran's oil exports have continued to decline because of tightening sanctions; and Iraq's run of steady capacity expansion has been slowed by violence and planned export infrastructure work. Saudi Arabia's oil production for the year as a whole is also projected to decline slightly as it has continued to play a stabilizing role in the global oil market: reducing production in late 2012 and early 2013 in the face of slowing global demand and rising supply from non–Organization of the Petroleum Exporting Countries (non-OPEC) suppliers, and increasing supply later in the year to compensate for disruptions elsewhere in the region.
- Next year, the region's hydrocarbon production is projected to rise by 1¾ percent. In Saudi Arabia and other GCC countries, the high production levels observed in the latter part of 2013 are likely to be sustained. In Libya, oil production growth is expected to resume gradually, although the pre–civil war output levels may not be reached for many years. Outside the GCC, Iran's exports are expected to continue to decline, whereas in Iraq, capacity

Prepared by Alberto Behar with input from country teams, and research assistance by Jaime Espinosa-Bowen and Paul Zimand.

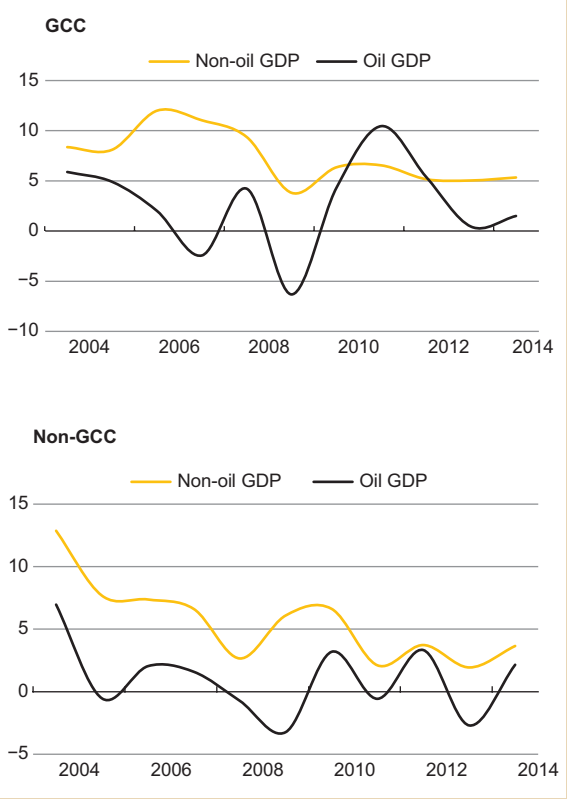
[1] Unless otherwise specified, "oil" refers to liquids and gasses.

expansion is likely to accelerate. However, as discussed below, there are significant risks to these projections.

- The main contributor to economic growth and jobs, the non-oil sector, is expected to continue to expand at rates of about 4½ percent in 2014, as a result of slowing but still-strong growth in public capital spending (Figure 1.2). Government and government-related services have been the fastest-growing segments of the non-oil economy. Non-oil GDP performance is slightly below the 5 percent projected for emerging market and developing economies in 2014, and well below the performance recorded in the past decade. Growth in the retail and services sectors is driven by steady consumer spending, which is, in turn, supported by generous public employment and salaries. Private credit has been accelerating (Figure 1.3), albeit from a low base in some countries, and is expected to play an increasing role in supporting the expansion of non-oil economic activity as some governments gradually withdraw stimulus.

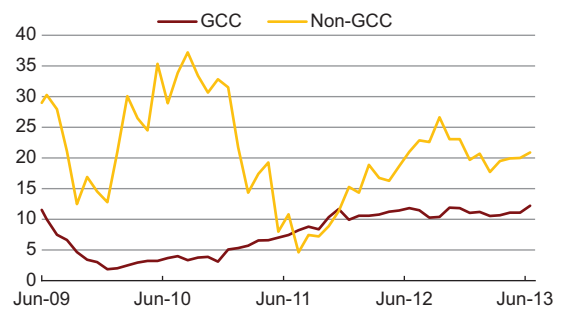
Inflation remains subdued in most countries, given the benign global inflationary environment. Prices of wheat and other international foods are falling thanks to favorable harvests in many agricultural commodity producers this year. More generally, import price inflation remains low, given subdued growth in the trading-partner countries, most of which are advanced economies. In some GCC countries, an increase in housing costs will cause inflation to rise by about 1 percentage point in 2013–14; however, inflation rates will remain at moderate levels of about 3¼ percent because there are no signs of underlying pressures caused by emerging supply constraints (Figure 1.4). In the non-GCC countries, inflation will remain higher than in the GCC, mainly because of large exchange rate depreciation and worsening supply shortages in Iran (Figure 1.5), the largest economy in this subgroup.

Figure 1.2
Oil GDP Pauses in 2013; Non-Oil GDP Slowing but Steady
(Oil and non-oil real GDP growth, percent)



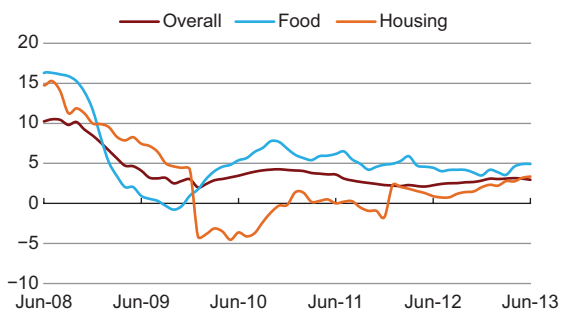
Sources: National authorities; and IMF staff calculations.

Figure 1.3
Private Sector Credit Is Accelerating
(Annual percent change)



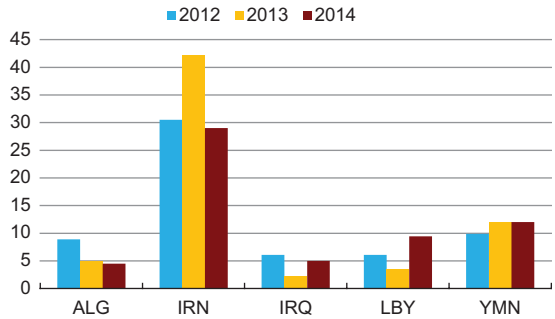
Sources: National authorities; and IMF staff calculations.

Figure 1.4
GCC Inflation Is Moderate
(Consumer price index, percent change)



Sources: National authorities; and IMF staff calculations.

Figure 1.5
Inflation Remains High in Iran
(Consumer price index, percent change)



Sources: National authorities; and IMF staff calculations.

A Reduction in Oil Revenues Is a Key Risk

Amid significant oil price uncertainty (Annex 1), upside and downside risks are broadly balanced for the GCC and tilted downward for the non-GCC countries.

- On the upside, increased geopolitical tensions could push oil prices higher and prompt OPEC producers with spare capacity to increase production. Any spike in oil prices would probably be temporary, unless the conflict spreads to other countries in the region and disrupts oil production and transportation on a regional scale. Similarly, possible further supply disruptions, particularly in some non-GCC countries, although constituting an important downside risk for them, would tend to raise oil prices and hence benefit other oil exporters in the region.
- On the downside, the most important risk stems from the possibility of excess supply in the global oil market. Notwithstanding the tightness caused by unexpected production disruptions and elevated geopolitical risks in the summer of 2013, a combination of weak global oil demand growth and strong supply growth from unconventional sources in the non-OPEC countries could reduce demand for OPEC oil by about a half-million barrels per day by 2016 (Annex 1). Yet OPEC capacity is set to grow by approximately 2 million barrels per day during the same period, and three-quarters of this increase is expected to come from MENAP. Baseline oil revenue projections, which reflect the MENAP oil exporters' current plans, may prove optimistic because oversupply in the global oil market may induce some OPEC countries, particularly Saudi Arabia, to scale back production to prevent a decline in oil prices. If forecasts of unconventional sources continue to be revised upward, or if growth disappoints in emerging market economies (Annex 2), oil prices and production may be subject to further downward pressure. Even if disruptions to oil production were to persist, the structural excess supply in the global oil market would not be eliminated.

A larger-than-expected tightening of global financial conditions is likely to exert only a small impact on economic activity in MENAP oil exporters (Annex 2).

- A faster recovery in the United States could bring forward the end of quantitative easing, which could cause a larger and more prolonged tightening of global financial conditions than expected. As a result, emerging markets may experience exchange rate and financial market overshooting, and their economic outlook may weaken. The overall effect on global demand—and, hence, on oil prices—would be uncertain,

though plausible scenarios suggest that it is likely to be small.

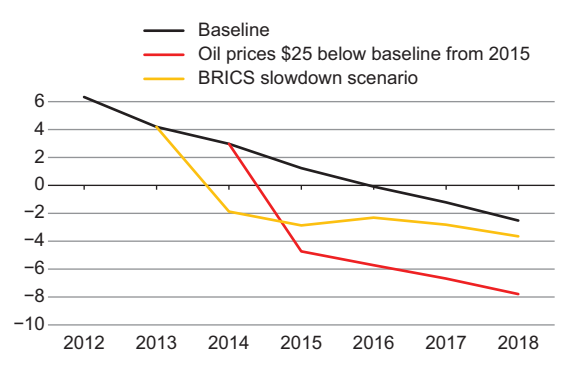
- A moderate rise in external funding costs would not be a concern for most MENAP oil exporters because of their limited external financial exposure, small financing needs, sound financial sectors, and large accumulated oil surpluses. Pockets of vulnerabilities, however, exist. Higher interest rates would raise funding costs for governments borrowing from international markets—for example, Bahrain. Some of Dubai's government-related entities could also face renewed difficulties rolling over their debts. In addition, balance sheets of Kuwait's investment companies, some of which are making losses, would weaken further.
- Pegged exchange rates in most MENAP oil exporters would translate higher global interest rates into higher domestic interest rates, which would slow investment and growth in the non-oil sector; however, the non-oil sector has by now recovered from the slowdown experienced during the global financial crisis and is less reliant on extremely accommodative monetary conditions.

In the medium term, if domestic policies do not generate enough jobs for the rapidly growing population and do not address other social issues, confidence in the oil exporters could be affected amid a difficult sociopolitical environment in the region. Weaker confidence would weigh on non-oil private economic activity. Most governments should be able to at least partially offset these effects by increasing public spending, albeit at the cost of further weakening fiscal positions.

Fiscal Space and Intergenerational Equity

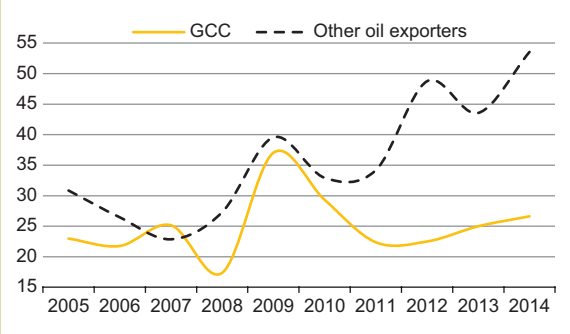
Fiscal surpluses are deteriorating in most oil exporters. The fiscal surplus of MENAP oil exporters is expected to decline to about 4 percent of GDP in 2013 (Figure 1.6). This is the same level as in 2003, when the oil price was $70 per barrel lower than today. The rise in the oil price since the mid-2000s, the global financial crisis, domestic social pressures, and regional tensions prompted governments in MENAP oil exporters to raise public wage bills (Figure 1.7) and other public expenditures, thereby increasing their reliance on high oil prices to support high budget spending that is difficult to reverse. Half the MENAP oil exporters, mostly non-GCC countries, are already running deficits.

Figure 1.6
Fiscal Balances Are Falling and Vulnerable to Oil Prices
(MENAP oil exporters: percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: BRICS = Brazil, Russia, India, China, and South Africa.

Figure 1.7
Public Sector Wages and Salaries Have Outpaced Revenues
(Percent of budgeted oil revenues)



Sources: National authorities; and IMF staff calculations.

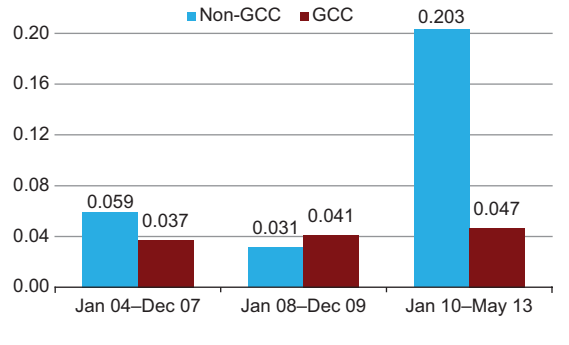
Fiscal vulnerability to a sustained decline in oil production and prices has risen. The volatility of oil production has increased during the past decade as a result of supply disruptions and actions to maintain balance in global oil markets (Figure 1.8). Rising oil production volatility implies increasing uncertainty for government revenues and balances. For example, Iraq and Libya had been expected to record fiscal surpluses in 2013–14, but downward revisions to oil production estimates now mean that oil revenues will be too low to balance the budget in these years.

- The majority of countries now need an oil price in excess of $90 to balance their budgets at forecast production levels (Figure 1.9). A sustained period of oil prices remaining $25 below the baseline, starting in mid-2015—an event that has a one-in-nine chance of occurring, according to oil options prices (Annex 1)—would lead to deficits from 2015 onward in all countries except Kuwait and the United Arab Emirates, and an aggregate deficit of 5 percent of GDP in MENAP oil exporters, in the absence of a fiscal policy adjustment. Even a smaller decline in oil prices under plausible scenarios of slower growth in the BRICS (Brazil, Russia, India, China, South Africa) would also have a material effect on oil prices and fiscal balances (Annex 2).
- Most GCC countries would still be able to conduct countercyclical policy in response to a temporary or mild fall in oil revenues, but their fiscal space is shrinking. In countries with short oil production horizons, and in those that have not built buffers in the past (for example, Yemen and Bahrain), fiscal space is small.

Intergenerational equity considerations reinforce the need for saving. Most countries are not saving enough to allow for continued spending for future generations once oil reserves are exhausted. The need for additional saving is greater in countries with shorter oil production horizons (Annex 3).

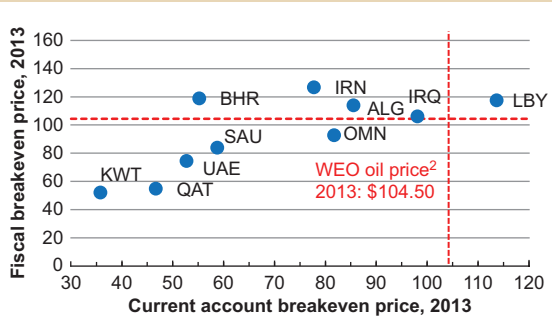
Consolidation is starting in some countries but is not fast enough. The appropriate pace and composition of consolidation depends on trade-offs between the urgency of rebuilding buffers, securing long-term sustainability, and the near-term impact on growth and inequality (Annex 4). Governments will need to rein in hard-to-reverse current expenditures while pursuing high-quality capital investments and social programs, and searching for new non-oil sources of revenue. There are welcome signs that expenditure growth will slow and that fiscal stimulus is being withdrawn in some countries. The non-oil fiscal deficit, which is an indicator of the fiscal stance in the oil-exporting countries, is expected to fall by

Figure 1.8
Volatility of Oil Production Has Increased
(Coefficient of variation, simple average)



Sources: National authorities; and IMF staff calculations.

Figure 1.9
Fiscal and External Breakeven Prices Are High
(U.S. dollars per barrel)[1]



Sources: National authorities; and IMF staff calculations.
[1]Yemen breakeven: US$215 (fiscal), US$168 (current account).
[2]Simple average of UK Brent, Dubai, and West Texas Intermediate spot prices.

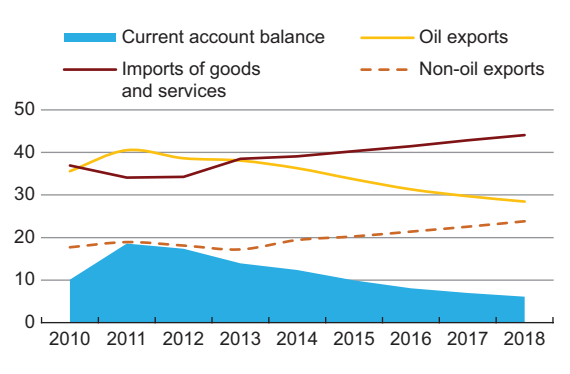
almost 4 percent of non-oil GDP to 40½ percent between 2012 and 2014. Nonetheless, nominal expenditures will keep rising, hydrocarbon revenues will likely fall, and nonhydrocarbon receipts will not make up the difference. As a result, fiscal balances are expected to keep falling, and a fiscal deficit for the region is expected to emerge as early as 2016.

External surpluses are also declining because of lower oil prices and rising domestic energy consumption. The aggregate external current account surplus for the region is expected to fall from $460 billion in 2012 to $330 billion in 2014 and to about $190 billion in 2018 (Figure 1.10). Moreover, these surpluses mostly accrue in the GCC countries, whereas balances are small in the other oil producers. In most countries, oil export volumes in 2013–14 will not match those of 2012, and tepid growth thereafter will not offset the projected decline in oil prices. Lackluster export growth reflects increasing oil supply from other regions as well as rising domestic energy use (IEA, 2013). As a result, the accumulation of national wealth is less than is needed to pay for the import needs of the future (IMF, *Regional Economic Outlook: Middle East and Central Asia*, November 2012). Exchange rates are generally not overvalued, and in any case, the responsiveness of external balances to the exchange rate is low (Hakura and Billmeier, 2008). By contrast, their correlation with fiscal balances is high (Arezki and Hasanov, 2009), so fiscal policy is the main tool for slowing the decline in the external balances.

Stepped-up Policy Action Is Needed for Growth and Job Creation

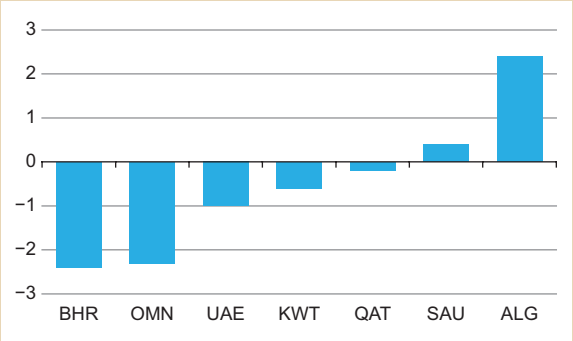
Against the backdrop of an uncertain oil revenue outlook and declining fiscal buffers, MENAP countries are attempting to diversify their economies away from oil. MENAP oil exporters have made significant efforts in this direction. However, as is the case internationally, the record in fostering self-propelled private sector activities through state-led capital spending has been at best mixed because of fundamental difficulties governments face in "picking winners"—sustainable private sector projects that are likely to create growth and jobs in the future. An indicator of such challenges is total factor productivity, which is high but declining in the GCC countries and low in other MENAP oil exporters (Box 1.1; Figure 1.11). Nonetheless, rising fiscal vulnerabilities underscore the importance of ensuring the private sector becomes self-propelled in the future.

Figure 1.10
Current Account Balances Are Falling
(MENAP oil exporters: percent of GDP)



Sources: National authorities; and IMF staff calculations.

Figure 1.11
Non-Oil Total Factor Productivity Growth Is Mostly Negative
(Percent change, 2000–12)



Sources: IMF staff calculations.

Box 1.1

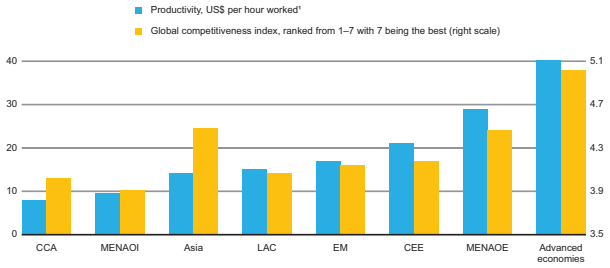
Competitiveness and Labor Productivity in MENAP and CCA

Low labor productivity in MENAP oil importers and CCA countries (Figure 1.1.1) is weighing on their competitiveness and, ultimately, on their growth prospects. In the GCC, declining labor productivity, albeit from high levels, is also raising concerns (see the text). Policymakers need to address deep-rooted challenges in several areas to boost the region's labor productivity (Figure 1.1.2):

- *Infrastructure.* Public investment in improving the quality and effectiveness of infrastructure would enhance labor productivity by facilitating the movement of workers and raising their production capability. Efficient movement of goods and services to markets and dependable electricity supplies and communication networks are necessary for an unimpeded production environment.
- *Higher education and training.* More and better-quality secondary and tertiary education, as well as vocational and on-the-job training, would enhance workers' abilities to perform complex tasks and to adapt rapidly as companies move up the value chain beyond simple production processes and products. Injaz, a regional partnership between ministries of education and the private sector, sets a good example by arranging for business leaders to teach marketable skills to high school and college students.
- *Labor market efficiency.* Legislative reforms that facilitate the flexibility of workers to shift from one economic activity to another, promote meritocracy, and allow for wage flexibility while maintaining adequate social protection would raise the incentives for workers to give their best efforts in their jobs.
- *Financial market development.* Making capital more readily available for private sector investment, from such sources as loans from a sound banking sector, well-regulated securities exchanges, venture capital, and other financial products, enlarges the production sophistication and capacity of firms and, consequently, labor productivity (Box 1.2).

Figure 1.1.1

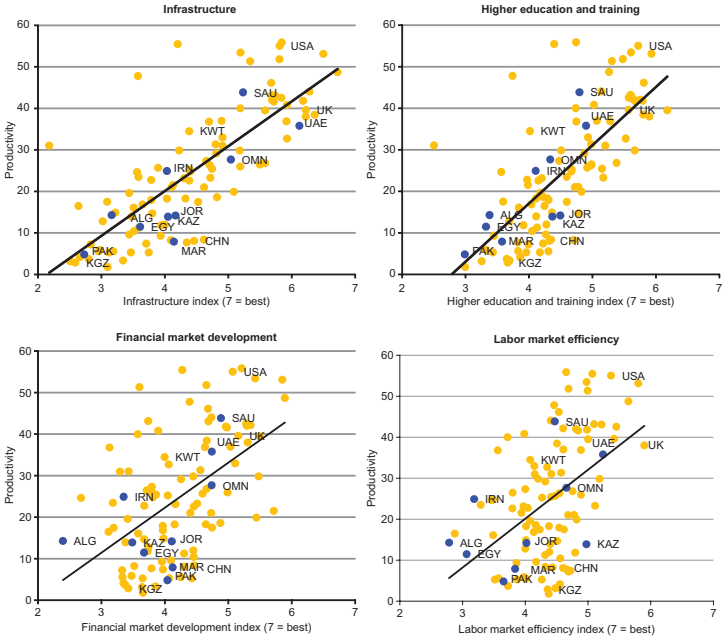
Low Labor Productivity in MENAOI and CCA Coincides with Low Competitiveness



Sources: National authorities; and IMF staff calculations.
Note: CEE = Central and Eastern Europe; EM = emerging markets; LAC = Latin America and the Caribbean; MENAOE = MENA oil exporters; MENAOI = MENA oil importers.
[1]For all oil exporters, productivity calculations are based on non-oil GDP.

Figure 1.1.2

What's Behind Low Labor Productivity?



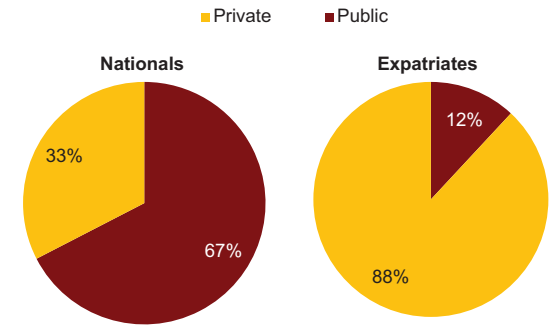
Sources: National authorities; and IMF staff calculations.
Note: CHN= China; UK = United Kingdom; USA = United States.

Prepared by Pritha Mitra with research by Gohar Abajyan and Jaime Espinosa-Bowen, and supervised by Natalia Tamirisa and Harald Finger.

In the future, even greater emphasis needs to be placed on improving the business environment and fostering entrepreneurship.

- Making business entry easier, particularly in non-GCC countries, and facilitating competition can help spur entrepreneurship and innovation. Reducing procedural requirements for starting a business would be an important step. In addition, easing restrictions on foreign direct investment (FDI) would encourage international and regional firms with business expertise to provide goods, services, knowledge transfers, and, importantly, jobs.
- Improving access to finance is also an important way to enable the private sector to increasingly take over from the government as the driver of economic diversification. Recent studies show that fostering financial development, and the availability of finance for small and medium-sized enterprises (SMEs), can help reduce poverty and income inequality (Box 1.2).
- Measures to increase female participation in the labor force and tap women's potential for contributing to the economy through paid work can also raise medium-term growth prospects significantly (Box 1.3).
- Regarding public investment in infrastructure, the GCC countries can focus on making investments in high-quality projects to support economic diversification. For example, while appropriately exploiting their favorable location between Europe and East Asia, large-scale investments in logistics and tourism infrastructure should be coordinated across countries to avoid redundancies and inefficiencies. By contrast, the non-GCC countries need to continue to invest in upgrading basic infrastructure, including electricity and telecommunications, and improving the security environment.

Figure 1.12
GCC Labor Markets Are Segmented
(GCC: Share of employment, 2011)



Sources: National authorities; and IMF staff calculations.

Without a significant acceleration of non-oil economic activity and comprehensive labor market reforms, not enough jobs will be created in the medium term for the rapidly growing population. Labor markets are heavily segmented in the GCC countries. Public employment is dominated by nationals, while most jobs in the private sector are held by expatriates (Figure 1.12). Employment of expatriates in the private sector has outpaced that of nationals, mainly because of skills mismatches as well as nationals' high reservation wages and preference for more secure and generally better-paying public sector jobs. Indeed, there is no international evidence that increasing public sector employment reduces overall unemployment, because access to well-paying public sector jobs reduces incentives for private sector job search and exacerbates skills mismatches by encouraging skills acquisition geared to the public sector (Figure 1.13) (Behar and Mok, 2013). As a result, even robust non-oil GDP growth in the GCC does not promptly lead to a commensurate increase in private sector jobs for nationals (Behar, forthcoming).

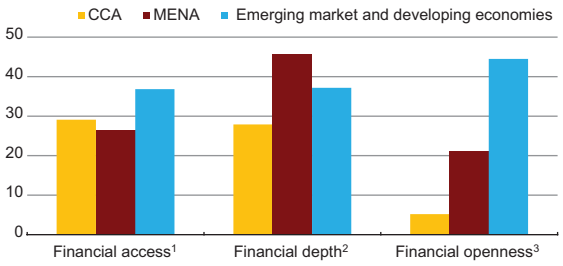
A change in strategy is needed to increase incentives for nationals to participate in the private

Box 1.2

Role of Financial Development in Promoting Economic Growth and Reducing Income Inequality and Poverty in MENA and CCA

Countries of the MENA and CCA regions tend to lag behind other emerging market and developing economies on several important indicators of financial development (Figure 1.2.1). Individuals and firms, particularly in the MENA countries, have much less access to finance than do borrowers in other emerging market and developing countries and even in the CCA. At the same time, the MENA countries are performing well on measures of financial depth, which may be owing to its high deposit base and large volume of remittances. These two facts suggest that access to finance in the MENA countries benefits only a small group of borrowers. The CCA fares worse than other emerging market and developing countries on all indicators of financial development.

Figure 1.2.1
Financial Development in MENA and CCA
(Percent)



Sources: World Bank, Enterprise Surveys; and Global Financial Development Database.
[1]Firms with bank loans or lines of credit (2002–11).
[2]Ratio of bank private credit to GDP (2011).
[3]Ratio of consolidated foreign claims to GDP for banks reporting to the Bank for International Settlements (2011).

An empirical study of the relationship between financial development and income distribution, conducted on a sample of 144 countries for the period 1961 through 2011, shows that both financial development—increased financial depth, access to finance, efficiency of financial services—and the stability of the financial system can significantly reduce income inequality and poverty (Ben Naceur and Zhang, forthcoming). These inequality-reducing gains from financial development are much larger for the MENA and CCA regions than for the rest of the world, possibly reflecting their lower initial levels of financial development.[1]

The study also finds that although greater financial openness generally is associated with higher income inequality and poverty, surprisingly, the effect of financial openness on inequality and poverty is the opposite for MENA and CCA. One possible explanation is that two opposing effects are at play: first, opening the financial sector to foreign participation tends to be associated with improvements in income distribution and poverty, and second, more open financial systems also tend to be more prone to financial crises, which tends to hurt lower-income groups more. In contrast with other regions, in MENA and CCA the first effect appears to outweigh the second effect because of the region's lower levels of financial openness, and because fewer countries in the region have experienced deep economic and financial crises such as spells of high inflation or sovereign crises.

Overall, the findings of the analysis suggest that country authorities in MENA and CCA may wish to consider giving priority to policy measures aimed at fostering financial development, stability, and openness; this would not only promote growth, as emphasized in earlier studies, but would also enhance equity (Barajas, Chami, and Yousefi, 2013). Key preconditions for meeting these goals include promoting macroeconomic stability, fostering openness to trade in goods and services, and improving the quality of institutions and governance—in particular, strengthening the legal system, improving the investment climate, and reducing bureaucracy and corruption. Policies to promote financial development should include improving credit information systems and enhancing collateral regimes, reviewing licensing requirements to ease bank entry (though without undermining the quality of entrants), enhancing prudential measures to reduce loan concentration and connected lending, and developing nonbanking financial institutions and capital markets as alternatives to bank finance. To strengthen financial stability further, countries should focus on improving the effectiveness of supervision and regulation, including strengthening their macroprudential frameworks, and should implement effective deposit insurance and bank resolution frameworks. It is important, though, that further international financial opening should proceed in a carefully designed and well-sequenced manner to reap the benefits of openness while avoiding potential pitfalls that could result in less financial stability.

Prepared by Sami Ben Naceur and Ruixin Zhang.

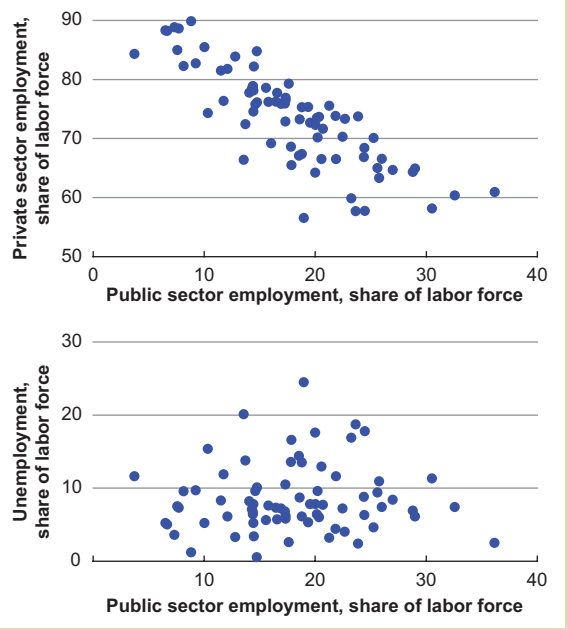
[1] The study covers the following MENA and CCA countries: Algeria, Armenia, Azerbaijan, Djibouti, Egypt, Georgia, Iran, Iraq, Jordan, Kazakhstan, the Kyrgyz Republic, Mauritania, Morocco, Syria, Tajikistan, Turkmenistan, Uzbekistan, and Yemen. The lack of data prevented the inclusion of other MENA and CCA countries.

sector. Private sector employment can be made more appealing to nationals if governments help improve private sector working conditions through regulation enforcement and by implementing measures to increase nationals' take-home pay. Foremost among such measures are those that help increase productivity of nationals: improving the quality of education while coordinating with employers to provide on-the-job training to the unskilled who are already in the labor market. Carefully designed wage subsidies, which encourage firms to employ national workers while they hone their private sector skills, may help spur private employment. To be cost-effective, wage subsidies need to be targeted to groups with acute unemployment and high labor demand elasticities, and must be kept transparent and temporary. These and other efforts to make private sector jobs more attractive should be complemented with measures to contain public sector wage growth and manage the public's expectations for continued strong growth in public employment.

Figure 1.13

Public Jobs Reduce Private Jobs, Not Unemployment[1]

(Private employment, public employment, unemployment, percent)



Source: Behar and Mok (2013).

[1]Each point marks a country, 2011 or latest available year.

Box 1.3

Female Labor Force Participation in MENAP

The gap between male and female labor force participation in the MENAP region has been narrowing in recent years, but it remains the widest in the world. Excluding a large share of women from the labor force has important economic implications; for instance, if the gap in female participation during the past 10 years had been double (instead of triple) the average gap in emerging market and developing countries, MENAP would have gained $1 trillion in cumulative output (doubling GDP growth). Causes of the gap are multifaceted, ranging from social and cultural norms to regulatory barriers. Policies can make a difference by raising women's educational attainment and benefits for working parents, reducing gender wage gaps, and supporting women's independent mobility and equal opportunity in employment.

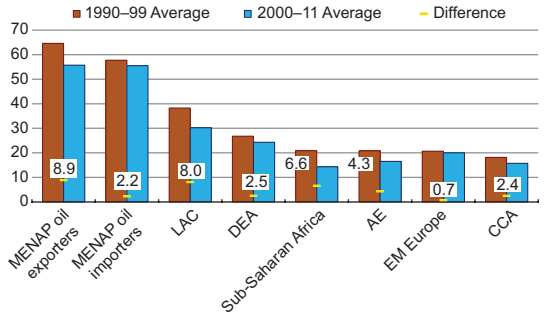
Across the world, access to economic opportunity remains segregated along gender lines. Despite significant progress in recent years, female labor force participation remains lower than that of men (Figure 1.3.1). Women's preference for work can reflect an informed decision to contribute to economic welfare through child rearing and household work, which is unaccounted for in GDP; however, in many cases women face distortions and discrimination in the labor market, which restrict their options for engaging in paid work. Sizable gender wage gaps (for the same job, education, and experience; ILO, 2008) (Figure 1.3.2), income tax regimes that penalize dual-income families, restrictions on women's independent mobility (World Bank, 2012), lack of equal opportunity in employment (ILO, 2010), unaffordable child care (women spend four times as much time as men on child care; Duflo, 2011), and limited access to finance for female entrepreneurs (Muravyev, Shafer, and Talavera, 2007) are some examples of distortions that reduce female participation in the labor market.

Providing opportunities for women to develop their full professional potential could significantly boost economic growth. The MENAP region could have gained $1 trillion in cumulative output (equivalent to doubling average real GDP growth during the past decade) if female labor force participation had been raised enough to narrow the gender gap from triple to double the average for other emerging market and developing countries during that period (Mitra, forthcoming).[1] Better professional opportunities for women have wide-ranging implications for countries' economic

Figure 1.3.1

Gender Gaps in Labor Force Participation[1]

(percent)

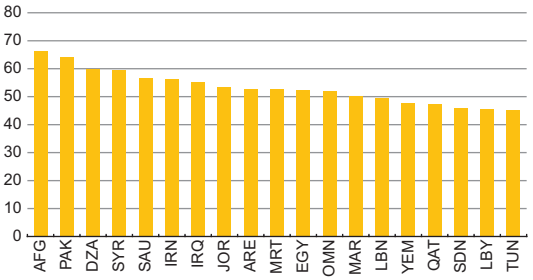


Sources: World Bank, World Development Indicators; and IMF staff estimates.
Note: AE = advanced economies; DEA = developing and emerging asia; EM = emerging market; LAC = Latin America and the Caribbean.
[1]Defined as male less female labor force participation rate.

Figure 1.3.2

Gender Gaps in MENAP Labor Force Participation

(2000–11 average, percent)



Sources: World Bank, World Development Indicators; and IMF staff estimates.

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[1] These results are derived from growth accounting analysis. In line with the standard literature, the share of capital income in national income is assumed to be 0.75 for oil-exporting countries and 0.35 for all others.

Box 1.3 *(concluded)*

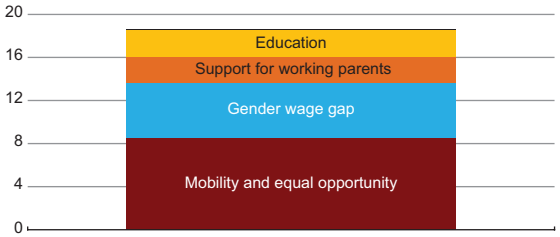
potential as women increase their contribution to broader economic development, including improved health and education for children, poverty reduction, greater innovation and productivity, and creation of new jobs by female entrepreneurs.

In the MENAP region, women's labor force participation could be increased by an integrated set of policies that improve their professional opportunities (Figure 1.3.3). In the medium term, elevating women's educational attainment, working parents' benefits, and women's independent mobility and equal opportunity in employment, as well as shrinking gender wage gaps—all to match the emerging market and developing economy average—would raise female labor force participation by almost 20 percentage points (Mitra, forthcoming).

Figure 1.3.3

Rise in MENAP Female Labor Force Participation Rate[1]

(Percentage points)



Sources: Economist Intelligence Unit; United Nations Development Program; World Bank, World Development Indicators; and IMF staff estimates.
[1]Change in participation rate if key factors were at the average for emerging market and developing economies.

Key measures include the following:

- *Improving access to and quality of education for girls.* Building more schools will raise girls' attendance in remote areas where long-distance travel to school is a challenge. Cash transfers to poor families, conditioned on their daughters' school attendance, have proved effective in many countries, including Pakistan. Public spending on education should target the building of skills that enable women to advance from low-skilled jobs, for instance, vocational training focused on skills that are useful in manufacturing.
- *Mobility and equal opportunity in employment.* Reforms would need to involve legislation that removes restrictions on women's independent mobility, on participation in specific sectors of the economy, on property and inheritance rights, and that establishes equal opportunity in employment. Such reforms are under way but at varied paces across the region. In Saudi Arabia, areas in which women are now permitted to work have expanded to include some retail sales segments.[2] Morocco's new constitution (ratified in 2011) addresses gender equality for the first time. In contrast, in Tunisia, legal equality across genders (including travel, divorce, property, and access to finance) was initiated in 1956.
- *Equal pay for equal work* is critical to providing a level playing field for women, and requires legislative and regulatory changes, diligent enforcement, and targeted communication strategies to reduce biases and stereotypes. Individual income taxation (as opposed to family taxation) eliminates tax disincentives for dual-income families.
- *Parental leave and affordable child care.* Well-designed parental leave schemes, child care subsidies (conditional on employment or job search), and early childhood development programs allow mothers to maintain their labor market connections. Public financing of parental and child care support, where affordable, is preferable because these services reduce the perceived cost to private firms of hiring women. In many cases, this support could be financed with part of the savings from energy subsidy reforms. Flexible work arrangements (teleworking and part-time employment) should also be encouraged.

Complementary reforms, which tend to have smaller yet still significant effects on female labor force participation than the measures outlined above, include encouraging female executives to provide leadership on gender issues, increasing entrepreneurial training and access to finance for women, and improving infrastructure to facilitate women's travel to the workplace.[3]

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[2] See "Saudi Arabia: Selected Issues," IMF Country Report No. 13/230 (Washington, 2013).

[3] Other reforms that will be important as MENAP economies develop are outlined in Elborgh-Woytek and others (2013).

MENAP Oil Exporters: Selected Economic Indicators

	Average						Projections	
	2000–07	2008	2009	2010	2011	2012	2013	2014
Real GDP Growth	**6.1**	**4.7**	**2.3**	**5.9**	**4.6**	**5.4**	**1.9**	**4.0**
(Annual change; percent)								
Algeria	4.4	2.0	1.7	3.6	2.6	3.3	3.1	3.7
Bahrain	6.4	6.3	3.2	4.7	2.1	4.8	4.4	3.3
Iran, I.R. of[1]	6.0	0.6	3.9	5.9	3.0	–1.9	–1.5	1.3
Iraq	…	6.6	5.8	5.9	8.6	8.4	3.7	6.3
Kuwait	7.4	2.5	–7.1	–2.4	6.3	6.2	0.8	2.6
Libya	5.4	2.7	–0.8	5.0	–62.1	104.5	–5.1	25.5
Oman	4.0	13.2	3.3	5.6	4.5	5.0	5.1	3.4
Qatar	12.0	17.7	12.0	16.7	13.0	6.2	5.1	5.0
Saudi Arabia	4.7	8.4	1.8	7.4	8.6	5.1	3.6	4.4
United Arab Emirates	6.6	3.2	–4.8	1.7	3.9	4.4	4.0	3.9
Yemen	4.2	3.6	3.9	7.7	–12.7	2.4	6.0	3.4
Consumer Price Inflation	**7.5**	**13.4**	**5.3**	**6.1**	**9.8**	**12.1**	**15.1**	**11.3**
(Year average; percent)								
Algeria	2.7	4.9	5.7	3.9	4.5	8.9	5.0	4.5
Bahrain	1.2	3.5	2.8	2.0	–0.4	2.8	2.7	2.3
Iran, I.R. of	13.9	25.4	10.8	12.4	21.5	30.5	42.3	29.0
Iraq	40.3	2.7	–2.2	2.4	5.6	6.1	2.3	5.0
Kuwait	2.3	6.3	4.6	4.5	4.9	3.2	3.0	3.5
Libya	2.9	10.4	2.4	2.5	15.9	6.1	3.6	9.4
Oman	1.2	12.6	3.5	3.3	4.0	2.9	2.8	3.2
Qatar	5.9	15.0	–4.9	–2.4	1.9	1.9	3.7	4.0
Saudi Arabia	0.8	6.1	4.1	3.8	3.7	2.9	3.8	3.6
United Arab Emirates	5.2	12.3	1.6	0.9	0.9	0.7	1.5	2.5
Yemen	10.9	19.0	3.7	11.2	19.5	9.9	12.0	12.0
General Government Overall Fiscal Balance	**7.8**	**13.0**	**–1.5**	**2.6**	**6.9**	**6.3**	**4.2**	**3.0**
(Percent of GDP)								
Algeria	7.2	7.6	–6.8	–1.8	–1.2	–5.1	–2.1	–2.7
Bahrain[2]	1.6	4.9	–6.6	–7.0	–1.7	–2.6	–4.2	–5.0
Iran, I.R. of[3]	3.3	0.7	0.9	3.0	4.1	–2.5	–2.5	–4.4
Iraq	…	–0.9	–12.7	–4.3	4.9	4.1	–0.7	–0.3
Kuwait[2]	29.5	19.8	26.8	24.5	33.2	33.4	28.9	25.6
Libya	15.4	27.0	5.2	15.9	–9.0	19.3	–7.4	–5.9
Oman[2]	9.4	13.7	–2.1	4.0	7.3	2.5	5.2	2.6
Qatar	9.0	9.8	13.4	2.7	3.7	8.2	10.8	8.5
Saudi Arabia	10.7	31.6	–4.1	2.1	12.0	15.0	9.6	8.6
United Arab Emirates[4]	8.3	16.9	–13.1	–1.8	4.1	8.6	8.3	8.2
Yemen	–0.7	–4.5	–10.2	–4.0	–4.4	–6.3	–5.8	–5.8
Current Account Balance	**13.4**	**18.4**	**4.3**	**10.1**	**18.6**	**17.4**	**13.9**	**12.4**
(Percent of GDP)								
Algeria	16.4	20.1	0.3	7.5	8.9	5.9	1.8	1.2
Bahrain	7.4	10.2	2.9	3.6	12.6	8.2	13.5	11.9
Iran, I.R. of	6.1	6.5	2.6	6.5	12.0	5.0	3.1	0.3
Iraq	…	12.8	–8.3	3.0	12.5	7.0	0.7	0.8
Kuwait	29.8	40.9	26.7	30.8	41.8	43.2	38.7	37.7
Libya	25.3	42.5	14.9	19.5	9.1	29.2	–4.7	–4.7
Oman	9.7	8.3	–1.3	10.0	15.3	11.6	10.1	7.3
Qatar	20.2	23.1	6.5	19.0	30.3	32.4	29.6	25.6
Saudi Arabia	15.9	25.5	4.9	12.7	23.7	23.2	19.3	17.7
United Arab Emirates	9.4	7.1	3.1	2.5	14.6	17.3	15.2	15.6
Yemen	3.2	–4.6	–10.2	–3.7	–4.1	–0.9	–2.7	–3.4

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

Note: Variables reported on a fiscal year basis for Iran (March 21/March 20) and Qatar (April/March).

[1]Iran's real GDP growth for 2012 and beyond has not been significantly updated from the previous REO in light of pending publication of national accounts by the central bank and new authorities' plans.

[2]Central government.

[3]Central government and National Development Fund excluding Targeted Subsidy Organization.

[4]Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.