

Middle East and Central Asia Regional Economic Outlook

May 6, 2014



Global Outlook

MCD Recent Developments, Outlook, and Risks

- Oil Importers
- Oil Exporters

Global activity strengthening, as recovery in advanced economies takes hold

WEO Real GDP Growth Projections

(Percent change from a year earlier)



World

U.S.

Euro Area

Emerging
markets

China

| | | | | | |
|------------------|-----|-----|------|-----|-----|
| 2013 (Latest) | 3.0 | 1.9 | -0.5 | 4.7 | 7.7 |
| 2014 (Latest) | 3.6 | 2.7 | 1.2 | 4.9 | 7.5 |

2014
(Fall 2013)

3.6

2.6

1.0

5.1

7.3

Source: IMF, *World Economic Outlook*.



The global recovery remains fragile

Risks to activity from low inflation in the euro area and Japan

Geopolitical risks

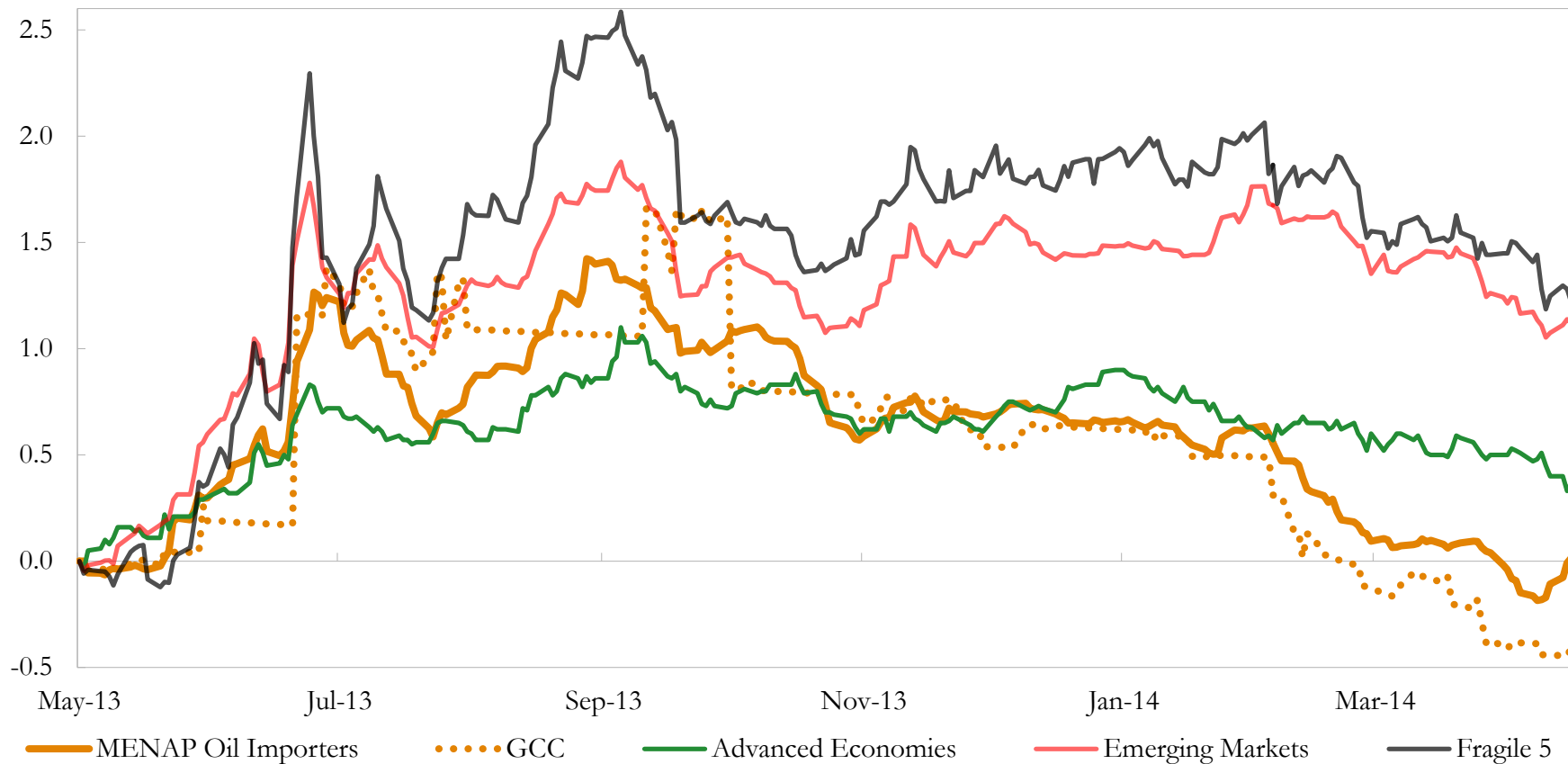
Further growth disappointments in emerging market economies

Risks related to normalization of monetary policy in advanced economies

Financial conditions have tightened for most EMs

International Long-Term Bond Yields

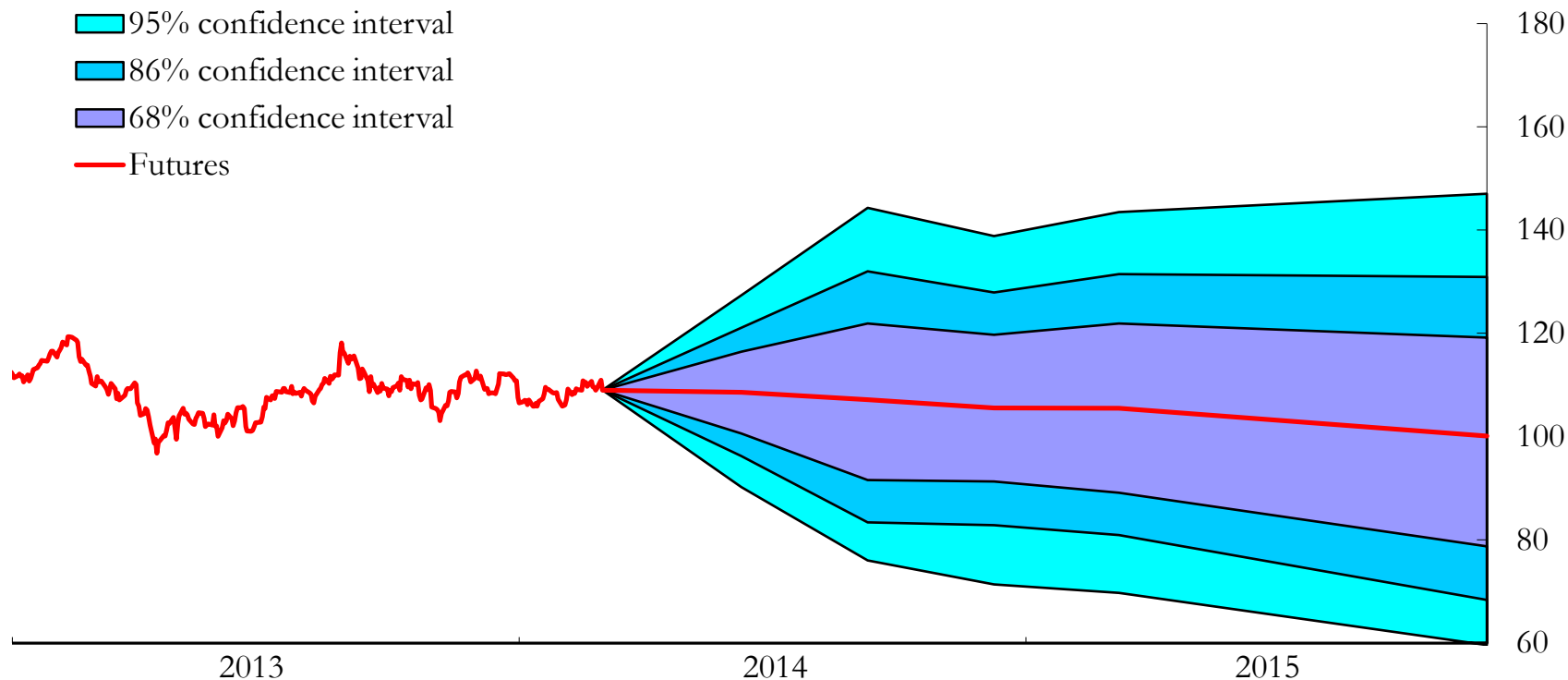
(Percentage point change from May 1, 2013)



Oil prices are forecast to decline gradually, yet uncertainty is high

Brent Crude Oil Price¹

(U.S. dollars per barrel)



Sources: Bloomberg; and IMF staff calculations.

¹ Derived from prices of futures and options on March 4, 2014.



Recent developments, outlook, and risks

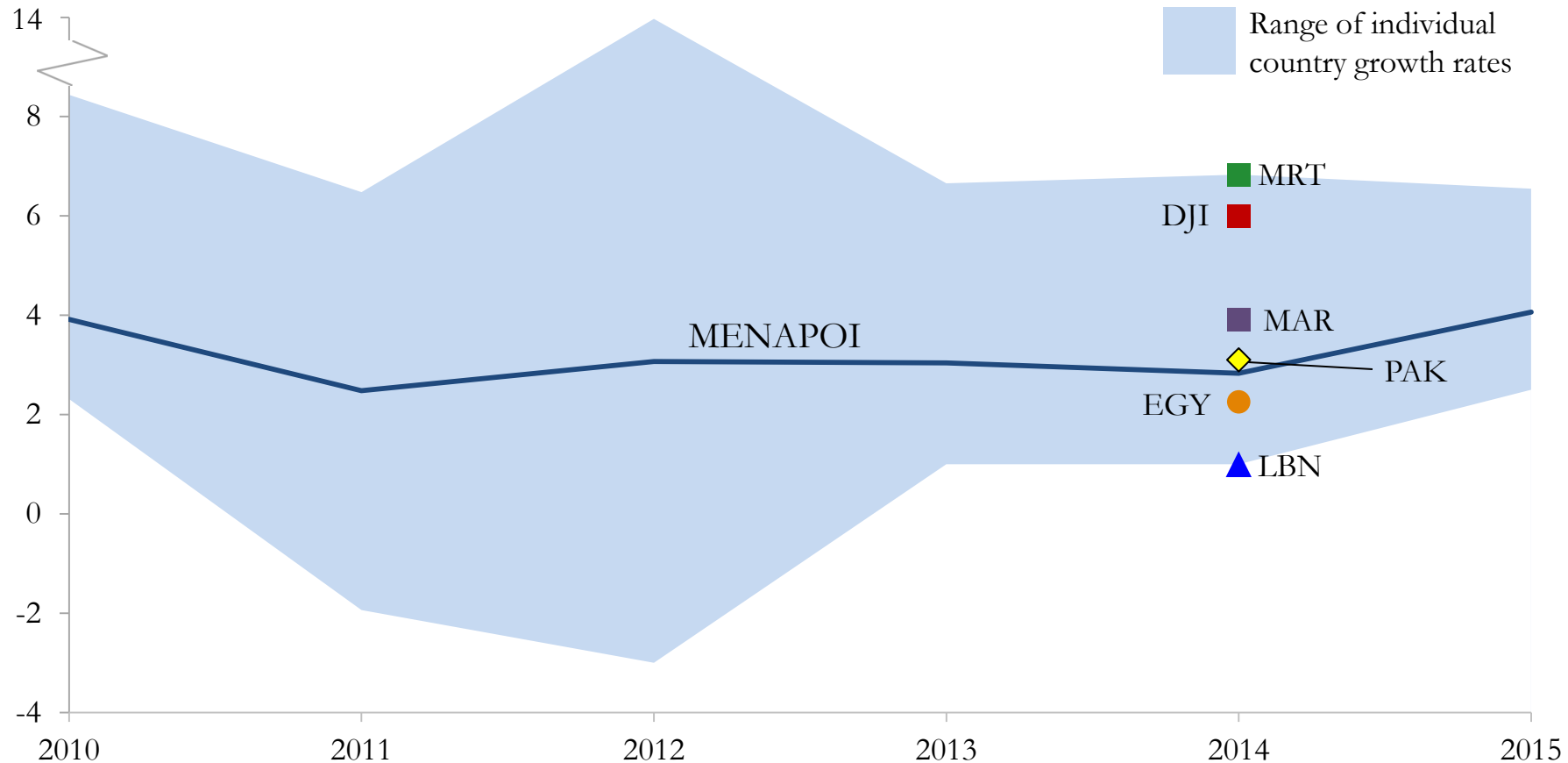
MENAP oil importers



Growth is projected to remain tepid in most countries

Real GDP Growth, 2010-15

(Percent)



Sources: National authorities; and IMF staff calculations

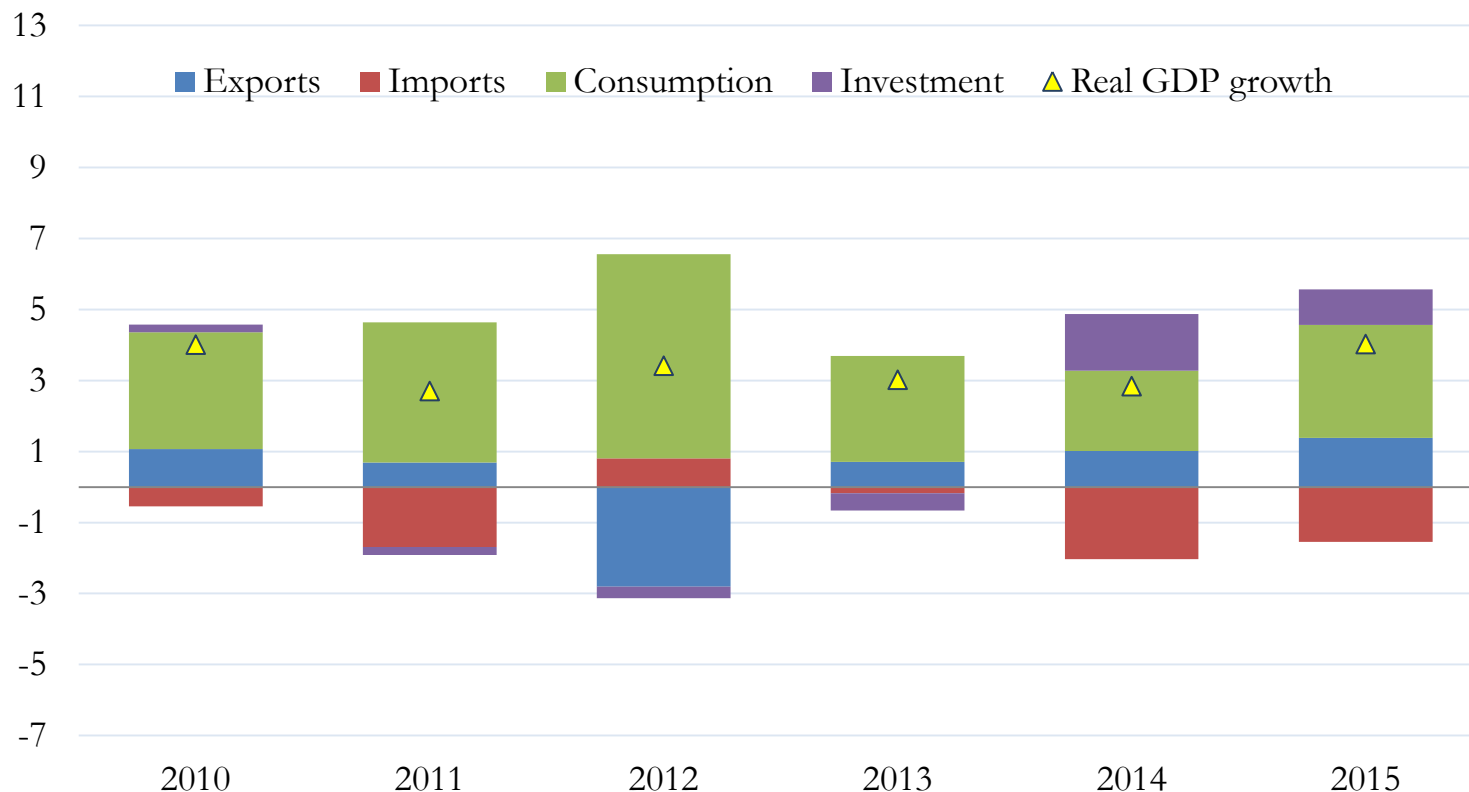


MENAP oil importers

Some positive signs are appearing with rising exports and investment

MENAP Oil Importers: Contributions to Real GDP Growth

(Percent)



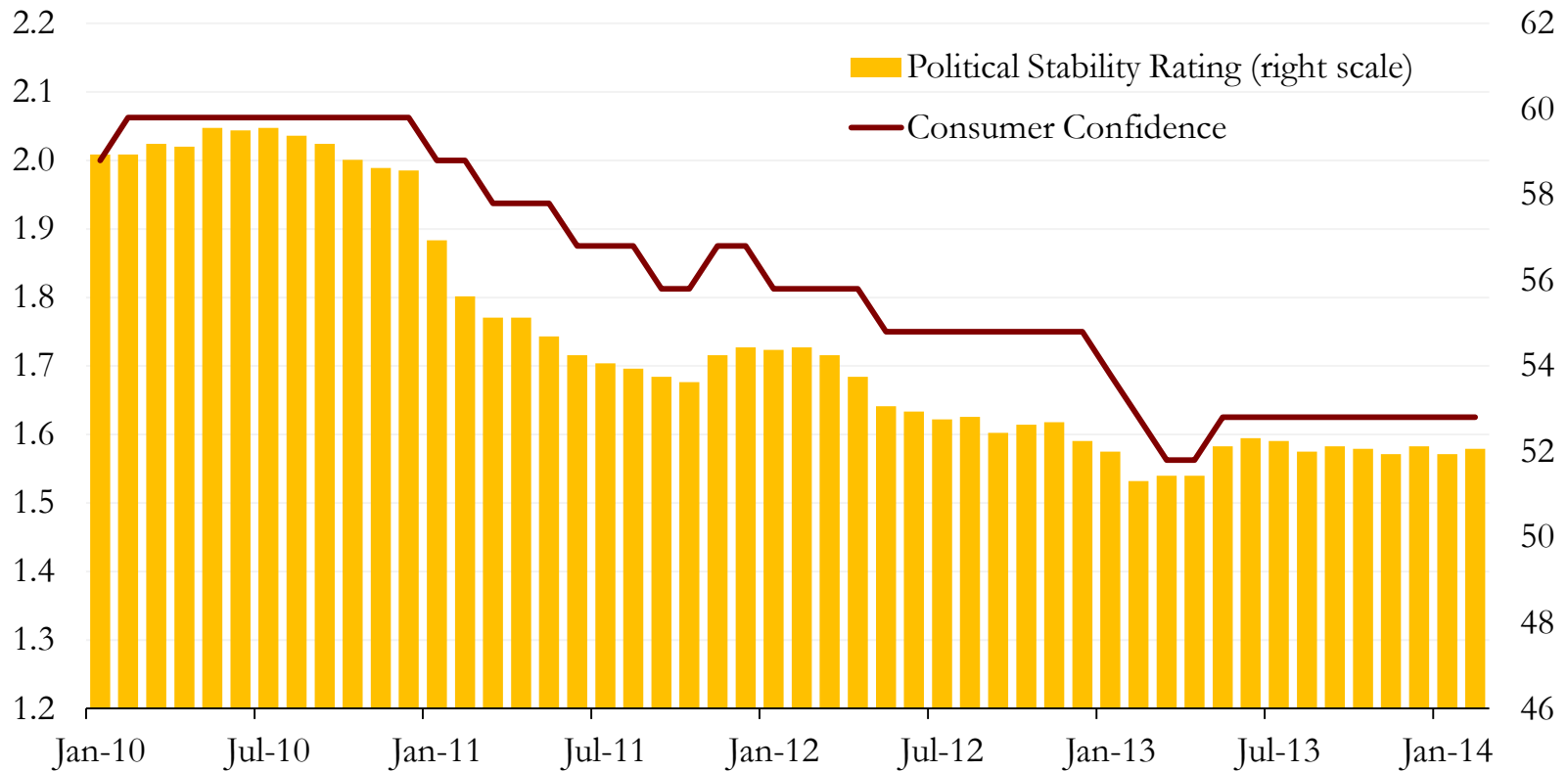
Sources: National authorities; and IMF staff calculations.



Setbacks in political transitions could weaken confidence

MENAP Oil Importers: Political Environment¹

(Percent)



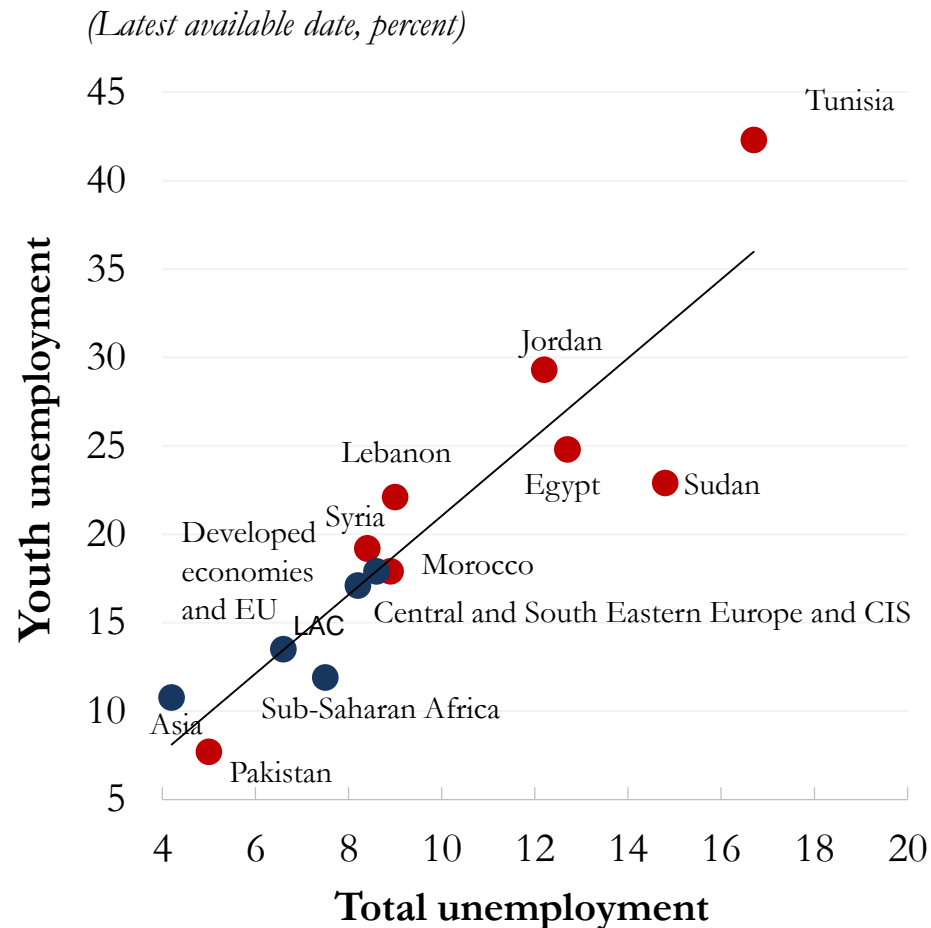
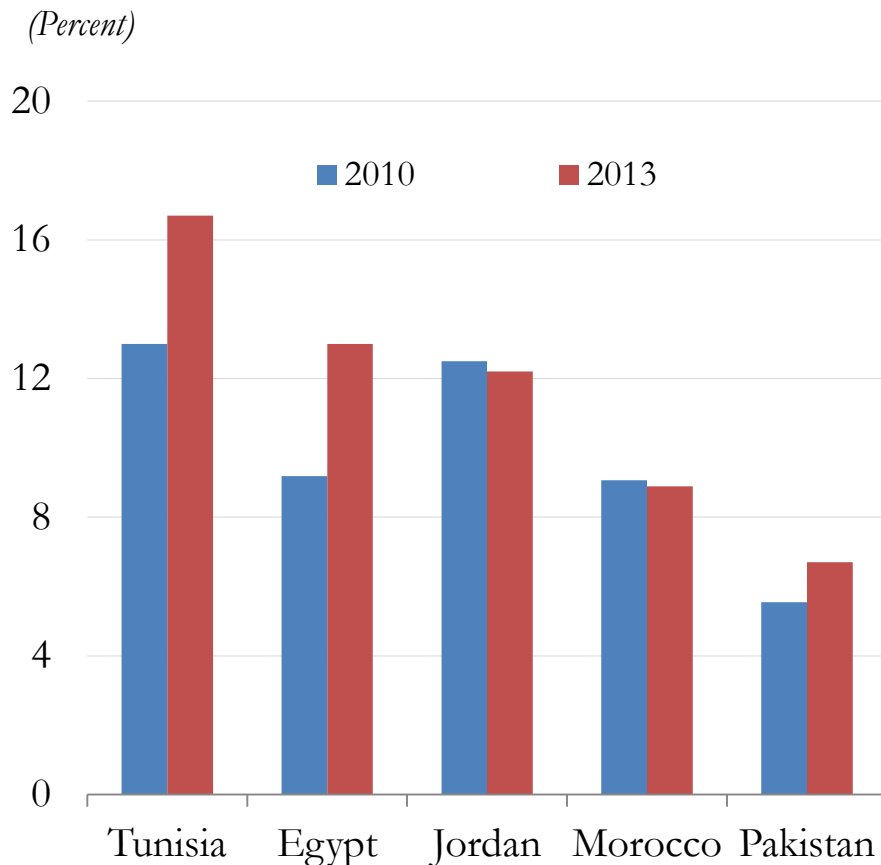
Sources: Haver Analytics; national authorities; PRS Group; and IMF staff calculations.

¹Excluding Afghanistan, Djibouti, Mauritania, and Somalia. Higher values of the political stability rating and consumer confidence measure correspond to greater political stability and consumer confidence.



High unemployment could further fuel social and security tensions

Unemployment rates



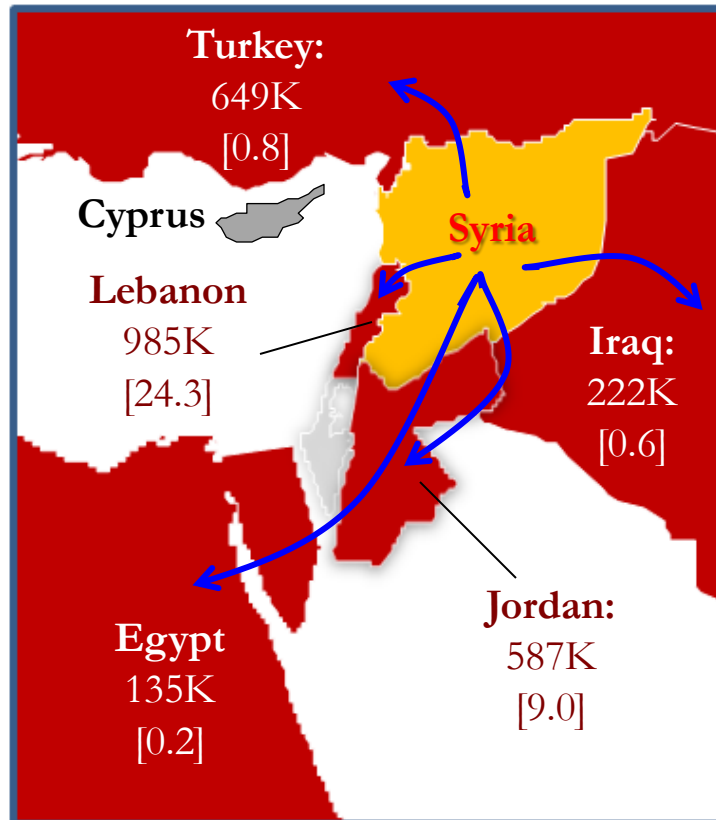
Sources: *World Economic Outlook*; International Labor Organization; national authorities; and IMF staff calculations.

MENAP oil importers



Spillovers from Syria intensify social tensions and security risks

Estimate of refugee flows from Syria¹



Total outside Syria:
2.6 million

Internally displaced:
about 5.0 million

- ❖ Refugees
- ❖ Disruptions to bilateral and transit trade
- ❖ Declining tourism
- ❖ Sectarian violence

Sources: UN Refugee Agency, Information Sharing portal : Syria Regional Refugee Response.

¹As of March 26, 2014. Figures reflect the number of refugees registered or awaiting registration.

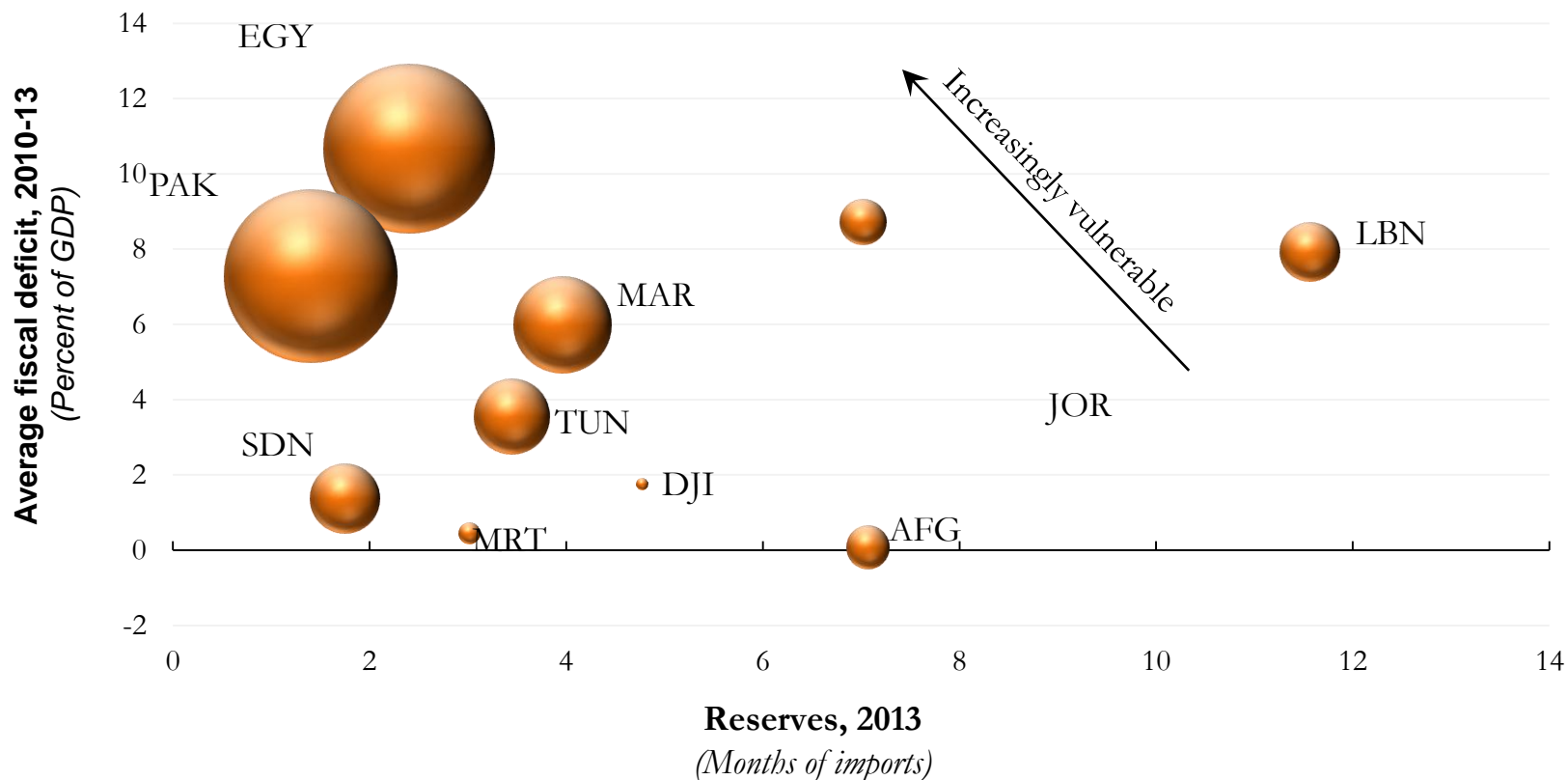
Figures in square brackets denote the share of Syrian refugees in the host country's 2013 population.

MENAP oil importers

Policy buffers are low, limiting room to maneuver in case of adverse shocks

Fiscal Deficits vs. Reserves¹

(Percent)



Sources: National authorities; and IMF staff calculations.

¹Bubble size reflects relative PPPGDP in 2013.

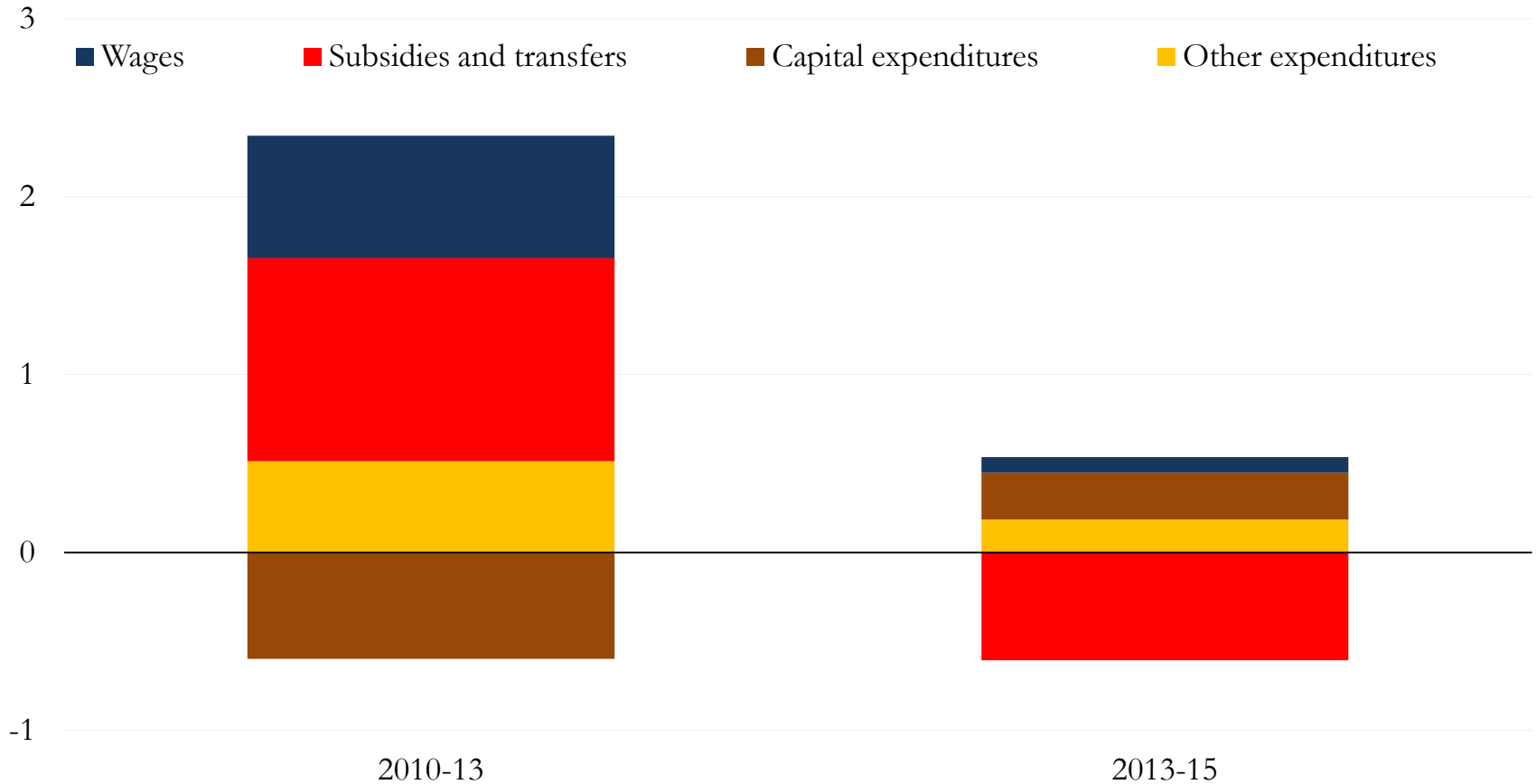
²Excludes Syria.



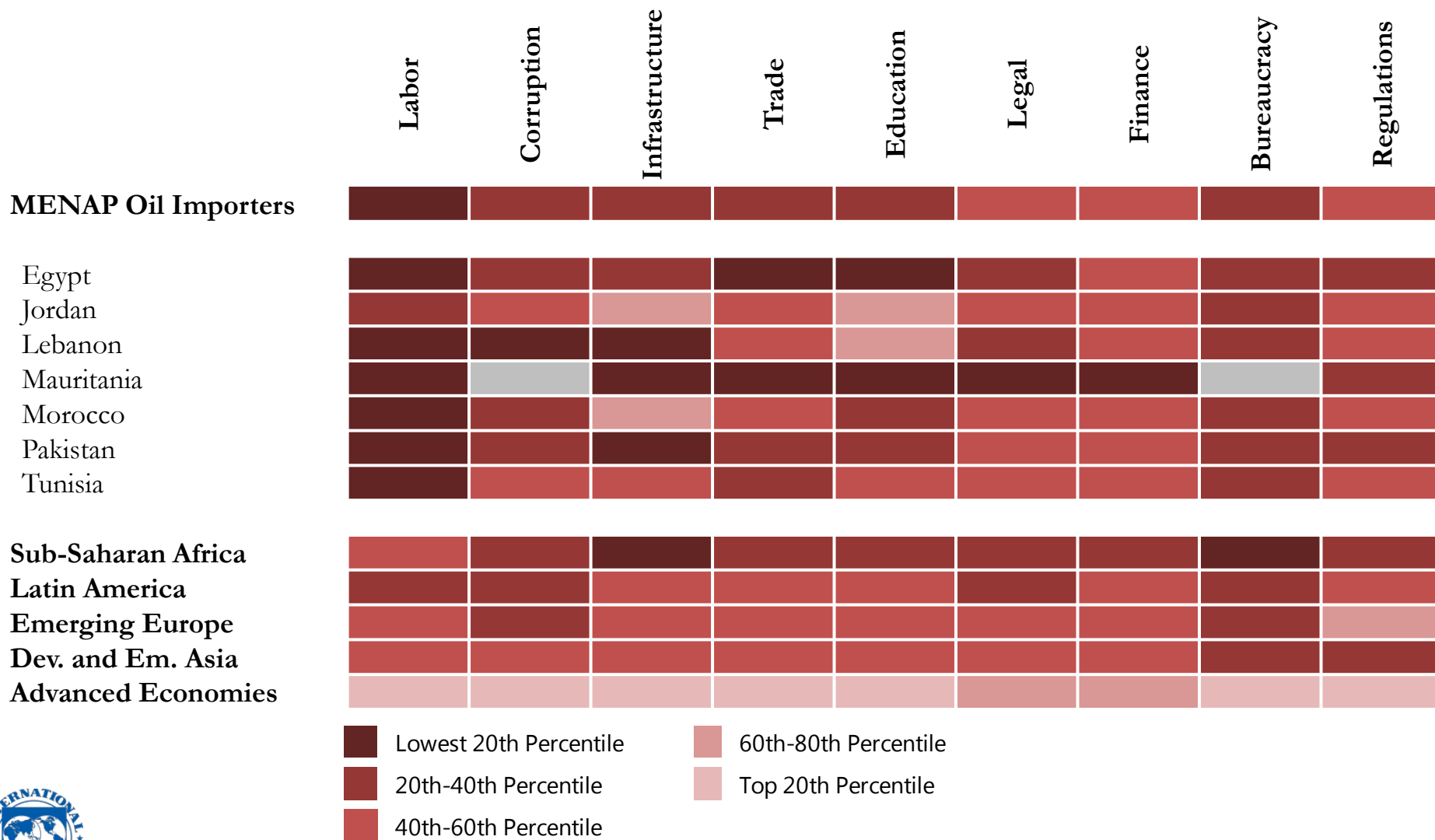
Fiscal reforms can create room for investment and increase buffers

Change in Expenditure

(Percent of GDP, 2010–13 and 2013–15)



Raising medium-term growth and jobs prospects requires structural reforms



Sources: World Bank; World Economic Forum; PRS Group; and IMF staff calculations.

MENAP oil importers



Recent developments, outlook, and risks

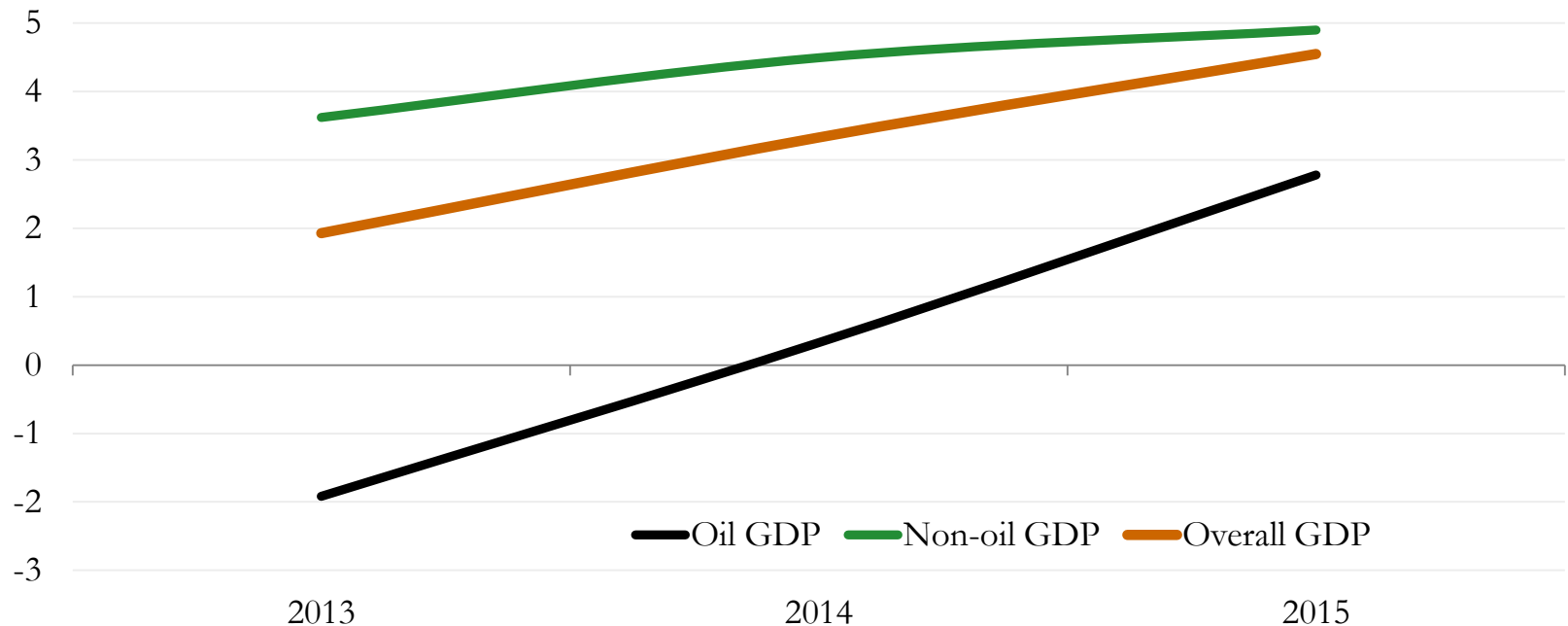
MENAP Oil Exporters



Strong near-term outlook, supported by robust non-oil activity and oil turnaround

MENAP Oil Exporters: Real GDP Growth

(Percent change)



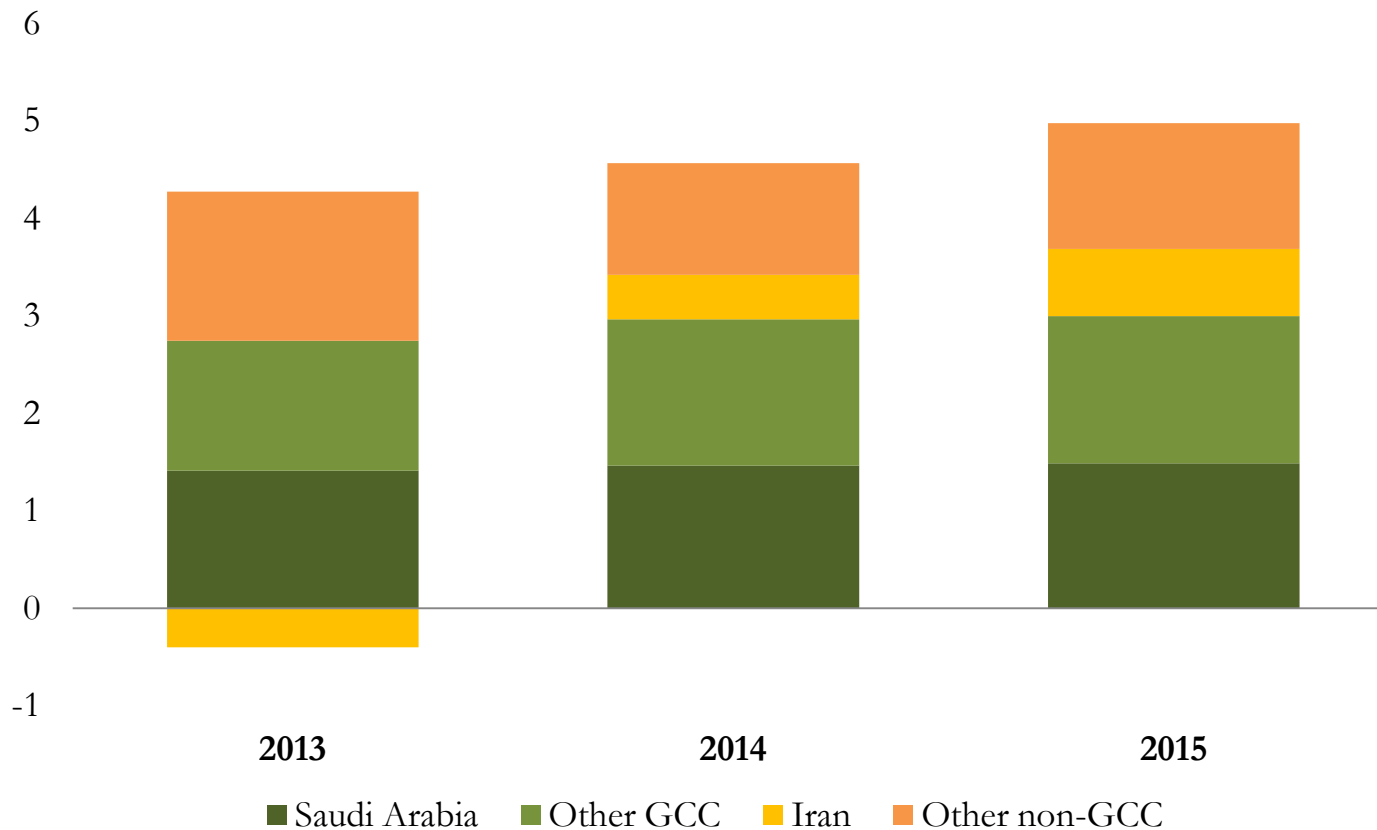
Sources: National authorities; and IMF staff calculations.



Recovery in Iran is projected to augment already robust non-oil GDP growth in the Gulf

Contributions to Regional Non-oil GDP Growth

(Percentage points)



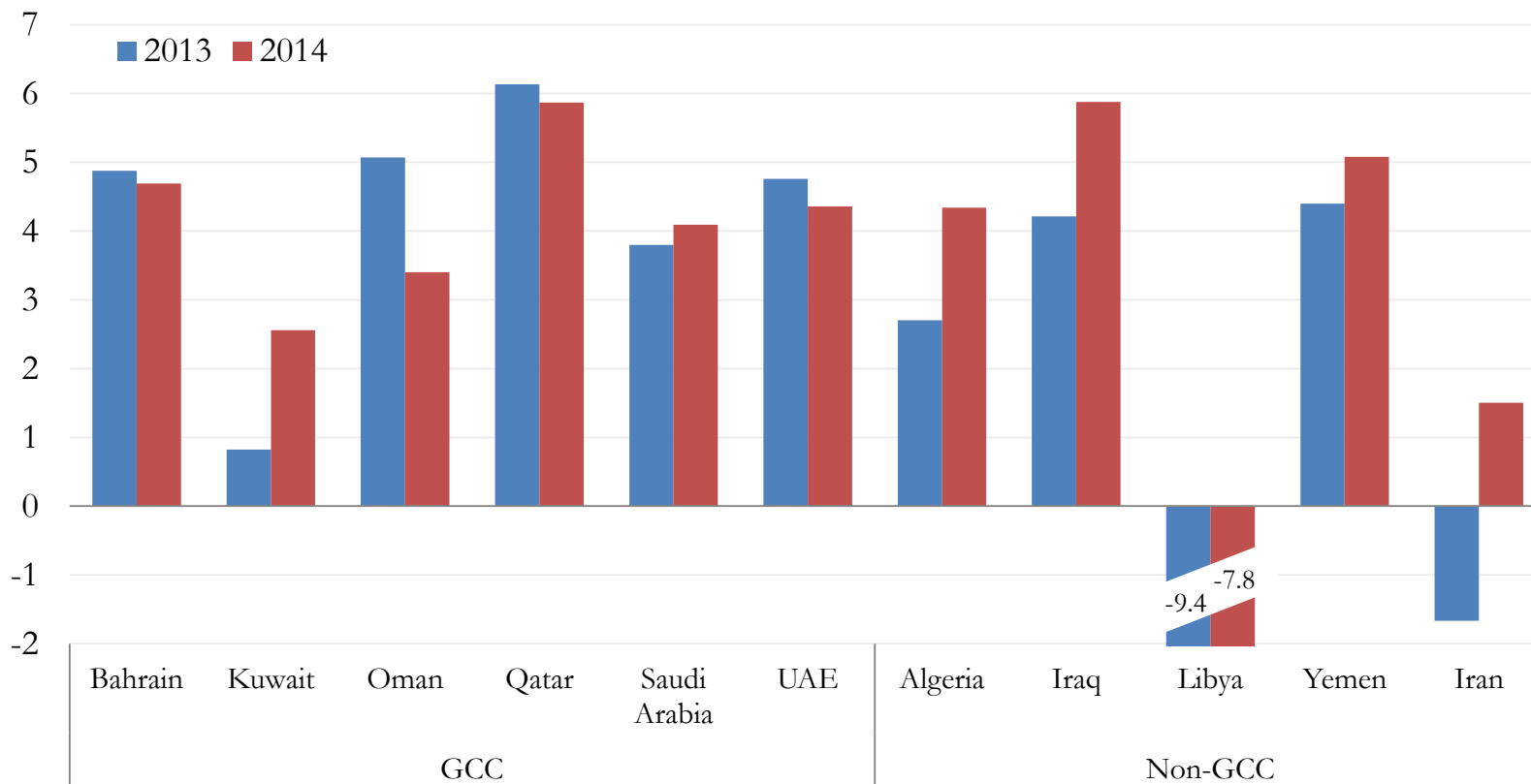
Sources: National authorities; and IMF staff calculations.



Growth to remain high in most GCC countries

Real GDP Growth

(Annual percent change)



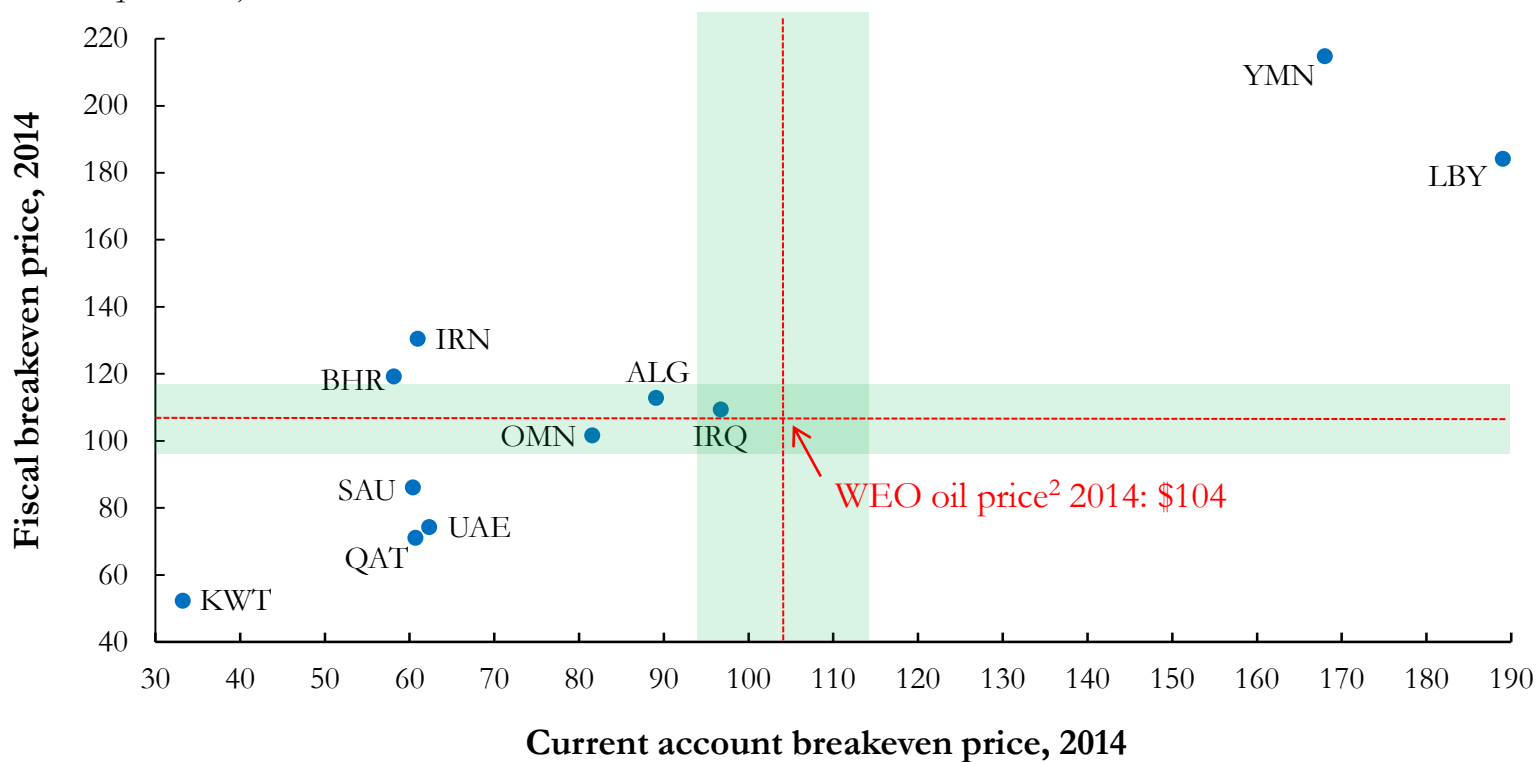
Sources: National authorities; and IMF staff calculations.



Most countries are vulnerable to a decline in oil prices

Fiscal and External Breakeven Prices

(U.S. dollars per barrel)¹



Sources: National authorities; and IMF staff calculations.

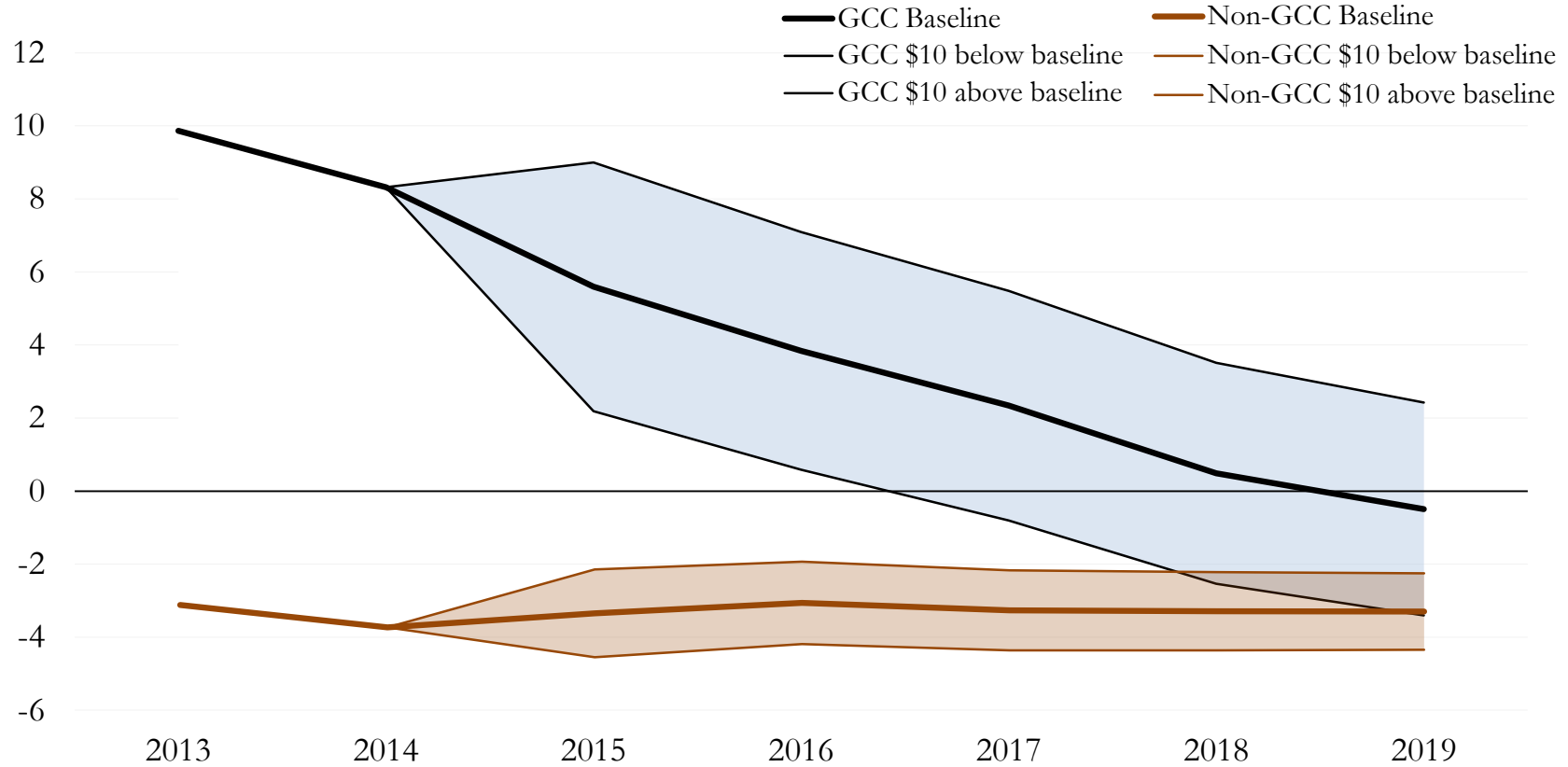
¹ 2013 breakeven prices for Yemen.

² Simple average of UK Brent, Dubai, and West Texas Intermediate spot prices.



GCC fiscal surpluses could vanish this decade; chronic non-GCC deficits to continue

Fiscal Balances
(percent of GDP)

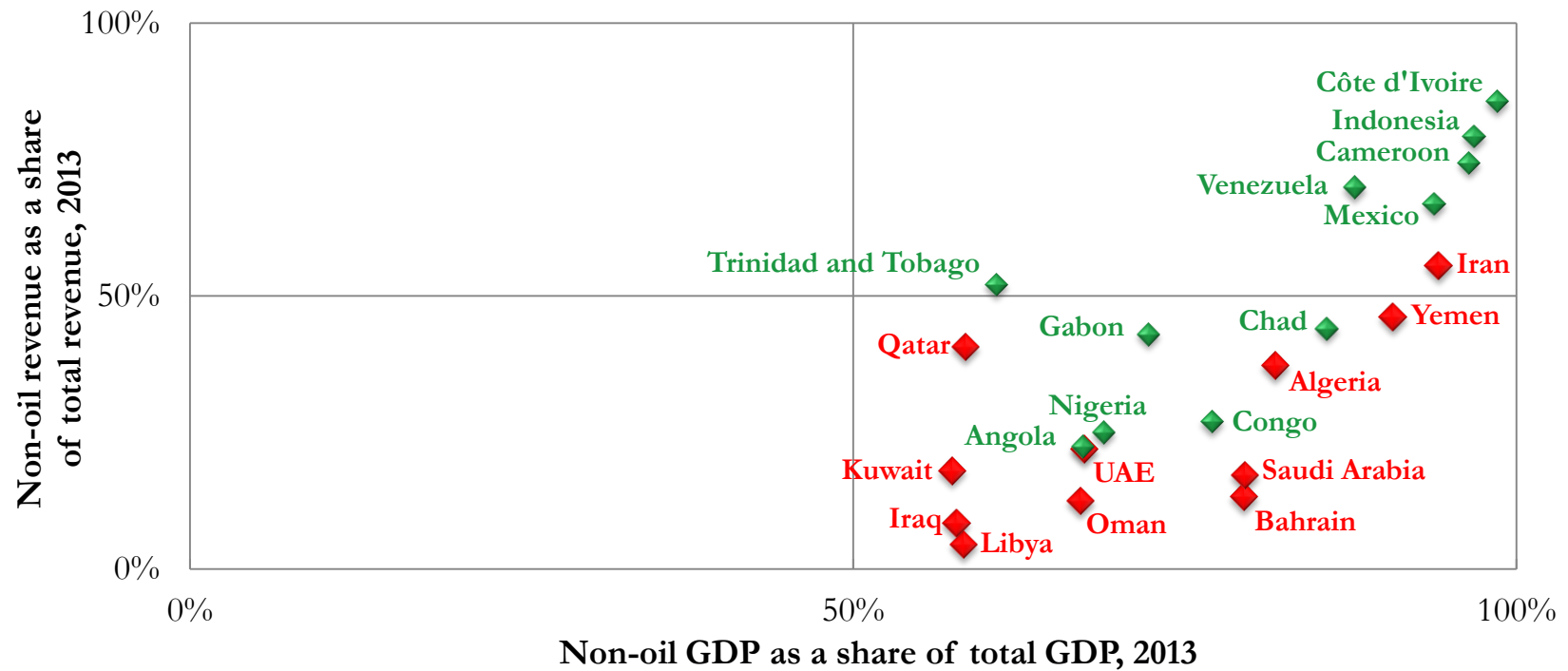


Sources: National authorities; and IMF staff calculations.



Tapping non-oil revenue sources would help strengthen fiscal positions

Diversification in MENAP and Comparator Oil Exporters



Sources: National authorities; and IMF staff calculations.



Key Takeaways

❖ Oil exporters:

- Favorable near-term growth outlook supported by steady expansion in non-oil activity and recovery in oil production, esp. in non-GCC
- Fiscal consolidation is needed to increase policy buffers and preserve oil wealth for future generations
- Further progress in diversification could be complemented with alternative revenue sources

❖ Oil importers:

- Complex political transitions, social and security tensions, and fiscal and external vulnerabilities weigh on economic growth
- Structural reforms to raise potential growth and make it more inclusive, supported by fiscal reforms and donor financing, can improve confidence and jump-start investment and job creation



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