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Middle East and Central Asia

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The *Regional Economic Outlook: Middle East and Central Asia* (REO) is prepared annually by the IMF's Middle East and Central Asia Department (MCD). The analysis and projections contained in the MCD REO are integral elements of the Department's surveillance of economic developments and policies in 31 member countries. It draws primarily on information gathered by MCD staff through their consultations with member countries.

The analysis in this report was coordinated under the general supervision of Masood Ahmed (Director of MCD). The project was directed by Alfred Kammer (Deputy Director in MCD), Natalia Tamirisa (Chief of MCD's Regional Studies Division), and Harald Finger (Deputy Chief of MCD's Regional Studies Division).The primary contributors to this report are Alberto Behar, Sami Ben Naceur, and Pritha Mitra.

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Assumptions and Conventions

A number of assumptions have been adopted for the projections presented in the *Regional Economic Outlook: Middle East and Central Asia*. It has been assumed that established policies of national authorities will be maintained, that the price of oil[1] will average US$104.49 a barrel in 2013 and US$101.35 in 2014, and that the six-month London interbank offered rate (LIBOR) on U.S.-dollar deposits will average 0.4 percent in 2013 and 0.6 percent in 2014. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The 2013 and 2014 data in the figures and tables are projections. These projections are based on statistical information available through early September 2013.

The following conventions are used in this publication:

- In tables, ellipsis points (. . .) indicate "not available," and 0 or 0.0 indicates "zero" or "negligible." Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2011–12 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2011/12) indicates a fiscal or financial year, as does the abbreviation FY (for example, 2012).
- "Billion" means a thousand million; "trillion" means a thousand billion.
- "Basis points (bps)" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

As used in this publication, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

The boundaries, colors, denominations, and any other information shown on the maps do not imply, on the part of the International Monetary Fund, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

[1] Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil.

Country Groupings

The November 2013 *Regional Economic Outlook: Middle East and Central Asia* (REO), covering countries in the Middle East and Central Asia Department (MCD) of the International Monetary Fund (IMF), provides a broad overview of recent economic developments in 2013 and prospects and policy issues for 2014. To facilitate the analysis, the 31 MCD countries covered in this report are divided into two groups: (1) countries of the Middle East, North Africa, Afghanistan, and Pakistan (MENAP)—which are further subdivided into oil exporters and oil importers; and (2) countries of the Caucasus and Central Asia (CCA). The country acronyms used in some figures are included in parentheses.

MENAP oil exporters comprise Algeria (ALG), Bahrain (BHR), Iran (IRN), Iraq (IRQ), Kuwait (KWT), Libya (LBY), Oman (OMN), Qatar (QAT), Saudi Arabia (SAU), the United Arab Emirates (UAE), and Yemen (YMN).

MENAP oil importers[1] comprise Afghanistan (AFG), Djibouti (DJI), Egypt (EGY), Jordan (JOR), Lebanon (LBN), Mauritania (MRT), Morocco (MAR), Pakistan (PAK), Somalia (SOM), Sudan (SDN), Syria (SYR), and Tunisia (TUN).

MENA comprises Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Mauritania, Morocco, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

MENA oil importers comprise Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan, Syria, and Tunisia.

The **GCC** (Gulf Cooperation Council) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

The **Maghreb** comprises Algeria, Libya, Mauritania, Morocco, and Tunisia.

The **Mashreq** comprises Egypt, Jordan, Lebanon, and Syria.

The **ACTs** (Arab countries in transition) comprise Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen.

CCA countries comprise Armenia (ARM), Azerbaijan (AZE), Georgia (GEO), Kazakhstan (KAZ), the Kyrgyz Republic (KGZ), Tajikistan (TJK), Turkmenistan (TKM), and Uzbekistan (UZB).

The **CIS** (Commonwealth of Independent States) comprises Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Georgia and Mongolia, which are not members of the CIS, are included in this group for reasons of geography and similarities in economic structure.

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[1] Because of the uncertain economic situation, Syria is excluded from the projection years of REO aggregates. For Sudan, projections for 2013 and 2014 exclude South Sudan.

World Economic Outlook[1]

Global activity is expected to strengthen moderately over the next two years. The impulse is projected to come from the advanced economies, where output is expected to expand at a pace of about 2 percent in 2014, about ¾ percentage point more than in 2013. Drivers of the uptick are a stronger U.S. economy, an appreciable reduction in fiscal tightening (except in Japan), and highly accommodative monetary conditions. Growth in the euro area will be held back by the very weak economies in the periphery. Emerging market and developing economies are projected to expand by about 5 percent in 2014, as fiscal policy is forecast to stay broadly neutral and real interest rates to remain relatively low. Unemployment will remain unacceptably high in many advanced economies as well as in various emerging market economies, notably those in the Middle East and North Africa.

Overview of the *World Economic Outlook* Projections
(Percent change)

	Year over Year		
		Projections	
	2012	2013	2014
World output	**3.2**	**2.9**	**3.6**
Advanced economies	1.5	1.2	2.0
Of which: United States	2.8	1.6	2.6
European Union	–0.3	0.0	1.3
Emerging and developing economies	4.9	4.5	5.1
Of which: MENAP	4.6	2.3	3.6
CCA	5.8	5.8	6.1
Commonwealth of Independent States	3.4	2.1	3.4
Of which: Russia	3.4	1.5	3.0
World trade volume (goods and services)	**2.7**	**2.9**	**4.9**
Commodity prices			
Oil[1]	1.0	–0.5	–3.0
Nonfuel[2]	–9.9	–1.5	–4.2

Sources: IMF, *World Economic Outlook* (October 2013) and *Regional Economic Outlook: Middle East and Central Asia* (November 2013).
[1]Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $105.01 in 2012; the assumed price based on future markets is $104.49 in 2013 and $101.35 in 2014.
[2] Average (measured in U.S. dollars) based on world commodity export weights.

Risks to this forecast remain to the downside. The prospect of reduced monetary accommodation in the United States may cause additional market adjustments and expose areas of financial excess and systemic vulnerability. Risks to activity also flow from near-term U.S. fiscal policy. In this setting, emerging market economies may face exchange rate and financial market overshooting as they also cope with weaker economic outlooks and rising domestic vulnerabilities; some could even face severe balance of payments disruptions. In the euro area, risks continue to flow from the unfinished business of restoring bank health and credit transmission and from corporate debt overhang. Insufficient fiscal consolidation and structural reforms in Japan could trigger serious downside risks, especially of the fiscal variety. Fiscal vulnerabilities are also building in emerging market and low-income economies to varying degrees. In the meantime, geopolitical risks have returned.

Aside from the new cliff events, a growing worry is a prolonged period of sluggish global growth. A plausible downside scenario for the medium term would be characterized by a continuation of only modest growth in the euro area because of persistent financial fragmentation and unexpectedly high legacy effects from private indebtedness, a hobbling of emerging market economies by imbalances and supply-side bottlenecks, and prolonged deflation in Japan. Meanwhile, the end of U.S. quantitative easing could come with a greater and longer-lasting tightening of global financial conditions than is presently expected. As a result, the global economy could grow by only slightly more than 3 percent a year over the medium term, instead of reaccelerating to over 4 percent. What is more worrisome, monetary policy in the advanced economies could be stuck at the

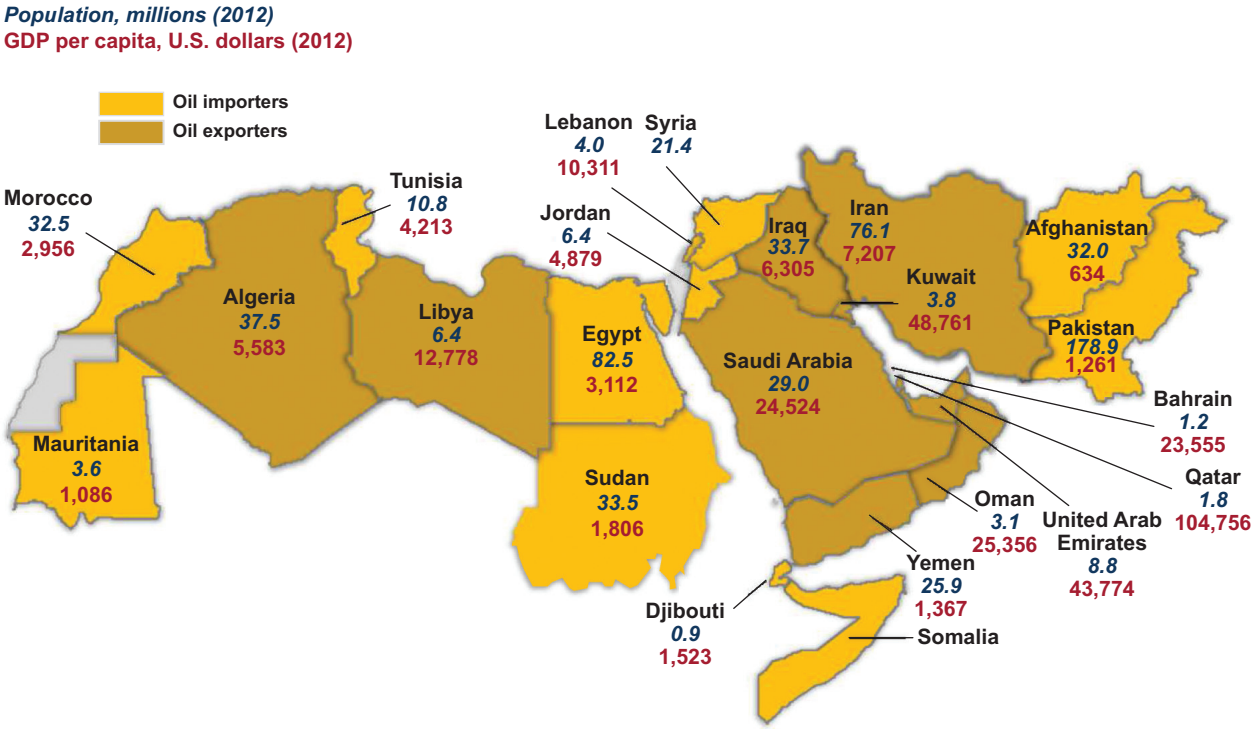
[1] See IMF, *World Economic Outlook, Global Financial Stability Report*, and *Fiscal Monitor* (all October 2013) for more information.

zero interest bound for many years. Over time, worrisomely high public debt in all major advanced economies and persistent financial fragmentation in the euro area could then trigger new crises.

Forestalling these risks requires further policy efforts, mainly in the advanced economies. Old challenges to be addressed include repairing financial systems and adopting a banking union in the euro area and developing and implementing strong plans, supported by concrete measures, for medium-term fiscal adjustment and entitlement reform in Japan and the United States. Furthermore, in the euro area and Japan, in particular, there is a need to boost potential output, including through reforms that level the playing field between insiders and outsiders in labor markets and ease barriers to entry into product and services markets. A new challenge is for U.S. monetary policy to change tack carefully in response to changing growth, inflation, and financial stability prospects.

In emerging market and developing economies, policy priorities center on exchange rate policy and fiscal and structural reforms. Policymakers should allow exchange rates to respond to changing fundamentals but may need to guard against risks of disorderly adjustment, including through intervention to smooth excessive volatility. Where monetary policy frameworks are less credible, efforts may need to focus more on providing a strong nominal anchor. Prudential actions should be taken to safeguard financial stability, given legacy risks from recent credit booms and new risks from capital flows. Fiscal consolidation should proceed, unless activity threatens to deteriorate very sharply and funding conditions permit fiscal easing. Many economies need a new round of structural reforms, including investment in public infrastructure and removal of barriers to entry in product and services markets.

Middle East, North Africa, Afghanistan, and Pakistan



Sources: IMF Regional Economic Outlook database; and Microsoft Map Land.
Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

MENAP Region Highlights

The near-term economic outlook for the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region has weakened. Difficult political transitions and increased regional uncertainties arising from the complex civil war in Syria and the ongoing developments in Egypt weigh on confidence in the oil-importing countries. Meanwhile, domestic supply disruptions and weak global demand are reducing oil production, notwithstanding recent upward pressure on oil prices arising from increased geopolitical risks. Growth in the MENAP region is expected to decline to 2¼ percent this year (¾ percentage point below our May 2013 projections). Growth is expected to pick up in 2014 as global conditions improve and oil production recovers. Substantial downside risks weigh on this outlook, and, more worrisome, growth will remain well below levels necessary to reduce the region's high unemployment and improve living standards. In this setting, the region risks being trapped in a vicious cycle of economic stagnation and persistent sociopolitical strife, underlining the urgent need for policy action that will enhance confidence, growth, and jobs.

Oil Exporters: Heightened Risks to Oil and Fiscal Positions

Domestic oil supply disruptions and lower global demand are set to markedly reduce growth in MENAP oil exporters to about 2 percent this year after several years of strong performance. Renewed oil output disruptions in Iraq and Libya, falling oil exports in Iran in response to tightening sanctions, and a modest fall in oil production in Saudi Arabia reflecting a still amply supplied global oil market imply a fall in regional oil production this year, for the first time since the global crisis. By contrast, the non-oil economy continues to expand at a solid pace in most countries, supported by high levels of public spending and a gradual recovery of private sector credit growth. A recovery in oil production and a further strengthening of the non-oil economy will likely lift economic growth in 2014.

A large aggregate fiscal surplus of about 4¼ percent of GDP masks underlying vulnerabilities. Half of the MENAP oil-exporting countries cannot balance their budgets and have limited buffers against shocks. Most countries are not saving enough to allow for continued spending for future generations once hydrocarbon reserves are exhausted. Some countries have started to unwind fiscal stimulus this year; still, without further adjustment, the region's governments will start spending from their savings by 2016. External balances are also falling because of lower oil production, rising domestic consumption, and insufficient fiscal savings.

Risks to this outlook are broadly balanced for the countries of the Gulf Cooperation Council (GCC) and tilted to the downside for the non-GCC countries. On the upside, increased geopolitical uncertainties may push oil prices higher. Further supply disruptions caused by weak domestic security or a difficult external environment could reduce oil production in some countries, especially outside the GCC, while benefitting growth in oil suppliers with spare capacity (mostly in the GCC) as they compensate for the shortfall. On the downside, slowing global oil demand, for instance caused by lower growth in emerging markets or rising supply from unconventional sources could reduce oil prices and/or induce members of the Organization of the Petroleum Exporting Countries (OPEC), particularly in the GCC, to cut back supply.

Apart from oil, a main downside risk for all oil exporters in the region is the possibility of slower non-oil private sector growth and higher unemployment and inequality if governments' efforts aimed at diversification do not bear fruit.

In this environment, policies should focus on strengthening fiscal positions and engaging in structural reforms to bolster private sector growth, diversification, and job creation. Oil exporters need to consolidate their budgets to ensure fiscal sustainability while minimizing the impact on growth and enhancing equity. Structural

reforms should include strengthening the business climate and competitiveness, especially in the non-GCC countries; measures to support diversification; fostering credit to small and medium-sized enterprises; and improving incentives for private sector employment of nationals and female labor force participation.

Oil Importers: Complex Political Dynamics and Security Challenges

The economic recovery in the MENAP oil-importing countries has once again been delayed. Heightened security concerns, rising political uncertainty, and delays in reforms continue to weigh on confidence, preventing a recovery in investment and economic activity in many countries. The devastating civil war in Syria and recent developments in Egypt have sparked concerns about regional spillovers, further complicating economic management. While there are nascent signs of improvement in tourism, exports, and foreign direct investment in some countries, the economic recovery in the MENAP oil importers remains sluggish, with growth of about 3 percent, in 2013–14, significantly below the growth rates necessary to reduce persistent unemployment and improve living standards.

Domestic and regional factors are the main sources of downside risks. Insufficient improvement in economic conditions risks aggravating sociopolitical frictions and dealing additional setbacks to transitions in many countries, thereby reinforcing delays in the economic recovery, potentially leading into a vicious cycle. In addition, a deterioration of conditions in Egypt would further damage confidence and recovery prospects. Increased escalation of the conflict in Syria would intensify pressures on neighboring countries (Iraq, Jordan, Lebanon) as refugee inflows would rise sharply. Under a plausible adverse scenario, assuming domestic and regional risks partially materialize, growth could fall to 1¾ percent next year, though a stronger shock or a combination of domestic and external shocks could halt growth to zero and significantly raise unemployment. In addition, geopolitical tensions might lead to a spike in oil prices, which, if sustained, would reduce growth and widen fiscal and external deficits (though for some countries in the Mashreq, the effects would be mitigated because of strong linkages to the GCC). A weakening in the external environment, for example, lower-than-anticipated growth in the BRICS (Brazil, Russia, India, China, South Africa) and/or the GCC countries, or a protracted period of slower European growth, would weigh on tourism, trade, remittances, and capital flows.

Small external and fiscal buffers make MENAP oil importers highly vulnerable to shocks. Foreign exchange reserves are running low, and current account deficits remain substantial in many countries. High or rising public debt levels are of concern, driven by persistently large fiscal deficits, which in turn reflect strong pressures for subsidies and other social spending amid high unemployment. Even as countries are realizing the need for fiscal consolidation, fiscal deficits are still rising in most countries, and medium-term plans for fiscal consolidation remain unclear.

In this environment, characterized by significantly increased risks due to heightened political uncertainty and rising regional tensions, policy goals are threefold: (1) fostering economic activity and creating jobs to help sustain sociopolitical transitions, (2) making inroads into fiscal consolidation to restore debt sustainability and rebuild buffers protecting the economy from unanticipated shocks, and (3) embarking without delay on structural reforms that will improve the business climate and governance, and enhance equity:

(1) *Creating jobs.* High and rising unemployment amid a strained social fabric and heightened political uncertainty in many countries calls for an urgent focus on spurring economic growth and job creation. Delays in the revival of private investment suggest the need for government to play a key role in shoring up economic activity over the near term. With limited room for widening fiscal deficits in many countries, consumption spending on broad-based subsidies needs to be re-oriented toward growth-enhancing public investment, while improving protection of vulnerable groups through

well-targeted social assistance. External partners could support this priority by providing additional financing for public investment spending and basic services based on the existence of adequate policy frameworks.

(2) *Fiscal consolidation.* With concerns about debt sustainability rising and fiscal and external buffers eroding, most countries need to start putting their fiscal house in order. This said, in some cases, there may be scope for phasing the fiscal adjustment over time to limit its impact on economic activity in the short run. The feasibility of such phasing will depend on a credible medium-term fiscal consolidation strategy to ensure continued willingness of domestic and foreign investors to provide adequate financing. Consideration needs to be given to supporting fiscal consolidation through greater exchange rate flexibility, which can help to soften the short-term impact of fiscal consolidation on growth and help to rebuild international reserves.

(3) *Structural reforms.* A bold structural reform agenda is essential for propelling private sector activity and fostering a more dynamic, competitive, and inclusive economy. Reforms need to be focused on a multitude of areas, including improving business regulation and governance, expanding access of businesses and consumers to finance, enacting labor market policies that support job creation and employment opportunities, and protecting the vulnerable through well-targeted social assistance. Early steps in these areas can help to signal governments' commitment to reforms and can help improve confidence.

The region's need for improving economic conditions and living standards is tremendous, as is its human and economic potential. Delays in economic recovery and rising unemployment underscore the urgency of policy reforms. Early progress across all three priority areas—supported by the international community through scaled-up financing, enhanced trade access, and technical assistance—is essential to begin achieving the much-awaited dividends from the recent economic and political transitions.

MENAP Region: Selected Economic Indicators, 2000–14

(Percent of GDP, unless otherwise indicated)

	Average						Projections	
	2000–07	2008	2009	2010	2011	2012	2013	2014
MENAP[1]								
Real GDP (annual growth)	5.7	5.0	2.8	5.2	3.9	4.6	2.3	3.6
Current Account Balance	9.3	12.9	1.7	6.5	13.3	12.1	9.4	8.6
Overall Fiscal Balance	3.4	6.6	–2.8	–0.3	2.3	1.5	–0.4	–0.6
Inflation, p.a. (annual growth)	6.5	13.2	7.1	6.9	9.9	11.2	12.8	10.4
MENAP Oil Exporters								
Real GDP (annual growth)	6.1	4.7	2.3	5.9	4.6	5.4	1.9	4.0
Current Account Balance	13.4	18.4	4.3	10.1	18.6	17.4	13.9	12.4
Overall Fiscal Balance	7.8	13.0	–1.5	2.6	6.9	6.3	4.2	3.0
Inflation, p.a. (annual growth)	7.5	13.4	5.3	6.1	9.8	12.1	15.1	11.3
***Of Which*: Gulf Cooperation Council**								
Real GDP (annual growth)	5.9	7.8	0.9	6.4	7.7	5.2	3.7	4.1
Current Account Balance	15.3	21.1	6.6	12.4	23.7	24.4	21.3	19.8
Overall Fiscal Balance	12.0	24.0	–0.7	3.6	11.2	13.9	10.8	9.4
Inflation, p.a. (annual growth)	2.2	8.4	2.8	2.6	3.1	2.4	3.2	3.4
MENAP Oil Importers								
Real GDP (annual growth)	5.1	5.7	3.8	3.9	2.4	3.0	3.1	2.9
Current Account Balance	–0.8	–4.0	–4.6	–3.0	–3.5	–5.8	–4.8	–3.5
Overall Fiscal Balance	–4.6	–5.5	–5.1	–5.9	–7.0	–8.4	–9.7	–8.0
Inflation, p.a. (annual growth)	4.9	12.9	10.4	8.6	9.9	9.4	8.3	8.7
MENA[1]								
Real GDP (annual growth)	5.8	5.0	3.0	5.5	3.9	4.6	2.1	3.8
Current Account Balance	10.2	14.4	2.3	7.2	14.3	13.2	10.3	9.3
Overall Fiscal Balance	4.3	8.4	–2.5	0.4	3.5	2.8	0.6	0.0
Inflation, p.a. (annual growth)	6.6	13.5	5.8	6.6	9.4	11.2	13.6	10.8
MENA Oil Importers								
Real GDP (annual growth)	5.0	6.1	4.9	4.3	1.6	2.0	2.8	3.1
Current Account Balance	–1.2	–2.6	–4.4	–3.4	–5.1	–7.7	–6.7	–4.9
Overall Fiscal Balance	–5.4	–4.7	–5.3	–6.0	–7.2	–8.7	–10.7	–9.6
Inflation, p.a. (annual growth)	4.5	13.6	7.3	8.0	7.9	8.6	9.0	9.2
Arab Countries in Transition (excl. Libya)								
Real GDP (annual growth)	4.8	6.3	4.5	4.7	1.1	2.5	2.9	3.2
Current Account Balance	0.8	–2.5	–3.7	–3.1	–5.0	–5.8	–4.7	–3.4
Overall Fiscal Balance	–5.4	–5.2	–5.8	–6.2	–7.9	–9.1	–11.2	–10.1
Inflation, p.a. (annual growth)	5.0	14.0	7.7	8.4	7.9	6.3	7.2	8.1

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

Note: Data refer to the fiscal year for the following countries: Afghanistan (March 21/March 20 until 2011, and December 21/December 20 thereafter) and Iran (March 21/March 20), Qatar (April/March), and Egypt and Pakistan (July/June) except inflation.

[1]2011–14 data exclude Syrian Arab Republic.

MENAP: (1) Oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen. (2) Oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, and Tunisia. MENA: MENAP excluding Afghanistan and Pakistan. (3) Arab countries in transition (excl. Libya): Egypt, Jordan, Morocco, Tunisia, and Yemen.

منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان: مؤشرات اقتصادية مختارة، ٢٠٠٠–٢٠١٤

(% من إجمالي الناتج المحلي، ما لم يذكر خلاف ذلك)

	متوسط						توقعات	
	٢٠٠٠–٢٠٠٧	٢٠٠٨	٢٠٠٩	٢٠١٠	٢٠١١	٢٠١٢	٢٠١٣	٢٠١٤
منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان[1]								
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٥,٧	٥,٠	٢,٨	٥,٢	٣,٩	٤,٦	٢,٣	٣,٦
رصيد الحساب الجاري	٩,٣	١٢,٩	١,٧	٦,٥	١٣,٣	١٢,١	٩,٤	٨,٦
رصيد المالية العامة الكلي	٣,٤	٦,٦	٢,٨–	٠,٣–	٢,٣	١,٥	٠,٤–	٠,٦–
التضخم، متوسط سنوي (النمو السنوي)	٦,٥	١٣,٢	٧,١	٦,٩	٩,٩	١١,٢	١٢,٨	١٠,٤
البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان								
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٦,١	٤,٧	٢,٣	٥,٩	٤,٦	٥,٤	١,٩	٤,٠
رصيد الحساب الجاري	١٣,٤	١٨,٤	٤,٣	١٠,١	١٨,٦	١٧,٤	١٣,٩	١٢,٤
رصيد المالية العامة الكلي	٧,٨	١٣,٠	١,٥–	٢,٦	٦,٩	٦,٣	٤,٢	٣,٠
التضخم، متوسط سنوي (النمو السنوي)	٧,٥	١٣,٤	٥,٣	٦,١	٩,٨	١٢,١	١٥,١	١١,٣
***منها:* دول مجلس التعاون الخليجي**								
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٥,٩	٧,٨	٠,٩	٦,٤	٧,٧	٥,٢	٣,٧	٤,١
رصيد الحساب الجاري	١٥,٣	٢١,١	٦,٦	١٢,٤	٢٣,٧	٢٤,٤	٢١,٣	١٩,٨
رصيد المالية العامة الكلي	١٢,٠	٢٤,٠	٠,٧–	٣,٦	١١,٢	١٣,٩	١٠,٨	٩,٤
التضخم، متوسط سنوي (النمو السنوي)	٢,٢	٨,٤	٢,٨	٢,٦	٣,١	٢,٤	٣,٢	٣,٤
البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان								
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٥,١	٥,٧	٣,٨	٣,٩	٢,٤	٣,٠	٣,١	٢,٩
رصيد الحساب الجاري	٠,٨–	٤,٠–	٤,٦–	٣,٠–	٣,٥–	٥,٨–	٤,٨–	٣,٥–
رصيد المالية العامة الكلي	٤,٦–	٥,٥–	٥,١–	٥,٩–	٧,٠–	٨,٤–	٩,٧–	٨,٠–
التضخم، متوسط سنوي (النمو السنوي)	٤,٩	١٢,٩	١٠,٤	٨,٦	٩,٩	٩,٤	٨,٣	٨,٧
منطقة الشرق الأوسط وشمال إفريقيا[1]								
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٥,٨	٥,٠	٣,٠	٥,٥	٣,٩	٤,٦	٢,١	٣,٨
رصيد الحساب الجاري	١٠,٢	١٤,٤	٢,٣	٧,٢	١٤,٣	١٣,٢	١٠,٣	٩,٣
رصيد المالية العامة الكلي	٤,٣	٨,٤	٢,٥–	٠,٤	٣,٥	٢,٨	٠,٦	٠,٠
التضخم، متوسط سنوي (النمو السنوي)	٦,٦	١٣,٥	٥,٨	٦,٦	٩,٤	١١,٢	١٣,٦	١٠,٨
البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا								
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٥,٠	٦,١	٤,٩	٤,٣	١,٦	٢,٠	٢,٨	٣,١
رصيد الحساب الجاري	١,٢–	٢,٦–	٤,٤–	٣,٤–	٥,١–	٧,٧–	٦,٧–	٤,٩–
رصيد المالية العامة الكلي	٥,٤–	٤,٧–	٥,٣–	٦,٠–	٧,٢–	٨,٧–	١٠,٧–	٩,٦–
التضخم، متوسط سنوي (النمو السنوي)	٤,٥	١٣,٦	٧,٣	٨,٠	٧,٩	٨,٦	٩,٠	٩,٢
بلدان التحول العربي (باستثناء ليبيا)								
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٤,٨	٦,٣	٤,٥	٤,٧	١,١	٢,٥	٢,٩	٣,٢
رصيد الحساب الجاري	٠,٨	٢,٥–	٣,٧–	٣,١–	٥,٠–	٥,٨–	٤,٧–	٣,٤–
رصيد المالية العامة الكلي	٥,٤–	٥,٢–	٥,٨–	٦,٢–	٧,٩–	٩,١–	١١,٢–	١٠,١–
التضخم، متوسط سنوي (النمو السنوي)	٥,٠	١٤,٠	٧,٧	٨,٤	٧,٩	٦,٣	٧,٢	٨,١

المصادر: السلطات الوطنية، وحسابات وتوقعات خبراء صندوق النقد الدولي.

ملحوظة: تشير البيانات إلى السنوات المالية لكل من البلدان التالية: أفغانستان (٢١ مارس/ ٢٠ مارس حتى عام ٢٠١١، و٢١ ديسمبر/ ٢٠ ديسمبر بعد ذلك)، وإيران (٢١ مارس/ ٢٠ مارس)، وقطر (إبريل/مارس)، ومصر وباكستان (يوليو/يونيو)، باستثناء بيانات التضخم.

[1] بيانات ٢٠١١–٢٠١٤ لا تتضمن الجمهورية العربية السورية.

تشمل منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان: (١) البلدان المصدرة للنفط: الجزائر والبحرين وإيران والعراق والكويت وليبيا وعُمان وقطر والمملكة العربية السعودية والإمارات العربية المتحدة واليمن؛ (٢) البلدان المستوردة للنفط: أفغانستان وجيبوتي ومصر والأردن ولبنان وموريتانيا والمغرب وباكستان والسودان وسوريا وتونس.

بلدان الشرق الأوسط وشمال إفريقيا (MENA): مجموعة البلدان التي تضم بلدان الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان (MENAP)، باستثناء أفغانستان وباكستان.

بلدان التحول العربي (باستثناء ليبيا): مصر والأردن والمغرب وتونس واليمن.

استراتيجية موثوقة للضبط المالي على المدى المتوسط، لضمان استمرار رغبة المستثمرين المحليين والأجانب في تقديم التمويل الكافي. وينبغي النظر في دعم الضبط المالي من خلال زيادة مرونة سعر الصرف، وهو ما يمكن أن يخفف أثر الضبط المالي على النمو في الأجل القصير ويساعد على إعادة بناء الاحتياطيات الدولية.

(٣) **الإصلاحات الهيكلية:** من الضروري وضع جدول أعمال جرئ للإصلاحات الهيكلية حتى يتسنى دفع أنشطة القطاع الخاص والعمل على إيجاد اقتصاد أكثر ديناميكية وتنافسية واحتواءً للجميع. وينبغي أن تركز الإصلاحات على مجموعة كبيرة من المجالات، منها تحسين تنظيم وحوكمة الأعمال، والتوسع في إتاحة التمويل للأعمال والمستهلكين، وسياسات سوق العمل التي تدعم خلق الوظائف وفرص العمل، مع حماية محدودي الدخل من خلال توجيه المساعدات الاجتماعية للمستحقين. ويمكن أن يكون اتخاذ خطوات مبكرة في هذا المجال عاملا مساعدا في إرسال إشارة تؤكد التزام الحكومات بالإصلاحات وفي تحسين مستوى الثقة.

وتحتاج المنطقة احتياجا كبيرا إلى تحسين الظروف الاقتصادية ومستويات المعيشة، وكذلك تحسين إمكاناتها البشرية والاقتصادية. ويؤكد التأخر في تحقيق التعافي الاقتصادي وتصاعد معدلات البطالة مدى الأهمية الملحة لإصلاح السياسات. وللبدء في تحقيق المكاسب التي طال انتظارها من التحولات الاقتصادية والسياسية الأخيرة، يتعين التعجيل بالتقدم في المجالات الثلاث – بدعم من المجتمع الدولي عن طريق زيادة التمويل، وتعزيز فرص التجارة، والمساعدة الفنية.

إلى حد كبير إذا ما حدثت صدمة أقوى أو اقترنت الصدمات المحلية بصدمات خارجية. وبالإضافة إلى ذلك، فإن التوترات الجغرافية–السياسية يمكن أن تتسبب في ارتفاع أسعار النفط بشكل حاد، الأمر الذي يمكن أن يؤدي استمراره إلى تخفيض النمو وتوسيع العجز المالي والخارجي (ولكن الآثار ستكون مخففة في بعض بلدان المشرق بفضل روابطها القوية مع دول مجلس التعاون الخليجي). فعلى سبيل المثال، يمكن أن تتأثر السياحة والتجارة وتحويلات العاملين والتدفقات الرأسمالية إذا ضعفت البيئة الخارجية، أو انخفض النمو عن المستوى المتوقع في مجموعة بلدان "بريكس" و/أو دول مجلس التعاون الخليجي، أو طالت فترة التباطؤ في النمو الأوروبي.

وتتعرض البلدان المستوردة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان لمخاطر كبيرة بسبب الهوامش الوقائية المحدودة على مستوى الاحتياطيات الخارجية والمالية العامة. فمن الملاحظ في كثير من البلدان أن احتياطيات النقد الأجنبي تتناقص وعجز الحساب الجاري لا يزال كبيرا حتى الآن. وتمثل مستويات الدين العام المرتفعة أو المتزايدة مصدرا للقلق، وهي مدفوعة بعجز المالية العامة الكبير والمزمن الذي يعكس بدوره ضغوطا قوية لتوفير الدعم وغيره من النفقات الاجتماعية نظرا لظروف البطالة المرتفعة. وفي الوقت الذي تدرك فيه البلدان الحاجة إلى ضبط أوضاع المالية العامة، يستمر ارتفاع عجز المالية العامة في معظم البلدان ولا تزال خطط الضبط المالي غير واضحة على المدى المتوسط.

وفي هذه البيئة التي تتسم بزيادة المخاطر إلى حد كبير نظرا لارتفاع عدم اليقين السياسي وتزايد التوترات الإقليمية، تتمثل أهداف السياسة في ثلاثة أمور: (١) تشجيع النشاط الاقتصادي وخلق الوظائف للمساعدة على استمرار التحولات الاجتماعية–السياسية، (٢) تحقيق إنجازات في ضبط أوضاع المالية العامة لاستعادة الدين إلى مستويات يمكن الاستمرار في تحملها وإعادة بناء الهوامش الوقائية اللازمة لحماية الاقتصاد من الصدمات غير المتوقعة، (٣) الشروع دون إبطاء في إجراء الإصلاحات الهيكلية المؤدية إلى تحسين مناخ الأعمال والحوكمة وتحسين مستوى العدالة:

(١) **خلق الوظائف:** ثمة حاجة ملحة للتركيز على إنعاش النمو الاقتصادي وخلق فرص العمل نظرا لارتفاع البطالة وتصاعد معدلاتها وسط حالة من التوتر في النسيج الاجتماعي وأجواء من عدم اليقين السياسي في كثير من البلدان. ويشير التأخر في إنعاش الاستثمار الخاص إلى ضرورة قيام الحكومة بدور أساسي في دعم النشاط الاقتصادي على المدى القصير. ومع المساحة المحدودة لزيادة العجز المالي في كثير من البلدان، ينبغي إعادة توجيه الإنفاق الاستهلاكي على الدعم واسع النطاق نحو الاستثمارات العامة الداعمة للنمو، مع تحسين حماية محدودي الدخل من خلال المساعدات الاجتماعية الموجهة إلى المستحقين. ويمكن أن يدعم الشركاء الخارجيون هذه الأولوية بتقديم تمويل إضافي للإنفاق على الاستثمار العام والخدمات الأساسية استنادا إلى وجود أطر سياسات ملائمة.

(٢) **ضبط أوضاع المالية العامة:** مع تزايد القلق إزاء إمكانية الاستمرار في تحمل الديون وتآكل الهوامش الوقائية المالية والخارجية، ينبغي أن تبدأ معظم البلدان في ترتيب بيتها المالي. ومع ذلك، هناك بعض الحالات التي قد يكون المجال متاحا فيها لإجراء التصحيح المالي على مراحل متدرجة للحد من التأثير على النشاط الاقتصادي في الأجل القصير. ويعتمد جدوى هذا المنهج المرحلي على وجود

أسعار النفط نحو مزيد من الارتفاع. فيمكن أن تتسبب زيادة انقطاعات العرض نتيجة ضعف الأمن الداخلي أو صعوبة البيئة الخارجية إلى تخفيض الناتج النفطي في بعض البلدان، وخاصة غير الأعضاء في مجلس التعاون الخليجي، بينما يستفيد النمو في البلدان الموردة للنفط ذات الطاقة الإنتاجية الفائضة (ومعظمها من دول المجلس) حيث تقوم بتعويض هذا النقص. ومن حيث احتمالات الانخفاض، يمكن أن تقل أسعار النفط و/أو تقرر البلدان الأعضاء في منظمة أوبك، وخاصة دول مجلس التعاون الخليجي، تخفيض معروضها النفطي إذا تباطأ الطلب العالمي على النفط، بسبب تباطؤ النمو في الأسواق الصاعدة أو زيادة العرض من مصادر غير تقليدية على سبيل المثال.

وبخلاف النفط، تتعرض كل البلدان المصدرة للنفط في المنطقة لاحتمال سلبي أساسي يتمثل في إمكانية تباطؤ النمو في القطاع الخاص غير النفطي وارتفاع معدلات البطالة وعدم المساواة إذا لم تثمر جهود الحكومات الرامية إلى تنويع الاقتصاد.

وفي هذا المناخ السائد، ينبغي أن تركز السياسات على تعزيز أوضاع المالية العامة والعمل على تنفيذ الإصلاحات الهيكلية اللازمة لدعم نمو القطاع الخاص، وتنويع الاقتصاد، وخلق فرص العمل. وينبغي للبلدان المصدرة للنفط أن تعمل على تقوية موازناتها العامة لضمان استمرارية أوضاعها المالية، مع الحد من تأثير النمو على جهود تعزيز المساواة. وينبغي أن تتضمن الإصلاحات الهيكلية تحسين مناخ الأعمال والقدرة التنافسية، لا سيما في البلدان غير الأعضاء في مجلس التعاون الخليجي، واتخاذ تدابير لدعم تنويع الاقتصاد، وزيادة الائتمان المقدم للمشروعات الصغيرة والمتوسطة، وتحسين الحوافز المقدمة لتوظيف المواطنين في القطاع الخاص ومشاركة النساء في القوى العاملة.

البلدان المستوردة للنفط: ديناميكية سياسية معقدة وتحديات أمنية صعبة

تأخر مجدداً تعافي الاقتصاد في بلدان منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان المستوردة للنفط. فلا يزال مستوى الثقة متأثراً بزيادة الشواغل الأمنية، وتصاعد عدم اليقين السياسي، والتأخر في الإصلاحات، مما يحول دون تعافي الاستثمار والنشاط الاقتصادي في كثير من البلدان. وقد أدت الحرب الأهلية المدمرة في سوريا والتطورات الأخيرة في مصر إلى إثارة القلق بشأن التداعيات الإقليمية، مما زاد من صعوبة إدارة الاقتصاد. ورغم وجود بوادر وليدة تشير إلى تحسن السياحة والصادرات والاستثمار الأجنبي المباشر في بعض البلدان، فلا يزال التعافي الاقتصادي بطيئا في بعض البلدان المستوردة للنفط في المنطقة، حيث يصل النمو في ٢٠١٣–٢٠١٤ إلى ٣% تقريبا، وهو معدل أقل بكثير من معدلات النمو الضرورية لتخفيض البطالة المزمنة وتحسين مستويات المعيشة.

وتمثل العوامل المحلية والإقليمية أهم مصادر الاحتمالات السلبية. فعدم كفاية تحسن الظروف الاقتصادية يعرض كثيراً من البلدان لمخاطر تفاقم الاحتكاكات الاجتماعية–السياسية وحدوث مزيد من النكسات في مسيرة التحول الجاري، مما يطيل فترات التأخر في تحقيق التعافي الاقتصادي، وقد يؤدي إلى الدخول في حلقة مفرغة. وبالإضافة إلى ذلك، قد يزداد تأثر الثقة واحتمالات التعافي الاقتصادي إذا ما تدهورت الأوضاع في مصر. ومن شأن زيادة تصاعد الصراع في سوريا أن يؤدي إلى تكثيف الضغوط على البلدان المجاورة (العراق والأردن ولبنان) نظرا لما يسببه ذلك من زيادة حادة في تدفق اللاجئين إليها. وطبقا لأحد السيناريوهات المعقولة، مع افتراض تحقق جانب من المخاطر المحلية والإقليمية، يمكن أن يهبط النمو إلى ١,٧٥% في العام القادم، وإن كان النمو قد يتوقف تماما عند الصفر وترتفع البطالة

أضواء على أهم الأحداث في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان

ضعفت آفاق الاقتصاد قصيرة الأجل لمنطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان (MENAP). فقد تأثرت الثقة في البلدان المستوردة للنفط بصعوبة التحولات السياسية وزيادة أجواء عدم اليقين الإقليمي الناشئة عن الحرب الأهلية المعقدة في سوريا والتطورات الجارية في مصر. وفي نفس الوقت، تؤدي انقطاعات العرض المحلي وضعف الطلب العالمي إلى تخفيض إنتاج النفط، رغم الضغوط الرافعة لأسعار النفط مؤخرا بسبب زيادة المخاطر الجغرافية–السياسية. ومن المتوقع أن ينخفض النمو في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان إلى ٢,٢٥% هذا العام (بانخفاض قدره ٠,٧٥ نقطة مئوية عن توقعاتنا في مايو ٢٠١٣). ومن المتوقع أيضا أن ينتعش النمو في عام ٢٠١٤ مع تحسن الظروف العالمية وتعافي إنتاج النفط. وتتعرض هذه الآفاق المتوقعة لمخاطر التطورات السلبية إلى حد كبير، والأكثر مدعاة للقلق هو أن النمو سيظل أدنى بكثير من المستويات الضرورية لتخفيض البطالة المرتفعة في المنطقة وتحسين مستويات المعيشة. وفي هذا السياق، تتعرض المنطقة لخطر البقاء محصورة في حلقة مفرغة من الركود الاقتصادي والصراع الاجتماعي والسياسي المستمر، مما يبرز الحاجة الملحة لاتخاذ إجراءات على مستوى السياسات بما يعزز الثقة ويدعم النمو وتوفير الوظائف.

البلدان المصدرة للنفط: مخاطر أكبر على أوضاع النفط والمالية العامة

ومن المتوقع أن تؤدي الانقطاعات في عرض النفط المحلي وانخفاض الطلب العالمي إلى تراجع ملحوظ في نمو البلدان المصدرة للنفط في المنطقة إلى حوالي ٢% هذا العام بعد عدة سنوات من النمو القوي. ومما يشير إلى هبوط الإنتاج النفطي الإقليمي هذا العام للمرة الأولى منذ الأزمة العالمية أن انقطاعات إنتاج النفط قد تجددت في العراق وليبيا، وهبطت صادرات النفط في إيران نتيجة لتشديد العقوبات عليها، وحدث انخفاض ضئيل في إنتاج النفط في المملكة العربية السعودية انعكاسا لاستمرار العرض الوفير في سوق النفط العالمية. وفي المقابل، يواصل الاقتصاد غير النفطي توسعه بوتيرة قوية في معظم البلدان، تدعمه مستويات الإنفاق العام المرتفعة والتعافي التدريجي في نمو ائتمان القطاع الخاص. ومن المرجح أن يؤدي تعافي الإنتاج النفطي وازدياد قوة الاقتصاد غير النفطي إلى رفع النمو الاقتصادي في عام ٢٠١٤.

وهناك فائض كلي في المالية العامة يبلغ حوالي ٤,٢٥% من إجمالي الناتج المحلي ويخفي وراءه مواطن ضعف أساسية. فنصف البلدان المصدرة للنفط في المنطقة لا تستطيع تحقيق التوازن في ميزانياتها العامة ولديها هوامش وقائية محدودة ضد الصدمات. ومعظم البلدان لا تدخر ما يكفي للسماح بمواصلة الإنفاق للأجيال القادمة عندما تنضب احتياطيات الهيدروكربونات. وقد بدأت بعض البلدان في سحب الدفعة التنشيطية المالية هذا العام؛ ومع ذلك، فما لم يتم إجراء مزيد من التصحيح، ستبدأ حكومات المنطقة في الإنفاق من مدخراتها بحلول عام ٢٠١٦. وتواصل الأرصدة الخارجية انخفاضها أيضا، بسبب انخفاض الإنتاج النفطي، وتصاعد الاستهلاك المحلي، وعدم كفاية وفورات المالية العامة.

وهناك توازن في المخاطر التي تواجه هذه الآفاق في دول مجلس التعاون الخليجي، بينما تميل إلى الجانب السلبي في غير دول المجلس. فمن حيث احتمالات تجاوز التوقعات، قد تؤدي زيادة أجواء عدم اليقين الجغرافية–السياسية إلى دفع

Région MOANAP : Principaux points

Les perspectives économiques à court terme pour la région du Moyen-Orient, de l'Afrique du Nord, de l'Afghanistan et du Pakistan (MOANAP) se sont assombries. Les difficiles transitions politiques, les incertitudes régionales croissantes imputables à la guerre civile complexe en Syrie, de même que l'actualité égyptienne grèvent la confiance des pays importateurs de pétrole. Entretemps, les bouleversements de l'offre intérieure et la faible demande mondiale réduisent la production pétrolière, nonobstant les récentes pressions à la hausse sur les prix du pétrole causées par l'aggravation des risques géopolitiques. La croissance dans la région MOANAP devrait baisser de 2¼ % cette année (¾ de point de pourcentage de moins que nos projections de mai 2013). La croissance devrait reprendre en 2014 lorsque les conditions mondiales s'amélioreront et que la production pétrolière reprendra. Des risques baissiers substantiels pèsent sur ces perspectives et, ce qui est plus inquiétant, la croissance restera bien inférieure au niveau requis pour réduire le chômage élevé de la région et améliorer les niveaux de vie. Dans ce contexte, la région risque d'être piégée dans un cercle vicieux de stagnation économique et de troubles sociopolitiques persistants, ce qui rend d'autant plus urgentes les actions qui doperont la confiance, la croissance et l'emploi.

Exportateurs de pétrole : risques accrus pour les recettes pétrolières et les situations budgétaires

Les bouleversements de la production intérieure de pétrole et la diminution de la demande mondiale devraient faire nettement reculer la croissance dans les pays exportateurs de pétrole de la région MOANAP, à environ 2 % cette année, après plusieurs années de forte performance. Les nouvelles difficultés de production pétrolière en Irak et en Libye, la chute des exportations pétrolières en Iran en réponse à des sanctions plus sévères, de même qu'une baisse modeste de la production pétrolière en Arabie saoudite, qui reflète un marché pétrolier mondial encore très bien approvisionné, donneront lieu à une chute de la production pétrolière régionale cette année, et ce pour la première fois depuis la crise mondiale. En revanche, l'économie non pétrolière continue de se développer à un rythme assuré dans la plupart des pays, appuyée par le niveau élevé des dépenses publiques et par une relance progressive de la croissance du crédit au secteur privé. Une reprise de la production pétrolière de même qu'un nouveau renforcement de l'économie non pétrolière permettront vraisemblablement de promouvoir la croissance économique en 2014.

Un excédent budgétaire agrégé important de plus de 4¼ % du PIB cache des vulnérabilités sous-jacentes. La moitié des pays exportateurs de pétrole de la région MOANAP ne sont pas en mesure d'équilibrer leur budget et ne disposent que d'une protection limitée contre les chocs. La plupart des pays n'épargnent pas suffisamment pour pouvoir pérenniser les dépenses pour les générations futures, une fois que les réserves d'hydrocarbures seront épuisées. Certains pays ont commencé à mettre fin aux plans de relance budgétaire cette année; pour autant, en l'absence de tout nouvel ajustement, les gouvernements de la région commenceront à dépenser leur épargne à compter de 2016. Les soldes extérieurs sont aussi en baisse à cause de la baisse de la production pétrolière, de l'augmentation de la consommation intérieure et de l'insuffisance de l'épargne budgétaire.

Pour le CCG, ces risques sont globalement équilibrés, et pour les pays hors CCG, ils sont orientés à la baisse. Sur le plan positif, les incertitudes géopolitiques croissantes pourraient faire grimper davantage les prix du pétrole. De nouveaux bouleversements de l'offre, causés par une sécurité intérieure affaiblie ou un environnement extérieur difficile, sont susceptibles de réduire la production pétrolière dans certains pays, notamment en dehors du CCG, tout en favorisant la croissance chez les fournisseurs de pétrole dont la capacité est réduite (essentiellement au sein du CCG) puisqu'ils comblent les écarts. Sur le plan négatif, le ralentissement de la demande mondiale de pétrole, causé par exemple par une baisse marquée de la croissance dans les marchés émergents ou par l'offre croissante de sources non conventionnelles, pourrait faire baisser les prix du pétrole et/ou inciter les membres de l'Organisation des pays exportateurs de pétrole (OPEP), notamment dans le CCG, à réduire l'offre.

Le pétrole mis à part, l'éventualité d'une croissance du secteur privé hors pétrole plus atone, un chômage et une inégalité plus élevés sont les principaux risques baissiers pour tous les pays exportateurs de la région si les efforts des gouvernements destinés à la diversification ne portent pas leurs fruits.

Dans ce contexte, les politiques devraient mettre l'accent sur le renforcement des positions budgétaires et le lancement de réformes structurelles afin de doper la croissance du secteur privé, la diversification et la création d'emplois. Les exportateurs de pétrole doivent rééquilibrer leur budget afin d'assurer la viabilité des finances publiques tout en limitant l'impact sur la croissance et en favorisant l'équité. Les réformes structurelles devraient inclure l'amélioration du climat des affaires et de la compétitivité, notamment dans les pays hors CCG; des mesures pour appuyer la diversification; la promotion du crédit aux petites et moyennes entreprises et l'amélioration des incitations à l'emploi des ressortissants et de la population active féminine dans le secteur privé.

Importateurs de pétrole : dynamiques politiques complexes et défis sécuritaires

La reprise économique dans les pays importateurs de la région MOANAP a subi de nouveaux revers. L'intensification des préoccupations relatives à la sécurité, les incertitudes politiques accrues et les retards de la réforme continuent de compromettre la confiance et empêchent une reprise des investissements et de l'activité économique dans de nombreux pays. La guerre civile dévastatrice en Syrie et les événements récents en Égypte ont fait naître des inquiétudes sur les retombées régionales, ce qui complique davantage la gestion économique. Même si des signes d'amélioration apparaissent dans le tourisme, les exportations et les investissements directs étrangers (IDE) dans certains pays, la reprise économique dans les pays importateurs de pétrole de la région MOANAP reste atone avec une croissance d'environ 3 % en 2013–14, ce qui est nettement inférieur au taux de croissance nécessaire pour réduire le chômage persistant et améliorer les niveaux de vie.

Des facteurs intérieurs et régionaux sont les principales sources des risques baissiers. Une amélioration insuffisante des conditions économiques risque d'aggraver les tensions sociopolitiques et de causer de nouvelles déconvenues dans nombre de pays en transition, ce qui ralentirait d'autant plus la reprise économique, débouchant éventuellement sur un cercle vicieux. En outre, une détérioration de la situation en Égypte compromettrait davantage la confiance et les perspectives de reprise. Une nouvelle escalade du conflit en Syrie intensifierait les pressions sur les pays voisins (Iraq, Jordanie, Liban), car ces pays accueilleront des flux croissants de réfugiés. Dans un scénario plausible, sous réserve que les risques intérieurs et régionaux se concrétisent en partie, la croissance pourrait chuter à 1¾ % l'année prochaine, quoiqu'un choc plus grave ou plusieurs chocs extérieurs et intérieurs conjugués puissent mettre la croissance au point mort et faire nettement augmenter le chômage. Qui plus est, les tensions géopolitiques pourraient se traduire par une envolée des prix du pétrole qui, si elle était soutenue, nuirait à la croissance et creuserait les déficits budgétaires et extérieurs (bien que pour quelques pays du Mashreq, les effets seraient atténués du fait des liens solides avec le CCG). Un affaiblissement de l'environnement extérieur, par exemple, une croissance inférieure aux prévisions dans les BRICS (Brésil, Russie, Inde, Chine, Afrique du Sud) et/ou dans les pays du CCG, ou une période prolongée de ralentissement de la croissance européenne, aurait des conséquences pour le tourisme, les échanges, les envois de fonds et les flux de capitaux.

Les faibles marges de manœuvre extérieures et budgétaires des pays importateurs de pétrole de la région MOANAP les rendent très vulnérables aux chocs. Les réserves de change s'épuisent et les déficits des comptes courants restent sérieux dans de nombreux pays. Le niveau d'endettement public élevé ou croissant est préoccupant; il trouve son origine dans de profonds déficits budgétaires persistants qui sont le résultat des fortes pressions que fait naître le chômage élevé en faveur de subventions et autres dépenses sociales. Même lorsque les pays sont conscients de la nécessité du rééquilibrage des finances publiques, les déficits budgétaires continuent

d'augmenter dans la plupart d'entre eux et les plans d'assainissement budgétaire à moyen terme ne sont pas toujours clairs.

Dans cet environnement caractérisé par la nette aggravation des risques qu'engendrent les incertitudes politiques et les tensions régionales croissantes, les objectifs sont triples : 1) promouvoir l'activité économique et créer des emplois pour aider à soutenir les transitions sociopolitiques; 2) faire progresser l'assainissement des finances publiques afin de rétablir la viabilité de la dette et de reconstituer les marges de manœuvre qui protègent l'économie des chocs imprévus et 3) lancer sans retard des réformes structurelles qui amélioreront le climat des affaires et la gouvernance et promouvront l'équité :

1) *Créer des emplois.* Le chômage élevé et croissant, qui sévit dans de nombreux pays dans un climat de grandes incertitudes politiques et de fragilité du tissu social, exige de mettre l'accent sur la promotion de la croissance économique et la création d'emplois. La lenteur de la reprise des investissements privés suggère que le gouvernement doit jouer un rôle clé pour doper l'activité économique à court terme. Compte tenu du peu de marge de manœuvre que permettent les déficits budgétaires de nombreux pays, il est nécessaire de réorienter les dépenses consacrées aux subventions généralisées vers des investissements publics qui favorisent la croissance, tout en améliorant la protection des groupes vulnérables grâce a une assistance sociale bien ciblée. Les partenaires extérieurs pourraient étayer cette priorité en offrant un financement supplémentaire pour les dépenses d'investissements publics et les services de base en faisant appel aux cadres de politique adéquats qui existent déjà.

2) *Rééquilibrage des finances publiques.* Compte tenu des plus vives inquiétudes que suscitent la viabilité de la dette et l'érosion des marges de manœuvre budgétaires et extérieures, la plupart des pays doivent commencer à assainir leurs situations budgétaires. Ceci étant, dans certains cas, il pourrait être possible d'introduire progressivement l'ajustement budgétaire afin de limiter son impact sur l'activité économique à court terme. La faisabilité de cette progression dépendra d'une stratégie crédible d'assainissement des finances publiques à moyen terme afin d'assurer que les investisseurs intérieurs et extérieurs sont toujours prêts à offrir un financement adéquat. Une souplesse accrue du taux de change peut être envisagée pour appuyer l'assainissement des finances publiques, car elle peut contribuer à amortir l'impact à court terme du rééquilibrage budgétaire sur la croissance et aider à reconstituer les réserves internationales.

3) *Réformes structurelles.* Un ambitieux programme de réformes structurelles est essentiel pour doper l'activité du secteur privé et encourager une économie plus dynamique, compétitive et solidaire. Les réformes doivent insister sur une myriade de domaines, notamment l'amélioration de la réglementation et de la gouvernance des entreprises, l'élargissement de l'accès des entreprises et des consommateurs au financement, des politiques du marché du travail qui appuient la création d'emplois et les opportunités d'emploi, tout en protégeant les plus vulnérables par une assistance sociale bien ciblée. Les premières étapes dans ce domaine peuvent témoigner de la résolution des gouvernements à procéder à des réformes et à améliorer la confiance.

Le besoin d'améliorer la situation économique et les niveaux de vie de la région est énorme, mais le potentiel économique et humain l'est aussi. La lenteur de la reprise économique et la progression du chômage montrent à quel point il est urgent de procéder à des réformes. Il est essentiel de progresser rapidement sur les trois fronts prioritaires — avec l'appui de la communauté internationale sous la forme d'un financement accru, d'un meilleur accès aux marchés et d'une assistance technique — pour commencer à recueillir les dividendes des récentes transitions économiques et politiques attendus de longue date.

Région MOANAP : Principaux indicateurs économiques, 2000–14

(Pourcentage du PIB, sauf indication contraire)

	Moyenne						Projections	
	2000–07	2008	2009	2010	2011	2012	2013	2014
MOANAP[1]								
PIB réel (croissance annuelle)	5,7	5,0	2,8	5,2	3,9	4,6	2,3	3,6
Solde transactions courantes	9,3	12,9	1,7	6,5	13,3	12,1	9,4	8,6
Solde budgétaire global	3,4	6,6	–2,8	–0,3	2,3	1,5	–0,4	–0,6
Inflation, p.a. (croissance annuelle)	6,5	13,2	7,1	6,9	9,9	11,2	12,8	10,4
Exportateurs de pétrole de la région MOANAP								
PIB réel (croissance annuelle)	6,1	4,7	2,3	5,9	4,6	5,4	1,9	4,0
Solde transactions courantes	13,4	18,4	4,3	10,1	18,6	17,4	13,9	12,4
Solde budgétaire global	7,8	13,0	–1,5	2,6	6,9	6,3	4,2	3,0
Inflation, p.a. (croissance annuelle)	7,5	13,4	5,3	6,1	9,8	12,1	15,1	11,3
Dont : Conseil de Coopération du Golfe								
PIB réel (croissance annuelle)	5,9	7,8	0,9	6,4	7,7	5,2	3,7	4,1
Solde transactions courantes	15,3	21,1	6,6	12,4	23,7	24,4	21,3	19,8
Solde budgétaire global	12,0	24,0	–0,7	3,6	11,2	13,9	10,8	9,4
Inflation, p.a. (croissance annuelle)	2,2	8,4	2,8	2,6	3,1	2,4	3,2	3,4
Importateurs de pétrole de la région MOANAP								
PIB réel (croissance annuelle)	5,1	5,7	3,8	3,9	2,4	3,0	3,1	2,9
Solde transactions courantes	–0,8	–4,0	–4,6	–3,0	–3,5	–5,8	–4,8	–3,5
Solde budgétaire global	–4,6	–5,5	–5,1	–5,9	–7,0	–8,4	–9,7	–8,0
Inflation, p.a. (croissance ann.)	4,9	12,9	10,4	8,6	9,9	9,4	8,3	8,7
MOAN[1]								
PIB réel (croissance annuelle)	5,8	5,0	3,0	5,5	3,9	4,6	2,1	3,8
Solde transactions courantes	10,2	14,4	2,3	7,2	14,3	13,2	10,3	9,3
Solde budgétaire global	4,3	8,4	–2,5	0,4	3,5	2,8	0,6	0,0
Inflation, p.a. (croissance annuelle)	6,6	13,5	5,8	6,6	9,4	11,2	13,6	10,8
Importateurs de pétrole de la région MOAN								
PIB réel (croissance annuelle)	5,0	6,1	4,9	4,3	1,6	2,0	2,8	3,1
Solde transactions courantes	–1,2	–2,6	–4,4	–3,4	–5,1	–7,7	–6,7	–4,9
Solde budgétaire global	–5,4	–4,7	–5,3	–6,0	–7,2	–8,7	–10,7	–9,6
Inflation, p.a. (croissance annuelle)	4,5	13,6	7,3	8,0	7,9	8,6	9,0	9,2
Pays arabes en transition (hors Libye)								
PIB réel (croissance annuelle)	4,8	6,3	4,5	4,7	1,1	2,5	2,9	3,2
Solde transactions courantes	0,8	–2,5	–3,7	–3,1	–5,0	–5,8	–4,7	–3,4
Solde budgétaire global	–5,4	–5,2	–5,8	–6,2	–7,9	–9,1	–11,2	–10,1
Inflation, p.a. (croissance annuelle)	5,0	14,0	7,7	8,4	7,9	6,3	7,2	8,1

Sources : autorités nationales; calculs et projections des services du FMI.

Note : Les données se rapportent à l'exercice budgétaire pour les pays suivants : Afghanistan (21 mars/20 mars jusqu'en 2011 et 21 décembre/20 décembre par la suite), Iran (21 mars/20 mars), Qatar (avril/mars) et Égypte et Pakistan (juillet/juin), excepté dans le cas de l'inflation.

[1] Les données de 2011–14 excluent la République arabe syrienne.

MOANAP: 1) Exportateurs de pétrole : Algérie, Arabie saoudite, Bahreïn, Émirats arabes unis, Iran, Iraq, Koweït, Libye, Oman, Qatar et Yémen. 2) Importateurs de pétrole : Afghanistan, Djibouti, Égypte, Jordanie, Liban, Maroc, Mauritanie, Pakistan, Soudan, Syrie et Tunisie. MOAN : MOANAP à l'exclusion de l'Afghanistan et du Pakistan. 3) Pays arabes en transition (à l'exclusion de la Libye) : Égypte, Jordanie, Maroc, Tunisie et Yémen.

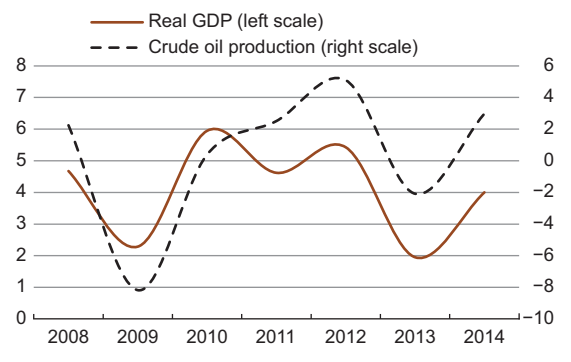
1. MENAP Oil Exporters: Heightened Risks to Oil and Fiscal Positions

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.

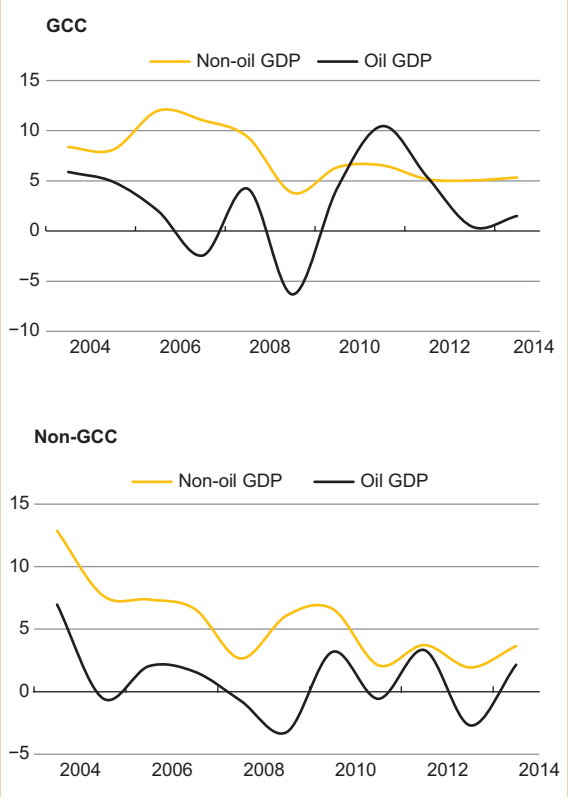
[1] Unless otherwise specified, "oil" refers to liquids and gasses.

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.

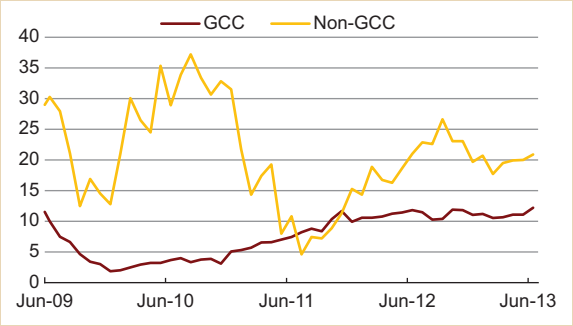
Inflation remains subdued in most countries, given the benign global inflationary environment. Prices of wheat and other international foods are falling thanks to favorable harvests in many agricultural commodity producers this year. More generally, import price inflation remains low, given subdued growth 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)



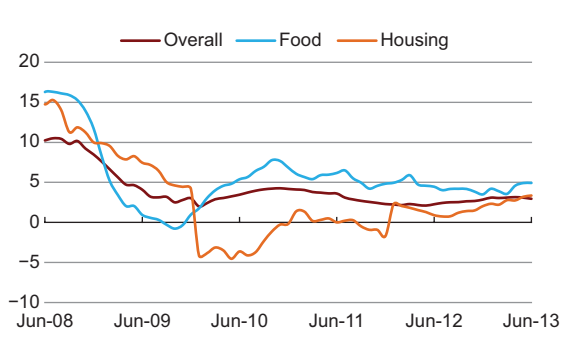
Sources: National authorities; and IMF staff calculations.

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



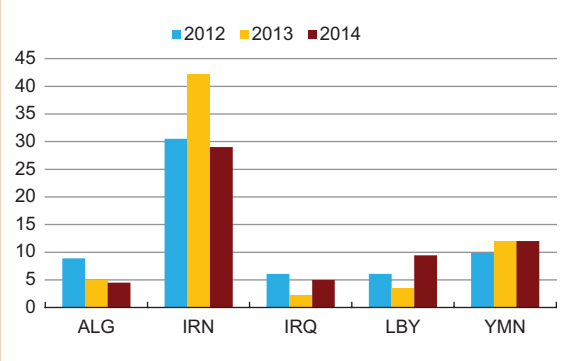
Sources: National authorities; and IMF staff calculations.

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.

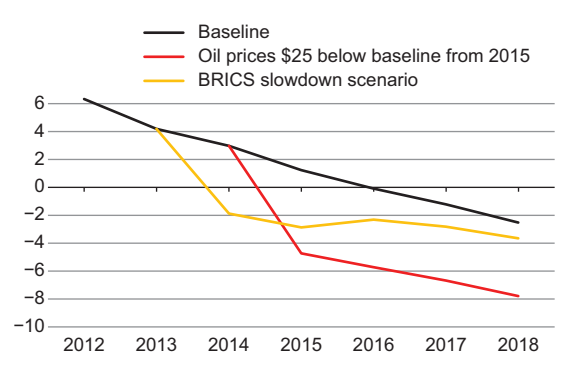
Fiscal Space and Intergenerational Equity

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)

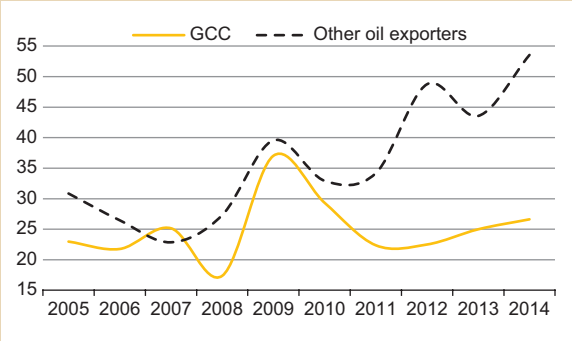


Sources: National authorities; and IMF staff calculations.
Note: BRICS = Brazil, Russia, India, China, and South Africa.

Figure 1.7

Public Sector Wages and Salaries Have Outpaced Revenues

(Percent of budgeted oil revenues)



Sources: National authorities; and IMF staff calculations.

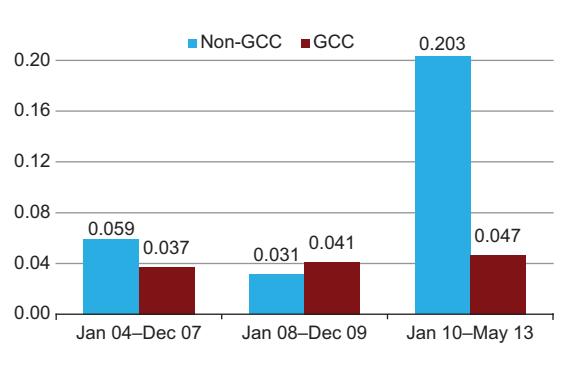
Fiscal vulnerability to a sustained decline in oil production and prices has risen. The volatility of oil production has increased during the past decade as a result of supply disruptions and actions to maintain balance in global oil markets (Figure 1.8). Rising oil production volatility implies increasing 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).

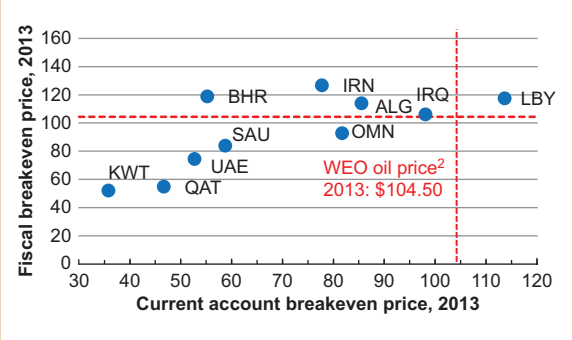
Consolidation is starting in some countries but is not fast enough. The appropriate pace and composition of consolidation depends on trade-offs between the urgency of rebuilding buffers, securing long-term sustainability, and the near-term impact on growth and inequality (Annex 4). Governments will need 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.

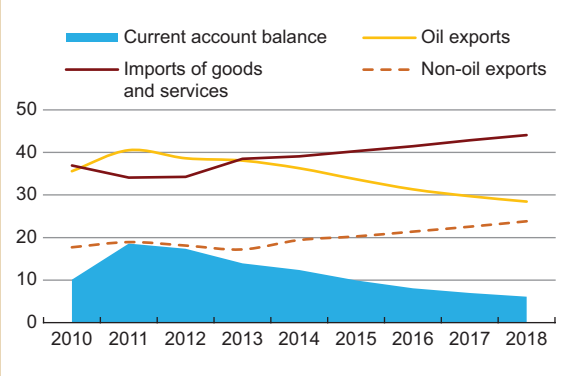
almost 4 percent of non-oil GDP to 40½ percent between 2012 and 2014. Nonetheless, nominal expenditures will keep rising, hydrocarbon revenues will likely fall, and nonhydrocarbon receipts will not make up the difference. As a result, fiscal balances are expected to keep falling, and a fiscal deficit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

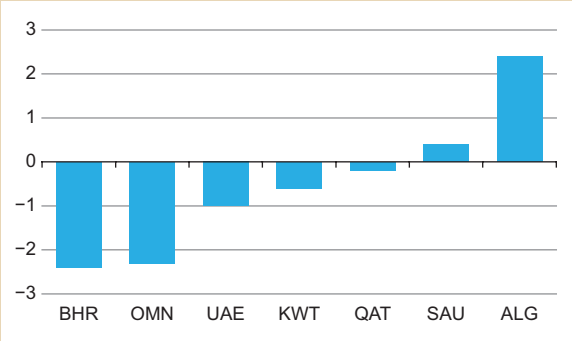
Against the backdrop of an uncertain oil revenue outlook and declining fiscal buffers, MENAP countries are attempting to diversify their economies away from oil. MENAP oil exporters have made significant efforts in this direction. However, as is the case internationally, the record in fostering self-propelled 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.

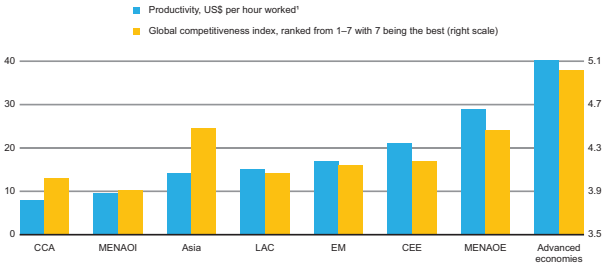
Box 1.1

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):

Figure 1.1.1

Low Labor Productivity in MENAOI and CCA Coincides with Low Competitiveness

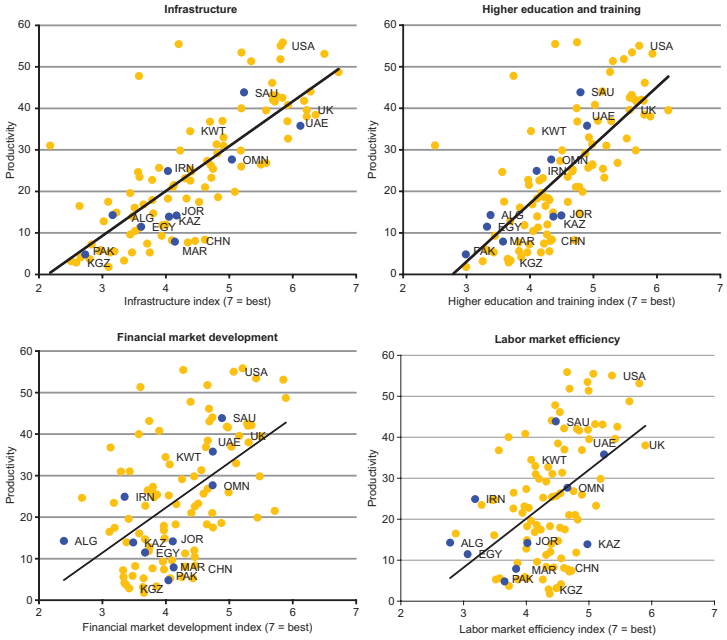


Sources: National authorities; and IMF staff calculations.
Note: CEE = Central and Eastern Europe; EM = emerging markets; LAC = Latin America and the Caribbean; MENAOE = MENA oil exporters; MENAOI = MENA oil importers.
¹For all oil exporters, productivity calculations are based on non-oil GDP.

- *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 1.1.2

What's Behind Low Labor Productivity?



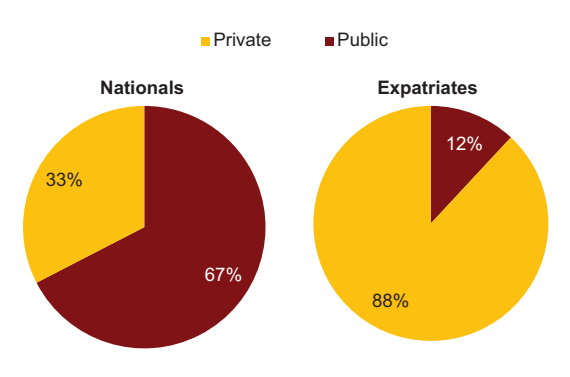
Sources: National authorities; and IMF staff calculations.
Note: CHN= China; UK = United Kingdom; USA = United States.

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

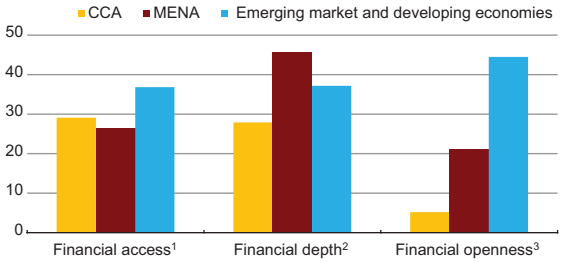
Role of Financial Development in Promoting Economic Growth and Reducing Income Inequality and Poverty in MENA and CCA

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.

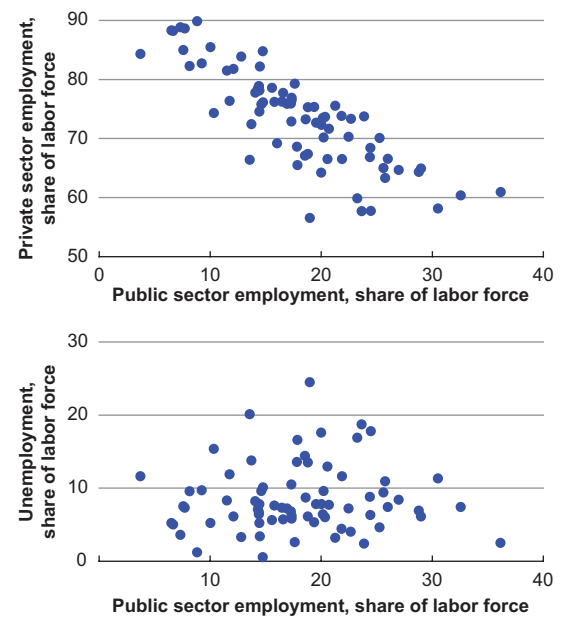
[1] The study covers the following MENA and CCA countries: Algeria, Armenia, Azerbaijan, Djibouti, Egypt, Georgia, Iran, Iraq, Jordan, Kazakhstan, the Kyrgyz Republic, Mauritania, Morocco, Syria, Tajikistan, Turkmenistan, Uzbekistan, and Yemen. The lack of data prevented the inclusion of other MENA and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

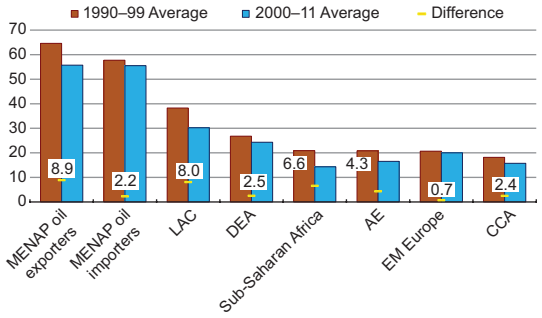
Across the world, access to economic opportunity remains segregated along gender lines. Despite significant progress in recent years, female labor force participation remains lower than that of men (Figure 1.3.1). Women's preference for work can reflect an informed decision to contribute to economic 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)

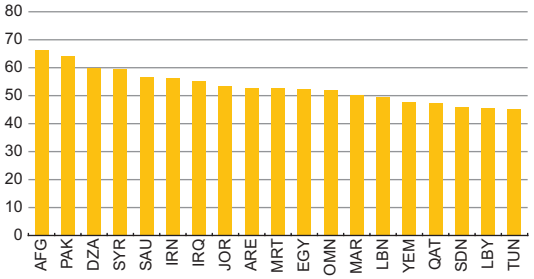


Sources: World Bank, World Development Indicators; and IMF staff estimates.
Note: AE = advanced economies; DEA = developing and emerging asia; EM = emerging market; LAC = Latin America and the Caribbean.
[1]Defined as male less female labor force participation rate.

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.

Prepared by Pritha Mitra and Sanaa Farid with research assistance from Gohar Abajyan and Mark Fischer, and supervised by Ralph Chami, Jean-Francois Dauphin, Amine Mati, and Harald Finger.

[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)*

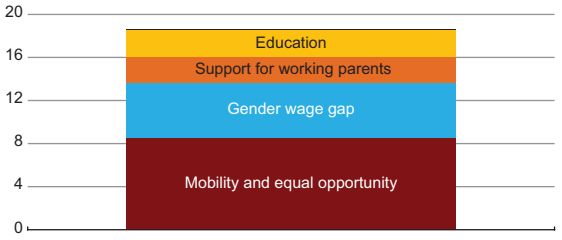
potential as women increase their contribution to broader economic development, including improved health and education for children, poverty reduction, greater innovation and productivity, and creation of new jobs by female entrepreneurs.

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]

---

[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.

2. MENAP Oil Importers: Complex Political Dynamics and Security Challenges

Widespread uncertainties from complex political transitions and intensifying social tensions are thwarting economic recovery; in this atmosphere, limited progress has been made so far in building consensus for much-needed fiscal and structural reforms. Growth is expected to remain significantly below the levels necessary to reduce the region's high unemployment and improve living standards in the near and medium terms. Looming fiscal and external vulnerabilities, as well as rising domestic, regional, and geopolitical tensions, mean that the MENAP oil importers are increasingly susceptible to downside risks. The same conditions that make it difficult to focus on the necessary policy actions, however, show the urgency of the need for such actions to ensure macroeconomic stability, create jobs, and improve living standards. Measures that can raise employment and confidence quickly, as well as stepped-up international assistance, are needed to buttress deep reform and stabilization efforts that will lay the foundation for higher, sustainable, and more inclusive growth. Absent success, the MENAP oil-importing countries risk being drawn into a vicious cycle of economic stagnation and persistent socioeconomic strife.

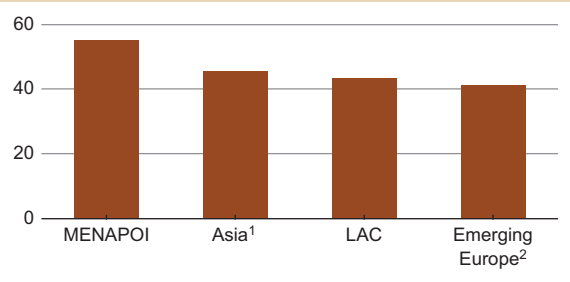
Tension and Conflict Impair Economic Activity

Political and regional dynamics continue to shape economic developments across the MENAP oil importers. Political risks are among the highest across emerging and developing regions (Figure 2.1). The intensifying conflict in Syria (Box 2.1) and political developments in Egypt and Tunisia have heightened concerns of wider destabilization. Spillovers from these countries, as well as bouts of social unrest and escalating security concerns, complicate economic management. Upcoming elections (all in 2013–14) further increase policy uncertainty in Afghanistan, Lebanon, and Mauritania. Only Morocco, and, more recently, Jordan, Morocco, and Pakistan, have newly formed governments that have the multiyear horizon needed to enact reforms for growth and employment; but even in these countries, reform prospects are uncertain, given the challenge of building strong public consensus for difficult economic reforms.

Figure 2.1

High Political Risk

(100 represents the highest political risk)



Sources: PRS group; and IMF staff calculations.
[1]Excludes Japan, Korea, Singapore, and Taiwan.
[2]Includes Belarus, Moldova, Russia, and Ukraine.
Note: LAC = Latin America and the Caribbean; MENAPOI = MENAP oil importers.

Weak confidence undermines domestic economic activity. Across the region, investment is restrained, deterred by sociopolitical uncertainties, lack of a credible medium-term policy agenda, and—in Egypt, Lebanon, and Pakistan—electricity supply disruptions. Corporate risk premiums remain high (Figure 2.2), and credit growth is low because of weak demand and only gradually declining nonperforming loans (NPLs). Stock markets, not yet recovered to pre–Arab Spring levels, remain weak. Domestic activity is sustained by consumption, which, in turn, is underpinned

Prepared by Pritha Mitra with input from country teams, and research assistance by Gohar Abajyan and Lisa Dougherty-Choux.

Box 2.1

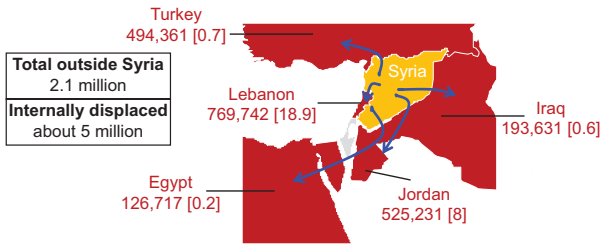
The Syrian Conflict and Its Regional Ramifications

The humanitarian and economic cost of the Syrian crisis is tragic, with heightened risks for regional stability, and adverse socioeconomic, political, and security implications for neighboring countries.

The conflict, now in its third year, has led to more than 100,000 casualties to date. The United Nations estimates that 5 million people have become internally displaced and close to 7 million people are in need of humanitarian assistance inside Syria. Humanitarian relief and access continue to be restricted because of difficult security and political conditions. Additionally, more than 2 million Syrians are now refugees in neighboring countries, resulting in severe repercussions for host countries, particularly Jordan and Lebanon (Figure 2.1.1). The average daily outflow of refugees has hovered around 6,500 so far in 2013. Aid efforts aimed at providing safe drinking water, better sanitation, food rations, and health supplies to refugees are also facing difficulties.

Figure 2.1.1

Estimate of Refugee Flows from Syria[1]



Source: U.N. Refugee Agency, Information Sharing portal: Syria Regional Refugee Response.

[1]As of September 29, 2013. Figures reflect the number of refugees registered or awaiting registration. Figures in brackets denote the share of Syrian refugees in the host country's population.

The Syrian economy has been devastated by the conflict. The consensus holds that the economy has contracted significantly, by about one-quarter to one-third, and the country's physical and social infrastructure and capital stock have suffered significant destruction. Activity is estimated to have declined across all key sectors, including agriculture, transportation, construction, trade, and oil. The Syrian pound lost more than 65 percent of its value against the U.S. dollar in both the official and parallel markets, and inflation has reportedly exceeded 65 percent. More than half of the Syrian labor force is estimated to have become unemployed. The fiscal deficit has likely widened—particularly in view of oil revenue losses—and the external and financial sector positions are expected to have worsened significantly. Investment activity has reportedly come to a halt.

The Syrian crisis is posing significant challenges to neighboring countries. Jordan and Lebanon have been severely affected by the crisis. They are hosting more than half of the total refugees, and economic, social, and political pressures are high. There also have been important implications for Iraq, particularly related to security.

The crisis is straining Jordan's social, economic, and fiscal conditions. As of end-September 2013, officially registered Syrian refugees in Jordan amounted to about 8 percent of Jordan's population. Of these, more than one-fourth (121,000) were hosted at Zaatari camp, close to the border with Syria. Despite donor and international assistance, the inflow of refugees has presented Jordan with additional fiscal pressure (estimated by the Jordanian authorities at 1 percent of GDP for 2012 for the public sector, including utility companies), mostly for education and health care needs as well as increased security outlays. About 32,000 Syrian students attend schools in Jordan, and 12,000 students are awaiting registration; some 4,000 students benefit from a school feeding program. Furthermore, the increased demand by refugees has raised rental costs and housing prices and is straining the domestic labor market as refugees compete with locals (and Egyptian migrant workers) for jobs, particularly in the informal market. This competition for jobs is exacerbating the already high unemployment rate, which stood at 12.2 percent in 2012.

Prepared by Randa Sab, Amgad Hegazy, Alina Luca, Dmitriy Rozhkov, and Kusay Alkhunaizi, and supervised by May Khamis.

Box 2.1 (*concluded*)

On the economic front, the crisis has disrupted transit trade through Syria, although Jordan's diversified trade channels have mitigated the impact so far.[1] It is difficult to disentangle the impact of Syria from general regional uncertainty, but events in Syria contributed to a decline in foreign direct investment inflows into Jordan from an average of 8 percent of GDP in 2009–10 to an estimated 4.5 percent in 2012. Tourism income, despite recovering partially in 2012 to 11 percent of GDP, was still below the average precrisis level of 13 percent seen in 2009–10.

Lebanon's economy has been hit hard, and sectarian tensions have increased. One-third of Syrian refugees were located in Lebanon by end-September 2013, equivalent to about 19 percent of Lebanon's population. Lebanon needs more international support to help it cope with the Syrian crisis; the cost of refugees is straining the country's already weak public finances as the government faces rising health care, education, and security costs. Furthermore, the Syrian conflict has raised political tensions in Lebanon, and is contributing to difficulties in forming a new government (a caretaker government has been in place since April 2013).

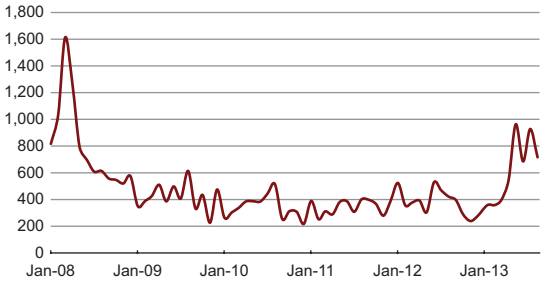
The Syrian conflict has also had a devastating impact on Lebanon's economy. Real GDP growth is estimated to have declined from 8 percent on average during 2009–10 to 1.5 percent in 2012, partly as a result of a sharp decline in tourism and related industries. Although bilateral trade accounted for only 6–9 percent of Lebanon's exports of goods and services before the conflict, transit trade and tourism from and to Lebanon through Syria were reportedly substantial and have been seriously affected by the conflict. The number of tourists to Lebanon declined by 32 percent in 2012 compared with its 2009–10 average, particularly after GCC countries advised their nationals against travel to Lebanon. Deposit growth has moderated to about 8 percent annually in 2013 from 18 percent on average during 2009–10, while foreign direct investment inflows are estimated to have been about 7 percent of GDP in 2012, down from 12.7 percent, on average, during 2009–10. Lebanese banks have contained their direct exposures to Syria, halving these exposures and increasing provisions.

Iraq's security conditions and trade with Syria have been severely affected. Concurrently with the escalation in Syria, the security situation deteriorated dramatically in Iraq. In the first quarter of 2013, protests against the de-Baathification and antiterrorism laws erupted in Anbar province on the border with Syria. The subsequent countrywide escalation in sectarian violence led to a steep increase in deaths, which in July reached their highest monthly level since 2008 (Figure 2.1.2). The economic disruption in Syria—in the past Iraq's main trade route to the Mediterranean—and the worsening security conditions have brought imports to Iraq from and through Syria almost to a halt, down from 15–20 percent before the conflict. Moreover, the influx of Syrian refugees to Iraq, equivalent to less than 1 percent of Iraq's population at end-September 2013, is accelerating, particularly from the Kurdistan region of Syria, placing further demand on already strained public services.

Figure 2.1.2

Iraq: Violence Indicator, January 2008–August 2013

(Documented civilian deaths from violence per month[1])



Source: Iraq Body Count; and United Nations Assistance Mission for Iraq (UNAMI).

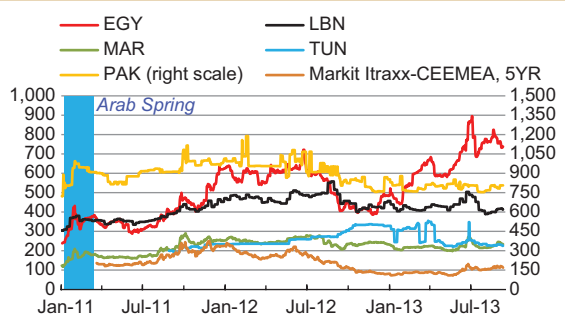
[1]Data for May–August 2013 are taken from UNAMI press releases.

[1] Pre-conflict bilateral trade with Syria was very small, around 3 percent of total trade.

Figure 2.2

Credit Default Swap Spreads Indicate High Risk Premiums

(Basis points, January 1, 2011–September 11, 2013)

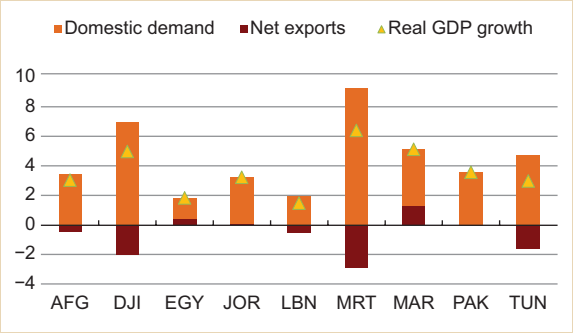


Sources: Bloomberg, L.P.; Markit; and IMF staff calculations.

Figure 2.3

Domestic Demand Dominates Contributions to Real GDP Growth

(Percent, 2013)



Sources: National authorities; and IMF staff calculations.

by large public wage bills, energy subsidies, and remittances, mostly from Europe and the GCC (Figure 2.3). Morocco is an exception this year: an extraordinary post-drought agricultural rebound underlies growth. Djibouti, Mauritania, and Sudan also diverge from the regional growth trends: in Djibouti, strong port activity continues to attract foreign direct investment (FDI) and construction, and in Mauritania a thriving mining sector and public infrastructure work buoy growth. Sudan's growth, however, is still sensitive to its relations with South Sudan. For most economies, high unemployment (especially for youth and women) and large disparities in socioeconomic conditions persist and continue to fuel social discontent. The situation in Somalia, which recently resumed relations with the IMF, is particularly challenging (Box 2.2).

External activity also remains subdued because of the weak global recovery. Nascent improvements in exports, tourism, and FDI largely reflect only partial recovery after major disruptions early in the Arab Spring and, in some cases, increased investment interest in mining sectors and improved competitiveness resulting from exchange rate depreciation (Figure 2.4). Tourist arrivals in North Africa continue to suffer from sociopolitical uncertainties in the region and subdued growth in the euro area. Diversification toward lower-value-added package tourism has supported receipts. Jordan's tourism has picked up with the diversion of GCC tourists from Lebanon. Remittances, mostly from Europe and the GCC, are holding up.

The region's recovery remains sluggish, and expectations of a pickup in activity are once again delayed. Real GDP growth is forecast to be 3 percent for 2013–14, substantially below the average of emerging markets and developing countries, and about the same as last year (Figure 2.5). Growth is not expected to pick up next year as the still-difficult sociopolitical environment in many countries delays a broader return of private sector confidence, while planned fiscal consolidation weighs on public demand.[1] The global environment is projected to strengthen gradually, but still-weak growth in Europe, the main trading partner of North African countries, will continue to limit the pickup in external demand.

[1] Annex 4 highlights fiscal policy tools that can minimize the adverse impact on growth while promoting equity considerations.

Box 2.2

Somalia: Reengaging with the IMF

In April 2013, the IMF recognized the Federal Government of Somalia (FGS) as the government of Somalia, resuming normal relations after an interruption of more than 20 years. The recognition allows the FGS to exercise Somalia's rights and obligations of membership in the IMF; however, Somalia is currently not eligible to access financial support in the context of a financial program, pending the clearance of arrears to the IMF, which currently stand at about 234 million special drawing rights (equivalent to about US$355 million).

Context and Recent Developments

The political situation remains fragile. Large parts of the country still remain beyond the control of the central government or have separated and declared self-rule. Rebuilding critical infrastructure and delivering basic social and economic services will be crucial as the new government works to gain the trust of the Somali people, advance the process of national reconciliation, and extend its authority over all parts of the country.

What little is known about the economic situation in Somalia is based on partial and anecdotal evidence. Somalia has remained without a recognized government during the more than 20 years of intermittent war and civil strife among clans and regions, resulting in the complete destruction of most of the institutions of government. The limited evidence about economic conditions suggests that economic activity has started to pick up more recently, the main sectors of production being livestock, fisheries, logging, and a number of services, such as communications, construction, and money transfer. The rebound in economic activity has been driven by the return of Somalis living abroad and by continued buoyant remittances from the Somali diaspora.

IMF Engagement and Next Steps

IMF staff has started to provide policy and technical advice to the Somali authorities. The first formal contacts took place in April 2013, during the IMF/World Bank Spring Meetings, and in June, a staff team met with the Somali authorities in Nairobi. The IMF's work on Somalia will be on three fronts: (1) conducting surveillance and providing policy advice, (2) preparing the ground for a staff-monitored program and debt relief, and (3) devising a comprehensive and sustained program to develop capacity. Particularly on the latter, IMF staff will focus on delivering technical assistance on national accounts and prices, tax policy and administration, and central banking and currency reforms.

Stepping up the IMF's surveillance and policy advice will be contingent on economic and institutional conditions in the country, in particular, improvements in the compilation and dissemination of key economic statistics. In addition, the pace of the IMF's reengagement with Somalia will depend critically on progress toward peace and reconciliation among the different regions and stakeholders.

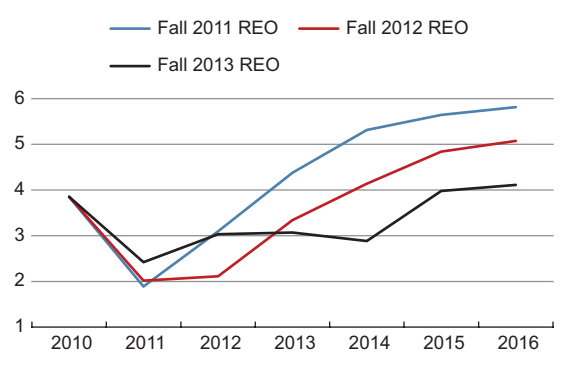
Prepared by Gamal El-Masry.

Inflation, though declining since 2011, remains above 8 percent (Figure 2.6). Falling global food and energy prices, along with weak domestic activity and below-potential economic growth, have been dampening inflation; however, ongoing and planned phasing out of energy subsidies, public sector wage increases, and monetization of deficits are sustaining inflationary pressures. In some countries (for example, Pakistan and Sudan), past exchange rate depreciations are also contributing to inflation. On balance, headline inflation is expected to rise by about ½ percentage point to 8¾ percent in 2014. To the extent that accommodative monetary policy is successful in raising low credit growth, it could also add to the pressures.

Figure 2.4
Signs of Life in Goods Exports and Tourist Arrivals
(Index; 2009 = 100, exports series is 3-month moving average; tourist arrivals series is seasonally adjusted)

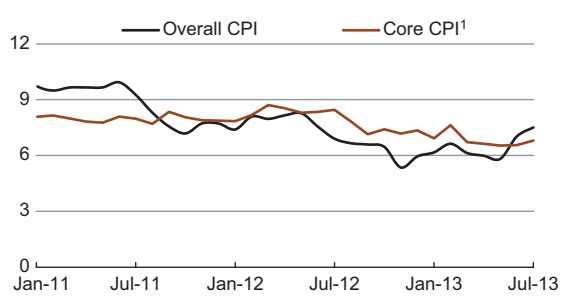
Sources: Haver Analytics; national authorities; U.N. World Tourism Barometer; and IMF staff calculations.
[1]Includes Egypt, Jordan, Lebanon, Morocco, and Tunisia.

Figure 2.5
Real GDP Growth Forecasts Revised Downward
(Annual percent change)



Sources: National authorities; and IMF staff calculations.

Figure 2.6
Inflationary Pressures Persist
(Consumer prices; period average, annual percentage change)



Sources: Haver Analytics; and national authorities.
[1]Excluding Sudan.
Note: CPI = consumer price index.

Downside Risks Are Significant

Domestic and regional factors are the main sources of downside risks. Setbacks in political transitions, vested interests delaying reforms, further intensification of social and security tensions, or regional spillovers from Syria or, to a lesser extent, Egypt would further damage confidence. A weaker growth scenario shows that growth in 2014 could fall to 1¾ percent (or 1¼ percentage point lower than the baseline) and unemployment would rise sharply if these risks were to even partially materialize (Box 2.3). For example, if Afghanistan's upcoming elections are contested, the political situation could rapidly deteriorate and further raise policy and security uncertainties. In Pakistan, a surge in domestic sectarian violence would batter confidence. Paralyzed domestic politics and social unrest (or simply fear of it in Morocco) would delay much-needed reforms in Egypt, Morocco, and Tunisia. In Mauritania, social unrest could also lead to extensive mining sector strikes. A deeper slowdown caused by a further deterioration in domestic confidence, with growth coming to a halt, also cannot be precluded. On the upside, which appears less likely in the near term, faster progress in political transitions, resulting in the emergence of governments with longer time horizons and credible reform plans, could rapidly boost domestic confidence and economic activity.

External risks are also mostly tilted to the downside. Slow growth in Brazil, Russia, India, China, and South Africa (the BRICS) or in GCC countries, or protracted stagnation in the euro area, could weigh on tourism, trade, remittances, and capital flows (especially sovereign financing). A tightening of global financial conditions accompanied by a significant rise in risk premiums for emerging economies could result in lower FDI and higher external financing costs (Annex 2); however, it is unlikely to substantially change rollover risk for most countries because their financing costs are already very high—reflecting large risk premiums, especially for MENAP oil importers with fixed

Box 2.3

MENAP Oil Importers: Weaker Growth Scenario

Civil unrest and political divisions are high across the region and may intensify in the coming months, possibly involving an escalation of the war in Syria, a worsening of developments in Egypt, heightened security concerns in Pakistan and Afghanistan, as well as increased domestic political uncertainty. The economic repercussions of such shocks would be manifold, stalling growth, widening fiscal and external balances, and raising inflation and financial market volatility. Under a plausible set of country-specific assumptions about a further escalation of domestic and regional tensions (yet stopping short of a full-blown regional crisis), growth in MENAP oil importers is estimated to decline from about 3 percent to about 1¾ percent in 2014. Unemployment would rise by about 1 percentage point or 1½ million people. Stronger shocks to confidence could bring the economy to a halt.

MENAP oil importers are at high risk of experiencing domestic and regional adverse shocks in the next year. Possible sources of these shocks are varied but center on political and security developments. If Afghanistan's upcoming elections are contested, the political situation could rapidly deteriorate, intensifying policy and security uncertainties as international troops withdraw. In Pakistan, underlying political and social tensions could prompt a surge in domestic sectarian violence. Sudan's upcoming presidential elections, as well as serious security concerns along the border with South Sudan, could halt economic reforms. Domestic political paralysis and heightened social unrest stemming from recent political developments could further delay much-needed reforms in Egypt and Tunisia. Reforms could also be delayed in response to fears of social unrest or if the cabinet reshuffle is not completed soon in Morocco. Social discontent could spark widespread mining strikes in Mauritania. Political tensions in Lebanon could increase with accelerated spillovers from Syria. A deepening of Syria's economic and humanitarian crisis would further devastate the economy and accelerate the influx of refugees to Lebanon and Jordan (Box 2.1). Jordan could also be forced to import more expensive energy inputs if cheap Egyptian gas supplies are further disrupted.

Realization of these shocks would have severe consequences for growth and fiscal balances. In all cases, a contraction of economic confidence would likely dampen tourism, exports, foreign direct investment, and domestic activity. Under a plausible set of country-specific assumptions, regional growth would fall from 3 percent to 1¾ percent in 2014, while stronger shocks could even lead to stagnating output. Insufficient improvement in economic conditions risks reinforcing sociopolitical frictions and dealing further setbacks to political transitions in many countries, thereby causing further delays in the economic recovery, potentially leading to a vicious cycle. Fiscal deficits in the weaker-growth scenario would widen in line with lower tax revenues, increased wage bills, and social and security spending pressures. Meanwhile, needed reforms, particularly to wasteful subsidies, would be delayed. Mauritania is an exception: lower revenues are expected to be offset by reduced investment spending. In Lebanon, weak confidence could result in reduced depositor inflows, and could increase financing pressures and rollover risk in the government debt market.

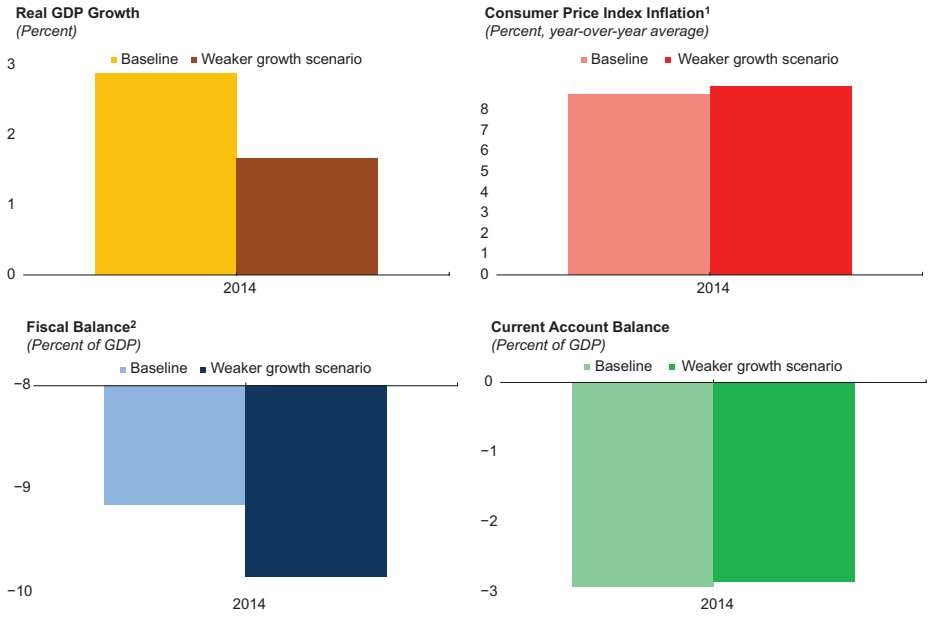
Regional fiscal balances are set to widen under the weaker-growth scenario, whereas current account balances and inflation would remain broadly unchanged because of the offsetting effects of slower economic growth and exchange rate depreciation. Significant declines in tourism would increase current account deficits in Morocco and Tunisia. In Mauritania and Sudan, respectively, reduced mining and oil production would weigh on exports and raise the deficit. More refugees would add to pressures on the deficit in Jordan and Lebanon through increased spending, including on health and education. In contrast, the current account deficit would likely improve in Afghanistan, Egypt, and Pakistan, where the impact of compressed domestic demand on imports would dominate other current account developments. Nevertheless, lower capital inflows would erode reserves in Pakistan and Afghanistan. Both countries, along with Sudan and Tunisia, would experience greater exchange rate depreciation, despite likely increases in foreign aid. The exchange rate depreciation would fuel inflation in these countries while additional refugee demand for food and housing would elevate it in Lebanon and Jordan. The large output gap would help contain inflation in the rest, and would even slightly reduce inflation in Egypt (see Figure 2.3.1). The important drawback is that such a scenario would hinder medium-term growth prospects.

Prepared by Pritha Mitra with inputs from country teams, research assistance by Gohar Abajyan, and supervised by Natalia Tamirisa.

Box 2.3 *(concluded)*

Figure 2.3.1

MENAP Oil Importers: Baseline and Weaker Growth Scenarios for 2014



Sources: National authorities; and IMF staff calculations.
[1]MENAP oil importers except Jordan.
[2]General government balance, except Lebanon and Pakistan. Tunisia reports the central government balance only.

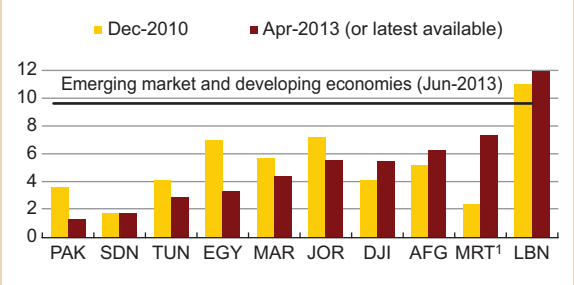
exchange rates. Moreover, advanced countries' provision of guarantees on international bond issues helps contain financing costs (Jordan, Tunisia). Limited reliance on private flows for financing external deficits also curbs the risk of a sudden stop. A rise in global energy prices—for example, following a geopolitical event—would fuel inflation and strain external and fiscal balances. On the upside, faster growth in the euro area or the GCC would be a positive factor for the MENAP oil importers.

External and Fiscal Positions Are Highly Vulnerable

Weak investment helps contain import growth and external current account deficits, but pressures persist. The region's current account deficit remains high at 4¾ percent of GDP. Disruptions in transit trade through Syria, and higher food imports to feed increasing numbers of refugees, are weighing on current account balances in Jordan and Lebanon. In Jordan, these effects are compounded by the need to substitute expensive fuel imports for decreased Egyptian gas supplies for electricity production, although prospective new phosphate exports to India may partly relieve these pressures. In contrast, large investment-related imports in Djibouti and Mauritania, mostly financed by FDI, are widening the current account deficit.

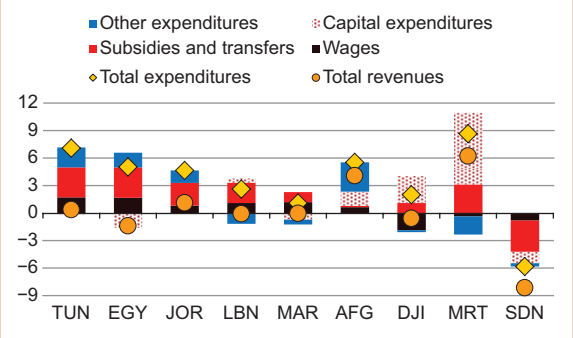
International reserves remain at precariously low levels (Figure 2.7). Some improvements in current accounts, FDI, and sovereign financing through international bond issues and other forms of financing and grants from foreign governments (particularly in Egypt, Jordan, Morocco, and Tunisia) have helped stabilize reserves in most countries. In 2014, further improvements in the trade balance are expected to raise reserves slightly. Nevertheless, reserves remain strikingly low (especially in Egypt,

Figure 2.7
Low Reserve Coverage
(Gross international reserves, months of imports)



Sources: National authorities; and IMF staff calculations.
¹Reserves in months of the following year's imports, excluding extractive industries imports.

Figure 2.8
Change in Revenue and Expenditure
(Percent of GDP, 2010–13)



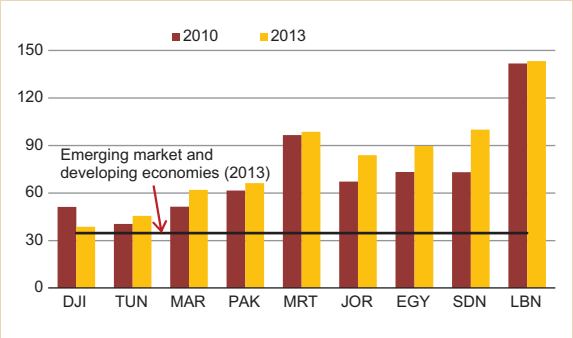
Sources: National authorities; and IMF staff calculations.

Pakistan, Sudan, and Tunisia) and are vulnerable to the realization of downside risks.

Public deficits and debt are high. Sustained large fiscal deficits have augmented already high debt ratios (Egypt, Jordan, Lebanon, Mauritania, Sudan) and raised susceptibility to shocks in those countries in which debt ratios were moderate (Morocco, Pakistan, Tunisia). These higher ratios have been largely the result of increases in generalized subsidies and public wage bills since 2011 that were intended to soothe political and social unrest and ease the burden of elevated international food and fuel prices (Figure 2.8). Low tax revenues and sometimes large quasi-fiscal activities have compounded pressures on deficits and debt (Figure 2.9). In many cases, reliance on domestic banks for financing runs the risk of reducing the availability of credit for the private sector. In other cases, monetization of deficits is creating inflationary pressures.

Implementation of fiscal consolidation in the current socioeconomic environment is challenging. After the region's deficits peaked in 2013, national policymakers expect to bring deficits down in 2014 (Afghanistan, Jordan, Morocco, Pakistan, Sudan, Tunisia) by improving revenue collection and, in some cases, further phasing out energy subsidies. Measures to reduce generalized energy subsidies are under way in Egypt, Jordan, Mauritania, Morocco,

Figure 2.9
High Public Debt
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

Pakistan, and Tunisia (Box 2.4 provides details). Nonetheless, spending on subsidies continues to be high, owing to high international food and fuel prices and the substantial share of food and fuel in consumption. Moreover, capital spending has often been cut to offset some of the increased current spending, which includes larger public sector wage bills. In the medium term, policymakers plan to reallocate some of the savings from reduced subsidies toward social protection for the poor and increased capital spending; but rising political uncertainty, social unrest, and downside risks to growth pose significant risks to these plans.

Box 2.4

Subsidy Reform in MENA: Recent Progress and Challenges Ahead

Subsidy reform in MENA has gained new momentum under rising fiscal pressures and demands for better economic conditions, particularly in the Arab countries in transition (ACTs). Several governments have taken steps to reduce the fiscal cost of subsidies, but citizens remain concerned about the rise in inflation and are uncertain about the benefits of reform. Sustained progress will require more countries to start comprehensive reform, while the countries that have already taken measures will need to consolidate their gains.

Subsidies play an important role in MENA countries. For decades, countries in the region have relied heavily on generalized price subsidies—overwhelmingly on energy products but also on food—as the main tool to provide social protection and, in oil exporters, share hydrocarbon wealth with citizens. The IMF estimates that, for the region, pretax energy subsidies—measured as the difference between the value of consumption at world and domestic prices—amounted to about $237 billion in 2011, which is equivalent to half of world subsidies (Figure 2.4.1), 8.6 percent of regional GDP, and 22 percent of government revenue. Energy subsidies are largest in most oil exporters in MENA but still exceed 5 percent of GDP in two-thirds of the countries in the region—well above spending on education (Figure 2.4.2).[1] In contrast, food subsidies amounted to 0.7 percent of GDP for the region.

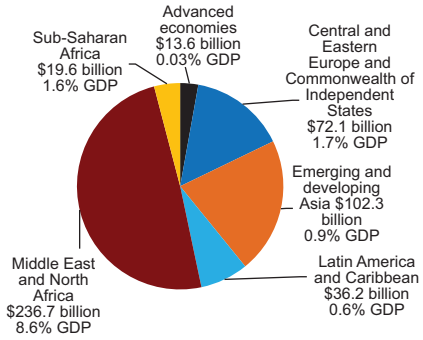
Energy subsidies create economic distortions. Generalized price subsidies are expensive and inefficient as a social protection tool because they benefit mainly the better-off, whose energy consumption is much higher than that of the poor. By encouraging higher energy consumption, subsidies increase pollution and damage health. Subsidies may also lead to overinvestment in capital-intensive activities, limiting job creation, and underinvestment in energy production, which, in turn, may cause poor service quality and shortages. Finally, subsidies promote smuggling and corruption.

Several MENA countries have recently taken steps to lower energy subsidies. In the past few years, Egypt, Jordan, Mauritania, Morocco, Sudan, Tunisia, and Yemen initiated subsidy reform by increasing

Figure 2.4.1

Total Pretax Subsidies, 2011

$481 billion (0.7% of GDP)

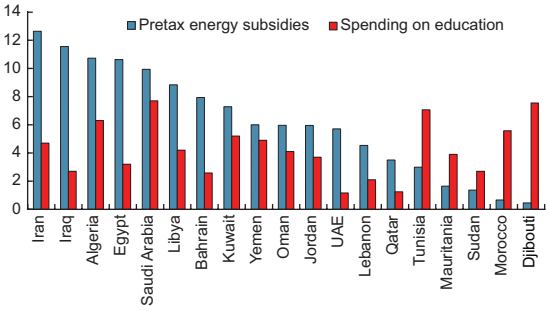


Sources: Deutsche Gesellschaft für Internationale Zusammenarbeit; IMF World Economic Outlook database; International Energy Agency; Organization for Economic Cooperation and Development; national authorities; World Bank; and IMF staff estimates. For details on subsidy calculations, see Clements and others (2013).

Figure 2.4.2

MENA Pretax Energy Subsidies and Spending on Education[1,2]

(Percent of GDP)



Sources: Deutsche Gesellschaft für Internationale Zusammenarbeit; IMF World Economic Outlook database; International Energy Agency; Organization for Economic Cooperation and Development; national authorities; World Bank; and IMF staff estimates. For details on subsidy calculations, see Clements and others (2013).

[1]Includes petroleum, electricity, natural gas, and coal subsidies.

[2]Pretax energy subsidies refer to 2011; education refers to the latest available data.

Prepared by Randa Sab, Younes Zouhar, and Giorgia Albertin; supervised by Carlo Sdralevich.

[1] See Clements and others (2013); and the April 2011 *Regional Economic Outlook*: *Middle East and Central Asia*. Due to the calculation methodology, subsidy estimates may differ from subsidy spending recorded in individual countries' government budgets.

Box 2.4 *(continued)*

energy prices while mitigating the impact on the poor—albeit with varying levels of effort and results. In most cases, reforms have been part of a broad-based fiscal strategy to reduce fiscal deficits and free resources to be put toward social spending and infrastructure—which could help boost growth and reduce poverty and inequality. Reforms have often been supported by international stakeholders, including IMF technical assistance and financial arrangements.

Reform efforts need to go further. For 2012, preliminary IMF estimates show that pretax subsidies for diesel and gasoline, which represent about half of total energy subsidies, have remained broadly stable at about 3½ percent of regional GDP. In countries that implemented price increases (mostly one-off adjustments not linked to pricing formulas), the savings were eroded by higher international fuel prices and exchange rate movements. Furthermore, many countries have not yet acted on subsidy reform. To ensure the reductions are durable, countries need to introduce, or implement more rigorously, automatic price-setting mechanisms for energy products—possibly coupled with smoothing mechanisms to avoid domestic fuel price volatility—which will also help depoliticize pricing. Countries should also deepen reform by combining tariff increases with restructuring of the energy sector. These measures should be pursued even if international energy prices decline, which could create a window of opportunity for reform.

Managing the political economy of subsidy reform is crucial in the current difficult political situation, especially in the ACTs. Policymakers and international partners must move carefully and choose the reform mix that balances fiscal returns against social opposition to price increases. They should strive to mitigate the impact of price increases and strengthen confidence that the resulting savings will be put to good use. To this end, they should avoid abrupt price shocks, and should communicate effectively to the public the costs of subsidies and the benefits of reform. But, to gain crucial support for reform, subsidy removal should be accompanied by the introduction, or, if already existing, the scaling up of well-targeted social safety nets to compensate those who will be hardest hit by higher prices. Targeted cash transfers or vouchers, especially if based on need, are particularly effective.

Most Recent Subsidy Reform in MENA

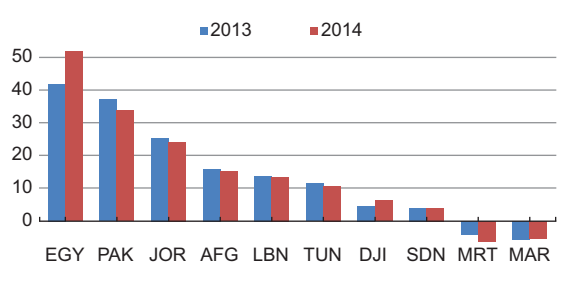
Countries	Recent Measures	Main Mitigating Measures	Next Steps
Egypt	2012–13: prices for 95 octane gasoline increased by 112 percent for high-end vehicles; fuel oil prices for non-energy-intensive industries increased by 33 percent and for energy-intensive industries by 50 percent; January 2013: electricity prices to households increased by 16 percent on average; natural gas and fuel oil prices for electricity generation increased by one-third.	No electricity tariff change for the lowest consumption bracket; Temporary subsidy for the tourism sector to finance the conversion to more efficient and cheaper fuel sources, and promote switching to natural gas for transport.	Adopt smartcards; Expand priority social programs and targeted cash transfers.
Jordan	June 2012: electricity tariffs increased for selected sectors (banks, telecommunications, hotels, mining) and large domestic corporations and households; November 2012: elimination of fuel subsidies; January 2013: monthly fuel price adjustment mechanism resumed; August 2013: electricity tariffs increased by 7.5–15 percent for selected nonhousehold consumers.	Cash transfers to families below a certain income threshold (70 percent of the population) if oil prices are above $100 per barrel.	Gradually increase electricity tariffs and develop new energy sources with lower generation costs.

Box 2.4 *(concluded)*

Most Recent Subsidy Reform in MENA

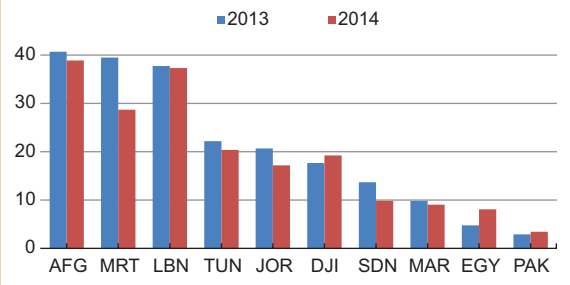
Countries	Recent Measures	Main Mitigating Measures	Next Steps
Mauritania	May 2012: new automatic diesel price formula introduced, bringing domestic fuel prices up to international levels.	Gradual reorientation of social safety net toward well-targeted cash transfer schemes.	Ensure diesel pricing formula is applied automatically; Eliminate the general electricity subsidy.
Morocco	June 2012: diesel prices increased by 14 percent, gasoline by 20 percent, and industrial fuel by 27 percent; September 2013: started implementation of a partial indexation mechanism for certain petroleum products. As a result, diesel prices increased by 8.5 percent, gasoline by 4.8 percent, and fuel by 14.2 percent.		Launch a comprehensive subsidy reform combined with cash transfers.
Sudan	June 2012: gasoline, diesel, and liquid petroleum gas (LPG) prices increased by 47, 23, and 15 percent, respectively; jet fuel liberalized. September 2013: diesel prices increased by 47.5 percent, gasoline by 41.6 percent, and LPG by 66.7 percent.	A salary adjustment by an average of about SDG 100 for all civil servants; a monthly grant allocation of SDG 150 for about 500,000 urban poor families; a reduction in the premium for health insurance for about 500,000 poor families; and an exemption of school and transportation fees for disabled people.	Gradually phase out the remaining subsidies on oil and other staples while strengthening the social safety net through higher social spending and a more coherent and better targeted social safety net.
Tunisia	September 2012: gasoline and diesel prices and electricity tariffs increased by 7 percent, on average; March 2013: further 7–8 percent price increase for the same products.	Plans to strengthen the existing cash transfer program with the introduction of a unified registry and improved targeting system.	Replace energy subsidies gradually with a well-targeted social safety net; Introduce an automatic price mechanism for fuel products in 2014.
Yemen	2011–12: gasoline prices increased by 66 percent (for a limited period) and diesel and kerosene prices doubled. 2013: diesel price unified across users, including the electricity sector.		Further reduce energy subsidies through gradual increase in fuel prices; Strengthen support through an expansion of the Welfare Fund.

Figure 2.10
Fiscal Financing Needs
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: General government fiscal deficit (excluding grants) plus domestic and external amortization.

Figure 2.11
External Financing Needs
(Percent of GDP)



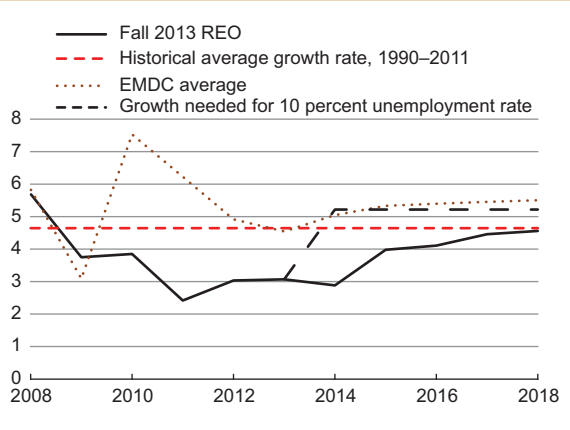
Sources: National authorities; and IMF staff calculations.
Note: Current account deficit (excluding official current transfers) plus total external amortization (excluding nonresident deposits).

Hefty financing needs are pressing. Gross budgetary financing needs in the oil importers are estimated to be about $250 billion for 2014 (Figure 2.10). The financing needs are particularly large (in excess of 25 percent of GDP) in Egypt, Jordan, and Pakistan, because of high deficits and short maturities of domestic Treasury bills used to finance them. Domestic and official financing is expected to cover the bulk of the budget financing needs, and includes a continuation of bilateral donor assistance such as, for example, the GCC financing recently offered to Egypt. Gross external financing needs (Figure 2.11), which are also substantial, on the order of $90 billion next year, are also projected to be financed in part from official sources, including IMF programs, as well as by FDI and other private inflows. For Lebanon, net bank inflows, largely in the form of nonresident deposits, will also be important. However, sizable domestic and external downside risks, described earlier, indicate significant risks to the financing needs and the inflows expected to finance them.

Medium-Term Growth Prospects Are Weak

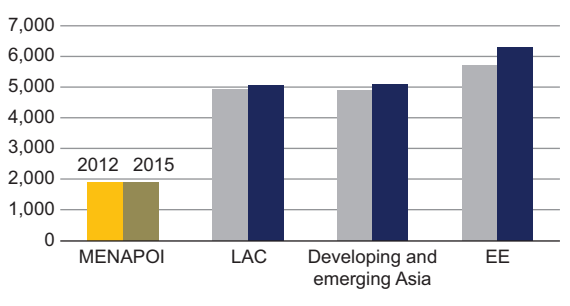
Growth expectations for the medium term are insufficient to create jobs and improve living standards. Potential economic growth of the MENAP oil importers has fallen below the average for emerging market and developing economies (Figure 2.12). Numerous impediments—poor business climate, inflexible labor markets, weak infrastructure, high public debt burdens, and, for some, underdeveloped financial systems and a lack of exchange rate flexibility—undermine competitiveness and productivity, which are already among the lowest in the world (see Box 1.1). Absent deep structural reforms, economic growth will be too low to create employment and improve living standards. Under current projections, per capita GDP is set to stagnate (Figure 2.13) and unemployment will not decline in the next

Figure 2.12
Underwhelming Growth Prospects, Real GDP
(Percent)



Sources: National authorities; and IMF staff calculations.
Note: EMDC = emerging markets and developing countries.

Figure 2.13
Average Real GDP Per Capita
(U.S. Dollars)



Sources: National authorities; and IMF staff calculations.
Note: EE = Eastern Europe; LAC = Latin America and the Caribbean; MENAPOI = MENAP oil importers.

three years. In the longer term, these outcomes are likely to worsen if the pace of reform does not accelerate. Moreover, these projections are subject to sizable downside risks, stemming, as discussed above, from a gamut of domestic, regional, and geopolitical factors. In such a setting, the region risks being trapped in a vicious cycle of economic stagnation and persistent sociopolitical strife.

A Package of Reforms and External Financing Is Needed

Moving to a new, more stable equilibrium requires simultaneous policy action on multiple fronts, starting immediately and continuing through the medium term. Policy goals are threefold: (1) create jobs to help sustain sociopolitical transitions, (2) make inroads in fiscal consolidation to restore debt sustainability and rebuild buffers protecting the economy from unanticipated shocks, and (3) embark without delay on structural reforms that will improve the business climate and governance, and enhance equity. Addressing these priorities simultaneously in the current environment is challenging—sociopolitical dynamics constrain policy effectiveness; high downside risks, if realized, could rapidly aggravate external and fiscal vulnerabilities; and a weak global recovery limits the scope for export growth. A package of domestic policy measures, centered on fiscal and structural reforms, is needed. It should be supported, as appropriate, by accommodative monetary and exchange rate policies and external official financing. The package needs to include both medium-term reforms and measures that can bring early improvements in employment and confidence, to buttress medium-term efforts and reduce the short-term costs of adjustment.

Getting the Pace and Composition of Fiscal Consolidation Right

Pursuing fiscal consolidation at a gradual, steady pace, if financing allows, would help minimize adverse short-term effects on growth. Some countries may be tempted to continue responding to rising political and social pressures by increasing spending on generalized subsidies, public wages, and other nonpriority needs; this approach, however, would largely benefit the relatively well-to-do and public sector employees. Moreover, even though it would give a temporary boost to growth, it would exacerbate the underlying vulnerabilities, requiring a larger and more painful adjustment in the future, which would possibly be more costly for the poor. Given high public debt and large fiscal and external imbalances, fiscal consolidation will not only build fiscal sustainability and increase policy buffers; it could reduce external current account pressures, bolster confidence, ease high risk premiums in international and domestic markets, and improve the availability of private sector credit. Sustained consolidation will depend on gaining and maintaining public support: containing the negative impact on incomes and reducing social inequities will be essential. A gradual pace would help reduce short-term costs to the population, though pacing will depend on the availability of external financing.

Reorienting the composition of expenditures will improve targeted support for the needy and promote job creation (Annex 4). Reorienting social support from generalized energy subsidies to social safety nets that better target the needs of the

poor can improve social outcomes while yielding significant savings (Box 2.4). Channeling part of these savings into growth-enhancing items, such as quality spending on health care, education, and capital, would reduce risks to near-term economic activity, elevate equity, and boost productivity, jobs, and growth potential. In addition, reining in real public wage growth, which influences countries' overall real wage growth, would foster competitiveness and jobs.

In this context, it is particularly important that the fiscal consolidation be accompanied by clear communication of how it can benefit taxpayers by improving growth prospects and equity. For example, governments can assure taxpayers that part of the savings from consolidation could finance the expansion of public transport, which, among other benefits, would partially offset the increased travel costs from higher fuel tariffs. Likewise, governments could emphasize that savings from reductions in generalized subsidies would be used to increase social support for the poor and skills training for the unemployed.

Mobilizing revenues will also be critical to consolidation efforts and reducing inequities (Annex 3). Broadening the tax base through reduced exemptions and deductions, as well as raising income tax progressivity and excise and property taxes, would strengthen weak revenue collection at little cost to growth, creating more space for growth-enhancing spending during and after the consolidation period. Importantly, these revenue reforms would also enhance the fairness of the tax system, and tax and customs administration improvements would support the business environment and, consequently, growth potential.

Improvements in public debt management may help reduce fiscal vulnerabilities. Domestic bond issues with longer maturities, market-determined yields, and a broader investor base could reduce rollover risks. Increasing the frequency of sovereign bond issues on international markets would have a similar effect while supporting reserves. (This step may become feasible if confidence improves after initial progress in reducing fiscal and external vulnerabilities.)

Extending the reach of fiscal coverage beyond central and local governments to social security systems, extrabudgetary funds, and state-owned enterprises would help in the design of more effective and efficient fiscal policy packages and would address contingent liabilities (Box 2.5).

Where Conditions Allow, Monetary Policy Should Be Supportive

An accommodative monetary policy stance remains appropriate for most countries in the region, considering weak recovery, declining inflation, and risks of higher global interest rates. While prioritizing price stability, maintaining low interest rates for an extended period would both reduce the cost of public debt and stimulate private sector activity; however, directed lending that targets specific sectors (usually implemented through banks) should be avoided. Coordinating with fiscal efforts—including reduced monetization of deficits—could offset any inflationary effects, averting adverse effects on inequality or competitiveness. When tight monetary policy is needed to contain inflationary risks, its pace and intensity would still need to be coordinated with fiscal policy. Interbank markets play an important role in implementing this policy, and more active liquidity management could improve their traction.

Banking systems generally appear sound, with more than sufficient capital adequacy ratios, liquidity buffers, and high but declining NPL ratios. Nevertheless, country-specific weaknesses need to be addressed, including exposures to sovereign debt. Banking and financial sector supervision should also be strengthened with tighter rules on the classification of NPLs, loan restructuring, and regulatory forbearance, as well as greater transparency, more stringent data provisioning requirements, and development of macroprudential tools. Together, these would also improve access to finance and the effectiveness of monetary policy. More broadly, efforts to deepen domestic debt markets and further develop Islamic finance instruments would greatly benefit financial sector development.

Box 2.5

Fiscal Coverage in MENAP and CCA

The global financial crisis has shown the importance of preemptively identifying sources of fiscal risks to support macroeconomic stability and inclusive growth. For many MCD countries facing significant fiscal consolidation needs, an adequate assessment of the fiscal stance is essential for implementing a sound fiscal policy. An assessment of the fiscal stance requires better fiscal data and more transparency, in particular, comprehensive coverage of the public sector and its operations.

As previously noted by Zakharova (2008), the coverage of fiscal accounts in MCD countries remains mostly focused on the central government. However, fewer than half of these countries cover the social security system, other extrabudgetary funds, and subnational government accounts and consolidate them in their official accounts. The coverage of state-owned enterprises (SOEs) and government financial institutions (GFIs) also remains limited, with the notable exceptions of Djibouti and Morocco (which publish comprehensive data on SOEs), as well as Egypt and the Kyrgyz Republic (for GFIs). Fiscal coverage tends to be narrower on average than in other regions.

Efforts in recent years to strengthen the coverage and transparency of fiscal operations have been centered on adopting the methodology in the IMF's *Government Finance Statistics Manual 2001* (GFSM 2001). More than half of MCD countries have already adopted or are in the process of fully adopting GFSM 2001, several with IMF-supported implementation, such as Saudi Arabia and Tajikistan. In addition, many resource-intensive countries have become participants of the Extractive Industry Transparency Initiative, most notably Azerbaijan, Iraq, the Kyrgyz Republic, and Mauritania.

Sustained efforts to continue expanding the coverage and reporting of fiscal operations should pay significant future dividends for policymaking. Improved measurement of fiscal deficits, quasi-fiscal activities of SOEs, public sector exposures to the financial sector, and more realistic macroeconomic assumptions supporting budgets are important for enhancing standards and assessing risks to public finances, as evidenced by recent crises in several advanced economies. In this regard, and in the face of pressing capacity constraints, MCD countries could consider giving greater priority to expanding their fiscal coverage and reporting, with technical assistance from the IMF, including the new Fiscal Transparency Code and Fiscal Transparency Assessment, as well as through other regional organizations, such as the nascent ArabStat (see Box 2.7).

Prepared by Martin Cerisola.

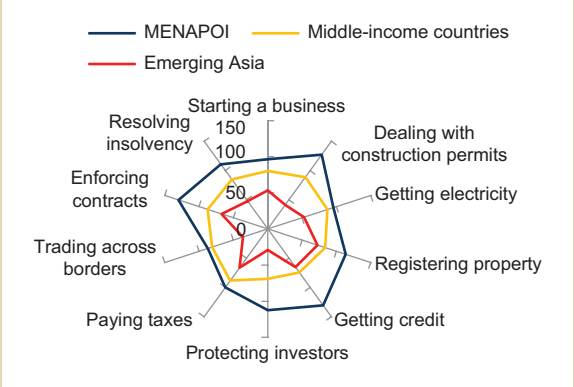
In some countries, macroeconomic stabilization could also require greater exchange rate flexibility to improve external balances and rebuild international reserves. During the past year, some action has already been taken in Egypt, Pakistan, and Tunisia. However, in a number of countries, exchange rates remain overvalued. Further exchange rate flexibility would greatly improve competitiveness, especially in an environment of declining inflation. In the medium term, moving from pegged exchange rate regimes toward targeting monetary aggregates or an inflation-targeting framework would also benefit some countries.

Structural Policies to Raise Growth Potential

Creating and implementing a bold and credible structural reform agenda will enable the transition to more competitive and fair economies propelled by private sector growth and many more jobs. It is important for the region's governments to press ahead and reduce socioeconomic risks by raising access to economic opportunities and delivering higher standards of living and a more equitable distribution of incomes. As a first step, governments will need to develop medium-term

Figure 2.14

Many Avenues to Improving the Business Environment



Source: World Bank, Ease of Doing Business Rankings, 2013.
Note: MENAPOI = MENAP oil importers. Economies are ranked from 1 to 183, with first place being the best.

visions for their economies that win broad-based support from their populations. These visions would provide guideposts for reforms spanning the business environment, access to financing, labor markets, and trade integration within MENAP and with other regions.

Ongoing political transitions complicate the creation of large-scale reform agendas, but some less controversial, yet critical, measures can be a starting point for reforms. Several measures that foster a business environment conducive to FDI and domestic investment could be immediately initiated (Figure 2.14). These include simplifying procedures for starting a business (for example, a one-stop window), streamlining business regulations, making use of electronic platforms for public services used by businesses, establishing an investment code affirming investors' rights and a procurement code for government projects, as well as streamlining contract enforcement in judicial courts. Establishing a far-reaching credit bureau, a registry of collateral assets, and effective insolvency legislation could rapidly expand access to finance, especially for small and medium-sized enterprises. Social assistance in the form of joint public and private sector training for currently unemployed and unskilled workers, as well as vocational training programs tailored to private sector needs, would encourage firms to hire in the near and medium terms. In addition, taking measures today to expand the region's labor force by raising female labor force participation could substantially boost the region's economic potential (see Box 1.3). Finally, trade facilitation measures can be promptly implemented to deepen trade integration with advanced and fast-growing emerging market economies and within the MENAP region (Box 2.6).

International Support

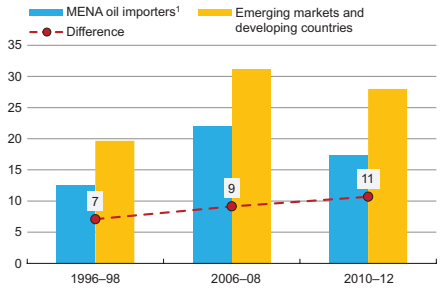
Official financing can help accommodate a slower and less painful adjustment, provided it is offered in the context of credible medium-term reform plans. Official financing can alleviate fiscal pressures and provide an opportunity for a more gradual and less painful fiscal consolidation. It can also give countries more time to develop sound structural reform plans and build consensus for them. In countries already prepared to move quickly with difficult reforms, official financing can help catalyze additional, private financing. Recent IMF arrangements in Jordan, Morocco, Pakistan, and Tunisia aim to achieve these goals. However, if financing is absorbed without formulating medium-term reform plans, including plans for maintaining fiscal and external debt sustainability, it would only delay the inevitable unwinding of the underlying imbalances and require a larger and more painful adjustment in the future, when financial support may not be forthcoming. In addition to external and budget financing, the international community can also provide support through technical assistance and other capacity-building initiatives.

Box 2.6

Trade Integration as a Catalyst for Economic Transformation in the MENA Oil Importers

Trade has not been a significant engine of growth in the MENA oil importers. The ratio of exports to GDP is significantly below the average for emerging markets and developing countries, and the gap has widened (Figure 2.6.1). Trade patterns, particularly in the North African countries, remain oriented toward Europe, and the region has benefited little from the high growth of emerging markets. Although some countries have relatively low tariffs (Lebanon) or have taken steps to lower them (particularly Morocco and Tunisia), the region's average tariff remains high (Figure 2.6.2). Nontariff barriers are also significant, though some countries (especially Mauritania and Morocco) have reduced them during the past decade. The transition toward higher-value-added exports has been slow, in part owing to low foreign direct investment (FDI). This mirrors trends in the broader MENA region, where, according to recent estimates, exports are only a third of their potential, and aggregate intraindustry trade, an indicator of trade in differentiated goods and of participation in supply chains, is lower than in Africa and all other regions (Behar and Freund, 2011).

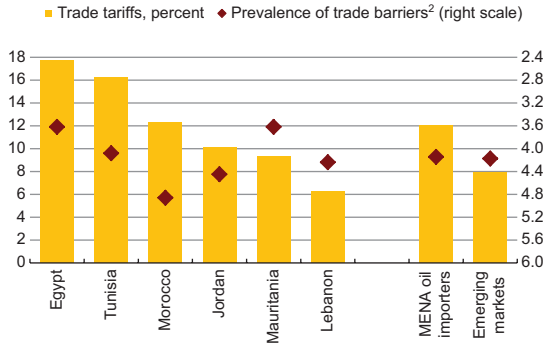
Figure 2.6.1
Merchandise Exports
(Percent of GDP)



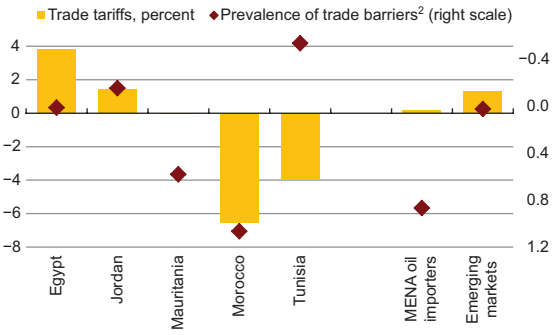
Sources: National authorities; and IMF staff calculations.
[1]Excluding Syria.

Deeper trade integration could provide a significant boost to the region's economies.[1] Raising the MENA region's openness to the level of emerging Asian countries could increase GDP growth by as much as a full percentage point (*Regional Economic Outlook: Middle East and Central Asia*, October 2010). Deeper trade integration would not only create growth and jobs in the export sector, it could also catalyze productivity growth by increasing inward FDI and facilitating access to better and cheaper intermediate inputs. Experience from Central Europe, for example, shows that integration into international supply chains can generate significant greenfield FDI.

Figure 2.6.2
Trade Barriers, 2013



Change in Trade Barriers, 2006–13[1]



Source: World Economic Forum, *Global Competitiveness Report* 2013–14.
[1]Change in trade tariffs and trade barriers from 2006 to 2013.
[2]Scaled from 1 to 7, with 7 being the least restrictive.

Prepared by Harald Finger, with research assistance by Jaime Espinosa-Bowen and Mandana Dehghanian.
[1] For empirical evidence supporting the positive effect of deeper trade integration on economic growth, see Frankel and Romer (1999, pp. 379–99).

Box 2.6 *(concluded)*

Larger markets tend to be more successful in attracting FDI, which points to the benefits of regional integration (IMF, 2013a). The drive toward deeper trade integration can also help spur reform efforts in other areas (such as business regulation and labor market reform), which should help further strengthen competitiveness and economic potential.

Deeper trade integration for the MENA oil importers will require better access to advanced economy markets. The European Union's high tariffs, quota restrictions, and farm subsidies remain a significant impediment to agricultural exports from the MENA region. The European Union could deepen its trade relationships with MENA oil importers through effective implementation of the proposed Deep and Comprehensive Free Trade Areas (DCFTAs). This process will take time, but immediate steps could include providing better access for agricultural products (the European Union has already adopted an agreement with Morocco). The United States could also deepen its existing trade agreements with Jordan and Morocco, and enter into free trade agreements with the remaining MENA oil importers. Giving MENA oil importers better access to the U.S. and EU markets is especially important given the planned United States–European Union Transatlantic Trade and Investment Partnership (TTIP), which could have negative effects on regional exports and jobs because of trade diversion from MENA oil importers to countries within the TTIP (Felbermayr, Heid, and Lehwald, 2013).

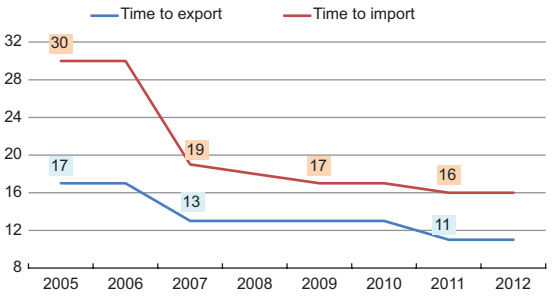
MENA oil importers should aim to reap the full benefits of integrating into global trade. The region should strive to further reduce its tariff and nontariff barriers and, in some cases (Lebanon and Sudan), become members of the World Trade Organization. The countries should also aim to diversify trade toward fast-growing emerging markets and higher-value-added goods. To better exploit the opportunities presented by global value chains, countries can benefit from removing import barriers for their exporting industries. Increased regional integration, accomplished by addressing nontariff barriers and harmonizing policies, would also help countries' prospects for integration into global value chains. The removal of import barriers will need to be sequenced and paced in a way that minimizes the risk of negative short-term effects on affected industries, and that provides for adequate social protection. Losses in budgetary revenues stemming from lower tariffs would also need to be compensated for, at least temporarily, by increases in other revenues or by expenditure cuts.

Simplification of customs rules and procedures, the upgrading of logistics, and export-promoting policies can also help catalyze trade. These policies, which would also be supported by the European Union in the context of DCFTAs, are gaining increasing importance in a world of global value chains. Better logistics in particular have been shown to promote exports. For example, by one estimate, an improvement in Egypt's logistics quality to Tunisia's level could increase Egypt's exports by 12 percent (Behar, Manners, and Nelson, 2012). Morocco has shown large improvements in this area, investing in port infrastructure (including the expansion of Tanger-Med to become the largest port in Africa) and weeding out obstructive procedures (Figure 2.6.3).

Figure 2.6.3

Morocco: Simplifying Trade Procedures

(Days)



Source: World Bank, Ease of Doing Business Rankings.

Training for small exporters and new entrants could help them navigate trade rules, including standards and certification procedures. Increased assistance from state overseas marketing agencies would be a considerable asset, especially for smaller companies. Other possible export promotion policies include export credits, insurance and guarantee schemes, tax concessions on earnings and profits, and duty drawback provisions on imported inputs. These measures would need to be implemented in a transparent way to mitigate governance concerns and as part of broader fiscal programs (see Annex 4).

Box 2.7

ArabStat

A high-level conference on Macroeconomic and Financial Statistics for Evidence-Based Policymaking in 2012, jointly organized by the IMF and the Moroccan authorities, concluded that despite significant improvements in availability and quality, statistics in the Middle East and North Africa countries still need further development. Data weaknesses are evident in all areas of macroeconomic statistics, albeit to varying degrees across countries. These weaknesses relate to the availability, coverage, periodicity, and timeliness of data, as well as to data quality and use of best statistical practices. Moreover, only five Arab economies have subscribed to the Special Data Dissemination System (SDDS), and no Arab country is expected to join the SDDS Plus initiative in the near future. A regional statistical organization is seen as essential to champion the development of better statistics in the region. The conference called for the creation of ArabStat, a regional statistical initiative, initially under the auspices of the Arab Monetary Fund (AMF).

On April 2, 2013, the Council of Arab Finance Ministers, while meeting in Dubai, formally approved the launch of ArabStat, marking a major step in the development of the region's statistical systems. ArabStat was subsequently established within the AMF and will be guided by a Steering Committee comprising representatives of member countries, the AMF, and other regional and international organizations. The ultimate objective of ArabStat is to create a regional forum to harmonize statistical methodologies, enhance statistical data compilation and dissemination, improve data quality, and promote exchange of data within the region and with other data users. It aims at adopting best practices and technical knowledge, promoting cooperation among statistical agencies and with other partners, and acting as a focal point for delivering technical assistance to member countries.

ArabStat has entered the implementation phase under the stewardship of a technical committee that includes representatives from Arab countries and regional as well as international institutions. The committee is currently finalizing the by-laws and discussing the work program of ArabStat for the upcoming two years.

Prepared by Mohammed El Qorchi.

MENAP Oil Importers: Selected Economic Indicators

	Average						Projections	
	2000–07	2008	2009	2010	2011	2012	2013	2014
Real GDP Growth	**5.1**	**5.7**	**3.8**	**3.9**	**2.4**	**3.0**	**3.1**	**2.9**
(Annual change; percent)								
Afghanistan, Rep. of	…	3.6	21.0	8.4	6.1	12.5	3.1	3.5
Djibouti	3.0	5.8	5.0	3.5	4.5	4.8	5.0	6.0
Egypt	4.7	7.2	4.7	5.1	1.8	2.2	1.8	2.8
Jordan	6.6	7.2	5.5	2.3	2.6	2.8	3.3	3.5
Lebanon	3.5	8.6	9.0	7.0	1.5	1.5	1.5	1.5
Mauritania	4.3	3.5	–1.2	4.7	3.6	6.9	6.4	6.4
Morocco	4.6	5.6	4.8	3.6	5.0	2.7	5.1	3.8
Pakistan	5.2	5.0	0.4	2.6	3.7	4.4	3.6	2.5
Sudan[1]	8.8	3.0	5.2	2.5	–1.8	–3.3	3.9	2.5
Syrian Arab Republic[2]	4.2	4.5	5.9	3.4	...	...	...	...
Tunisia	4.8	4.5	3.1	2.9	–1.9	3.6	3.0	3.7
West Bank and Gaza[3]	0.6	7.1	7.4	9.3	12.2	5.9	4.5	3.9
Consumer Price Inflation	**4.9**	**12.9**	**10.4**	**8.6**	**9.9**	**9.4**	**8.3**	**8.7**
(Year average; percent)								
Afghanistan, Rep. of	…	26.4	–6.8	2.2	11.8	6.4	5.5	5.5
Djibouti	2.6	12.0	1.7	4.0	5.1	3.7	2.7	2.5
Egypt	5.7	18.3	11.7	11.4	9.9	7.8	8.6	10.5
Jordan	3.0	13.9	–0.7	5.0	4.4	4.8	5.9	3.2
Lebanon	1.6	10.8	1.2	4.5	5.0	6.6	6.3	3.1
Mauritania	6.6	7.5	2.1	6.3	5.7	4.9	4.2	5.2
Morocco	1.8	3.9	1.0	1.0	0.9	1.3	2.3	2.5
Pakistan	5.4	10.8	17.6	10.1	13.7	11.0	7.4	7.9
Sudan[1]	7.6	14.3	11.3	13.0	18.1	35.5	32.1	27.4
Syrian Arab Republic[2]	3.9	15.2	2.8	4.4	...	...	...	...
Tunisia	2.9	4.9	3.5	4.4	3.5	5.6	6.0	4.7
West Bank and Gaza[3]	3.4	10.9	2.8	3.7	2.9	2.8	2.5	2.7
General Government Overall Fiscal Balance	**–4.6**	**–5.5**	**–5.1**	**–5.9**	**–7.0**	**–8.4**	**–9.7**	**–8.0**
(Percent of GDP)								
Afghanistan, Rep. of	…	–4.0	–1.3	0.9	–0.8	0.2	–0.6	0.0
Djibouti	–2.0	1.3	–4.6	–0.5	–0.7	–2.7	–3.1	–4.8
Egypt	–7.2	–8.0	–6.9	–8.3	–9.8	–10.7	–14.7	–13.2
Jordan[4]	–3.3	–5.5	–8.9	–5.6	–5.7	–8.8	–9.1	–8.0
Lebanon[4]	–14.2	–9.7	–8.3	–7.7	–6.1	–9.0	–10.4	–11.0
Mauritania[4,5]	1.3	–6.5	–5.1	–1.9	–1.5	2.8	–4.4	–8.2
Morocco[4]	–4.4	0.7	–1.8	–4.4	–6.7	–7.6	–5.5	–4.8
Pakistan	–3.1	–7.1	–5.0	–5.9	–6.9	–8.4	–8.5	–5.5
Sudan[1]	–1.1	0.6	–5.1	0.3	0.2	–3.8	–2.0	–0.9
Syrian Arab Republic[2]	–2.1	–2.9	–2.9	–7.8	...	...	...	...
Tunisia[6]	–2.7	–0.7	–2.3	–0.4	–3.0	–4.4	–7.2	–6.3
West Bank and Gaza[3]	–33.1	–24.5	–30.1	–17.8	–16.9	–16.5	–14.9	–13.3
Current Account Balance	**–0.8**	**–4.0**	**–4.6**	**–3.0**	**–3.5**	**–5.8**	**–4.8**	**–3.5**
(Percent of GDP)								
Afghanistan, Rep. of	…	5.1	1.6	2.8	2.4	3.9	2.5	1.8
Djibouti	–4.4	–24.3	–9.3	–5.4	–14.1	–12.3	–13.1	–15.1
Egypt	1.6	0.5	–2.3	–2.0	–2.6	–3.1	–2.6	–0.9
Jordan	–3.5	–9.3	–3.3	–5.3	–12.0	–18.1	–9.9	–9.1
Lebanon	–12.5	–7.7	–9.3	–9.9	–12.4	–16.2	–16.7	–16.7
Mauritania	–16.4	–14.9	–11.6	–9.3	–7.6	–32.7	–34.3	–22.6
Morocco	1.9	–5.2	–5.4	–4.1	–8.1	–10.0	–7.2	–6.1
Pakistan	0.2	–8.1	–5.5	–2.2	0.1	–2.1	–1.0	–0.6
Sudan[1]	–5.6	–1.5	–9.6	–2.1	–0.4	–10.8	–11.9	–7.0
Syrian Arab Republic[2]	0.3	–1.3	–2.9	–2.8	...	...	...	...
Tunisia	–2.7	–3.8	–2.8	–4.8	–7.3	–8.1	–8.0	–6.6
West Bank and Gaza[3]	–22.9	10.9	–12.0	–10.6	–23.6	–28.9	–22.4	–21.0

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

Note: Variables reported on a fiscal year basis for Afghanistan (March 21/March 20 until 2011, and December 21/December 20 thereafter) and Egypt and Pakistan (July/June), except inflation.

[1]Data for 2011 exclude South Sudan after July 9. Data for 2012 and onward pertain to the current Sudan.

[2]2011–14 data exclude Syria due to the uncertain political situation.

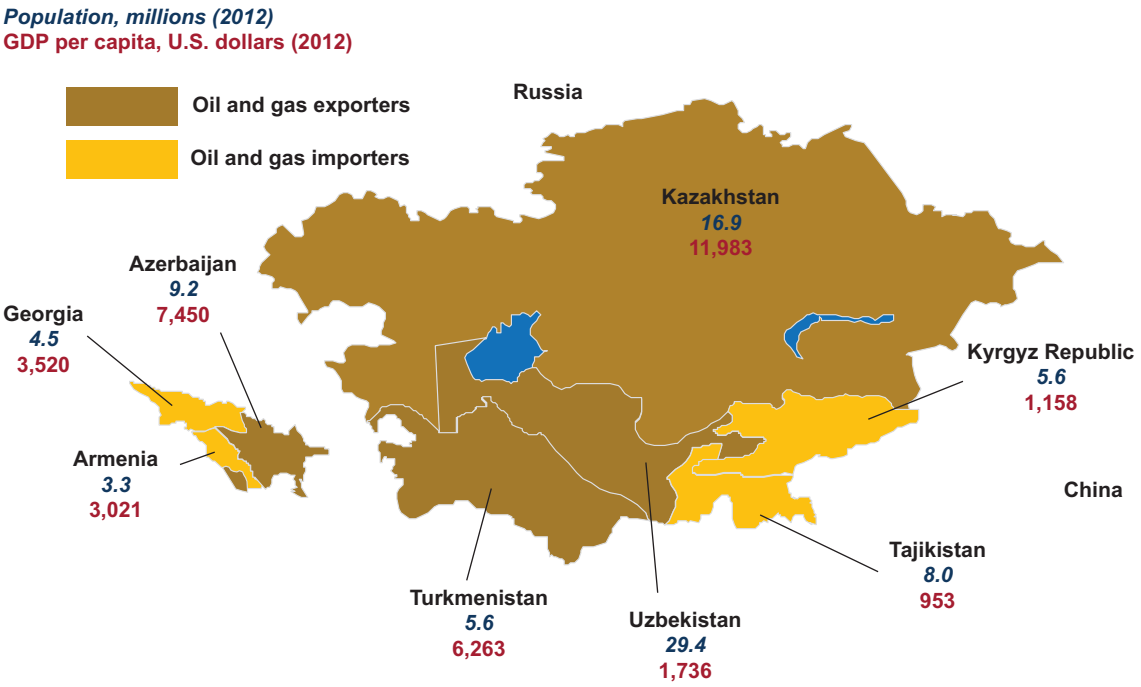
[3]West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

[4]Central government. For Jordan, includes transfers to the electricity company (4.3 and 2.7 percent of GDP in 2013 and 2014, respectively).

[5]Includes oil revenue transferred to the oil fund.

[6]Includes bank recapitalization costs and arrears payments.

Caucasus and Central Asia



Sources: IMF Regional Economic Outlook database; and Microsoft Map Land.
Note: The country names and borders on this map do not necessarily reflect the IMF's official position.

CCA Highlights

Economic activity in the Caucasus and Central Asia (CCA) is expected to continue expanding at a fast clip, with the CCA remaining among the fastest-growing regions in the world. Growth is driven by a recovery in the hydrocarbon sector and firm growth in domestic demand, supported in part by stable remittance inflows. Considerable downside risks weigh on this outlook, however, stemming in particular from a further slowdown in Russia, an important trading partner and source of remittance inflows. CCA economies should take advantage of the favorable near-term economic conditions to rebuild fiscal policy buffers that were eroded after the global crisis. In some cases, more exchange rate flexibility would help shore up external buffers while supporting competitiveness. The positive near-term outlook is also an opportunity to strengthen policy frameworks and set in motion a process of structural transformation into dynamic emerging economies.

Favorable Outlook but Potential Headwinds

Strong economic growth in the CCA is expected to continue in 2013–14, at about 6 percent, reflecting in part a continued catching up from low per capita income levels in many countries. Growth is supported by the expansion of production in extractive sectors, accommodative fiscal policy, and remittance inflows, which have so far held up well despite a slowdown in Russia. Growth in the CCA oil and gas exporters is projected to pick up slightly, underpinned by higher hydrocarbon production. Growth in the CCA oil and gas importers is projected to soften temporarily in 2013, reflecting weaker external demand and bottlenecks in budgetary spending in the Caucasus.

Downside risks to this outlook persist. A lower-than-anticipated growth rate in emerging markets, including China, Russia, and Turkey, could lower GDP growth in the region's oil, gas, and metals exporters through lower commodity prices, and could affect oil importers through lower remittances, trade, and bilateral official project lending.

Rebuilding Buffers and Supporting Sustained and Inclusive Growth

Most countries in the CCA region need to consolidate their budgets to ensure fiscal sustainability and build sufficient policy buffers. We project a significant deterioration in fiscal positions in 2013–14, reflecting lower oil prices and, in some countries, higher expenditures and challenges in implementing tax reforms. Hydrocarbon exporters should move to a more neutral fiscal stance in 2013–14 to ensure medium-term fiscal sustainability. Most hydrocarbon importers have limited fiscal space and should continue to rebuild fiscal buffers, though some countries in the Caucasus should use fiscal policy in the near term to support weakening growth, particularly through resuscitating capital expenditure. All CCA economies need to find room for more social spending in support of inclusive growth, such as greater investment in education and enhanced social safety nets.

In many countries, these policies should be supported by more exchange rate flexibility, to help strengthen external buffers as well as competitiveness and address vulnerabilities arising from high dollarization.

The current broadly positive outlook is also an opportunity to strengthen policy frameworks and set in motion the process of structural transformation into dynamic emerging economies. Further substantial improvements are needed in protecting property rights and investors, fighting corruption, encouraging competition, reforming labor market regulation while maintaining adequate social protection, strengthening education systems, fostering financial development, promoting regional and international trade integration, and strengthening fiscal and monetary policy frameworks.

CCA Region: Selected Economic Indicators, 2000–14

(Percent of GDP, unless otherwise indicated)

	Average						Projections	
	2000–07	2008	2009	2010	2011	2012	2013	2014
CCA								
Real GDP (annual growth)	10.3	6.8	3.7	6.6	6.8	5.8	5.8	6.1
Current Account Balance	–0.6	8.8	0.4	4.5	7.9	4.8	3.9	3.1
Overall Fiscal Balance	1.4	6.1	0.8	3.7	6.3	4.4	1.2	0.5
Inflation, p.a. (annual growth)	9.8	16.5	6.2	7.0	9.1	5.3	6.9	7.0
CCA Oil and Gas Exporters								
Real GDP (annual growth)	10.7	7.0	4.9	7.0	6.8	5.8	5.9	6.2
Current Account Balance	0.3	12.4	1.8	6.2	10.0	6.4	5.0	4.1
Overall Fiscal Balance	2.2	7.8	2.1	5.1	7.9	5.5	1.9	1.0
Inflation, p.a. (annual growth)	10.2	16.8	6.5	7.0	8.9	5.8	7.2	7.3
CCA Oil and Gas Importers								
Real GDP (annual growth)	8.3	5.7	–3.5	4.0	6.4	5.5	4.9	5.4
Current Account Balance	–6.4	–15.5	–10.0	–9.4	–9.8	–10.1	–6.9	–6.9
Overall Fiscal Balance	–2.7	–3.6	–6.8	–5.3	–3.3	–2.2	–3.1	–2.5
Inflation, p.a. (annual growth)	7.8	14.4	4.2	7.1	10.7	2.1	5.0	5.2

Sources: National authorities; and IMF staff calculations and projections.
CCA oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.
CCA oil and gas importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

Основные положения по региону КЦА

Ожидается, что экономическая активность в странах Кавказа и Центральной Азии (КЦА) будет продолжать расти быстрыми темпами, и КЦА будет оставаться одним из самых быстрорастущих регионов мира. Движущей силой роста является подъем в углеводородном секторе и уверенный рост внутреннего спроса, отчасти благодаря стабильным притокам денежных переводов. Однако осуществлению этих перспектив могут воспрепятствовать значительные риски для роста, в частности, связанные с дальнейшим снижением темпов роста в России, которая является важным торговым партнером и источником денежных переводов. Странам КЦА следует воспользоваться благоприятными экономическими условиями в ближайший период, чтобы восстановить буферные резервы налогово-бюджетной политики, сократившиеся за время глобального кризиса. В некоторых случаях более гибкие обменные курсы помогли бы укрепить внешние буферные резервы, одновременно способствуя повышению конкурентоспособности. Позитивные краткосрочные перспективы также дают этим странам возможность укрепить основы политики и начать процесс структурных преобразований, чтобы стать динамично развивающимися странами с формирующимся рынком.

Перспективы благоприятны, но имеются потенциальные препятствия для роста

Ожидается, что в 2013–2014 годах в странах КЦА сохранятся высокие темпы экономического роста, примерно 6 процентов, отчасти вследствие продолжающегося наверстывания отставания по доходу на душу населения с низких начальных уровней во многих странах. Росту способствуют увеличение производства в добывающих отраслях, адаптивная налогово-бюджетная политика и притоки денежных переводов, которые пока остаются на высоком уровне, несмотря на замедление экономического роста в России. В странах КЦА – экспортерах нефти и газа прогнозируется небольшое повышение темпов роста, чему будет способствовать увеличение производства углеводородов. Рост в странах КЦА – импортерах нефти и газа, по прогнозу, временно замедлится в 2013 году ввиду ослабления внешнего спроса и существующих узких мест в осуществлении бюджетных расходов в странах Кавказа.

Сохраняются риски недостижения прогнозируемых темпов роста. Более низкие, чем ожидается, темпы роста в странах с формирующимся рынком, включая Китай, Россию и Турцию, могут замедлить рост ВВП в странах региона, экспортирующих нефть, газ и металлы вследствие снижения цен на биржевые товары и сказаться на экономике импортеров нефти через сокращение денежных переводов, торговли и двустороннего официального кредитования проектов.

Восстановление буферных резервов и содействие устойчивому и всеобъемлющему росту

Большинству стран в регионе КЦА необходимо осуществить консолидацию бюджета для обеспечения фискальной устойчивости и формирования достаточных буферных резервов для экономической политики. Мы прогнозируем значительное ухудшение состояния бюджетов в 2013–2014 годах в результате снижения цен на нефть, а в некоторых странах — повышения расходов и трудностей в проведении налоговых реформ. Экспортерам углеводородных ресурсов

следует перейти к более нейтральному курсу налогово-бюджетной политики в 2013–2014 годах для обеспечения среднесрочной устойчивости бюджета. Большинство импортеров углеводородов имеют ограниченные бюджетные возможности, и им следует продолжать восстановление бюджетных резервов, хотя некоторым странам Кавказа следует в ближайший период использовать налогово-бюджетную политику для поддержки замедляющегося роста, особенно путем восстановления капитальных расходов. Всем странам КЦА необходимо изыскать возможности для увеличения социальных расходов, способствующих всеобъемлющему росту, например, повышать вложения в образование и совершенствовать системы социальной защиты.

Во многих странах эти меры политики следует подкрепить более гибкими валютными курсами, чтобы способствовать увеличению внешних буферных резервов и повышению конкурентоспособности и устранить факторы уязвимости, обусловленные высокими уровнями долларизации.

В целом позитивные в настоящее время перспективы также дают странам возможность укрепить основы политики и начать процесс структурных преобразований, чтобы стать динамично развивающимися странами с формирующимся рынком. Требуются дальнейшие существенные улучшения в областях защиты прав собственности и инвесторов, борьбы с коррупцией, стимулирования конкуренции, реформы регулирования рынка труда при обеспечении достаточной социальной защиты, укрепления систем образования, содействия развитию финансового сектора, поддержки региональной и международной интеграции торговли и укрепления основ налогово-бюджетной и денежно-кредитной политики.

Регион Кавказа и Центральной Азии: отдельные экономические показатели, 2000–14 годы

(в процентах ВВП, если не указано иное)

	Среднее						Прогнозы	
	2000–2007	2008	2009	2010	2011	2012	2013	2014
Кавказ и Центральная Азия								
Реальный ВВП (годовой рост)	10.3	6.8	3.7	6.6	6.8	5.8	5.8	6.1
Сальдо счета текущих операций	–0.6	8.8	0.4	4.5	7.9	4.8	3.9	3.1
Общее сальдо бюджета	1.4	6.1	0.8	3.7	6.3	4.4	1.2	0.5
Инфляция, в среднем за период (годовой рост)	9.8	16.5	6.2	7.0	9.1	5.3	6.9	7.0
Экспортеры нефти и газа в КЦА								
Реальный ВВП (годовой рост)	10.7	7.0	4.9	7.0	6.8	5.8	5.9	6.2
Сальдо счета текущих операций	0.3	12.4	1.8	6.2	10.0	6.4	5.0	4.1
Общее сальдо бюджета	2.2	7.8	2.1	5.1	7.9	5.5	1.9	1.0
Инфляция, в среднем за период (годовой рост)	10.2	16.8	6.5	7.0	8.9	5.8	7.2	7.3
Импортеры нефти и газа в КЦА								
Реальный ВВП (годовой рост)	8.3	5.7	–3.5	4.0	6.4	5.5	4.9	5.4
Сальдо счета текущих операций	–6.4	–15.5	–10.0	–9.4	–9.8	–10.1	–6.9	–6.9
Общее сальдо бюджета	–2.7	–3.6	–6.8	–5.3	–3.3	–2.2	–3.1	–2.5
Инфляция, в среднем за период (годовой рост)	7.8	14.4	4.2	7.1	10.7	2.1	5.0	5.2

Источники: официальные органы стран и расчеты и прогнозы персонала МВФ.
Экспортеры нефти и газа в регионе КЦА: Азербайджан, Казахстан, Туркменистан и Узбекистан.
Импортеры нефти и газа в регионе КЦА: Армения, Грузия, Кыргызская Республика и Таджикистан.

3. Caucasus and Central Asia: Need to Increase Resilience and Accelerate Reforms to Become Emerging Markets

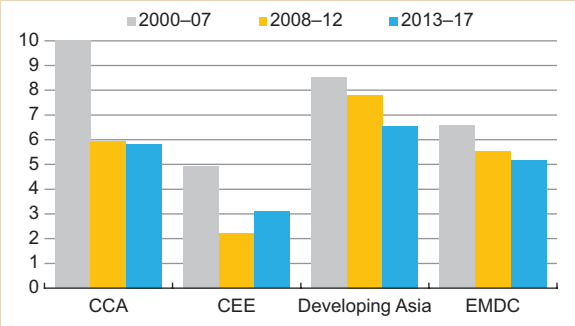
Growth in the CCA is expected to remain robust in the near term, though subject to downside risks. The recovery in oil and gas production and other extractive industries has been supporting economic activity. Remittances inflows have also held up well, despite a marked economic slowdown in Russia, the main destination for labor migrants from the region. Nonetheless, lower-than-anticipated growth in key emerging market economies and a tightening of external financing conditions present risks to the outlook. The CCA countries should take advantage of the current conditions to enhance their resilience to shocks by increasing fiscal and financial buffers where they are low, and accelerating economic reforms to increase long-term growth potential. Better governance and stronger policy frameworks are essential to set in motion an accelerated and comprehensive structural transformation by which the CCA countries can become dynamic emerging market economies.

Commodities, Remittances Support Rapid Economic Expansion

Economic activity in the CCA region continues to expand at a fast clip, about 6 percent per year. Although slowing from the even higher rates experienced in the decade before the global financial crisis, the CCA region remains among the fastest growing in the world (Figure 3.1). This growth reflects, in part, a continued catching up from low average income levels (though there is considerable variation in per capita income in the region; Figure 3.2). As in the recent past, growth also continues to be supported by an expansion of productive capacity in extractive sectors and a stable inflow of remittances, mostly from neighboring Russia.

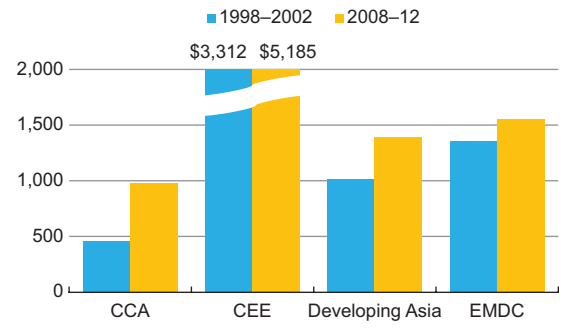
- Growth in the CCA oil-exporting economies is picking up slightly, to about 6 percent in 2013, underpinned by a recovery in Kazakhstan's oil and gas production and an increase in exports of Turkmenistan's gas to China as new capacity comes on line (Figure 3.3). Nonhydrocarbon growth also remains steady, supported by agriculture and construction (Figure 3.4). These trends are

Figure 3.1
Real GDP Growth Rates
(Percent, period average)



Sources: National authorities; and IMF staff estimates.
Note: CEE = Central and Eastern Europe; EMDC = emerging market and developing countries.

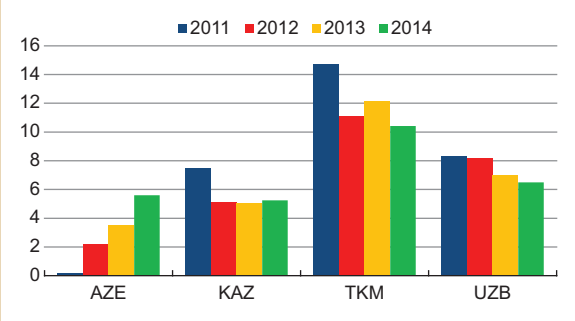
Figure 3.2
Median Real GDP Per Capita in U.S. Dollars
(Period average)



Sources: National authorities; and IMF staff estimates.
Note: CEE = Central and Eastern Europe; EMDC = emerging market and developing countries.

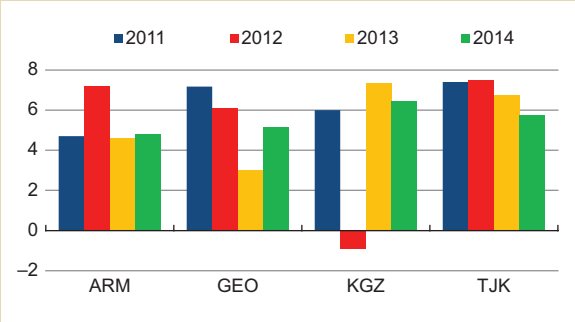
Prepared by Sami Ben Naceur, with inputs from Jonathan Dunn, Mark Horton, and country teams; and research assistance by Jaime Espinosa-Bowen.

Figure 3.3
Oil and Gas Exporters: GDP Growth by Country
(Percent)



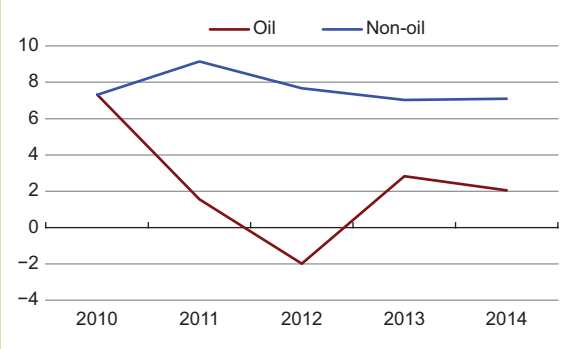
Sources: National authorities; and IMF staff estimates.

Figure 3.5
Oil and Gas Importers: GDP Growth by Country
(Percent)



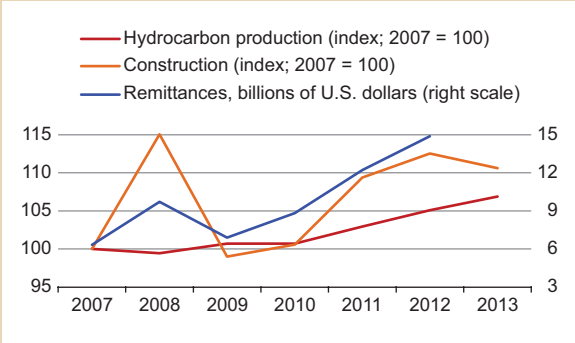
Sources: National authorities; and IMF staff estimates.

Figure 3.4
Oil Exporters: Non-Oil and Oil GDP Growth
(Percent)



Sources: National authorities; and IMF staff estimates.

Figure 3.6
Russia: Remittances Outflows to CCA Countries, Construction, and Hydrocarbon Production



Sources: Central Bank of Russia; national authorities; and IMF staff calculations.

expected to continue into 2014, despite the projected softening in commodity prices. Hydrocarbon production in particular will be bolstered by an expected recovery from recent disruptions in Azerbaijan.

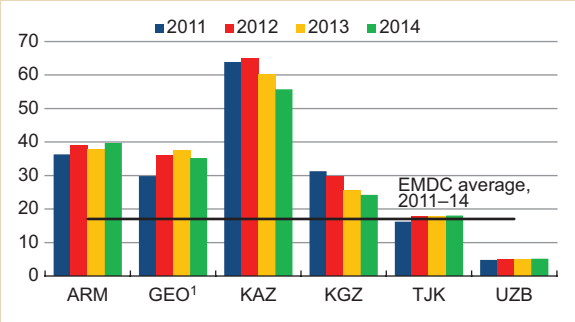
- Economic activity in the CCA oil and gas importers is set to slow to about 5 percent in 2013, reflecting weaker external demand, slower private investment, and, in Armenia and Georgia, budget underspending (Figure 3.5). Private consumption growth remained steady, supported by remittances inflows from migrants working in Russia's construction and oil sectors, which have held up well despite the overall slowing of activity in Russia (Figure 3.6). Growth is expected to pick up in 2014 in all countries except the Kyrgyz Republic and Tajikistan, and could reach, on average, about 5½ percent, supported by higher private investment and external demand, provided that planned policy actions are fully implemented. Continued recovery from earlier disruptions in the gold sector in the Kyrgyz Republic and a more normal pace of government spending in Georgia and Armenia will also contribute to the recovery.

Risks to the Near-Term Outlook Are Tilted to the Downside

Headwinds are likely to come from external sources. A lower-than-anticipated growth rate in major emerging markets, including Brazil, China, India, and Russia, would lower commodity prices further and cause economic activity in the region's oil and gas exporters to weaken. Those countries with low public debt will be able to draw on their reserves to sustain aggregate demand (Annexes 1 and 2). Lower-than-anticipated growth in emerging markets would also reduce growth in the region's oil-importing countries because it would weaken exports and bilateral official project lending. Russia's slowdown, in particular, is an important source of risk for the region's oil importers in light of close linkages. Remittances from migrants working in Russia have so far remained strong, but a marked slowdown in Russia could still adversely affect them in the period ahead. A slowdown in the euro area would also be felt by the CCA economies, both directly and, more important, because of the likely consequent weaker economic activity in Russia (Annex 2). On the domestic side, delays in improving the health of the banking systems may weigh on domestic credit growth and economic activity in some cases (for example, Kazakhstan).

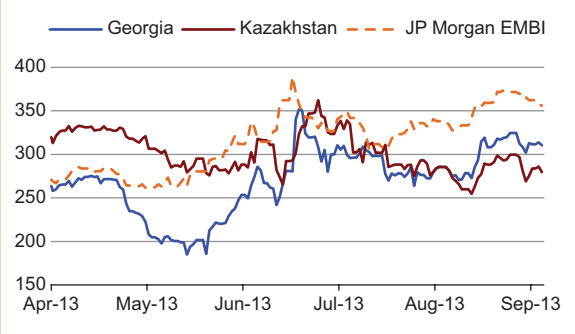
The impact from a greater-than-expected tightening of global financial conditions is expected to be manageable for the CCA economies (Annex 2). The CCA oil and gas importers fund their current account deficits mainly through concessional borrowing and foreign direct investment (FDI); however, Georgia's vulnerability to a decline or reversal of capital flows increased following a rise in its external liabilities. Rollover risks are generally not an issue for the CCA oil and gas exporters, except Kazakhstan, for which external debt is still high and future pricing and rollover rates of private sector debt may be affected (Figures 3.7 and 3.8).

Figure 3.7
External Private Debt
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.
Note: EMDC = emerging market and developing countries.
[1]Excludes intercompany loans.

Figure 3.8
Sovereign Bond Spreads
(Basis points, April 25 to September 10, 2013)

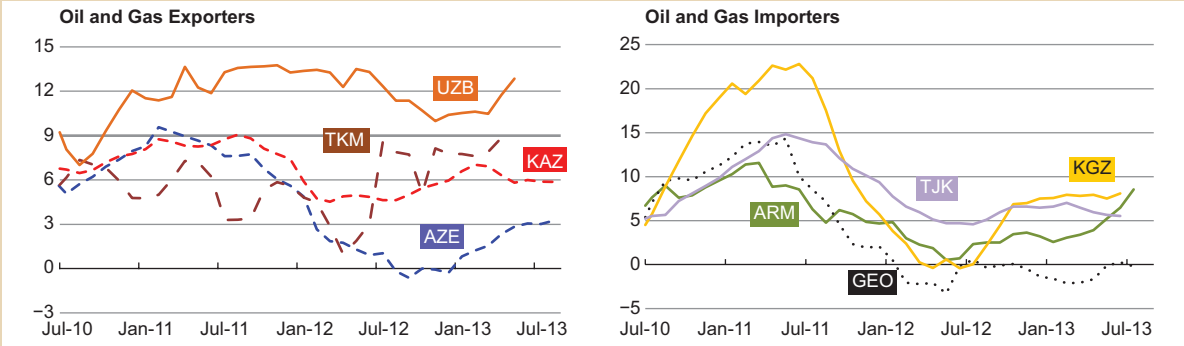


Source: Bloomberg, L.P.

Inflation Stays Largely within a Comfortable Range

Administered price increases in several CCA countries will push headline inflation upward in the near term, but underlying pressures remain contained. After declining to 5.3 percent as economic activity slowed in 2012, average annual consumer price inflation is set to rise by about 2 percentage points in 2013–14, in part because of increases in energy and administered utility prices, for example, in Kazakhstan. Second-round effects from these increases are expected to be small, given spare capacity, declining international food and fuel prices,

Figure 3.9
Headline Consumer Price Index Inflation
(12-month change; percent)



Sources: National authorities; and IMF staff estimates.

and contained inflation expectations. Inflation is expected to stay largely within central banks' explicit or implicit comfort zones, and monetary policy may remain on hold in most countries. Inflation volatility is likely to remain high, however, given the large share of food prices in the consumption basket, reliance on food imports, and weaknesses in the monetary transmission mechanism.

Two countries depart from these general trends. In Uzbekistan, inflation will stay in double digits because of continuing exchange rate depreciation, higher local food and administered prices, and wage increases (Figure 3.9). Further monetary policy tightening is needed to rein in inflation and hold back second-round effects from administered price increases. By contrast, Georgia has experienced deflation since early 2012 as a result of lagged effects of exchange rate appreciation, declining food and administered energy prices, and subdued domestic demand. In response, the central bank has been reducing the policy rate, but inflation is still about 6 percentage points below the medium-term target.

Slowly Recuperating Financial Sector Needs Strong Oversight

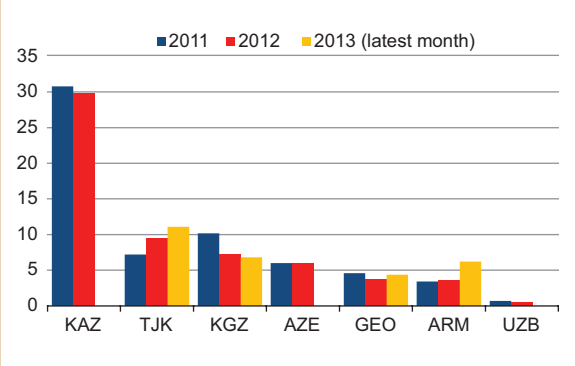
Gradually recovering from the legacy of past banking crises, the financial sector in the CCA region remains shallow. The profitability of banks, which dominate the financial sector, has generally recovered from the crisis troughs but has not yet returned to precrisis levels. Banks appear to be well capitalized and liquid. However, capital adequacy ratios well above 20 percent may, in part, mask problems in asset classification (Table 3.1). Risk management practices remain below international standards in many cases, casting doubt on the banking sector's ability to withstand large unanticipated shocks. Private credit has accelerated in Azerbaijan, and consumer lending is picking up in Kazakhstan, and although growth is taking place from a low base (see Box 1.2), these lending developments underscore the need to ensure strong forward-looking supervision. Nonperforming loans remain elevated in Kazakhstan and Tajikistan (Figure 3.10), weighing on credit growth and efficient resource intermediation, thus calling for a

Table 3.1. Financial Sector Indicators
(June 2013, or latest available data)

	Capital adequacy ratio *(Percent of risk-weighted assets)*	Return on assets *(Percent of total assets)*
Armenia	16.3	0.9
Azerbaijan	15.7	1.0
Georgia	26.5	2.2
Kazakhstan	18.7	–0.1
Kyrgyz Republic	27.7	2.5
Tajikistan	21.5	2.1
Turkmenistan	14.9	2.9
Uzbekistan	24.3	1.9

Source: National authorities.

Figure 3.10
Nonperforming Loans
(Overdue by 90 days or more, percent of total loans)



Source: National authorities.

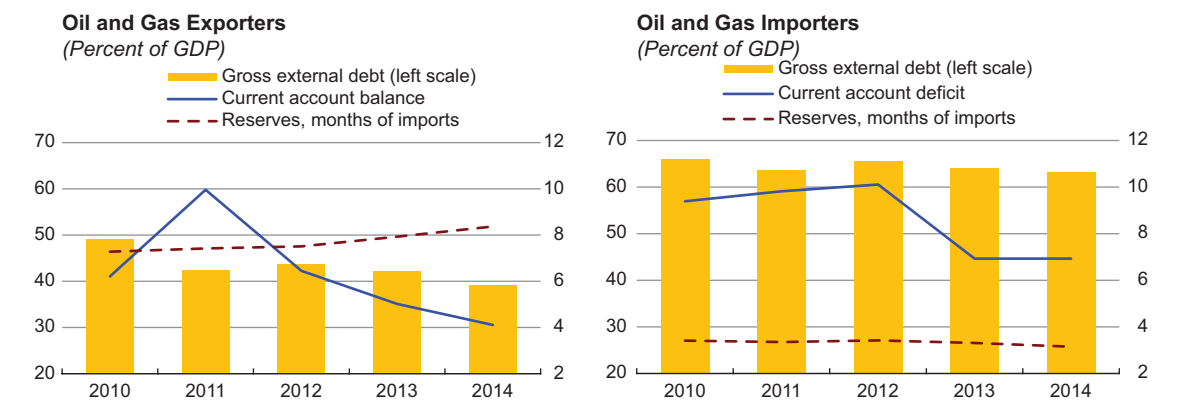
tightening of regulatory standards related to loan classification and credit management. Another factor aggravating financial sector vulnerabilities is widespread dollarization, which not only weakens the monetary transmission mechanism but also makes the banking systems vulnerable to possible large movements in exchange rates.

To improve the efficiency and soundness of the financial sector, many countries are taking measures to strengthen prudential regulation and supervision. Kazakhstan recently introduced a framework providing options for banks to resolve high nonperforming loans, and is now considering measures to further strengthen this framework. Some CCA countries are taking new macroprudential measures to discourage nonresident deposits and dollarization, such as higher liquidity requirements for banks with a high fraction of nonresident deposits in Georgia, and foreign exchange liquidity requirements and lower reserve requirements for deposits in domestic currency in Armenia.

External Positions Call for More Exchange Rate Flexibility

Lower external demand and falling oil and gas prices are putting pressure on the external positions of some CCA countries. The overall current account surplus for the CCA region is projected to decline from about 4¾ percent of GDP in 2012 to about 3 percent in 2014, because of shrinking surpluses in the oil- and gas-exporting countries, particularly Azerbaijan and Kazakhstan (Figure 3.11, left panel). Current account deficits in the CCA oil and gas importers are narrowing (except in Tajikistan) because of import compression amid subdued domestic demand, but remain above 7 percent of GDP (Figure 3.11, right panel). Export growth in the oil and gas importers has been supported by good harvests and recent exchange rate depreciation (in Armenia), and a recovery in gold production in the Kyrgyz Republic. However, overvalued

Figure 3.11
External Positions
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

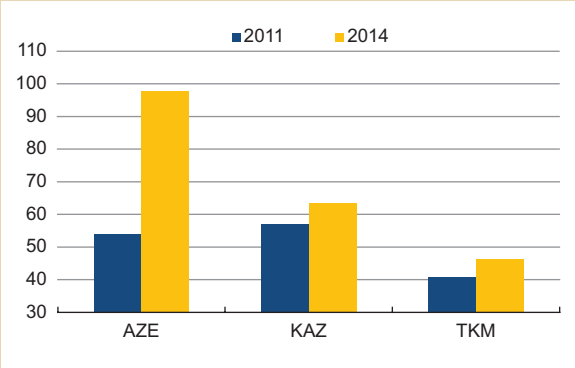
exchange rates constrain export growth in some cases, suggesting the need for more exchange rate flexibility. Although the oil and gas importers are financing their current account deficits mostly through FDI and concessional borrowing, their international reserves remain barely above three months of imports.

Fiscal Consolidation Is Needed to Increase Buffers and Stabilize Debt

Like the external positions, fiscal balances in the CCA oil- and gas-exporting countries are projected to weaken sharply in the near term (Figure 3.12). General government balances are set to decline from about 5½ percent of GDP in 2012 to 1 percent of GDP in 2014, driven by declines in hydrocarbon revenues, especially in Azerbaijan. Fiscal breakeven prices for the oil and gas exporters range from about $43 per barrel for Turkmenistan to $90 per barrel for Azerbaijan at present, providing them with a sufficient cushion to absorb moderate fluctuations in oil prices (Figure 3.13). However, fiscal breakeven prices have been rising in most countries since 2011, suggesting that fiscal buffers are declining. Long-term fiscal sustainability analyses and other frameworks for fiscal management in resource-rich countries also suggest that the CCA oil and gas exporters are not saving enough for future generations (Annex 4). In a prudent response to these trends, nonhydrocarbon fiscal balances in the CCA oil and gas exporters have been improving, supported by expenditure restraint.

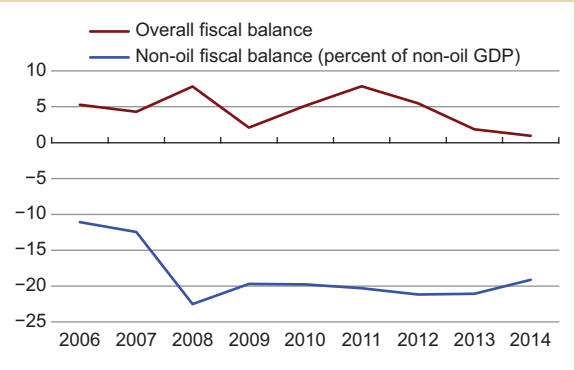
The region's oil and gas importers have had mixed success in reducing their fiscal vulnerabilities. Public debt remains below 40 percent of GDP, but it is rising and has not returned to the precrisis lows (Figure 3.14). The region's fiscal deficits have come down from the crisis highs but are projected to deteriorate by almost a full percentage point in 2013

Figure 3.13
Oil and Gas Exporters: Breakeven Oil Prices
(Fiscal breakeven oil prices, U.S. dollars per barrel)



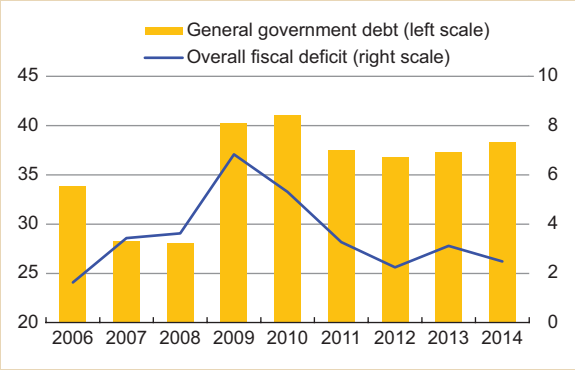
Sources: National authorities; and IMF staff estimates.

Figure 3.12
Oil and Gas Exporters: Fiscal Balances
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

Figure 3.14
Oil and Gas Importers: Fiscal Balance and Debt
(Percent of GDP)



Sources: National authorities; and IMF staff estimates.

to about 3 percent of GDP. This mainly reflects an increase in budgetary spending in a number of countries, including Armenia and Tajikistan. Fiscal balances are expected to consolidate next year on account of planned containment of expenditures, particularly in the Kyrgyz Republic and Tajikistan. Nonetheless, on current projections, many countries also have limited fiscal space to accommodate large unanticipated shocks.

The CCA countries should take advantage of their continued strong expansion to strengthen low or declining fiscal buffers and improve intergenerational equity. More fiscal room can come from broadening tax bases, increasing low rates of indirect taxes, and strengthening tax administration. Expenditure measures are also important; for example, scaling down energy subsidies in Turkmenistan and Uzbekistan and ensuring the sustainability of pension systems in Azerbaijan and the Kyrgyz Republic. To minimize the impact on economic growth and enhance equity, some of these savings should be allocated to more investment in education and better-targeted social safety nets (Annex 3). In oil-exporting countries, fiscal policy requires a framework to delink spending decisions from short-term fluctuations in oil prices, avoid procyclical fiscal policy, and ensure that medium-term fiscal targets provide for intergenerational equity (Annex 4). In all countries, improved fiscal coverage can help monitor and manage fiscal risks (see Box 2.4).

Toward Becoming Vibrant Emerging Markets[1]

The CCA countries have recorded significant economic achievements during the two decades since independence. These countries have grown more rapidly than many other regions of the world, and poverty has declined. Inflation has come down sharply from high rates in the 1990s, and interest rates have fallen. Financial sectors have started to deepen, as evidenced by higher deposits and lending. Fiscal policies were broadly successful in building buffers before the global crisis, and many CCA countries used those buffers effectively to support growth and protect the most vulnerable as the crisis washed across the region.

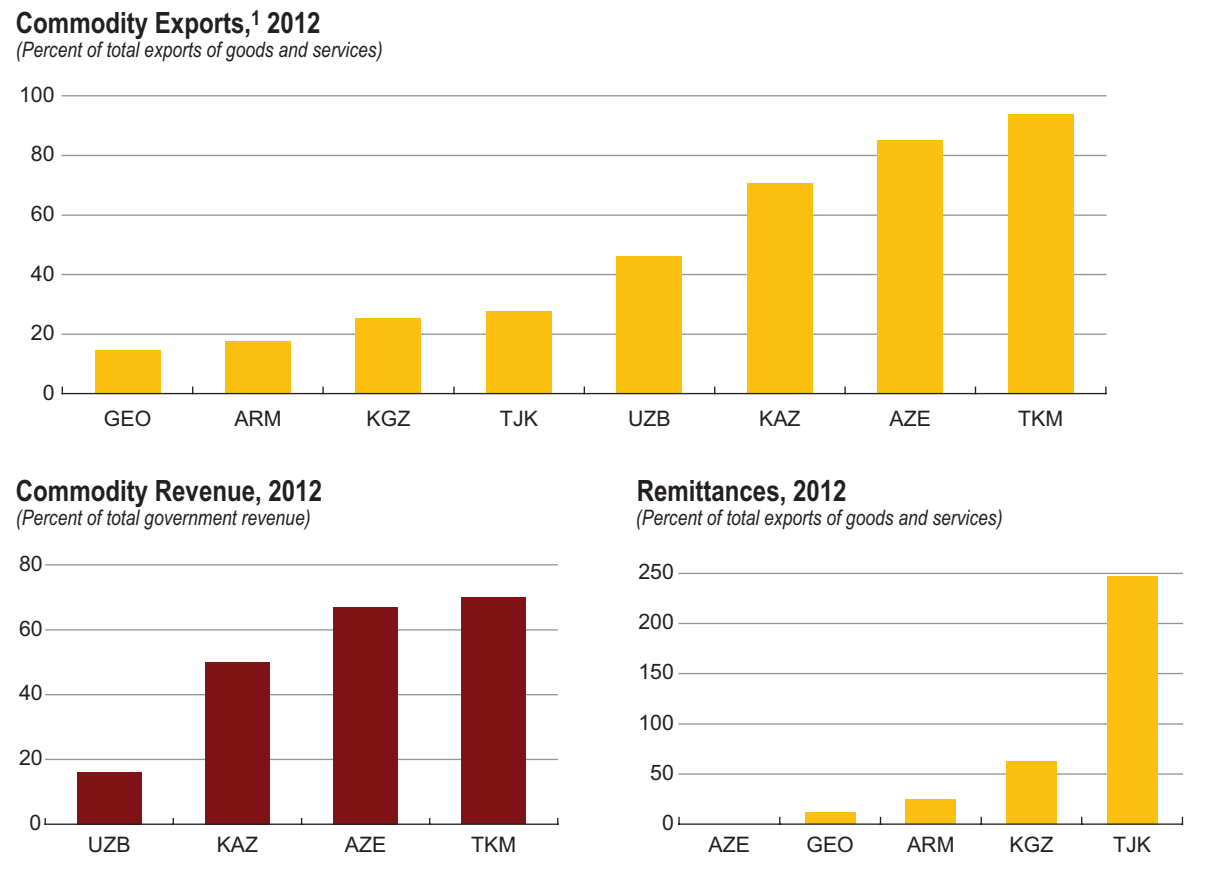
There remain, however, continued need and ample room to strengthen these economic outcomes. Growth in CCA countries has been volatile and has relied heavily on energy resources, other commodities, and remittances (Figure 3.15). Like economic growth, inflation has been volatile, and real interest rates generally remain high, discouraging financial intermediation. Central banks in the region often lack independence, monetary policy has been procyclical, and high rates of dollarization reflect continued weak confidence in many CCA countries. Progress has been uneven in restoring postcrisis fiscal positions and rebuilding fiscal buffers. Non-oil revenue remains low in resource-rich CCA countries, social and capital spending needs are generally high, and quasi-fiscal activities—supported by directed lending—are widespread.

CCA countries can seize the opportunity afforded by strong commodity prices and remittances flows to pursue ambitious reforms and become emerging markets in the medium term. These reforms could target and remove key structural impediments, and could significantly strengthen fiscal, monetary, and financial sector policy frameworks, thereby creating the conditions for continued growth that is more rapid, stable, and inclusive. A recent analysis shows that if CCA countries can gradually move during the next decade to just the average of the global level of economic policy effectiveness,[2] they can

[1] Prepared with inputs from Jonathan Dunn and Mark Horton, based on a May 2013 conference in the Kyrgyz Republic on the lessons of the post-Soviet transition and future challenges for CCA countries (http://www.imf.org/external/np/seminars/eng/2013/cca/).

[2] Government effectiveness captures economic policy consistency and formal planning, quality of budgeting and financial management, and the quality of public administration.

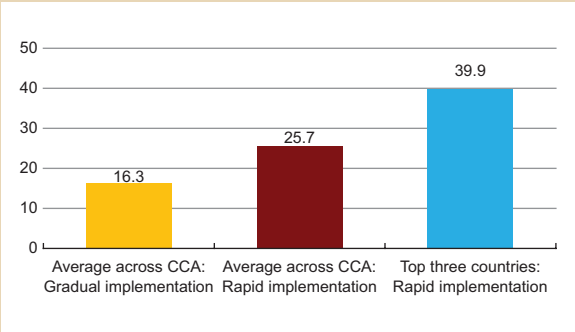
Figure 3.15
Growth in the Region Has Not Been Diversified



Sources: National authorities; IMF World Economic Outlook; and IMF staff estimates.
[1]Includes oil, gas, precious metals, aluminum, copper, other metals, metal byproducts, and cotton.

achieve considerably higher per capita GDP (Figure 3.16). Moreover, the more rapidly these reforms are implemented, the larger that income gain would be.[3] Yet reform implementation has slowed across the CCA in the past decade as the result of political economy constraints arising from vested interests and state capture, which may continue to stand in the way of ambitious reforms.

Figure 3.16
Relative Gains by 2023
(Percent of GDP per capita in 2023 under existing policies)



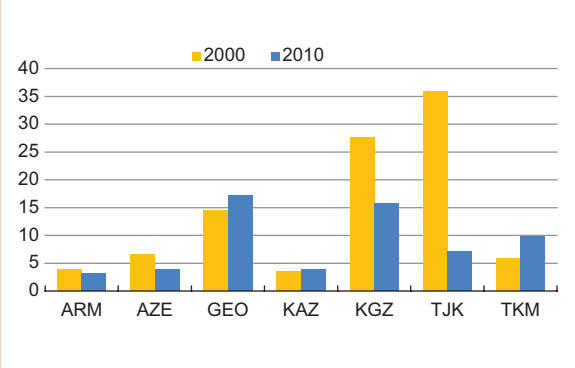
Sources: National authorities; and IMF staff estimates.

[3] These results are consistent with earlier IMF analysis (*Regional Economic Outlook: Middle East and Central Asia*, November 2012) that showed that higher growth in emerging markets and developing countries since 1990 is mostly tied to improvements in policymaking and the building of policy space.

Important elements of an ambitious reform agenda to help the CCA countries achieve the emerging market vision of higher, sustainable, less volatile, and more inclusive growth are the following:

- *Enhancing structural reforms and regional cooperation.* Many CCA countries are lagging in reforms that would deepen and sustain competitive markets, and greater regional cooperation could help drive and diversify growth. Governance and business climates can be strengthened to leverage FDI and domestic investment into nonresource sectors in a number of ways, including regulatory streamlining, better bankruptcy and collateral frameworks, improved domestic competition environments, and enhanced financial reporting and management structures. Performance and prospects may also be enhanced through education reforms to reduce skills mismatches and by stronger health care systems. Intraregional trade has actually declined significantly (as a share of total trade) in most CCA countries during the past decade (Figure 3.17); improved regional cooperation could increase the quality and spread of growth- and trade-facilitating infrastructure and transit facilities, and address concerns about energy and water security.

Figure 3.17
Trade with CCA
(Percent of total trade)



Sources: World Integrated Trade Solutions (WITS); and IMF staff calculations.

- *Strengthening fiscal frameworks.* Improved fiscal frameworks can support fiscal sustainability and help rebuild the buffers needed to manage shocks and volatility of growth. For all CCA countries, fiscal frameworks could be extended to cover the medium term and to anchor policy through clear paths for key fiscal indicators. For CCA oil importers, this could be the debt-stabilizing deficit level; for CCA oil exporters, this could involve price- and savings-based fiscal rules. Energy exporters could strengthen their frameworks further by ensuring that spending from resource savings goes through the budget, rather than through extrabudgetary or quasi-fiscal channels. All CCA countries could enhance transparency and accountability by broadening the definition of the public sector to include the operations of state enterprises, reporting quasi-fiscal activities in budget documents, strengthening public sector statistics, and establishing one-stop and e-government services.

- *Improving the effectiveness of monetary policy.* Stronger monetary frameworks would allow CCA countries to consolidate gains from price stability, increase the resilience of their economies to external and domestic shocks, and support growth. Although some countries have made progress in implementing inflation targeting in recent years (Armenia, Georgia), all eight CCA countries should further improve the quality and timeliness of data, central bank communications strategies, and inflation forecasting. Central banks in the region should progressively shift from policy based on monetary aggregates to open-market operations that rely on liquidity forecasting to strengthen these frameworks. Moving toward exchange rate flexibility in the medium term would also be important for de-dollarization and greater effectiveness of monetary policy, along with development of deeper securities markets to support open-market operations.

- *Fostering financial sector development.* Underdeveloped and often weakly regulated financial systems in CCA countries limit the effectiveness of monetary policy and hamper productive private investment and job-creating growth. CCA financial sectors can be strengthened in a number of ways. Constraining or eliminating directed lending and subsidized lending rates to state-owned enterprises will protect the health of banks and create more competition in the banking sector. Applying prudential and regulatory norms evenly and fully across all financial institutions, easing entry requirements for new banks, and fostering the consolidation or privatization of state-owned banks would also help. Access to finance for small and medium-sized enterprises and other small borrowers could be supported through the creation of private credit bureaus and stronger microfinance institutions. Deepening government debt markets and developing other capital markets are also important.

CCA countries should take measures to move beyond the status quo in which several CCA countries face gradually weakening growth prospects and continuing vulnerability to shocks. Resolute actions to pursue structural reforms, enhance business environments and regional cooperation, and strengthen policy frameworks are likely to lead to greater investment and higher, more inclusive growth, moving these countries toward emerging market status. However, ambitious reforms will not be easy in the face of the political economy challenges in many CCA countries. These challenges include limited domestic political competition throughout the region, political uncertainties caused by lack of clear succession arrangements in several CCA countries, absence of independent judiciaries, and regional tensions. The strong position of well-connected businessmen (oligarchs) who lobby against policy changes is another constraint. If the CCA countries are able to mitigate or overcome these political economy constraints, there could be huge rewards for their populations.

CCA: Selected Economic Indicators

	Average						Projections	
	2000–07	2008	2009	2010	2011	2012	2013	2014
Real GDP Growth	**10.3**	**6.8**	**3.7**	**6.6**	**6.8**	**5.8**	**5.8**	**6.1**
(Annual change; percent)								
Armenia	12.0	6.9	–14.1	2.2	4.7	7.2	4.6	4.8
Azerbaijan	15.9	10.8	9.3	5.0	0.1	2.2	3.5	5.6
Georgia	7.6	2.3	–3.8	6.3	7.2	6.1	2.5	5.0
Kazakhstan	10.2	3.2	1.2	7.0	7.5	5.1	5.0	5.2
Kyrgyz Republic	4.5	7.6	2.9	–0.5	6.0	–0.9	7.4	6.5
Tajikistan	8.7	7.9	3.9	6.5	7.4	7.5	6.7	5.8
Turkmenistan	15.2	14.7	6.1	9.2	14.7	11.1	12.2	10.4
Uzbekistan	6.0	9.0	8.1	8.5	8.3	8.2	7.0	6.5
Consumer Price Inflation	**9.8**	**16.5**	**6.2**	**7.0**	**9.1**	**5.3**	**6.9**	**7.0**
(Year average; percent)								
Armenia	2.9	9.0	3.5	7.3	7.7	2.5	7.0	3.5
Azerbaijan	6.2	20.8	1.6	5.7	7.9	1.0	3.7	6.3
Georgia	6.4	10.0	1.7	7.1	8.5	–0.9	–0.3	4.0
Kazakhstan	8.5	17.1	7.3	7.1	8.3	5.1	6.3	6.3
Kyrgyz Republic	6.9	24.5	6.8	7.8	16.6	2.8	8.6	7.2
Tajikistan	17.2	20.4	6.5	6.5	12.4	5.8	7.5	7.2
Turkmenistan	8.1	14.5	–2.7	4.4	5.3	5.3	7.6	7.0
Uzbekistan	16.8	12.7	14.1	9.4	12.8	12.1	12.1	10.4
General Government Overall Fiscal Balance	**1.4**	**6.1**	**0.8**	**3.7**	**6.3**	**4.4**	**1.2**	**0.5**
(Percent of GDP)								
Armenia[1]	–2.5	–1.8	–7.7	–5.0	–2.9	–1.6	–2.2	–2.3
Azerbaijan[1]	0.5	20.3	7.0	14.6	13.3	4.1	–4.5	–6.7
Georgia	–1.8	–6.3	–9.2	–6.6	–3.6	–3.0	–3.3	–2.7
Kazakhstan	3.3	1.1	–1.4	1.4	5.9	4.5	4.8	4.1
Kyrgyz Republic	–4.5	0.0	–3.4	–6.3	–4.6	–5.4	–5.3	–4.2
Tajikistan	–2.8	–5.1	–5.2	–3.0	–2.1	0.5	–2.3	–1.3
Turkmenistan[2]	1.9	10.0	7.0	2.0	3.6	6.4	1.8	2.0
Uzbekistan	0.9	10.2	2.8	4.9	8.8	8.5	1.2	0.6
Current Account Balance	**–0.6**	**8.8**	**0.4**	**4.5**	**7.9**	**4.8**	**3.9**	**3.1**
(Percent of GDP)								
Armenia	–5.9	–11.8	–15.8	–14.8	–10.9	–11.3	–10.0	–8.6
Azerbaijan	–3.5	35.5	23.0	28.0	26.5	21.7	13.3	9.2
Georgia	–10.4	–22.0	–10.5	–10.2	–12.7	–11.5	–6.5	–7.8
Kazakhstan	–2.4	4.7	–3.6	0.9	6.5	3.8	4.3	3.1
Kyrgyz Republic	–1.2	–15.5	–2.5	–6.4	–6.5	–15.3	–9.6	–8.3
Tajikistan	–3.4	–7.6	–5.9	–1.2	–4.7	–1.3	–1.7	–2.2
Turkmenistan	7.0	16.5	–14.7	–10.6	2.0	0.0	0.2	3.8
Uzbekistan	4.9	8.7	2.2	6.2	5.8	0.7	0.2	1.1

Sources: National authorities; and IMF staff estimates and projections.
[1]Central government.
[2]State government.

Annex 1. Prospects for the Global Oil Market

The oil market has tightened recently because of supply disruptions, but Middle East producers face the possibility of an oversupplied market in the next few years. This underscores the need to address the rising fiscal breakeven oil prices and to pursue structural reforms to facilitate diversification.

The global oil market is being affected by competing factors. The increase in unconventional oil production in the United States and weak global demand put downward pressure on prices earlier in 2013, but supply uncertainties arising from the unrest in the Middle East have recently pushed prices higher (Figure A1.1). The Brent oil price reached a six-month high in late August, and the benchmark has remained in the $100–$120 a barrel range established during the past two years. The price of U.S. mid-continent oil (West Texas Intermediate, or WTI) has moved closer to Brent, partly owing to easing pipeline constraints and deepening integration of U.S. unconventional oil production with global markets. The Organization of the Petroleum Exporting Countries (OPEC) Reference Basket has continued trading at a fairly stable spread relative to Brent. However, the Brent-Dubai spread has been more volatile, temporarily widening to its highest in almost two years amid geopolitical uncertainty in late August.

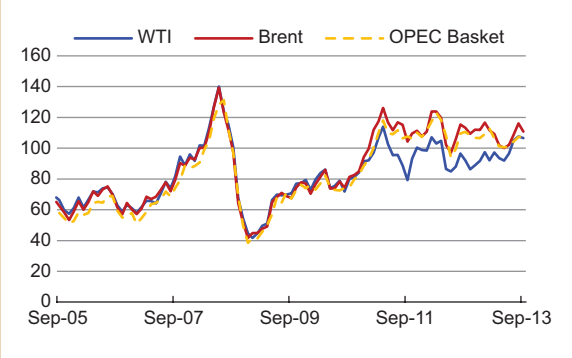
Looking ahead, futures markets point to a gradual decline in oil prices. The Brent futures prices drift down to about $90 a barrel during the next three years because the futures market participants appear to place a somewhat greater emphasis on the weak global growth outlook, including for the emerging market economies, falling energy intensity, and an additional increase in non-OPEC production, rather than on the persistent risks of geopolitical shocks and supply disruptions. However, the distribution of expected oil prices calculated from options remains very wide, with the 95 percent confidence band between $70 and $145 a barrel one year ahead (Figure A1.2). The range widens to $50–$150 a barrel three years ahead, with the probability of oil prices falling below $100 a barrel by mid-2016 currently at 66 percent.

Prepared by Martin Sommer.

Figure A1.1

Oil Price Benchmarks, 2005–Latest[1]

(Millions of U.S. dollars per barrel)

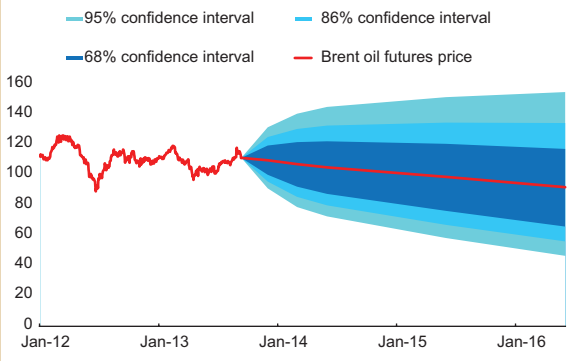


Source: Bloomberg, L.P.
Note: OPEC = Organization of the Petroleum Exporting Countries; WTI = West Texas Intermediate.
[1]Data as of September 17, 2013.

Figure A1.2

Options-Based Oil Price Prospects[1]

(U.S. dollars per barrel)



Sources: Bloomberg, L.P.; and IMF staff calculations.
[1]Derived from prices of Brent oil futures options on September 12, 2013.

Rising U.S. unconventional oil production, stimulated by technological advances and elevated prices, has had a material impact on the global oil market and is expected to reduce future demand for OPEC oil. The oil market has tightened in recent months because of substantial oil production outages amounting to almost 3 million barrels per

day (mbd),[1] but the baseline medium-term outlook is for excess oil supply (Figure A1.3, panel a). According to the International Energy Agency (IEA, 2013), rapid growth in non-OPEC oil supply combined with sluggish oil demand could lead to a modest reduction of demand for OPEC crude in the coming years (by about 1 mbd) (Figure A1.3, panel b). However, given the investment projects already in the pipeline (Figure A1.3, panel c), OPEC's spare capacity may rise to some 7 mbd in the medium term, up from 5 mbd in 2012 and sharply up from 2–3 mbd typical during the middle of the first decade of the 2000s.

Views about the extent and durability of the projected oil market oversupply vary widely. Much will depend on the sustainability of the U.S. oil production boom, which faces infrastructure, regulatory, and environmental constraints;[2] output recovery in the countries currently producing below potential (e.g., Iraq, Iran, and Libya); the magnitude of any further supply disruptions; and the speed of global economic recovery. But the U.S. Energy Information Administration (EIA, 2013), OPEC (2012, 2013), and some private sector forecasters such as British Petroleum (2013a) also suggest that demand for OPEC oil will stagnate or fall for some time, pushing up OPEC spare capacity. In sharp contrast, the near-term implications of the U.S. shale boom for the Middle East gas producers appear limited because of the geographic segmentation of the natural gas market (Prasad and Fayad, 2012).

The easier oil market conditions are expected to put downward pressure on prices, while helping to mute price volatility. The price downside would be limited by the high breakeven costs of the unconventional oil producers—in the ballpark of $60–$70 a barrel

[1]According to the U.S. Energy Information Administration, unplanned oil production outages rose to 2.8 mbd in August 2013—the highest since at least January 2011. OPEC spare capacity dropped by about ½ mbd between April and August 2013, while Organization for Economic Cooperation and Development (OECD) inventories have fallen below last year's levels.

[2] See Macroeconomic Implications of the U.S. Unconventional Energy Boom, in "United States: Selected Issues," IMF Country Report No. 13/237 (Washington, 2013).

Figure A1.3a

IEA's Assessment of Oil Market Outlook: Medium-Term Oil Market Balance, 2004–18

(Millions of barrels per day)

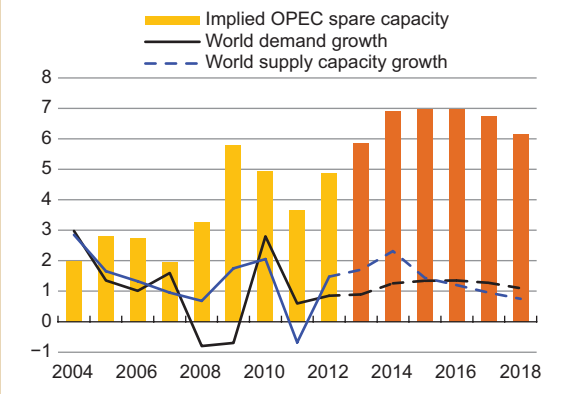


Figure A1.3b

Global Demand Growth, 2004–18

(Percent)

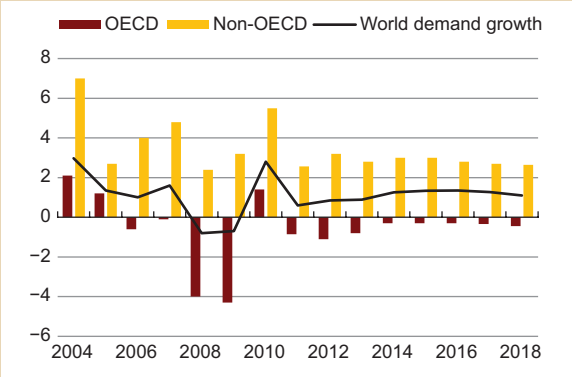
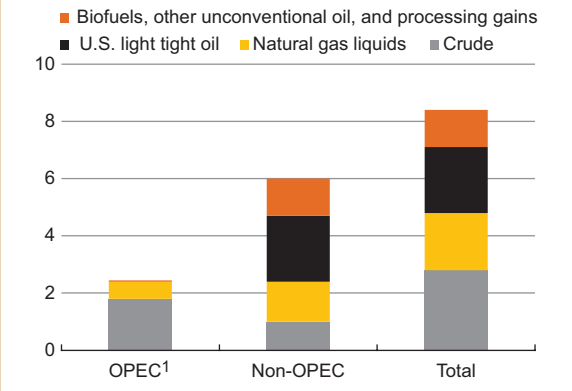


Figure A1.3c

Global Liquids Growth, 2012–18

(Millions of barrels per day)



Source: IEA (2013).

Note: OECD = Organization for Economic Cooperation and Development; OPEC = Organization of the Petroleum Exporting Countries.

[1]OPEC crude refers to capacity additions. Global refinery processing gains included in non-OPEC.

for certain U.S. shale fields (IEA, 2010, 2013), but more for some other non-OPEC producers—and by the higher reservation prices of the OPEC producers, whose fiscal breakeven prices have escalated in recent years. For Saudi Arabia, the fiscal breakeven price is currently estimated to be about $85 a barrel. Barring major shocks, higher OPEC spare capacity should protect the oil market from supply disruptions and thus substantially reduce the potential for a sudden increase in oil prices. However, supply disruptions in several oil-exporting countries could mean that expectations of market oversupply are not met, which would put upward pressures on prices. This potential concern is reflected in the upward tilt of the oil price fan chart (Figure A1.2).

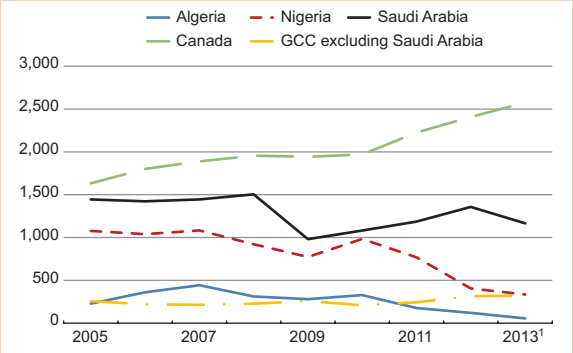
The ripple effects of the U.S. unconventional oil boom have been distributed unevenly, with producers of the light sweet crudes subject to the strongest competitive pressures. Because the United States legally prohibits crude oil exports, the global oil market adjustment has largely occurred through lower U.S. crude imports (Figure A1.4) and higher product exports. Indeed, the United States has become a net exporter of oil products. Middle Eastern producers have received incentives to shift their exports from the United States toward other markets, especially in rapidly growing Asia. U.S. tight oil is of a light and sweet variety, and its production growth has especially hurt countries exporting light grades, such as Algeria and Nigeria; their exports to the United States have fallen by some 60–80 percent during the past five years. The producers of heavier sour grades have done much better, given the technical specifications of U.S. refineries; for example, Saudi Arabia's exports to the United States have remained broadly stable since 2010 (Saudi Aramco also owns stakes in several U.S. refineries).

The boom in unconventional oil is causing an unanticipated shift in the mix of crude oil grades—exacerbating pressures on the global refining industry—although the Middle Eastern refiners are better positioned than some of their peers. Past investments were based on the assumption of a move toward heavier grades, making the existing refineries unsuitable for processing the new tight oil. Meanwhile, refiners are moving closer to the production site (including those in the Middle East, specifically Saudi Arabia), either to help satisfy rapidly growing local demand or to develop higher-value-added export industries. The IEA projects a buildup of excess refining capacity during the next several years (utilization rates are already low in some regions, including the Middle East), which will put pressure on older plants in mature markets. In particular, the aggressive expansion of refining capacity in the Middle East is expected to reduce the global market share of some European refiners (Figure A1.5).

Figure A1.4

U.S. Crude Oil Imports by Region, 2005–Latest

(Thousands of barrels per day)

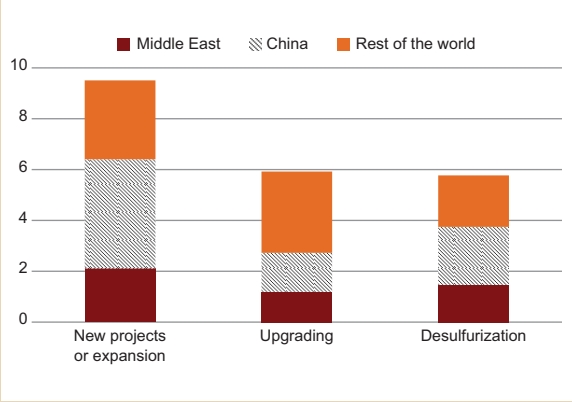


Source: U.S. Energy Information Administration, 2013.
[1]2013 data are the average of January–May.

Figure A1.5

Global Refinery Capacity Additions, 2013–18

(Millions of barrels per day)



Source: International Energy Agency Medium-Term Market Report (2013).

In the long term, most forecasters expect demand for OPEC oil to pick up again, but the shale gas boom could help slow oil demand growth, creating another headwind for Middle Eastern producers. Both the EIA and the IEA expect U.S. tight oil production to plateau early in the 2020s, at which point demand growth for OPEC oil would accelerate. In contrast to the United States, the other countries pursuing unconventional energy (e.g., Argentina, China, Mexico, and, to a small extent, Europe) are likely to focus on natural gas rather than oil because of different geology, water availability, and infrastructure. The bulk of natural gas output will probably still be consumed in geographically segmented markets. However, the development of shale gas could help accelerate fuel switching away from oil, eventually also boosting the use of gas in the increasingly efficient transport industry, the largest consumer of oil. Several analysts have argued that as a result of all these changes, oil demand could peak soon, in sharp contrast to earlier discussions about Hubbert-style peak supply (*Economist*, 2013).

In sum, MENA producers face the risk of an oversupplied oil market in the next several years. Available data suggest that OPEC oil investments and capacity expansion are set to slow substantially; however, the falling call on OPEC would still create the need for production cuts and could cause, in their absence, price declines that would hurt all MENA oil exporters. Therefore, addressing the rising breakeven oil prices in many MENA countries becomes crucial. The expected developments also underscore the need for structural reforms to facilitate diversification.

Annex 2. International Linkages and Spillovers for MENAP and CCA

MENAP and CCA economies' international linkages have been strengthening during the past decade; yet both regions remain only moderately integrated into the global trade and financial system. As a result, output cycles in the region are only partially synchronized with global developments, and the impact of global shocks on the region is limited. A slowdown in major emerging market economies would somewhat weaken growth in MENAP and CCA because of lower commodity prices, as well as exports and remittances, particularly from Russia. The effects of slower growth in the euro area would be felt mostly in the Maghreb, given its strong export and remittances links with Europe. Low external financial exposures and financial development limit the potential impact of a greater and longer-lasting tightening of global financial conditions on the region. Pockets of vulnerabilities nonetheless exist, particularly in countries with large financing needs, low external and financial buffers, or both.

Moderate Yet Growing Linkages to the Rest of the World

Greater openness has contributed to higher synchrony with global developments. In line with globalization trends and rising hydrocarbon prices, exports-to-GDP ratios have risen in oil exporters since the early 1990s. The increase in openness in oil importers has been smaller, owing to difficulties in gaining market share in highly competitive global markets (Table A2.1). However, the role of remittances flows in the oil-importing economies has increased, especially in the CCA and in some MENAP oil importers, as these countries have increasingly exported labor to faster-growing and richer nations. Foreign direct investment (FDI) as a share of GDP has increased, more in the CCA than in MENA. External bank exposures, as measured by liabilities to foreign banks, are moderate in MENAP and low in the CCA, with sources of funding concentrated in Europe. Banking exposures have risen in a number of countries, however, especially in Qatar and Saudi Arabia, where they now surpass their pre-global-crisis peaks (Figure A2.1).

Prepared by Alberto Behar (team lead), with inputs from Ritu Basu and Inutu Lukonga (MCD); Ben Hunt, Rene Lalonde, Abdulhamid Haidar (of the Research Department, RES); and Franziska Ohnsorge (Strategy, Policy, and Review Department); with research assistance by Jaime Espinosa-Bowen and Mitko Grigorov (RES) and supervised by Natalia Tamirisa and Harald Finger.

Table A2.1. Openness Has Increased

(Exports, remittances, and foreign direct investment; percent of GDP)

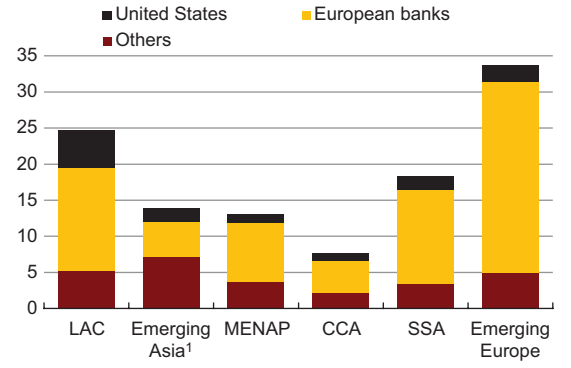
	Exports		Remittance Inflows		Foreign Direct Investment	
	1993–2002	2003–12	1993–2002	2003–12	1993–2002	2003–12
CCA exporters	37	48	n.a.	0.5	5.4	6.8
CCA importers	34	32	1.4	12.7	3.6	7.0
MENAP exporters	37	53	0.2	0.1	0.5	2.6
MENAP importers	23	28	3.6	4.4	2.2	4.1

Sources: National authorities; and IMF staff estimates.
Note: n.a. = not available.

Figure A2.1

Lending by Foreign Banks to Selected Emerging Market Regions

(Data as of March 2013; percent of recipient's GDP)



Source: Bank for International Settlements.
Note: LAC = Latin America and the Caribbean; SSA = Sub-Saharan Africa.
[1]Excludes Australia, Japan, and New Zealand.

Bilateral (non-oil) export and remittances links remain strong with Europe and Russia, and are rising with China. Because of the Maghreb countries' proximity to Europe, about three-quarters

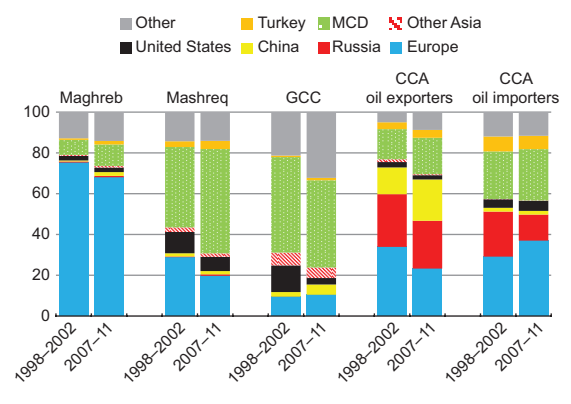
of their non-oil export and remittance receipts come from the continent. Europe is a less important trading partner for the Mashreq countries because of their close linkages with the GCC through both trade and remittances flows. The share of non-oil exports to China from many MENAP and CCA countries has increased during the past decade, largely reflecting China's rapid growth (Figure A2.2). Russia remains the dominant source of remittances to the CCA (Figure A2.3).

Multicountry networks increase exposures to major advanced and emerging market economies. For example, the CCA countries' exposures to Europe are amplified by their strong links to Russia's economy, which, in turn, is closely linked to Europe's. MENAP and CCA exposures to the United States are augmented by exports to China and hence the Asian supply chain, for which the United States is an important market. Correlations with Turkey may reflect shared exposures to other countries in addition to bilateral linkages.

Figure A2.2

Share of Non-Oil Exports by Destination

(Percent, period averages)

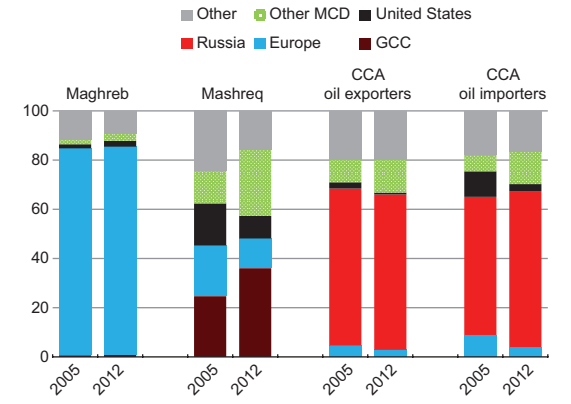


Source: UN, Comtrade; and IMF staff calculations.

Figure A2.3

Shares of Remittances Inflows by Remitting Region

(Percent)



Sources: World Bank; and IMF staff calculations.

Notwithstanding growing non-oil trade and remittances, oil prices remain an essential channel linking the region to the global economy. Because the world's major advanced and emerging market economies account for a large portion of global oil demand, developments in these economies determine changes in global oil prices and, consequently, growth in MENAP and CCA oil exporters. Oil prices also matter for Russia's economy, which means that strong correlations between the MENAP oil exporters and Russia largely reflect common global exposures rather than spillovers. For the oil importers, the net effect of oil price changes on the economy is ambiguous. An increase in oil prices, for example, tends to weaken their terms of trade, reduce disposable incomes, and raise business costs. At the same time, higher oil prices lead to higher external demand from the oil-exporting neighbors, including for tourism and other exports, as well as larger workers' remittances. These offsetting effects are particularly important for oil importers in the Mashreq.

Increasing Synchrony of Output Cycles

Reflecting evolving bilateral and multicountry linkages, output comovements of MENAP and CCA with other economies are moderate but rising (Figure A2.4).[1]

[1] For a discussion of output correlations in other regions as well as within the MENA and CCA countries, see Chapter 3 of the October 2013 *World Economic Outlook*. Country-specific correlation analysis can be found in reports for Armenia ("Republic of Armenia, Article IV Consultation," IMF Country Report No. 13/34 [Washington, 2013]) and Jordan ("Jordan: 2010 Article IV—Staff Report and Public Information Notice," IMF Country Report No. 10/297 [Washington, 2010]).

Figure A2.4

Moderate but Increasing Synchrony

(Correlations of GDP, 1993–2002 and 2003–12)

Sources: National authorities; and IMF staff calculations

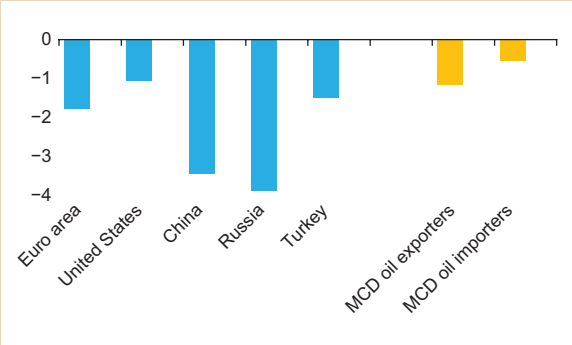
Note: Correlations are calculated for each country using annual GDP data for 1993–2002 and 2003–12, and a simple average is taken to represent subregions.

- The output cycles of the MENAP and CCA economies are only moderately synchronized with those in advanced and emerging market economies. Economic growth in MENAP oil exporters is moderately correlated with growth in the United States, the euro area, and emerging markets, mainly reflecting linkages via global oil demand and prices. Similarly moderate and broad-based output correlations are observed for the CCA countries. For the MENAP oil importers, correlations with output growth in most other countries are low, suggesting that economic growth in this subregion tends to be driven by domestic factors.
- Comovement of output cycles in the MENAP and CCA economies with the rest of the world, particularly with China, has strengthened over the past decade. Increases in output correlations of MENAP and CCA countries with China have been larger than those with other advanced and emerging market economies, in some cases becoming positive where they had previously been negative. Output correlations between the CCA oil exporters and Russia weakened during the past decade, reflecting, in part, a reorientation of their trade from Russia to other trading partners, particularly China. By contrast, the CCA oil importers maintained strong links with

Russia, especially through continued exports of labor to Russia and the associated remittances inflows.

To evaluate spillovers, the impacts of three global downside scenarios are studied.[2] The outlook for the region is subject to a number of external risks, including a sharp slowdown in major emerging market economies or the euro area, and a rise in global interest rates as the United States exits from very accommodative monetary policy. To distinguish between correlations and actual spillovers, the analysis estimates the impacts of shocks in these three cases.

Figure A2.5
GDP Impact of Emerging Market Slowdown
(First year, percent change relative to baseline)



Sources: National authorities; and IMF staff calculations.

Lower-than-Anticipated Growth in Emerging Markets Is an Important Risk

A sharp slowdown in major emerging market economies would have a large impact on global GDP and oil prices (Figure A2.5). Private investment in the BRICS (Brazil, Russia, India, China, South Africa) has repeatedly surprised on the downside in recent years. If investment in these countries falls 10 percent below the forecast in 2014, a decline in the BRICS' external demand accompanied by capital outflows from emerging markets would reduce global GDP by 1¾ percent and oil prices by almost 20 percent on impact (see the April 2013 *World Economic Outlook*).

The oil exporters would share in the adverse consequences of a fall in hydrocarbon prices. Some countries would have to scale back oil output as they did during the global financial crisis. Most oil exporters have buffers with which to conduct countercyclical fiscal policy, which would limit the GDP impact to about 1 percent in the first year. The GDP impact would be higher in the CCA exporters than in the MENAP exporters because of the CCA's stronger non-oil export linkages to the BRICS, particularly to Russia, resulting in non-oil exports falling 4 percent. However, fiscal balances would be more severely affected in MENAP than in CCA because of higher fiscal breakeven oil prices (see Chapters 1 and 3).

The oil importers would experience lower exports and remittances. For the CCA oil importers, these spillovers would be mostly from Russia and, to a lesser extent, China, whereas for the MENAP oil importers, the indirect impact through the induced slowdown in Europe would match the direct effects of a slowdown in emerging market economies. For example, CCA importers' non-oil exports would fall 4½ percent, of which more than two-thirds would be directly through the BRICS. For the MENAP oil importers, a reduction in non-oil exports of 3 percent would be roughly equally attributable to Europe, the BRICS, and the rest of the world. Some countries would be able to ease monetary policy and allow automatic stabilizers to operate; however, the scope for countercyclical policy would be generally limited given large fiscal deficits, high inflation, and rigid exchange rate regimes. The

[2] Quantitative results are based on two global macroeconomic models used in the *World Economic Outlook* and developed by Cashin, Mohaddes, and Raissi (2012), as well as trade simulations in Behar and Espinosa-Bowen (forthcoming) and remittances analysis in Abdih and others (2012). For an application to an individual country, see "United Arab Emirates: Selected Issues," IMF Country Report No. 13/240 (Washington, 2013).

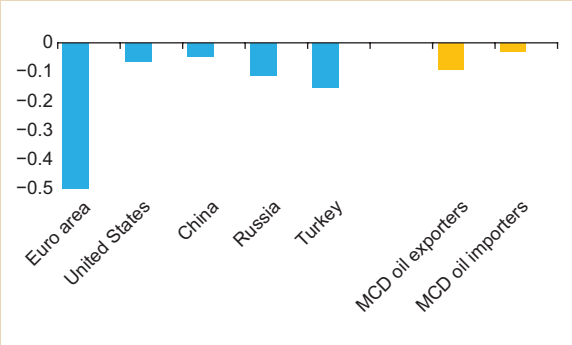
overall GDP loss in the MENAP and CCA oil importers is expected to be about ½ percent. In a number of countries, a slowdown in growth would heighten concerns about fiscal and external sustainability, leading to a vicious cycle of declines in confidence and economic activity.

Slowdown in the Euro Area Would Mainly Affect the Maghreb

Waning confidence, reduced investment, and increased concerns about fiscal sustainability could lead to persistently slower growth in Europe. The decline in confidence might reflect slow progress in repairing balance sheets and implementing the needed structural reforms. It would lead to rising risk premiums and additional fiscal tightening, further weakening the macro environment and confidence, and reducing private investment. Euro area growth would fall by ½ percent per year over five years. Global GDP would be mildly but persistently affected, and oil prices would fall by about 1 percent per year (see the April 2013 *World Economic Outlook*).

A growth slowdown in Europe would primarily affect the Maghreb countries because of their close trade and remittances links (Figure A2.6). The impact on MENAP and CCA countries would be persistent but small in aggregate (about one-tenth of a percent in the first year). However, export and remittances losses of about 1 percent could make the GDP loss as large in the Maghreb (½ percent in the first year) as in Europe. The impact on the CCA oil importers would be smaller because they have more diversified patterns of trade, although CCA oil exporters would also feel the impact indirectly through Russia. To the extent that a slowdown in growth leads to further deleveraging by European banks, MENAP and CCA borrowers would be affected. However, the impact would generally not be expected to be large, because European banks in the MENAP and CCA regions often operate through subsidiaries that are primarily funded by local deposits.

Figure A2.6
GDP Impact of Euro Area Slowdown
(First year, percent change relative to baseline)



Sources: National authorities; and IMF staff calculations.

Effects of Tighter Global Financial Conditions Should Be Manageable

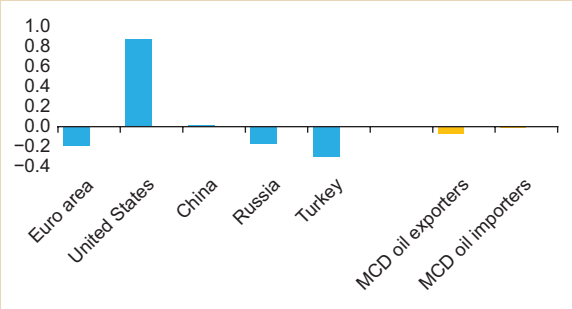
A faster-than-expected recovery in the United States would lead to higher global interest rates. If a recovery starting in 2014 results in the United States growing more quickly than in the IMF *World Economic Outlook* baseline, monetary policy would tighten earlier and by more than expected. The policy rate could rise 50 basis points above baseline expectations in 2014 and peak at 150 basis points above baseline in 2016 (IMF, 2013f). Global uncertainty surrounding U.S. monetary policy could increase international yields and risk premiums. The resulting tightening of financial conditions would reduce domestic demand across the world, offsetting the positive effects from stronger U.S. import demand, so oil prices would be likely to rise by only about 2 percent.

External and domestic demand in most MENAP and CCA countries would not be materially affected (Figure A2.7). Effects via oil prices and trading partner growth would be small. Export and remittance receipts of the CCA and Maghreb countries would decline slightly because Russia and Europe would experience a small slowdown in growth. Domestic interest rates in countries with U.S. dollar pegs would rise in tandem with U.S. rates, weighing on investment and growth, but the transmission of policy rates to private

Figure A2.7

GDP Impact of U.S. Growth and Monetary Tightening

(First year, percent change relative to baseline)



Sources: National authorities; and IMF staff calculations.

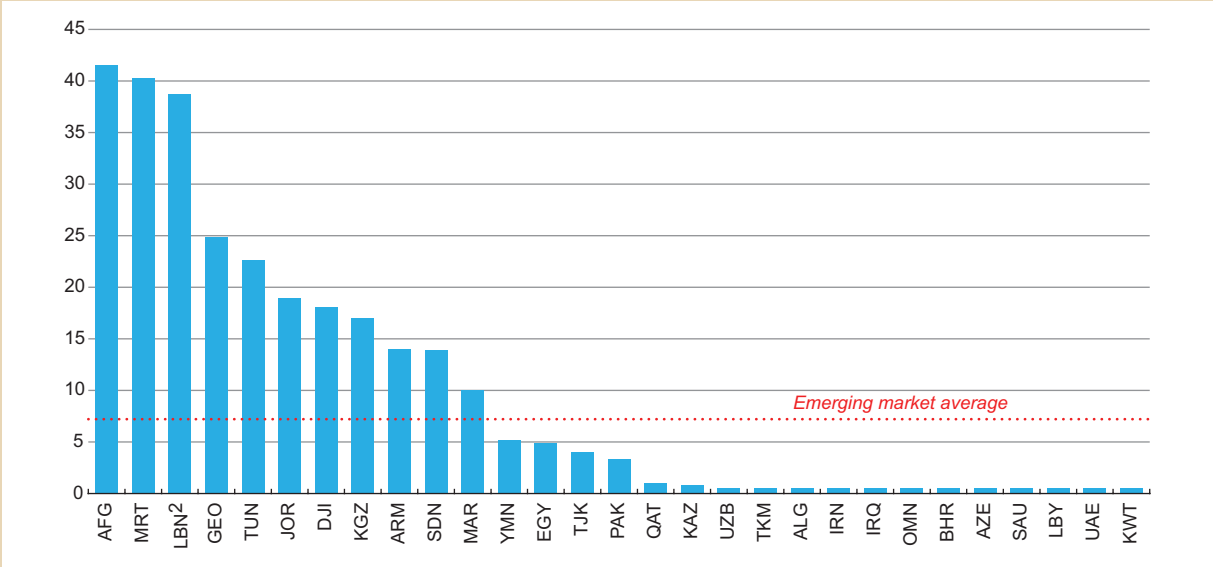
sector activity would be limited in many countries, particularly in the GCC, because of caps on lending rates and structural excess liquidity on bank balance sheets. However, some public capital expenditure plans would become more expensive to finance and would need to be scaled back, while countries with high public debt might need to tighten their fiscal positions, which would soften domestic demand.

A rise in the cost of funding should also have a limited effect on the region, because financing needs are generally low or are met by relatively stable sources. The effect of higher global interest rates on MENAP oil exporters would be mostly felt through a decline in the book value of their sovereign wealth portfolios. Financing needs of MENAP oil exporters are generally small (Figure A2.8), given their large external and fiscal surpluses, although Dubai and Bahrain would need to roll over debts at a higher cost in the coming years (see Chapter 1). Oil importers have large external and fiscal financing needs, but they are met mostly by external official flows at concessional rates, nonresident deposits, or through sales of local bonds to domestic banks (see Chapter 2). Foreign participation in local bond markets is small (Figure A2.9); rollover risks are thus limited. Those risks may become an issue if, for example, FDI were to dry up; otherwise domestic banks would need to sharply step up their purchases of government bonds to substitute for declining external financing. For a discussion of the likely effects on the CCA, see Chapter 3.

Figure A2.8

Gross External Financing Needs in 2013[1]

(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

[1]Calculated as the sum of current account deficit (excluding official current transfers) and amortization scheduled, with a floor of zero.

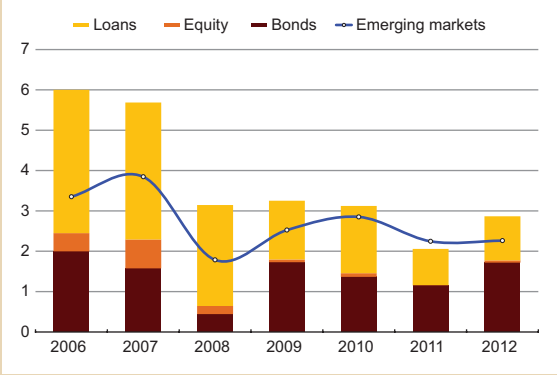
[2]Excludes nonresident deposits.

In most countries, financial sectors should be able to withstand moderate shocks. Banks are generally healthy and have limited external exposures. International bank lending to MENAP firms and banks has been rising but remains below the emerging market average, except for Morocco, Qatar, and the United Arab Emirates. Lending by global banks to the CCA is small (less than 10 percent of GDP), as Kazakhstani banks have reduced their exposure to wholesale funding since the global financial crisis. Firms in MENAP and CCA generally rely on domestic sources of funding, mostly through banks, which finance themselves largely through local deposits.

Nonetheless, pockets of financial vulnerability exist. Some banking systems have loan-to-deposit ratios exceeding 100 percent, and some banks with large external wholesale financing needs might be vulnerable (Figure A2.10). Capital buffers are typically above emerging market averages (Figure A2.11); although, in some cases, capital positions could prove vulnerable in light of relatively low provisioning (Jordan, Tunisia), while nonperforming loans are high in others. Kuwait's investment companies could be exposed to funding and asset valuation risks (see Chapter 1).

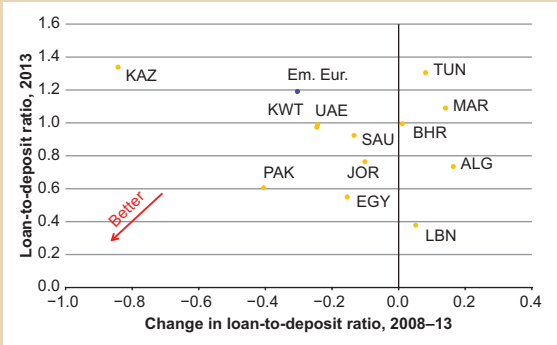
Significant protracted economic and financial market volatility, especially in emerging markets, would affect MENAP and CCA. In the event of a sudden stop of capital flows to emerging markets and a severe loss of liquidity, global economic activity is likely to slow down. Economic activity in the region is likely to weaken because of lower oil prices, lower production, or both, as well as declining non-oil exports to the affected trading partner countries. Remittances inflows, which generally tend to be more resilient than exports of goods and services, may also moderate. In addition, as shown by the recent episode of increased

Figure A2.9
MCD: International Issuance of Bonds, Equity, and Loans
(Percent of GDP)



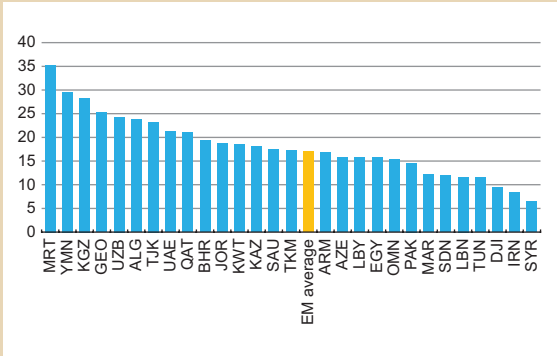
Sources: Dealogic; national authorities; and IMF staff calculations.

Figure A2.10
MENAP and CCA Banking System: Loan-to-Deposit Ratios
(2008–June 2013, or latest available month)



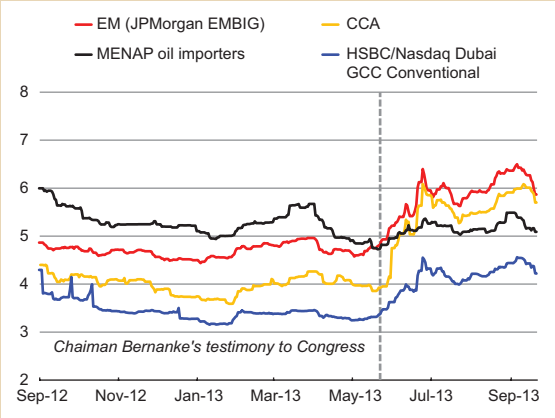
Sources: National authorities; and IMF staff calculations.
Note: Em. Eur. = emerging Europe.

Figure A2.11
Capital Adequacy Ratios
(Percent of risk-weighted assets, 2012 or latest available data)



Sources: National authorities; *Global Financial Stability Report*, April 2013; and IMF staff estimates.
Note: EM = emerging market.

Figure A2.12
Bond Yields
(Percent, September 1, 2012–September 10, 2013)



Source: Bloomberg, L.P.

financial market volatility and capital outflows from emerging markets in May and June 2013, bond yields for countries in the region generally rise in tandem with those in emerging markets (Figure A2.12).[3] The effects on bond yields for most MENAP oil importers tend to be smaller than those in MENAP oil exporters and CCA because country-specific and regional factors are the main determinants of risk premiums in this subgroup (see Chapter 2).

[3] A steeper increase in the CCA than in other regions was partly explained by the concurrent announcement by the Azeri state oil company of an ambitious new investment strategy.

Annex 3. Anchoring Fiscal Policy in Oil-Exporting Countries

Fiscal management of resource revenues is a high policy priority in oil-exporting countries. Governments are the main beneficiaries of oil receipts, and they decide how much to save abroad or spend in the domestic economy. Governments' fiscal policy decisions, which are often made in an environment of volatile and uncertain oil revenues, have a substantial impact on macroeconomic stability, development of the non-oil economy, and intergenerational equity. Moreover, in pegged exchange rate regimes with limited monetary policy independence, fiscal policy is the main instrument of demand management. In the absence of strong fiscal management frameworks, government spending may become procyclical, as recent experiences in a number of MENAP and CCA oil exporters have shown.

Oil-exporting countries would benefit from the use of a suite of fiscal models to calibrate their fiscal policy decisions. The non-oil primary balance helps assess the short-term fiscal stance because it measures the impact of policy changes on aggregate demand and the fiscal position. The permanent income hypothesis (PIH) model is most useful for evaluating long-term intergenerational equity and fiscal sustainability. The structural balance approach allows for smoothing oil price volatility while calibrating spending decisions. Countries can also inform their assessments of fiscal buffers needed to deal with oil revenue volatility by applying the finite horizon precautionary saving-investment model. Finally, dynamic stochastic general equilibrium (DSGE) models provide a more general decision-making framework that takes into account the broad economic effects of resource-financed public spending.

The Role of Fiscal Policy for MENAP and CCA Oil Exporters

Fiscal management advice in oil-exporting countries needs to take into account country-specific characteristics:

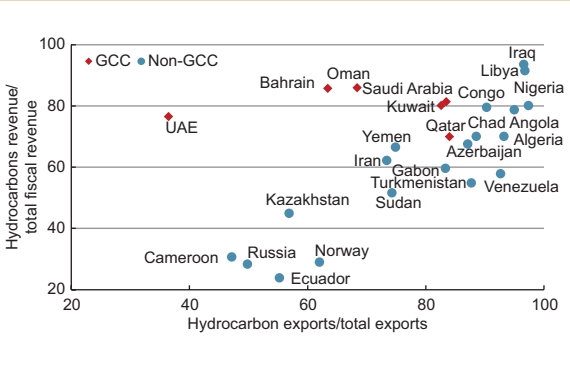
- *Oil dependence.* Oil exporters in the MENAP and CCA regions tend to depend heavily on oil exports for fiscal and export revenues, making them very vulnerable to changes in production and international oil price fluctuations (Figure A3.1, panel a). To the extent that these countries depend on oil, fluctuations in international oil prices may have a large impact on macroeconomic stability, suggesting the need to build up buffers.
- *Size of oil reserves.* Most countries in the region could sustain current production levels for more than a generation (30-plus years), in which case medium- to long-term fiscal sustainability may not be an immediate concern. Some countries with shorter horizons face more binding fiscal sustainability constraints (Figure A3.1, panel b).
- *Fiscal vulnerabilities.* Fiscal breakeven oil prices vary across countries and have increased since 2009, underscoring the vulnerability to lower oil prices (Figure A3.1, panel c).
- *Development needs.* Some countries have pressing development and reconstruction needs that may warrant front-loading investment spending while maintaining long-term fiscal sustainability (Figure A3.1, panel d). Part of oil revenues can also be prudently used to promote economic diversification.

Prepared by Francisco Parodi (team lead), Maria Albino-War, Gohar Minasyan, and Fuad Hasanov, with research assistance by Paul Zimand, and supervised by Prasad Ananthakrishnan.

Figure A3.1a

Country-Specific Fiscal Management Considerations

(Percent, average 2006–13)

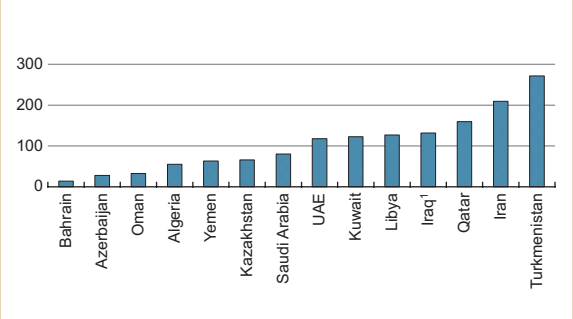


Source: IMF World Economic Outlook database.

Figure A3.1b

Ratio of Proven Reserves to Total Oil and Natural Gas Production

(Percent, 2012)



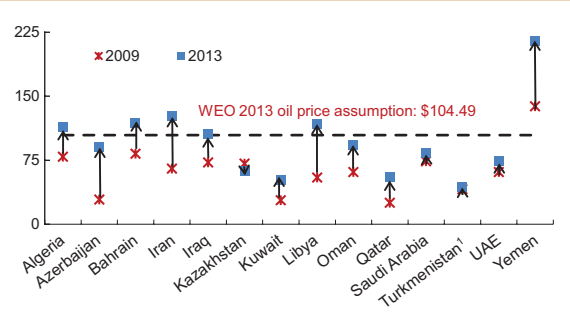
Sources: U.S. Energy Information Administration; and British Petroleum (2013).

[1]Iraq has one of the largest natural gas reserves in the world but produces very little of it; only oil is included. Including natural gas, Iraq's ratio would be around 4,500.

Figure A3.1c

Change in the Fiscal Breakeven Oil Price, 2009–13

(U.S. dollars per barrel)

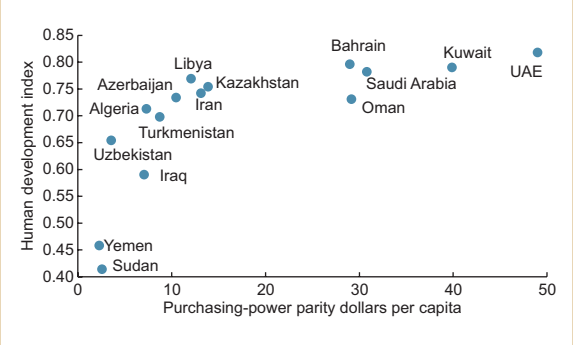


Source: IMF staff calculations.

[1]Turkmenistan does not have a 2009 breakeven price, so 2011 is used for the earlier period.

Figure A3.1d

Human Development Index and per Capita Purchasing Power Parity GDP



Sources: United Nations Development Programme; and IMF World Economic Outlook database.

Fiscal Management in Oil Exporters: Objectives and Tools

Managing public finances in oil-rich countries involves distinct objectives relating to macroeconomic stabilization, fiscal sustainability (including intergenerational equity), and development. Macroeconomic stabilization entails the use of spending and taxation decisions to smooth the impact of economic fluctuations caused by domestic and external shocks. Ensuring fiscal sustainability includes explicitly linking fiscal policy to resource exhaustibility, and helping to accumulate savings for intergenerational equity. The development objective involves making expenditure decisions with long-term economic growth in view, and includes economic diversification. The prioritization of the objectives, and the analytical tools used to formulate policies, may vary with specific country characteristics, such as the length of the resource revenue horizon, development needs, and the level of fiscal buffers that can be tapped if there were to be a sustained fall in resource prices (Baunsgaard and others, 2012) (Table A3.1).

Table A3.1. Fiscal Goals and Analytical Tools

		Short- to Medium-Term Macro Stability			Medium- to Long-Term Fiscal Sustainability		Developmental Needs	
Analytical Tool		Facilitates assessment of the fiscal stance impulse	Deals with oil revenue volatility	Helps target precautionary buffer	Links fiscal policy with exhaustibility	Helps set savings for intergenerational equity	Accounts for growth return on investments	Links to other macro variables
Non-oil primary balance (as a percent of non-oil GDP)		✓ (if cyclically adjusted)	✓ (excludes oil revenue)					
Structural balance (with oil-price-smoothing mechanism)		✓	✓	✓				
PIH-based rules	**Permanent income hypothesis** (PIH)				Can serve as a medium-term benchmark	✓		
	Modified PIH rule or FSF (allows for front-loading investment spending)				Can serve as a medium-term benchmark	✓	✓	
Structural DSGE models					✓	✓	✓	✓
Precautionary saving-investment model			✓	✓	✓		✓	✓

Note: DSGE = dynamic stochastic general equilibrium; FSF = fiscal sustainability framework.

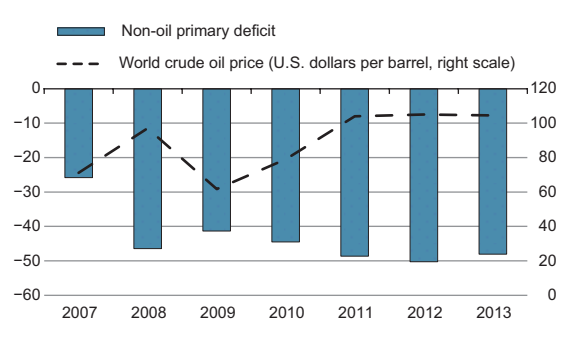
Safeguarding Short-Term Macroeconomic Stability

Safeguarding short-term macroeconomic stability means avoiding boom-bust cycles by aiming to smooth spending and delink it from oil price dynamics. The experience of oil exporters, however, shows that non-oil primary deficits have tended to move closely with oil prices, suggesting that countries have not been able to avoid procyclical fiscal policy. The non-oil primary balance (NOPB) as a percent of non-oil GDP is useful for capturing the impact of policy changes on aggregate demand and is the most widely used indicator. As governments channel oil revenues through spending into the domestic economy, the NOPB measures the impact of spending on domestic demand. Using this indicator for setting fiscal policy helps separate the fiscal policy stance from the volatility of oil revenues (Figure A3.2). The NOPB can remain stable even if the overall fiscal balance shifts abruptly as a result of the volatility in oil prices or production. To be able to maintain a steady NOPB or implement countercyclical fiscal policies in the face of a large oil price drop, countries should also aim to build adequate fiscal buffers.

Figure A3.2

Oil Exporters: Average Non-Oil Primary Deficit[1]

(Percent of non-oil GDP)



Source: IMF, World Economic Outlook database.

[1]For each year, the non-oil primary deficit is the average for the following countries: Algeria, Azerbaijan, Bahrain, Iran, Iraq, Kazakhstan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, Turkmenistan, United Arab Emirates, Yemen.

The 2008–09 oil price declines illustrate the usefulness of the NOPB in the first instance to assess the fiscal stance. Countries that maintained their precrisis NOPB levels throughout the crisis were able to avoid procyclical fiscal policy and steep non-oil output drops. In addition, if a shock to non-oil output were to occur, the NOPB would be a good measure for assessing the fiscal impulse for countercyclical demand management.

Calibrating Expenditure in a Medium-Term Framework

Fiscal policy requires an anchor for short- to medium-term spending to break the link between budgets and oil price volatility. For a country with a very strong fiscal position and with large oil reserves that will last for many years, a key question is what framework can best help manage the volatility of oil revenues in the short to medium term. The structural balance approach allows for smoothing oil price volatility while calibrating spending decisions. A structural balance rule can be applied in all oil resource countries regardless of the resource horizon, and it is particularly useful for countries with long resource horizons in which intergenerational constraints derived from application of the PIH are not binding in the near term.[1] In these cases, the emphasis should be on computing the fiscal impulse, and on setting a conservative medium-term path that severs expenditure from oil volatility.

A structural balance rule requires assumptions about future oil prices and production. Assumptions about the long-term oil price and, in countries such as Saudi Arabia that have spare capacity, production, are inherently difficult but must be made to decouple expenditures from resource price volatility. The experience across countries shows that there is no one way of establishing the long-term price assumption.[2] A five-year, backward-looking price rule, for instance, strikes a balance between low volatility and adjustment to new market trends within a reasonable timeframe. A backward-looking rule also has the advantage of not requiring forecasts of future oil prices; however, given the oil price trends of the past decade, when average oil prices were lower than are now forecast for the medium term, a longer backward-looking rule could be viewed as being too conservative for a country with well-established fiscal buffers and a need to boost infrastructure and education spending. Considering the implications of Saudi Arabia's spare production capacity on structural output, a three-year backward-looking average is used as the structural oil output level.[3]

The spending benchmark derived from PIH models is generally binding for countries with relatively weaker fiscal positions and limited reserve horizons.[4] In these countries, government spending is often too large to be maintained after the natural resources have been exhausted. In such cases, for example, Azerbaijan, the structural balance target needs to be consistent with the PIH benchmark to ensure long-term fiscal sustainability. In this instance, anchoring the NOPB to achieve a fiscal position consistent with PIH-derived levels in the medium term would maintain fiscal discipline in times of high oil prices and help ensure intergenerational fairness.

Strengthening Institutional Capacity

In the absence of strong fiscal institutions to execute numerical fiscal rules, such as the structural balance, procedural rules can be implemented as an intermediate step.[5] International experience suggests

[1] The first step is to compute structural oil revenues using "long-term" oil prices and "structural" production assumptions. The second step is to target a specific NOPB using the structural revenue projections. The NOPB target can then be calibrated to be consistent with accumulation of fiscal buffers in the medium term. International experience suggests that the rule needs to be simple to implement and easy to communicate to the general public and parliament. For specific applications, see IMF "Selected Issues" in Country Reports 13/218 (Iraq), 13/151 (Libya), 13/15 (Qatar), 12/165 (Azerbaijan), and 13/230 (Saudi Arabia).

[2] See IMF (2012a) for a discussion of international experience applying structural balance rules.

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

[4] "Republic of Azerbaijan: Selected Issues," IMF Country Report No. 13/165 (Washington, 2013).

[5] See "Iraq: Selected Issues," IMF Country Report No. 13/218 (Washington, 2013); and "Qatar: Selected Issues," IMF Country Report No. 12/15 (Washington, 2012). For Iraq, the procedures included (1) setting a clear medium-term fiscal objective and corresponding NOPB targets; (2) establishing a conservative baseline scenario, with realistic oil price and export volume assumptions; (3) identifying domestic and external sources of financing; (4) identifying nondiscretionary spending commitments; (5) setting a realistic discretionary spending path that includes all spending commitments; and (6) preparing a statement of fiscal risks.

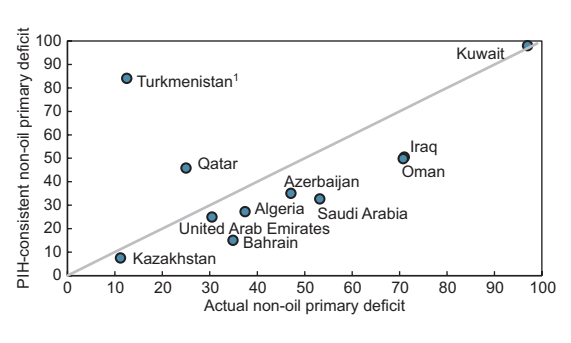
that strong and transparent fiscal institutions are needed for the successful implementation of fiscal rules, particularly an effective public financial management system and legislation delineating the roles and responsibilities of government agencies (see below). In countries with limited technical capacity, procedures outlining steps to be followed during the budget preparation process can be an alternative to numerical fiscal rules. As institutional capacity strengthens, countries can then move toward numerical fiscal rules.

Anchoring Medium- and Long-Term Fiscal Sustainability and Promoting Sustainable Development

Fiscal policy should be consistent with medium- to long-term fiscal sustainability, while at the same time taking into account intergenerational equity and development needs. This objective should be a priority for countries that have shorter resource horizons, or that face critical social and infrastructure gaps that merit front-loading current or investment spending. Policymakers should also focus on fostering policies to generate sustainable development. In general, PIH-based models are useful for anchoring long-term fiscal sustainability;[6] however, richer models can be used to address the limitations of simple PIH frameworks that abstract from the volatility of oil revenues and returns on oil-funded capital spending. In this respect, precautionary saving-investment models can be used to provide for volatility of oil revenues. In addition, DSGE models can be useful for evaluating policies in a more general framework, including the macroeconomic effects of fiscal policy (IMF, 2012a).

Recent applications of the PIH benchmark suggest that most oil exporters need to undergo fiscal consolidation to help ensure intergenerational equity.[7] The PIH approach is particularly useful for countries with short reserve horizons, structural export constraints, and low levels of accumulated savings. For Azerbaijan, for example, the PIH model could provide a medium-term fiscal anchor. For countries with long reserve horizons, such as Iraq, Kazakhstan, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates, the PIH model is unlikely to provide binding near-term spending constraints, even if the true size of oil reserves is underestimated. Nonetheless, even many countries with long reserve horizons were found to have looser fiscal positions than is consistent with intergenerational equity (Figure A3.3).

Figure A3.3
Nonhydrocarbon Primary Fiscal Deficit, 2013
(Percent of nonhydrocarbon GDP)



Sources: National authorities; and IMF staff estimates.
Note: PIH = permanent income hypothesis.
[1]State budget.

The application of the standard PIH model should be complemented with robustness checks. The PIH model is extremely sensitive to assumptions, and there is a large degree of parametric uncertainty in indicators—the expected rate of return on financial assets, future population

[6] The PIH model is used to assess long-term fiscal sustainability and intergenerational equity. The model is useful in providing indicative medium- to long-term benchmarks for fiscal spending, based on the net present value of resource wealth, that are both stable and equitable across generations. The optimal spending annuity benchmark can then be compared with baseline projections of non-oil primary balances.

[7] For the MENA region, see "Kuwait: 2012 Article IV Consultation," IMF Country Report No. 12/150 (Washington, 2012); "Algeria: 2012 Article IV Consultation," IMF Country Report No. 13/47 (Washington, 2013); "Iraq: 2013 Article IV Consultations," IMF Country Report No. 13/217 (Washington, 2013); and "United Arab Emirates: Selected Issues," IMF Country Report No. 13/240 (Washington, 2013). For the CCA, See "Republic of Azerbaijan: 2013 Article IV Consultation," IMF Country Report No. 13/164 (Washington, 2013).

growth, GDP growth, the future trajectory of the price of nonrenewable resources, and the size of hydrocarbon reserves. Therefore, the robustness of the recommendations should be tested by using sensitivity analysis. In its standard form, the PIH also does not carve out a role for public investment in diversifying the economy (it assumes zero return on investment).

Trade-Offs in Scaling Up Investment

Modified PIH (MPIH) and fiscal sustainability framework (FSF) models can be used to analyze the impact of scaling up expenditures in the medium term on long-term fiscal sustainability.[8] In some cases, such as Iraq, short-term deviations from the PIH framework might be warranted to address critical social and infrastructure needs, because the country has a long reserve horizon, there is a high return on capital spending, and credit markets are not functioning properly. Similarly, as in Iran, a country may optimally decide to spend beyond PIH benchmarks in the short term if export volumes are to recover to their pre-sanction levels in the medium term. The MPIH model, which allows for a scaling up of spending in the medium term that is followed by a scaling down of spending to preserve long-term wealth, computes the necessary subsequent fiscal adjustment if the scaled-up spending does not result in higher growth.

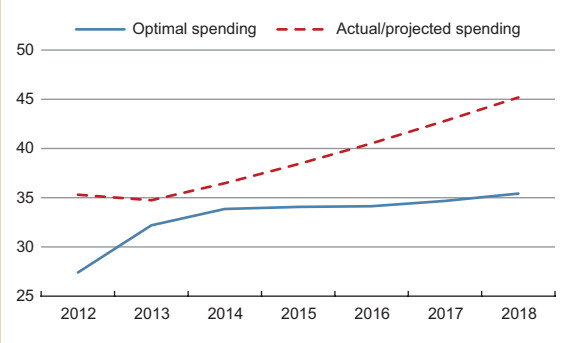
However, the need to save in later years could be lessened if the additional upfront investment spending has a positive growth and tax revenue impact. In this respect, the FSF model incorporates the impact of higher public investment on growth and nonresource revenues, generating a fiscally sustainable path that is consistent with a lower level of financial wealth. In Azerbaijan, the implementation of the FSF model underscored the effect of higher investment on absorption-capacity constraints, low impact of public investment on growth, and potential overheating of the economy.

[8] See IMF (2012b) for a presentation of the MPIH and FSF models.

Figure A3.4

Oman: Optimal versus Actual/Projected Spending, 2012–18

(Billions of U.S. dollars)



Source: IMF staff calculations.

Building Fiscal Buffers to Deal with Uncertainty

In countries with shorter reserve horizons and low levels of accumulated savings, the assessment of fiscal buffers to deal with oil revenue volatility becomes important. A precautionary saving-investment model can be used to inform the optimal allocation of volatile oil income among consumption, precautionary saving, and investment.[9] This model (Cherif and Hasanov, 2012) allows for saving part of oil income for precautionary purposes (build buffers) that can be drawn down in case of an unexpected drop in oil prices as well as investing domestically. The application to Oman suggests that projected spending is on an increasing path, above the optimal level suggested by the model (given a projected decline in oil prices in the medium term) (Figure A3.4). There is also scope for setting capital expenditure priorities so as to bring the projected investment rate in line with the lower optimal path. The projections shown suggest that spending should not continue on its increasing current path (given a projected decline in oil prices in the medium term).

[9] In contrast, PIH models do not factor in uncertainty, which would suggest that in a finite horizon framework, one initially borrows to spend and repays the accumulated debt later.

Assessing the Impact on the Overall Economy

Ambitious scaling up of public investment can generate more growth, but the cost of funding this investment can be high because it draws down from buffers or it accumulates external debt. DSGE models can be useful for making fiscal decisions, such as to invest resource revenues while maintaining fiscal sustainability, in a more general framework that takes into account the macroeconomic effects of resource-financed public spending.[10] These models have features that are not addressed in standard PIH models, such as modeling the link between public investment and nonresource growth; accounting for Dutch Disease; and allowing for detailed fiscal specification of spending and saving, debt sustainability, and fiscal policy. On the downside, these models can be relatively complex and therefore are not easy to communicate to the public.

Institutional Reforms Needed to Strengthen Fiscal Management

Well-designed fiscal frameworks are particularly important for resource-rich countries because of their significant reliance on oil and gas resources.[11] The use of overly conservative oil prices in national budgets, while helping to contain spending pressures, may allow for significant deviations between actual outcomes and initial budget targets, particularly if oil prices are higher than budgeted.[12] There is scope to further enhance the role of the budget as the government's main tool for setting and achieving economic and social goals. In particular, moving toward medium-term budget frameworks can help ensure that spending is stable—despite temporary fluctuations in revenue—and consistent with longer-term policy objectives. Many oil exporters need to build adequate capacity to carry out macro-fiscal analysis and develop strong fiscal frameworks that allow for implementation of countercyclical policies. Several countries have recently been taking steps toward introducing medium-term budget frameworks (Qatar), by starting to move beyond one-year budgets, and by establishing macro-fiscal units (Kuwait, Qatar).[13]

A credible commitment to macro-fiscal stability and effective use of oil wealth should be supported by a public financial management (PFM) system consistent with international best practices. A sound PFM system helps to ensure, as part of the budget process, (1) a transparent and comprehensive presentation of oil revenue and the underlying non-oil fiscal position; (2) a sustainable long-term fiscal strategy based on prudent revenue projections, realistic medium-term fiscal frameworks, and a good budget classification; and (3) transparent mechanisms for appraisal, selection, and prioritization of investment projects, to ensure that resource revenue is used to support long-term economic development.

The ongoing revision to the existing IMF Code of Good Practices on Fiscal Transparency (IMF, 2007) advocates good practices for fiscal reporting, and provides relevant guidance on how to enhance transparency. In particular, fiscal reports should (1) cover a wider range of public sector institutions, (2) capture a broader range of direct and contingent assets and liabilities, and (3) take a more rigorous approach to fiscal forecasting and risk analysis. The World Bank's EITI++ initiative—building on the transparency and good governance concepts of the existing multistakeholder Extractive Industries Transparency Initiative (EITI)—is also relevant for resource-rich countries because it has widened the transparency requirements for the reporting of natural resource wealth management, including revenue and spending (see also Box 2.5).

[10] See Buffie and others (2012), Berg and others (2013), Melina and others (2013), and IMF (2012b). For the sustainable investing tool, see the Article IV Consultation for Azerbaijan (IMF Country Report No. 13/164); for the DIGNAR model, see IMF (2013d).

[11] See Barnett and Ossowski (2002). For GCC-specific recommendations, see IMF (2012b).

[12] In recent years, higher-than-budgeted oil prices have led to the approval of supplementary budgets in some CCA countries. In contrast, in some GCC countries and Iraq, the authorities resorted to discretionary spending increases outside of the budget framework.

[13] Qatar's macro-fiscal unit is not yet operational.

Annex 4. Minimizing the Impact of Fiscal Consolidation on Growth, and Enhancing Equity

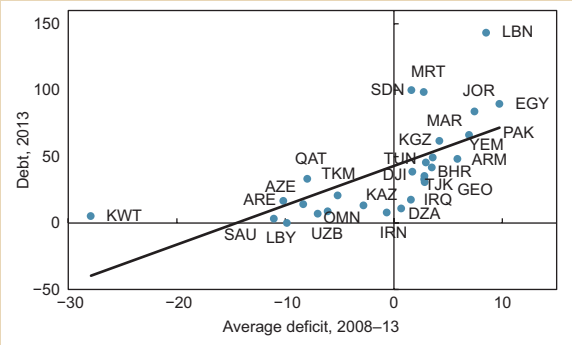
Large and rising fiscal vulnerabilities necessitate fiscal consolidation across the region. Given the weakness of the recovery and complex socioeconomic dynamics, it will be important to design fiscal consolidation packages in a way that helps contain its negative impact on near-term growth while enhancing equity and medium-term growth prospects. Instruments for achieving these goals could include revenue mobilization centered around broadening tax bases and progressivity, combined with a reorientation of spending toward low-income households and growth-enhancing capital expenditures, while moving away from generalized subsidies and hefty public wage bills. The pace and prioritization of these reforms will depend on country-specific circumstances, including the availability of financing. Supportive monetary and exchange rate policies, structural reforms, and a broad communication strategy will also be important for policy success.

The Great Recession of 2008–09, compounded, in some cases, by the aftermath of the Arab Spring, led to large fiscal deficits and public debt in many Middle Eastern and Central Asian economies (Figure A4.1). Debt exceeds 80 percent of GDP in Egypt, Jordan, Lebanon, Mauritania, and Sudan. In Bahrain, the Kyrgyz Republic, Morocco, Pakistan, Tunisia, and Yemen, high deficits, or projected oil price declines for oil exporters, raise fiscal vulnerabilities despite their moderate debt ratios. In these countries, substantial and prolonged fiscal consolidation will be necessary to maintain fiscal sustainability and rebuild buffers, especially in an environment of weak growth prospects and high global and regional uncertainties. In most oil exporters, fiscal vulnerabilities from high breakeven oil prices, and insufficient savings to support spending for future generations, also call for fiscal consolidation. Across the region, the extent and pace of consolidation will depend on country specifics such as financing needs, external balances, the sociopolitical environment, and growth developments.

Figure A4.1

Fiscal Deficits and Debt

(Percent of GDP)



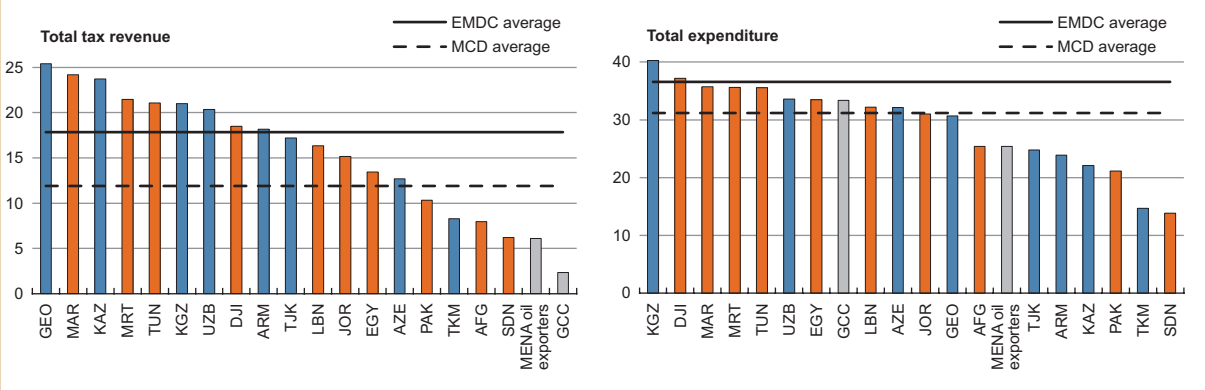
Sources: National authorities; and IMF staff calculations.

Successful fiscal consolidation depends on a policy mix that keeps the impact on growth to a minimum while enhancing equity. Containing the negative impact on incomes and jobs while preventing a worsening of the income distribution is critical to gaining and keeping the public support needed to sustain the consolidation. For countries with very low fiscal and external buffers, a delay in fiscal consolidation could severely worsen growth and inequality, should a drying-up of market financing force a sudden, even greater fiscal adjustment accompanied by a deep recession.

Revenue mobilization and spending reorientation will be essential if the policy mix is to achieve the dual objectives of growth and equity. The region's low tax revenues (relative to GDP; Figure A4.2),

Prepared by Pritha Mitra (team lead), Chadi Abdallah, Bahrom Shukurov, and Fuad Hasanov, with research assistance by Mark Fischer, and supervised by Jonathan Dunn.

Figure A4.2
Total Tax Revenue and Expenditure, 2012
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: Blue bars represent CCA countries, and orange bars represent MENAP oil importers. EMDC = emerging market and developing countries.

combined with small revenue multipliers,[1] make a case for increased revenue mobilization. The right combination of revenue measures would also improve the redistributive impact of fiscal policy, which has so far been limited by weak taxation. Smaller multipliers on current than on capital spending suggest that risks to near-term economic activity could be limited by cutting current spending and channeling part of the resulting savings into growth-enhancing capital spending. This capital spending could also enhance long-term growth prospects—a critical factor in lowering debt ratios—by boosting productivity and growth potential. However, the pace of cuts to current spending (if financing and external positions allow) needs to be aligned with the development of targeted social safety nets or broader cash compensation schemes. The pacing should also be designed to contain the negative effects on growth, which are amplified when output is below potential (the current cyclical position of many economies in the region) (Baum, Poplawski-Ribeiro, and Weber, 2012).[2] Equity implications will depend on the detailed composition of revenues and current expenditures. The success of this fiscal policy mix will also depend on supportive monetary policies, structural reforms to increase growth, and a broad communication strategy to build political consensus.

Mobilizing Tax Revenues

Low tax revenues and weak progressivity pose a challenge (Figure A4.3). Revenues in most MCD economies are lower than in other emerging and developing economies. This gap largely reflects low income tax and corporate tax rates and weak collection, which stems from high tax exemptions and compliance issues.[3] Tax progressivity is also low across the region largely because the main source of revenues for oil importers is taxes on goods and services, and for oil exporters it is oil revenues along with some income and trade taxes.

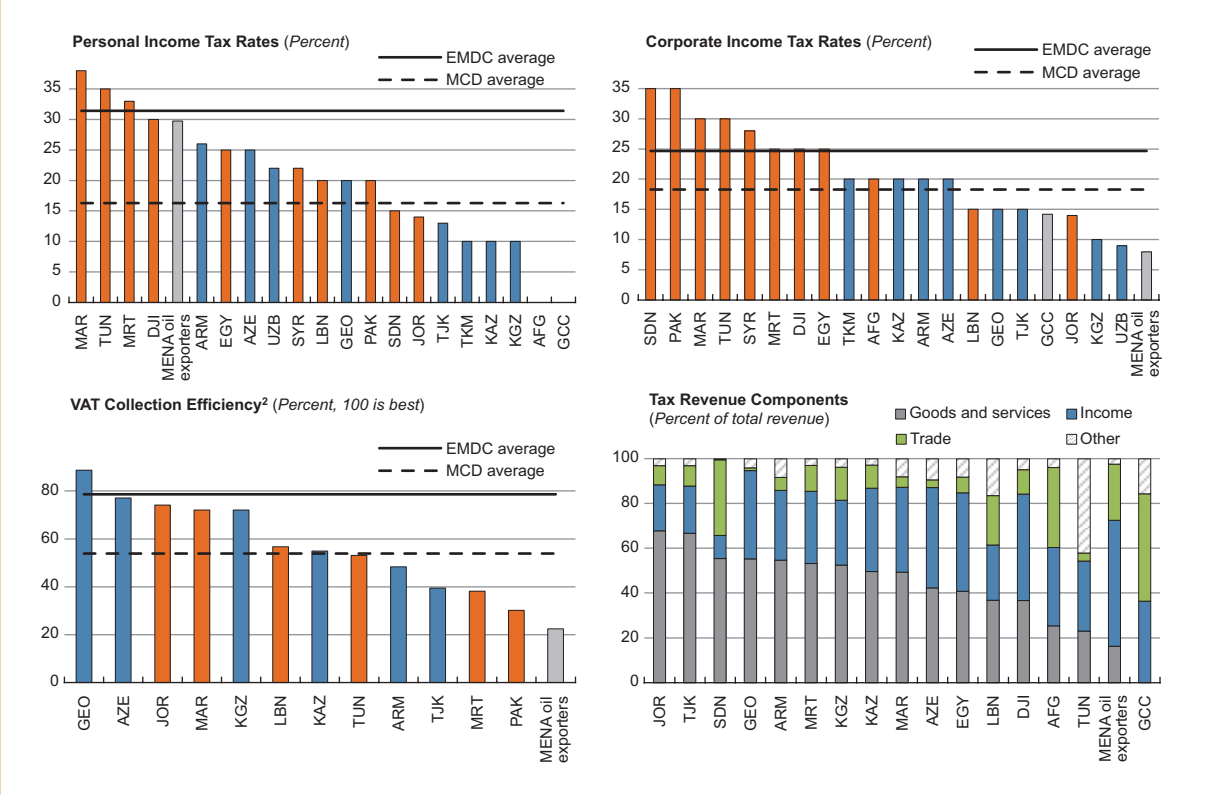
[1] Fiscal multipliers are defined as the ratio of a change in output to an exogenous change in government spending or tax revenues.

[2] The region's fiscal multipliers are estimated to be less sensitive to output gaps.

[3] The tax effort is under 50 percent for Algeria, Armenia, the GCC (excluding Qatar and the United Arab Emirates), Iran, Kazakhstan, Libya, Pakistan, and Sudan (Fenochietto and Pessino, forthcoming; and the October 2013 *Fiscal Monitor*). The tax effort and the value-added tax (VAT) collection efficiency (C-efficiency) are well below the average for emerging market and developing economies.

Figure A4.3

MCD: Tax Rates and Revenue, 2012[1]



Sources: National authorities; KPMG; Deloitte; and IMF staff calculations.

Note: Blue bars represent CCA countries, and orange bars represent MENAP oil importers (except last chart). EMDC = emerging market and developing countries.

[1]Or latest available data.

[2]Calculated as VAT revenue, divided by the product of VAT rates and private consumption.

In the medium term, these revenue challenges are expected to persist in oil importers. In oil exporters, projected declines in oil prices underline the importance of developing non-oil sectors and raising taxation in those sectors from their currently very low levels.

Revenue measures should focus on strengthening tax structures while keeping the impact on growth to a minimum and improving equity. Measures that can be taken as first steps include the following:

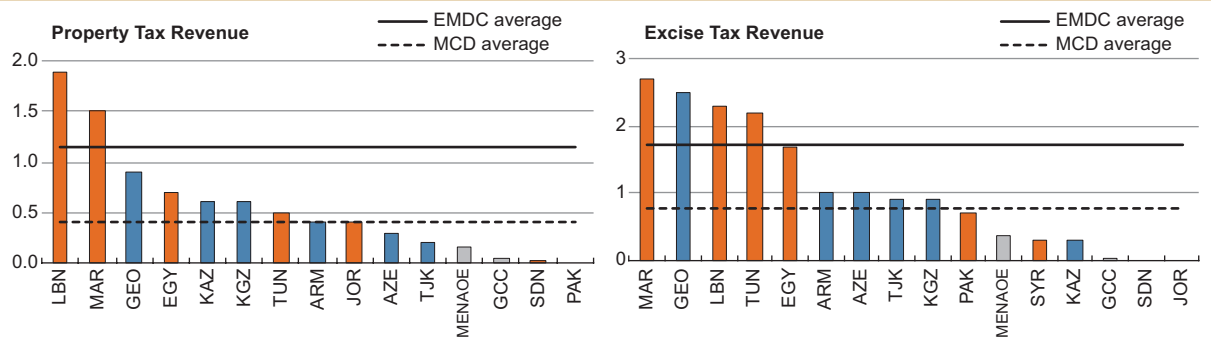
- *Broaden the tax base.* Conventional wisdom stresses base broadening in preference to an across-the-board rate increase because the latter can be regressive[4] and its implementation politically challenging. New evidence confirms that base broadening is also better for growth—especially for value-added taxes (VAT) (Acosta-Ormachea, Keen, and Yoo, 2013)—and for improving the business environment. Consequently, tax exemptions and deductions (except those targeted to the poor) should be heavily reduced for all taxes and, whenever possible, multiple VAT rates consolidated into

[4] Particularly for income and consumption taxes.

Figure A4.4

Property and Excise Tax Revenue, Latest Available

(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

Note: Blue bars represent CCA countries, and orange bars represent MENAP oil importers. EMDC = emerging market and developing countries; MENAOE = MENA oil exporters.

a single rate. A solid communication strategy—for example, the publication of an annual tax expenditure review highlighting costs and benefits—would be critical to facilitating public buy-in for these efforts.

- *Increase the progressivity of income taxes.* More progressive income taxes would improve equity while having little effect on growth, and could include raising the current relatively low marginal rates on the highest income earners, and, where appropriate, on capital income.[5] To start, cuts in top rates for personal and corporate income tax rates during the past five years could be undone (for example, in Jordan, the Kyrgyz Republic, and Uzbekistan).
- *Raise excise and property taxes.* Raising the currently low levels of excise taxes (Figure A4.4),[6] especially on luxury goods, and property taxes (while protecting low-income property owners), would achieve gains in revenue, efficiency, and fairness, with benign effects on growth given that they mostly affect the wealthy. However, implementation of property taxes would require substantial upfront investment in administrative infrastructure, which would include establishing a comprehensive cadastre and valuation mechanisms, and carrying out effective enforcement.

Gradual tax and customs administration reforms would further stimulate revenue mobilization and support prospective growth. A focus on strengthened administrative capacity, enhanced compliance, and efficiency will raise tax revenues and level the playing field for companies while promoting foreign investment and competitiveness. Stable and simplified tax codes and tax regimes for small and medium-sized enterprises would advance efficiency. In countries in which VAT revenue is large, a risk-based compliance system (including an automated VAT refunds system) would increase tax yield, facilitate business operations, and reduce unequal tax treatment across companies. International experience also suggests that a large taxpayers' department, operating through a small number of offices, can lower tax evasion and improve administrative efficiency. Yields on import VAT, excise, and international trade taxes would rise substantially with customs administration reforms.

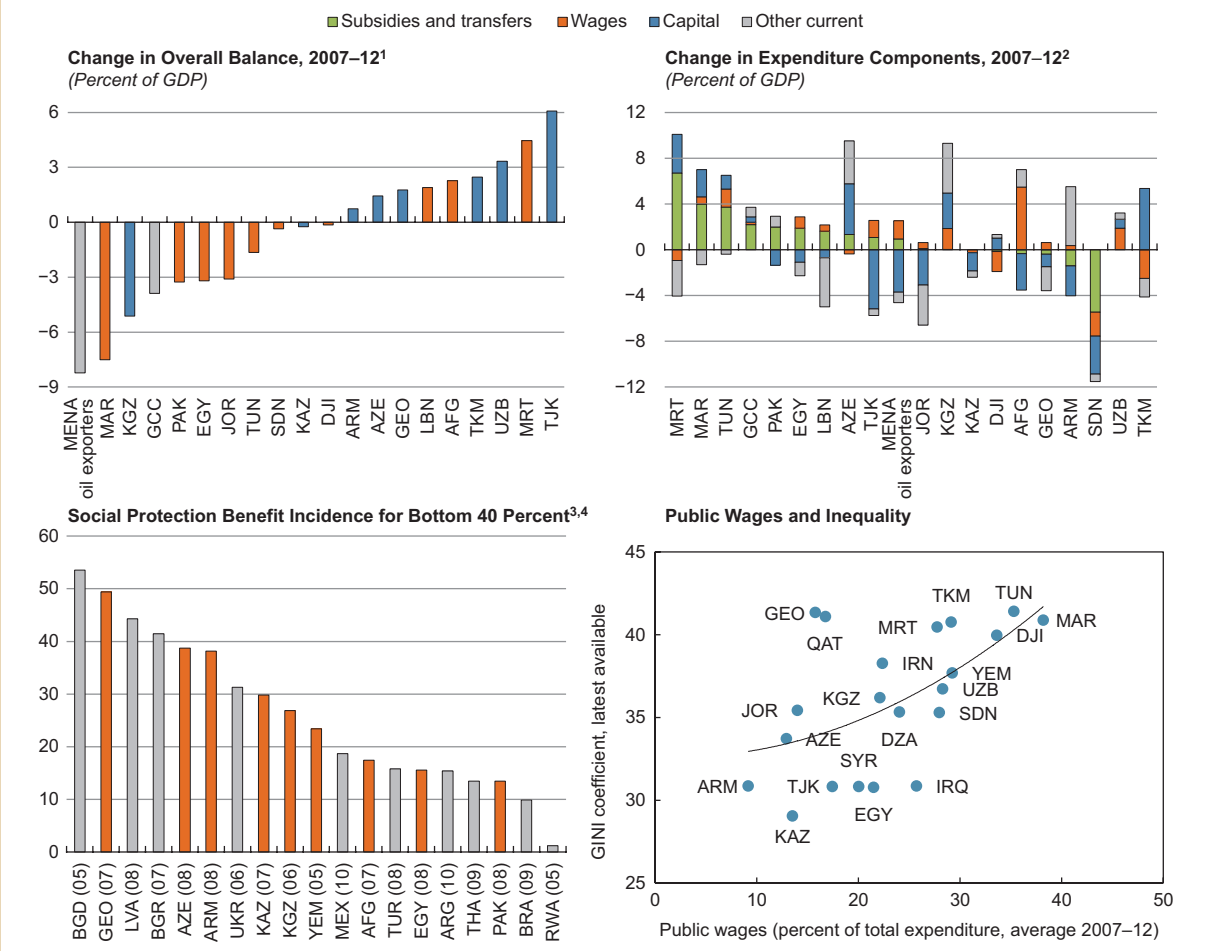
[5] In China, for example, greater progressivity was introduced by reducing the starting rate and widening the band to which the top rate applies (see the October 2013 *Fiscal Monitor*).

[6] Nominal increases should aim to increase the real value of excises levied as fixed monetary amounts.

Figure A4.5

MCD: Expenditure Components and Inequality

(Percent of GDP)



Sources: National authorities; World Bank World Development Indicators; and IMF staff calculations.

[1]Blue bars represent CCA countries, and orange bars represent MENAP oil importers.

[2]Subsidy and transfer expenditure data not available for Qatar, Turkmenistan, or Uzbekistan.

[3]Benefit incidence is the share of social spending allocated to the poorest 40 percent of the population.

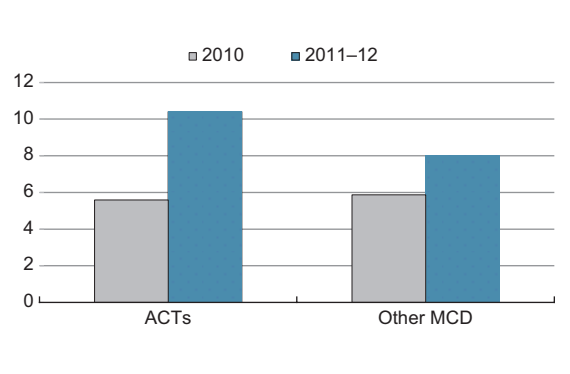
[4]Orange bars represent MCD countries; gray bars represent others. ARG = Argentina; BGD = Bangladesh; BDR = Bulgaria; BRA = Brazil; LVA = Latvia; MEX = Mexico; RWA = Rwanda; THA = Thailand; TUR = Turkey; UKR = Ukraine.

Reorienting Spending

Consolidation is complicated by large and poorly targeted current spending (Figure A4.5). Since the onset of the Great Recession, spending has often outpaced output growth. Across the region, to mitigate the adverse social effects of lower growth and higher unemployment, many governments increased outlays on energy subsidies and wage bills (through hiring and wage increases). This new spending was partially offset by reducing already low capital spending and, sometimes, maintenance, education, and health spending. In the aftermath of the Arab Spring, these spending efforts were intensified in the ACTs and their neighbors (including the GCC and Lebanon). Inequities rose because broad-based subsidies primarily benefit the wealthiest. Hikes in public wage bills also tend to raise inequality,[7] reflecting government employees' above-average position in the income distribution. In a few countries, the spending power of poorer households was eroded by high inflation caused by monetization of large public deficits and high food and energy prices.

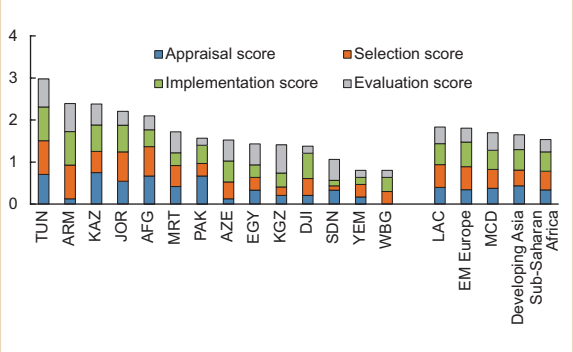
[7] See "Kuwait: 2012 Article IV Consultation," IMF Country Report No. 12/150 (Washington, 2012).

Figure A4.6
Real Wage Growth
(Percent)



Sources: National authorities; and IMF staff calculations.

Figure A4.7
Public Investment Management Index
(Index components, 0 = lowest, 4 = highest)



Source: Dabla-Norris and others (2011).
Note: EM = emerging market; LAC = Latin America and the Caribbean.

Carefully chosen fiscal spending tools will contain the negative impact on growth, improve targeting, and reduce expenditure rigidities. To that end, many countries with large, broad-based energy subsidies, including some ACTs, have begun to gradually phase them out, to varying degrees and taking into account sociopolitical conditions (see Box 2.4). Channeling part of the resulting savings toward better-targeted social safety nets or broader cash compensation schemes will mitigate the adverse effects on the poorest of higher energy tariffs and other reforms.

Real growth of public wage bills also needs to be contained—particularly in the ACTs, where their growth exceeds that in the rest of the region (Figure A4.6). Using the public sector as employer of first and last resort is no longer an option in those countries whose fiscal buffers are running low. It should also be discouraged in countries where inflated public sector salaries reduce the appeal of private sector jobs for the best workers. Near-term consolidation efforts can be complemented by medium-term plans for comprehensive civil service reforms that review the size and structure of the civil service while creating a skilled and efficient government workforce.

At the same time, spending on growth-enhancing areas needs to be protected and, where possible, increased. Channeling part of the net savings from the consolidation efforts above into social outlays on health care, education, and training—especially for low- and middle-income households—and into efficient capital spending, should create jobs and reduce inequities[8] in the near term, while strengthening long-term growth prospects. To ensure its effectiveness, the quality and efficiency of all growth-enhancing spending will need to be monitored and implementation capacity increased. Raising the efficiency of capital spending at any stage of the public investment management process[9] could benefit all countries in the region. Sizable growth dividends can result from even a small increase in capital spending. Public-private partnerships (PPPs) can lessen the burden on capital spending budgets, but only if the political environment supports them and if strong PPP legal frameworks and mechanisms can be established to mitigate the risk of large contingent liabilities. On average, the implementation phase for capital projects is the most challenging for MCD countries, relative to comparator regions (Figure A4.7).

[8] Empirical literature finds that education is one of the main determinants of cross-country variations in inequality (Barro, 2008; De Gregorio and Lee, 2002; *World Economic Outlook*, October 2007).
[9] Dabla-Norris and others (2011) provide more details on the phases of public investment management.

Strengthened reporting, monitoring, and procurement systems are essential for improving the efficiency of capital spending. Appropriate vetting and prioritization systems (i.e., choosing projects that relieve infrastructure bottlenecks, complement private investment, and enhance productivity), timely allocations of recurrent expenditures (in line with the budget), and routine evaluations upon project completion and internal audits would underpin improvements in the appraisal, selection, and project evaluation stages.

Supporting Measures and Policies

Appropriate monetary, exchange rate, and structural policies are necessary to support successful fiscal consolidation. In some cases, low interest rates for an extended period, resulting from accommodative monetary policy, would both reduce the cost of public debt and stimulate private sector activity. Inflationary pressures are likely to be offset by the effects of fiscal consolidation, so adverse inflationary effects on inequality or competitiveness would be avoided. In other cases, where tight monetary policy is needed in the near term to protect the current account and the exchange rate, and to contain inflationary risks, its pace and intensity can be coordinated with fiscal policy. In the medium term, a flexible exchange rate and structural reforms that attract foreign direct investment and promote competitiveness, private sector growth, and international trade would boost potential growth (Box 1.1; Box 2.6 of the November 2012 *Regional Economic Outlook: Middle East and Central Asia*) and lower the debt burden.

Statistical Appendix

The IMF's Middle East and Central Asia Department (MCD) countries and territories comprise Afghanistan, Algeria, Armenia, Azerbaijan, Bahrain, Djibouti, Egypt, Georgia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, the Kyrgyz Republic, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tajikistan, Tunisia, Turkmenistan, the United Arab Emirates, Uzbekistan, the West Bank and Gaza, and Yemen.

The following statistical appendix tables contain data for 31 MCD countries. Data revisions reflect changes in methodology and/or revisions provided by country authorities.

All data for Syria are excluded for 2011 onward due to the uncertain political situation.

2011 data for Sudan exclude South Sudan after July 9; data for 2012 onward pertain to the current Sudan.

All data refer to the calendar years, except for the following countries, which refer to the fiscal years: Afghanistan (March 21/March 20 until 2011, and December 21/December 20 thereafter), Iran (March 21/March 20), Qatar (April/March), and Egypt and Pakistan (July/June) except inflation.

Data on consumer price inflation in Table 1 relate to the calendar year for all aggregates and countries, except for Iran, for which the Iranian calendar year (beginning on March 21) is used.

Tables 1, 3, 4, 6, 7, and 8 include data for West Bank and Gaza.

In Table 1, "oil GDP" includes "gas GDP." In Table 5, "oil" includes gas, which is also an important resource in several countries.

REO aggregates are constructed using a variety of weights as appropriate to the series:

- Composites for data relating to the domestic economy (Table 1, Table 2: Oil and Non-Oil Real GDP Growth, Tables 3–5) and monetary sector (Table 8: Credit to Private Sector) whether growth rates or ratios, are weighted by GDP valued at purchasing power parities (PPPs) as a share of total MCD or group GDP. Country group composites for the growth rates of broad money (Table 8: Broad Money Growth) are weighted by GDP converted to U.S. dollars at market exchange rates (both GDP and exchange rates are averaged over the preceding three years) as a share of MCD or group GDP.
- Composites relating to the external economy (Table 6) are sums of individual country data after conversion to U.S. dollars at the average market exchange rates in the years indicated for balance of payments data and at end-of-year market exchange rates for debt denominated in U.S. dollars.
- Composites in Table 2 (Crude Oil Production) are sums of the individual country data.

Table 1. Real GDP Growth and Consumer Price Inflation

	Real GDP Growth (Annual change; percent)					Consumer Price Inflation[1] (Year average; percent)				
	Average 2006–10	2011	2012	Projections 2013	Projections 2014	Average 2006–10	2011	2012	Projections 2013	Projections 2014
MENAP	**5.1**	**3.9**	**4.6**	**2.3**	**3.6**	**9.3**	**9.9**	**11.2**	**12.8**	**10.4**
Oil exporters	**5.1**	**4.6**	**5.4**	**1.9**	**4.0**	**9.3**	**9.8**	**12.1**	**15.1**	**11.3**
Algeria	2.5	2.6	3.3	3.1	3.7	4.1	4.5	8.9	5.0	4.5
Bahrain	5.9	2.1	4.8	4.4	3.3	2.7	−0.4	2.8	2.7	2.3
Iran, I.R. of[2]	4.6	3.0	−1.9	−1.5	1.3	15.8	21.5	30.5	42.3	29.0
Iraq	6.0	8.6	8.4	3.7	6.3	17.4	5.6	6.1	2.3	5.0
Kuwait	1.3	6.3	6.2	0.8	2.6	4.8	4.9	3.2	3.0	3.5
Libya	4.0	−62.1	104.5	−5.1	25.5	4.6	15.9	6.1	3.6	9.4
Oman	6.9	4.5	5.0	5.1	3.4	5.7	4.0	2.9	2.8	3.2
Qatar	18.1	13.0	6.2	5.1	5.0	6.7	1.9	1.9	3.7	4.0
Saudi Arabia	5.9	8.6	5.1	3.6	4.4	4.2	3.7	2.9	3.8	3.6
United Arab Emirates	2.6	3.9	4.4	4.0	3.9	7.0	0.9	0.7	1.5	2.5
Yemen	4.3	−12.7	2.4	6.0	3.4	10.5	19.5	9.9	12.0	12.0
Oil importers	**5.2**	**2.4**	**3.0**	**3.1**	**2.9**	**9.2**	**9.9**	**9.4**	**8.3**	**8.7**
Afghanistan, Rep. of	10.5	6.1	12.5	3.1	3.5	7.5	11.8	6.4	5.5	5.5
Djibouti	4.8	4.5	4.8	5.0	6.0	5.2	5.1	3.7	2.7	2.5
Egypt	6.2	1.8	2.2	1.8	2.8	11.7	9.9	7.8	8.6	10.5
Jordan	6.3	2.6	2.8	3.3	3.5	5.8	4.4	4.8	5.9	3.2
Lebanon	6.9	1.5	1.5	1.5	1.5	5.2	5.0	6.6	6.3	3.1
Mauritania	3.9	3.6	6.9	6.4	6.4	5.9	5.7	4.9	4.2	5.2
Morocco	4.9	5.0	2.7	5.1	3.8	2.2	0.9	1.3	2.3	2.5
Pakistan	3.9	3.7	4.4	3.6	2.5	10.9	13.7	11.0	7.4	7.9
Sudan	5.6	−1.8	−3.3	3.9	2.5	10.7	18.1	35.5	32.1	27.4
Syrian Arab Republic	4.9	...	...	...	...	7.5	...	...	...	...
Tunisia	4.5	−1.9	3.6	3.0	3.7	4.1	3.5	5.6	6.0	4.7
CCA	**8.6**	**6.8**	**5.8**	**5.8**	**6.1**	**10.1**	**9.1**	**5.3**	**6.9**	**7.0**
Oil and gas exporters	**9.2**	**6.8**	**5.8**	**5.9**	**6.2**	**10.4**	**8.9**	**5.8**	**7.2**	**7.3**
Azerbaijan	16.9	0.1	2.2	3.5	5.6	10.6	7.9	1.0	3.7	6.3
Kazakhstan	6.2	7.5	5.1	5.0	5.2	10.2	8.3	5.1	6.3	6.3
Turkmenistan	10.4	14.7	11.1	12.2	10.4	6.1	5.3	5.3	7.6	7.0
Uzbekistan	8.5	8.3	8.2	7.0	6.5	12.5	12.8	12.1	12.1	10.4
Oil and gas importers	**5.3**	**6.4**	**5.5**	**4.9**	**5.4**	**8.3**	**10.7**	**2.1**	**5.0**	**5.2**
Armenia	4.4	4.7	7.2	4.6	4.8	5.5	7.7	2.5	7.0	3.5
Georgia	5.3	7.2	6.1	2.5	5.0	7.4	8.5	−0.9	−0.3	4.0
Kyrgyz Republic	4.3	6.0	−0.9	7.4	6.5	11.0	16.6	2.8	8.6	7.2
Tajikistan	6.6	7.4	7.5	6.7	5.8	11.3	12.4	5.8	7.5	7.2
Memorandum										
MENA	**5.3**	**3.9**	**4.6**	**2.1**	**3.8**	**9.1**	**9.4**	**11.2**	**13.6**	**10.8**
MENA oil importers	**5.7**	**1.6**	**2.0**	**2.8**	**3.1**	**8.5**	**7.9**	**8.6**	**9.0**	**9.2**
Arab Countries in Transition (excl. Libya)	**5.6**	**1.1**	**2.5**	**2.9**	**3.2**	**8.8**	**7.9**	**6.3**	**7.2**	**8.1**
GCC	**6.0**	**7.7**	**5.2**	**3.7**	**4.1**	**5.0**	**3.1**	**2.4**	**3.2**	**3.4**
Non−GCC oil exporters	**4.4**	**1.6**	**5.6**	**0.2**	**3.9**	**13.1**	**16.3**	**21.5**	**27.0**	**19.4**
West Bank and Gaza[3]	4.8	12.2	5.9	4.5	3.9	4.8	2.9	2.8	2.5	2.7

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

[1] Data on a calendar year basis for all countries, except Iran.

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

[3] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

Table 2. Oil Exporters: Oil and Non-Oil Real GDP Growth; and Crude Oil and Natural Gas Production

	Average 2006–10	2011	2012	Projections 2013	Projections 2014	Average 2006–10	2011	2012	Projections 2013	Projections 2014
	Oil GDP (Annual percent change)					Non−Oil GDP (Annual percent change)				
MENAP oil exporters	**0.5**	**4.8**	**4.3**	**−1.1**	**1.8**	**7.1**	**4.3**	**4.4**	**3.5**	**4.5**
Algeria	−3.5	−3.3	−3.4	−1.0	1.8	7.1	5.7	7.1	5.1	4.6
Bahrain	0.3	3.4	−8.5	13.5	2.1	6.8	1.9	6.6	3.4	3.4
Iran, I.R. of[1]	0.5	0.7	−11.9	−4.6	−2.0	5.1	3.3	−0.9	−1.2	1.5
Iraq	5.8	12.6	11.2	3.2	8.0	6.3	5.7	6.3	4.0	5.0
Kuwait	−1.7	14.2	11.7	−2.0	0.0	3.7	1.3	2.2	3.0	4.4
Libya	−0.7	−72.0	211.4	−28.1	33.9	10.3	−52.5	43.7	23.3	19.5
Oman	2.9	2.1	3.4	4.2	−0.7	9.5	5.8	5.8	5.5	5.4
Qatar	14.4	15.7	1.7	0.4	−1.1	22.2	10.8	10.0	8.8	9.4
Saudi Arabia	−1.6	11.0	5.5	−0.9	2.0	8.6	7.9	5.0	4.8	5.0
United Arab Emirates	−0.8	6.6	6.3	3.6	3.3	4.5	2.6	3.5	4.3	4.2
Yemen	3.8	−14.5	−11.5	26.2	−1.8	4.7	−12.5	4.0	4.0	4.0
CCA Oil Exporters	**10.6**	**1.6**	**−2.0**	**2.8**	**2.1**	**7.9**	**9.1**	**7.7**	**7.0**	**7.1**
Azerbaijan	25.2	−9.8	−5.3	−3.4	1.3	9.9	9.4	9.6	8.6	8.4
Kazakhstan	6.8	1.0	−2.2	3.1	0.5	6.1	8.3	5.9	5.2	5.7
Turkmenistan	−0.4	28.8	5.3	13.0	9.7	12.9	13.0	11.9	12.0	10.5
Uzbekistan	...	...	...	...	...	...	...	...	...	...
Memorandum										
GCC	**0.4**	**10.5**	**5.4**	**0.4**	**1.5**	**8.5**	**6.5**	**5.2**	**5.0**	**5.3**
Non-GCC oil exporters	**0.6**	**−0.6**	**3.3**	**−2.7**	**2.2**	**5.9**	**2.1**	**3.7**	**1.9**	**3.7**
	Crude Oil Production (Millions of barrels per day)					Natural Gas Production (Millions of barrels per day equivalent)				
MENAP Oil Exporters	**25.0**	**24.6**	**25.8**	**25.3**	**26.0**	**9.2**	**11.7**	**12.3**	**12.4**	**12.6**
Algeria	1.5	1.3	1.2	1.2	1.3	1.5	1.4	1.4	1.4	1.4
Bahrain	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Iran, I.R. of[2]	3.9	3.6	2.8	2.5	2.4	2.4	3.1	3.2	3.2	3.2
Iraq	2.2	2.7	3.0	3.0	3.3	...	0.0	0.0	0.0	0.0
Kuwait	2.5	2.7	3.0	2.9	2.9	0.2	0.2	0.3	0.3	0.3
Libya	1.7	0.5	1.5	1.0	1.4	0.1	0.0	0.1	0.1	0.1
Oman	0.8	0.9	0.9	0.9	0.9	0.5	0.6	0.6	0.7	0.7
Qatar	0.8	0.7	0.7	0.7	0.7	1.5	3.0	3.2	3.2	3.2
Saudi Arabia	8.7	9.3	9.8	9.7	9.9	1.5	1.7	1.8	1.9	2.0
United Arab Emirates	2.5	2.6	2.6	2.8	2.8	1.1	1.2	1.3	1.3	1.3
Yemen	0.3	0.2	0.2	0.2	0.2	0.0	0.2	0.2	0.2	0.2
CCA Oil Exporters	**2.5**	**2.8**	**2.7**	**2.8**	**2.8**	**1.8**	**2.1**	**2.3**	**2.5**	**2.7**
Azerbaijan	0.9	0.9	0.9	0.8	0.8	0.2	0.3	0.3	0.3	0.3
Kazakhstan	1.5	1.7	1.6	1.7	1.7	0.6	0.7	0.8	0.9	0.9
Turkmenistan	0.2	0.2	0.2	0.2	0.3	1.0	1.1	1.2	1.4	1.5
Uzbekistan	...	...	...	...	...	...	...	...	...	...
Memorandum										
GCC	**15.4**	**16.3**	**17.2**	**17.2**	**17.5**	**5.1**	**7.0**	**7.4**	**7.6**	**7.7**
Non-GCC oil exporters	**9.6**	**8.2**	**8.6**	**8.1**	**8.6**	**4.1**	**4.7**	**4.9**	**4.8**	**4.9**

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

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

[2] Including condensates.

Table 3. General Government Fiscal Balance and Total Government Gross Debt

	General Government Fiscal Balance, Including Grants (Percent of GDP)					Total Government Gross Debt (Percent of GDP)				
	Average 2006–10	2011	2012	Projections 2013	Projections 2014	Average 2006–10	2011	2012	Projections 2013	Projections 2014
MENAP	**3.4**	**2.3**	**1.5**	**−0.4**	**−0.6**	**34.4**	**31.4**	**31.7**	**32.0**	**32.5**
Oil exporters	**8.0**	**6.9**	**6.3**	**4.2**	**3.0**	**18.0**	**13.5**	**11.8**	**9.8**	**10.2**
Algeria	3.4	−1.2	−5.1	−2.1	−2.7	14.2	11.1	10.5	10.8	10.4
Bahrain[1]	−0.8	−1.7	−2.6	−4.2	−5.0	23.7	36.5	33.6	35.4	39.5
Iran, I.R. of[1,2]	2.8	4.1	−2.5	−2.5	−4.4	8.7	9.8	8.2	6.0	8.8
Iraq[3]	0.1	4.9	4.1	−0.7	−0.3	95.4	40.2	34.1	17.5	14.9
Kuwait[1]	29.1	33.2	33.4	28.9	25.6	6.6	4.5	3.4	2.4	2.4
Libya	21.0	−9.0	19.3	−7.4	−5.9	0.1	0.0	0.0	0.0	0.0
Oman[1]	8.1	7.3	2.5	5.2	2.6	6.5	5.5	6.0	6.9	7.8
Qatar	9.1	3.7	8.2	10.8	8.5	21.7	38.2	36.2	33.2	30.2
Saudi Arabia	13.8	12.0	15.0	9.6	8.6	15.5	5.4	3.7	3.3	2.8
United Arab Emirates[4]	7.4	4.1	8.6	8.3	8.2	14.6	17.4	16.5	16.7	16.8
Yemen	−5.0	−4.4	−6.3	−5.8	−5.8	41.9	45.2	47.8	48.1	50.1
Oil importers	**−5.3**	**−7.0**	**−8.4**	**−9.7**	**−8.0**	**65.4**	**68.1**	**73.2**	**77.8**	**79.0**
Afghanistan, Rep. of	−1.9	−0.8	0.2	−0.6	0.0	...	...	...	...	...
Djibouti	−1.8	−0.7	−2.7	−3.1	−4.8	56.3	45.0	42.9	38.6	34.5
Egypt	−8.0	−9.8	−10.7	−14.7	−13.2	77.4	76.6	80.6	89.5	91.8
Jordan[5]	−5.9	−5.7	−8.8	−9.1	−8.0	68.4	70.7	79.6	83.8	87.0
Lebanon[1]	−9.4	−6.1	−9.0	−10.4	−11.0	159.6	137.5	139.5	143.1	147.9
Mauritania[1,6]	4.1	−1.5	2.8	−4.4	−8.2	95.3	90.3	98.5	98.5	83.1
Morocco[1]	−1.5	−6.7	−7.6	−5.5	−4.8	52.3	54.4	60.5	61.8	63.1
Pakistan	−5.3	−6.9	−8.4	−8.5	−5.5	56.3	59.5	63.8	66.2	66.0
Sudan	−1.8	0.2	−3.8	−2.0	−0.9	71.9	70.9	95.7	100.0	99.2
Syrian Arab Republic	−3.5	...	...	...	...	37.2	...	...	...	...
Tunisia	−1.8	−3.0	−4.4	−7.2	−6.3	44.2	44.0	44.0	45.5	49.7
CCA	**3.6**	**6.3**	**4.4**	**1.2**	**0.5**	**12.9**	**13.8**	**15.4**	**16.5**	**16.3**
Oil and gas exporters	**4.9**	**7.9**	**5.5**	**1.9**	**1.0**	**9.2**	**10.0**	**12.0**	**13.2**	**12.8**
Azerbaijan[1]	8.9	13.3	4.1	−4.5	−6.7	9.8	10.1	11.6	14.1	13.7
Kazakhstan	2.6	5.9	4.5	4.8	4.1	8.1	10.4	12.4	13.2	13.6
Turkmenistan[7]	5.6	3.6	6.4	1.8	2.0	3.0	10.0	18.1	20.6	15.9
Uzbekistan	5.7	8.8	8.5	1.2	0.6	14.2	9.1	8.6	8.7	8.9
Oil and gas importers	**−4.2**	**−3.3**	**−2.2**	**−3.1**	**−2.5**	**34.3**	**37.6**	**36.8**	**37.5**	**38.6**
Armenia[1]	−3.8	−2.9	−1.6	−2.2	−2.3	22.6	35.5	38.9	41.7	44.1
Georgia	−6.0	−3.6	−3.0	−3.3	−2.7	30.5	33.8	32.3	32.9	33.6
Kyrgyz Republic	−2.4	−4.6	−5.4	−5.3	−4.2	59.2	50.1	48.9	49.3	49.8
Tajikistan	−3.4	−2.1	0.5	−2.3	−1.3	34.5	35.4	32.3	30.7	31.4
Memorandum										
MENA	**4.5**	**3.5**	**2.8**	**0.6**	**0.0**	**31.6**	**27.7**	**27.6**	**27.6**	**28.2**
MENA oil importers	**−5.3**	**−7.2**	**−8.7**	**−10.7**	**−9.6**	**69.9**	**72.7**	**78.4**	**84.1**	**86.0**
Arab Countries in Transition (excl. Libya)	**−5.7**	**−7.9**	**−9.1**	**−11.2**	**−10.1**	**65.8**	**66.5**	**70.5**	**76.2**	**78.4**
GCC	**13.3**	**11.2**	**13.9**	**10.8**	**9.4**	**14.7**	**11.7**	**10.2**	**9.7**	**9.3**
Non−GCC oil exporters	**3.4**	**2.7**	**−1.1**	**−2.5**	**−3.6**	**20.9**	**15.2**	**13.3**	**9.9**	**11.1**
West Bank and Gaza[3,8]	−29.8	−16.9	−16.5	−14.9	−13.3	24.9	22.4	24.1	21.7	20.0

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

[1] Central government.

[2] Includes National Development Fund but excludes Targeted Subsidy Organization.

[3] Excluding grants.

[4] Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah. Total government gross debt includes banking system claims only. Excludes debt raised by federal and Emirati governments in the international markets.

[5] Central government. Includes transfers to electric company (4.3 and 2.7 percent of GDP in 2013 and 2014).

[6] Includes oil revenue transferred to the oil fund. Total government gross debt also includes oil revenues transferred to public enterprises and central bank debts.

[7] State government.

[8] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates. Government gross debt excludes arrears.

Table 4. General Government Total Revenue, Excluding Grants, and Total Expenditure and Net Lending

	General Government Total Revenue, Excluding Grants (Percent of GDP)					General Government Total Expenditure and Net Lending (Percent of GDP)				
	Average 2006–10	2011	2012	Projections 2013	Projections 2014	Average 2006–10	2011	2012	Projections 2013	Projections 2014
MENAP	**33.1**	**32.3**	**31.9**	**30.3**	**29.8**	**30.2**	**30.4**	**31.0**	**31.4**	**31.2**
Oil exporters	**39.1**	**38.6**	**38.2**	**35.7**	**34.4**	**31.5**	**32.1**	**32.3**	**32.1**	**31.8**
Algeria[1]	40.4	40.0	39.5	37.6	36.4	37.1	41.1	44.6	39.8	39.1
Bahrain[2]	28.3	28.2	29.4	29.6	28.6	29.5	30.9	32.5	35.9	36.7
Iran, I.R. of[2,3]	25.9	25.8	16.5	14.7	12.7	23.1	21.7	19.0	17.3	17.1
Iraq	47.2	48.5	48.2	45.3	44.3	52.7	44.6	44.1	53.2	48.2
Kuwait[2]	66.7	70.8	70.0	69.4	68.8	37.6	37.5	36.1	40.4	42.9
Libya	62.3	50.1	72.3	61.6	60.9	41.3	59.3	53.0	69.0	66.8
Oman[2]	43.5	47.3	47.6	47.5	45.4	35.7	39.8	45.0	42.3	43.4
Qatar	39.0	35.7	39.6	38.1	37.1	29.9	35.9	37.4	27.3	28.5
Saudi Arabia	47.7	47.5	51.8	46.6	44.7	33.9	35.5	36.8	37.0	36.1
United Arab Emirates[4]	32.8	34.3	35.1	34.3	33.6	25.4	30.3	26.5	26.1	25.4
Yemen	31.4	23.8	23.8	26.0	25.5	36.9	29.4	36.2	33.0	32.7
Oil importers	**21.9**	**19.5**	**19.1**	**19.6**	**20.4**	**27.8**	**27.0**	**28.3**	**30.1**	**30.1**
Afghanistan, Rep. of	9.0	11.4	10.1	10.1	10.6	21.6	23.2	25.0	26.7	26.6
Djibouti	30.2	28.5	25.9	28.3	29.9	38.6	35.2	37.2	38.0	40.1
Egypt	27.0	21.9	22.0	23.6	24.4	35.4	31.8	33.4	38.6	40.3
Jordan[2]	26.3	20.5	21.4	21.8	22.7	35.1	33.2	31.7	35.1	34.0
Lebanon[2]	23.0	23.4	23.2	22.6	23.1	33.6	29.5	32.2	33.1	34.1
Mauritania[2,5]	25.7	27.6	33.9	30.1	30.8	29.5	29.8	36.9	37.1	40.0
Morocco[2,6]	29.0	27.7	28.1	26.6	26.9	30.9	34.5	35.8	33.0	33.1
Pakistan	13.9	12.4	12.8	13.0	14.1	19.5	19.5	21.5	21.7	19.9
Sudan	20.4	17.8	9.5	9.9	10.6	22.4	17.9	13.8	13.2	13.9
Syrian Arab Republic	22.5	...	...	...	...	26.1	...	...	...	...
Tunisia	28.5	30.9	29.8	29.9	30.3	30.5	34.3	35.1	37.6	37.1
CCA	**29.4**	**31.9**	**31.3**	**28.5**	**27.4**	**26.2**	**26.3**	**27.3**	**27.7**	**27.2**
Oil and gas exporters	**30.4**	**33.1**	**32.1**	**29.0**	**27.8**	**25.6**	**25.7**	**26.9**	**27.3**	**26.9**
Azerbaijan[2,7]	38.7	45.5	40.0	35.8	33.4	29.9	34.2	37.0	40.7	40.3
Kazakhstan	26.2	27.7	27.0	25.7	24.4	23.5	21.8	22.5	20.9	20.4
Turkmenistan[6]	19.0	18.3	21.0	17.4	17.0	13.3	14.6	14.7	15.6	15.0
Uzbekistan	36.6	39.9	41.2	35.9	35.4	31.2	31.4	33.0	35.0	35.1
Oil and gas importers	**23.6**	**24.8**	**26.1**	**25.5**	**25.4**	**29.9**	**30.0**	**29.7**	**30.1**	**29.1**
Armenia[2,7]	19.5	20.6	22.0	22.8	23.5	25.2	25.8	24.6	25.9	26.7
Georgia	26.9	27.3	27.8	26.7	26.5	34.5	31.7	31.8	30.5	29.6
Kyrgyz Republic	27.3	28.8	31.9	30.5	29.1	32.4	36.3	39.8	37.6	35.6
Tajikistan	20.2	22.6	23.6	23.1	23.3	26.4	27.0	24.6	28.4	26.2
Memorandum										
MENA	**35.7**	**35.0**	**34.6**	**32.8**	**32.0**	**31.6**	**31.9**	**32.3**	**32.7**	**32.7**
MENA oil importers	**26.2**	**23.5**	**22.9**	**23.5**	**24.2**	**32.0**	**31.2**	**32.2**	**34.9**	**35.8**
Arab Countries in Transition (excl. Libya)	**27.8**	**24.0**	**24.1**	**25.0**	**25.6**	**34.1**	**32.5**	**34.1**	**36.9**	**37.7**
GCC	**45.6**	**45.8**	**48.8**	**45.4**	**43.9**	**32.3**	**35.1**	**35.5**	**34.7**	**34.6**
Non−GCC oil exporters	**33.4**	**31.8**	**27.8**	**25.8**	**24.7**	**30.7**	**29.2**	**29.1**	**29.4**	**28.9**
West Bank and Gaza[7,8]	24.2	20.9	20.2	18.9	19.1	54.0	37.8	36.7	33.8	32.4

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

[1] Including special accounts.

[2] Central government.

[3] Includes National Development Fund but excludes Targeted Subsidy Organization.

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

[5] Includes oil revenue transferred to the oil fund.

[6] State government.

[7] Expenditures do not include statistical discrepancy.

[8] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

Table 5. Oil Exporters: Non−Oil Fiscal Balance and Revenue; Fiscal and External Breakeven Oil Prices

	Average 2006–10	2011	2012	Projections 2013	Projections 2014	Average 2006–10	2011	2012	Projections 2013	Projections 2014
	Non−Oil Fiscal Balance *(Percent of non−oil GDP)*					**Non−Oil Revenue** *(Percent of non−oil GDP)*				
MENAP oil exporters	**−36.2**	**−45.0**	**−44.3**	**−42.0**	**−40.5**	**16.2**	**14.1**	**15.7**	**14.1**	**13.8**
Algeria	−43.8	−44.9	−46.7	−38.1	−36.7	18.1	19.6	20.8	20.4	19.7
Bahrain[1]	−32.7	−38.8	−39.3	−41.8	−40.6	6.3	3.5	4.5	4.4	4.5
Iran, I.R. of[1,2]	−18.9	−16.0	−13.3	−13.8	−13.3	11.7	13.0	9.8	8.6	8.2
Iraq	−34.5	−86.4	−72.2	−72.2	−66.8	6.2	5.5	8.7	4.3	4.4
Kuwait[1]	−53.6	−72.0	−72.4	−76.9	−74.5	33.7	30.5	33.6	34.1	36.3
Libya	−115.9	−117.4	−194.6	−168.2	−162.9	21.9	4.8	12.2	6.1	5.6
Oman[1]	−48.1	−74.9	−81.1	−71.1	−66.0	14.2	11.6	13.3	13.6	13.6
Qatar	−28.1	−52.0	−38.6	−28.0	−26.7	33.4	26.5	35.9	33.3	33.4
Saudi Arabia	−46.2	−59.4	−55.0	−53.5	−50.2	18.9	12.9	17.6	14.6	14.0
United Arab Emirates[3]	−25.1	−39.9	−32.5	−30.8	−28.4	12.5	10.0	11.7	12.0	12.3
Yemen	−38.6	−31.3	−28.2	−29.6	−27.7	13.3	11.3	13.3	15.3	15.1
CCA oil exporters	**−17.1**	**−20.3**	**−21.2**	**−21.1**	**−19.1**	**22.8**	**19.6**	**19.0**	**17.5**	**17.3**
Azerbaijan[1]	−34.3	−41.7	−46.3	−47.7	−44.5	27.0	23.1	18.8	19.8	20.7
Kazakhstan	−11.6	−12.9	−13.1	−12.0	−10.5	22.7	19.2	19.7	17.5	17.0
Turkmenistan[4]	−7.3	−11.2	−9.9	−12.5	−11.1	13.0	14.3	16.1	13.2	12.5
Uzbekistan	...	...	...	...	...	...	...	...	...	...
Memorandum										
GCC	**−41.1**	**−57.0**	**−52.3**	**−49.8**	**−46.8**	**20.2**	**15.4**	**19.8**	**17.9**	**17.9**
Non−GCC oil exporters	**−32.0**	**−33.4**	**−36.5**	**−34.2**	**−34.1**	**12.8**	**12.8**	**11.7**	**10.1**	**9.7**
	Fiscal Breakeven Oil Price[5] *(U.S. dollars per barrel)*					**External Breakeven Oil Prices[6]** *(U.S. dollars per barrel)*				
MENAP oil exporters										
Algeria	...	109.7	125.6	113.8	113.3	...	70.5	77.0	85.5	84.1
Bahrain	77.5	110.7	115.3	118.8	116.8	49.0	61.9	67.8	55.3	55.7
Iran, I.R. of	...	84.0	130.0	126.7	153.4	...	58.0	60.0	77.8	93.4
Iraq	...	95.0	102.1	106.1	102.2	...	90.8	97.7	98.1	94.2
Kuwait	...	39.2	49.0	52.0	52.3	...	31.6	32.0	35.8	33.6
Libya	46.9	124.0	75.7	117.5	111.5	36.9	86.3	63.8	113.7	110.4
Oman	54.1	77.9	79.8	92.6	96.9	...	73.0	69.4	81.7	84.3
Qatar	...	38.0	43.3	54.8	59.3	...	47.6	43.9	46.7	49.1
Saudi Arabia	...	78.1	78.0	83.9	83.6	...	52.9	55.4	58.8	59.9
United Arab Emirates	...	92.4	77.6	74.4	70.7	...	59.6	48.9	52.7	49.6
Yemen	...	195.0	237.0	214.8	...	...	172.0	218.0	168.0	...
CCA oil exporters										
Azerbaijan	25.7	54.0	80.6	89.8	97.7	...	57.5	62.5	76.4	83.4
Kazakhstan	56.6	56.8	67.2	61.9	63.5	...	77.4	83.2	73.0	75.6
Turkmenistan	...	40.9	51.7	43.2	46.3	...	63.3	59.8	49.9	45.9
Uzbekistan	...	...	...	...	...	...	...	...	...	...

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

[1] Central government.

[2] Includes National Development Fund but excludes Targeted Subsidy Organization.

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

[4] State government.

[5] The oil price at which the fiscal balance is zero.

[6] The oil price at which the current account balance is zero.

Table 6. Current Account Balance

	Average 2006–10	2011	2012	Projections 2013	Projections 2014	Average 2006–10	2011	2012	Projections 2013	Projections 2014
	(In billions of U.S. dollars)					(In percent of GDP)				
MENAP	**216.5**	**418.1**	**417.2**	**315.9**	**299.6**	**9.8**	**13.3**	**12.1**	**9.4**	**8.6**
Oil exporters	**236.1**	**444.1**	**462.6**	**354.6**	**329.2**	**14.4**	**18.6**	**17.4**	**13.9**	**12.4**
Algeria	21.3	17.7	12.3	4.0	2.7	15.0	8.9	5.9	1.8	1.2
Bahrain	1.7	3.2	2.2	3.8	3.4	9.2	12.6	8.2	13.5	11.9
Iran, I.R. of	22.6	59.4	27.2	11.9	1.0	7.0	12.0	5.0	3.1	0.3
Iraq	5.4	22.5	14.9	1.5	2.0	5.6	12.5	7.0	0.7	0.8
Kuwait	42.6	67.2	79.8	72.1	71.0	36.0	41.8	43.2	38.7	37.7
Libya	23.8	3.2	23.9	−3.4	−4.4	34.4	9.1	29.2	−4.7	−4.7
Oman	3.7	10.7	9.1	8.3	6.1	7.6	15.3	11.6	10.1	7.3
Qatar	15.5	52.0	62.3	59.2	53.8	15.7	30.3	32.4	29.6	25.6
Saudi Arabia	82.5	158.6	164.7	138.9	132.0	18.4	23.7	23.2	19.3	17.7
United Arab Emirates	18.2	50.9	66.6	59.4	62.8	7.2	14.6	17.3	15.2	15.6
Yemen	−1.3	−1.4	−0.3	−1.1	−1.5	−4.9	−4.1	−0.9	−2.7	−3.4
Oil importers	**−19.6**	**−26.0**	**−45.4**	**−38.7**	**−29.6**	**−3.1**	**−3.5**	**−5.8**	**−4.8**	**−3.5**
Afghanistan, Rep. of	0.3	0.4	0.8	0.5	0.4	2.8	2.4	3.9	2.5	1.8
Djibouti	−0.1	−0.2	−0.2	−0.2	−0.2	−14.4	−14.1	−12.3	−13.1	−15.1
Egypt	−0.7	−6.1	−7.9	−6.9	−2.3	0.0	−2.6	−3.1	−2.6	−0.9
Jordan	−1.8	−3.5	−5.6	−3.4	−3.3	−9.2	−12.0	−18.1	−9.9	−9.1
Lebanon	−2.2	−4.9	−6.7	−7.3	−7.6	−6.8	−12.4	−16.2	−16.7	−16.7
Mauritania	−0.3	−0.3	−1.3	−1.4	−1.0	−10.8	−7.6	−32.7	−34.3	−22.6
Morocco	−2.4	−8.1	−9.6	−7.6	−6.9	−2.5	−8.1	−10.0	−7.2	−6.1
Pakistan	−7.8	0.2	−4.7	−2.3	−1.3	−4.8	0.1	−2.1	−1.0	−0.6
Sudan	−2.6	−0.3	−6.5	−6.3	−3.9	−5.6	−0.4	−10.8	−11.9	−7.0
Syrian Arab Republic	−0.7	...	...	...	...	−1.2	...	...	...	...
Tunisia	−1.3	−3.4	−3.7	−3.9	−3.4	−3.1	−7.3	−8.1	−8.0	−6.6
CCA	**9.2**	**29.0**	**19.0**	**17.0**	**15.2**	**3.7**	**7.9**	**4.8**	**3.9**	**3.1**
Oil and gas exporters	**12.4**	**32.6**	**23.1**	**19.9**	**18.3**	**5.7**	**10.0**	**6.4**	**5.0**	**4.1**
Azerbaijan	10.8	17.1	15.0	10.1	8.0	26.3	26.5	21.7	13.3	9.2
Kazakhstan	−1.3	12.3	7.7	9.6	7.8	−1.7	6.5	3.8	4.3	3.1
Turkmenistan	1.1	0.6	0.0	0.1	1.8	4.5	2.0	0.0	0.2	3.8
Uzbekistan	1.8	2.6	0.4	0.1	0.7	6.7	5.8	0.7	0.2	1.1
Oil and gas importers	**−3.2**	**−3.7**	**−4.0**	**−2.9**	**−3.1**	**−10.8**	**−9.8**	**−10.1**	**−6.9**	**−6.9**
Armenia	−1.0	−1.1	−1.1	−1.0	−0.9	−10.1	−10.9	−11.3	−10.0	−8.6
Georgia	−1.7	−1.8	−1.8	−1.0	−1.3	−15.5	−12.7	−11.5	−6.5	−7.8
Kyrgyz Republic	−0.3	−0.4	−1.0	−0.7	−0.7	−6.7	−6.5	−15.3	−9.6	−8.3
Tajikistan	−0.2	−0.3	−0.1	−0.1	−0.2	−5.2	−4.7	−1.3	−1.7	−2.2
Memorandum										
MENA	**223.9**	**417.4**	**421.1**	**317.6**	**300.6**	**11.0**	**14.3**	**13.2**	**10.3**	**9.3**
MENA oil importers	**−12.2**	**−26.6**	**−41.5**	**−36.9**	**−28.6**	**−2.6**	**−5.1**	**−7.7**	**−6.7**	**−4.9**
Arab Countries in Transition (excl. Libya)	**−7.4**	**−22.4**	**−27.1**	**−22.9**	**−17.4**	**−2.0**	**−5.0**	**−5.8**	**−4.7**	**−3.4**
GCC	**164.3**	**342.7**	**384.6**	**341.7**	**329.3**	**16.5**	**23.7**	**24.4**	**21.3**	**19.8**
Non−GCC oil exporters	**71.8**	**101.4**	**78.0**	**12.9**	**−0.1**	**11.1**	**10.8**	**7.2**	**1.4**	**0.0**
West Bank and Gaza[1]	−0.4	−2.3	−3.0	−2.6	−2.6	−7.4	−23.6	−28.9	−22.4	−21.0

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

[1] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

Table 7. Gross Official Reserves and Total Gross External Debt

	Gross Official Reserves (Months of imports)					Total Gross External Debt (Percent of GDP)[1]				
	Average 2006–10	2011	2012	Projections 2013	Projections 2014	Average 2006–10	2011	2012	Projections 2013	Projections 2014
MENAP	**11.3**	**12.2**	**13.0**	**13.4**	**13.4**	**30.3**	**25.5**	**24.4**	**25.5**	**24.8**
Oil exporters	**13.3**	**14.3**	**15.5**	**16.0**	**15.9**	**27.7**	**22.2**	**21.0**	**21.7**	**20.6**
Algeria	31.6	34.9	34.0	36.2	36.2	4.0	2.2	1.8	1.5	1.3
Bahrain	3.4	3.5	3.7	4.0	4.6	135.8	139.6	145.2	146.6	150.8
Iran, I.R. of	10.3	15.1	16.3	14.8	12.9	7.2	3.6	1.3	1.7	1.5
Iraq	9.5	9.5	8.3	9.9	10.3	91.5	33.8	28.3	12.5	10.7
Kuwait	5.4	6.5	6.9	6.9	6.8	38.0	23.0	20.3	20.2	20.1
Libya	46.4	35.6	35.0	26.2	21.5	8.2	16.1	6.8	7.9	5.9
Oman	5.1	5.1	5.3	5.5	5.5	15.2	12.2	12.5	12.0	11.7
Qatar	5.2	3.7	6.7	8.4	8.8	62.9	77.4	85.9	87.8	81.1
Saudi Arabia[2]	25.4	29.9	34.7	37.7	39.9	15.6	12.4	11.6	12.6	12.0
United Arab Emirates	2.3	1.6	1.8	1.9	1.9	45.9	39.6	37.0	37.5	37.3
Yemen	7.4	3.8	5.4	4.4	3.4	24.3	18.3	17.8	16.4	16.1
Oil importers	**5.7**	**5.3**	**4.2**	**4.1**	**4.4**	**37.7**	**35.8**	**35.9**	**37.3**	**38.2**
Afghanistan, Rep. of	4.2	6.1	6.4	6.4	6.8	46.0	6.8	6.5	6.6	6.6
Djibouti	2.2	1.0	3.4	4.9	3.9	59.3	52.3	49.2	47.5	47.5
Egypt	6.4	4.7	2.7	2.6	3.0	20.7	14.8	13.4	16.2	18.8
Jordan[3]	6.6	5.6	2.7	3.8	4.6	32.5	21.9	23.4	25.4	25.6
Lebanon[4]	8.1	11.0	10.7	10.8	10.5	179.2	173.8	174.8	175.9	174.7
Mauritania	1.1	1.4	2.8	3.5	3.3	94.6	91.7	107.3	110.4	94.2
Morocco	6.8	5.0	4.2	4.3	4.1	24.4	25.1	29.8	31.3	31.3
Pakistan	3.3	3.6	2.7	1.4	2.2	29.2	31.1	29.1	27.0	27.0
Sudan	1.9	1.5	1.9	2.0	2.3	66.3	62.0	71.4	85.8	82.5
Syrian Arab Republic	...	...	...	...	...	18.1	...	...	...	...
Tunisia	4.4	4.3	3.8	3.9	4.2	49.8	47.6	51.4	52.1	55.2
CCA	**5.7**	**6.6**	**6.7**	**7.0**	**7.3**	**53.5**	**44.6**	**45.9**	**44.3**	**41.3**
Oil and gas exporters	**6.3**	**7.4**	**7.5**	**7.9**	**8.4**	**53.9**	**42.4**	**43.7**	**42.2**	**39.1**
Azerbaijan[3,5]	5.3	7.4	7.1	7.6	7.4	7.7	7.3	9.2	11.6	11.2
Kazakhstan	5.7	5.9	5.4	6.5	7.5	88.6	66.6	67.6	63.6	59.1
Turkmenistan[3]	...	...	...	...	...	3.0	10.0	18.1	20.6	15.9
Uzbekistan[3]	10.0	13.2	15.5	13.6	12.7	16.3	13.3	13.0	13.3	13.7
Oil and gas importers	**3.1**	**3.3**	**3.4**	**3.3**	**3.1**	**51.5**	**63.5**	**65.6**	**64.1**	**63.2**
Armenia[5]	4.5	4.6	4.2	3.5	3.6	43.1	71.5	77.0	75.5	78.1
Georgia	3.0	3.7	3.8	3.8	3.2	48.6	59.0	63.5	63.9	60.4
Kyrgyz Republic[3]	3.8	3.4	3.8	3.6	3.7	84.1	77.2	75.6	71.4	70.2
Tajikistan	0.8	1.4	1.5	1.9	2.0	46.5	48.3	46.2	44.3	45.2
Memorandum										
MENA	**11.8**	**12.6**	**13.4**	**14.0**	**13.9**	**30.4**	**25.2**	**24.2**	**25.5**	**24.8**
MENA oil importers	**6.3**	**5.6**	**4.5**	**4.6**	**4.8**	**41.0**	**38.7**	**39.9**	**42.8**	**43.8**
Arab Countries in Transition (excl. Libya)	**6.3**	**4.8**	**3.5**	**3.5**	**3.7**	**26.2**	**21.3**	**21.5**	**23.7**	**25.4**
GCC	**11.1**	**11.7**	**13.5**	**14.5**	**14.9**	**33.3**	**30.1**	**30.2**	**31.3**	**30.2**
Non-GCC oil exporters	**18.3**	**20.5**	**20.2**	**19.5**	**18.3**	**19.7**	**10.1**	**7.7**	**5.3**	**4.7**
West Bank and Gaza[6]	1.9	0.9	1.2	...	...	...	11.4	11.0	...	...

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

[1] Nominal GDP is converted to U.S. dollars using period average exchange rate.

[2] Saudi Arabia Monetary Agency gross foreign assets.

[3] Excludes deposits of nonresidents held in the banking system. Imports include re-exports of goods and services.

[4] Excludes gold and encumbered assets.

[5] Public and publicly guaranteed debt, as private debt data are not reliable.

[6] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

Table 8. Broad Money Growth and Depository Corporations (Banking System) Credit to Private Sector

	Broad Money Growth (Annual change; percent)					Credit to Private Sector (Annual change; percent)				
	Average 2006–10	2011	2012	Projections 2013	Projections 2014	Average 2006–10	2011	2012	Projections 2013	Projections 2014
MENAP	**18.1**	**14.7**	**12.9**	**17.2**	**13.3**	**18.3**	**11.9**	**14.9**	**10.3**	**11.8**
Oil exporters	**19.7**	**15.6**	**13.2**	**18.0**	**12.8**	**19.9**	**14.0**	**16.6**	**11.7**	**12.5**
Algeria	15.4	19.9	10.9	11.0	12.8	15.3	9.7	13.5	15.1	10.7
Bahrain	18.1	3.4	10.4	6.3	4.5	21.3	15.0	6.2	4.6	4.5
Iran, I.R. of	26.6	19.4	21.6	46.2	25.6	24.6	18.2	18.4	...	...
Iraq	29.8	38.0	4.1	10.3	7.7	36.2	71.9	61.7	11.0	11.4
Kuwait	14.2	10.2	6.5	11.8	8.0	16.9	2.6	3.2	7.7	8.0
Libya	23.3	25.0	11.5	4.5	4.0	15.1	-5.4	30.3	0.8	23.1
Oman	20.2	12.2	10.7	13.5	14.4	22.1	13.0	14.9	14.3	12.6
Qatar	27.4	17.1	22.9	13.1	13.0	31.5	19.5	12.6	12.9	14.7
Saudi Arabia	14.5	13.3	13.9	11.6	10.1	12.7	10.6	16.4	15.6	15.3
United Arab Emirates	20.0	5.0	4.4	7.4	8.1	25.6	2.3	2.3	6.0	8.4
Yemen	15.6	0.0	21.5	16.0	15.0	14.7	-16.9	-0.6	15.0	15.0
Oil importers	**14.0**	**11.8**	**12.1**	**14.5**	**14.7**	**14.1**	**5.7**	**9.7**	**6.6**	**10.0**
Afghanistan, Rep. of	...	21.3	8.9	9.3	9.5	...	...	...	...	...
Djibouti	14.0	-4.5	15.1	8.8	9.2	21.5	2.5	2.2	8.5	15.0
Egypt	13.2	10.1	8.3	18.5	20.8	9.3	1.0	7.1	9.7	10.8
Jordan	12.6	8.1	3.4	10.6	9.1	12.4	9.4	6.8	6.9	3.3
Lebanon[1]	13.6	7.2	7.9	8.0	8.0	13.7	12.9	10.5	9.7	9.7
Mauritania	15.2	19.9	10.5	11.2	14.9	15.0	10.1	14.6	14.1	13.8
Morocco	12.0	6.4	4.5	5.5	6.0	18.7	9.8	4.8	6.1	6.9
Pakistan	14.3	15.9	14.1	15.9	13.8	12.3	4.0	7.5	-0.6	8.5
Sudan	20.6	17.7	40.3	17.6	18.6	23.1	8.0	34.1	14.5	18.8
Syrian Arab Republic	11.2	...	...	...	...	22.9	...	...	...	...
Tunisia[1,2]	12.7	9.1	8.4	11.6	11.6	12.1	13.4	8.7	9.7	13.0
CCA	**37.3**	**22.6**	**16.7**	**17.9**	**17.4**	**32.9**	**24.2**	**20.1**	**21.5**	**16.5**
Oil and gas exporters	**38.9**	**22.4**	**16.7**	**18.0**	**17.5**	**33.1**	**23.8**	**20.3**	**22.4**	**16.3**
Azerbaijan	44.6	32.1	20.6	26.6	22.0	50.0	18.1	20.8	18.8	18.1
Kazakhstan	34.6	14.1	9.1	12.0	14.1	29.7	14.9	13.4	20.3	12.7
Turkmenistan	49.0	36.3	35.6	29.5	20.6	44.7	79.1	47.0	40.0	35.0
Uzbekistan	43.3	32.3	29.2	22.8	22.8	27.7	32.0	29.8	24.6	15.3
Oil and gas importers	**27.3**	**24.7**	**16.4**	**17.3**	**16.1**	**32.2**	**27.2**	**18.3**	**13.5**	**18.1**
Armenia	20.9	23.6	19.6	15.9	13.0	39.1	35.6	26.9	15.8	13.0
Georgia	26.5	20.3	11.4	17.0	16.5	30.8	24.3	12.8	7.7	20.9
Kyrgyz Republic	27.3	14.9	23.8	19.8	18.5	31.6	20.8	26.2	19.0	20.8
Tajikistan	42.6	45.8	15.1	18.1	17.4	19.9	23.9	8.9	17.3	16.9
Memorandum										
MENA	**18.4**	**14.5**	**12.9**	**17.3**	**13.2**	**18.8**	**12.5**	**15.4**	**11.2**	**12.1**
MENA oil importers	**13.5**	**10.0**	**11.4**	**14.0**	**15.2**	**14.9**	**6.4**	**10.6**	**9.5**	**10.6**
Arab Countries in Transition (excl. Libya)	**13.0**	**8.2**	**8.1**	**14.3**	**15.5**	**12.8**	**3.8**	**6.2**	**9.2**	**10.0**
GCC	**17.3**	**10.9**	**11.5**	**10.8**	**9.9**	**18.6**	**8.6**	**10.7**	**11.8**	**12.4**
Non-GCC oil exporters	**23.6**	**22.4**	**15.7**	**28.6**	**17.4**	**21.7**	**21.7**	**25.1**	**...**	**...**
West Bank and Gaza[3]	11.0	4.0	6.8	...	...	15.7	23.8	14.2	12.9	12.4

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

[1] Broad money is defined to include nonresident deposits (M5).

[2] Credit to private sector includes credit to public enterprises.

[3] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

Table 9. Financial Sector Indicators

	Capital Adequacy Ratios (Percent of risk-weighted assets)			Return on Assets (Pre-tax, percent)			Nonperforming Loans (90-day basis, percent of total loans)		
	Dec-10	Dec-11	Dec-12	Dec-10	Dec-11	Dec-12	Dec-10	Dec-11	Dec-12
MENAP									
Oil exporters									
Algeria	23.6	23.7	...	2.1	2.1	...	18.3	14.4	...
Bahrain	19.9	19.9	19.3	1.1	1.2	1.2	4.3	4.9	5.8
Iran, I.R. of[1]	8.4	...	...	...	...	...	13.8	15.1	...
Iraq	...	...	...	...	...	...	...	...	...
Kuwait	18.9	18.5	18.0	1.2	1.1	1.2	8.9	7.3	5.2
Libya	17.3	16.6	15.7	1.2	0.6	0.7	20.2	20.6	21.0
Oman	15.8	15.9	16.0	1.6	1.7	1.6	2.9	2.4	2.2
Qatar	16.1	20.6	18.9	2.6	2.7	2.4	2.0	1.7	1.7
Saudi Arabia	17.1	17.4	18.7	1.8	1.9	2.0	3.0	2.3	1.9
United Arab Emirates[2]	20.7	20.0	20.6	1.3	1.5	1.5	5.6	7.2	8.7
Yemen[3]	20.2	24.3	29.6	1.3	1.5	1.2	17.7	21.2	25.5
Oil importers									
Afghanistan, Rep. of	−14.9	23.6	...	−19.8	−0.9	...	49.9	4.6	...
Djibouti	12.2	9.4	11.7	1.1	1.0	1.3	8.3	9.4	11.4
Egypt[4,5]	16.1	15.6	…	0.8	1.0	…	11.0	10.9	…
Jordan	20.3	19.3	19.0	1.1	1.1	1.1	8.2	8.5	7.7
Lebanon[4,6]	13.4	11.6	11.2	1.2	1.1	1.0	4.3	3.7	3.8
Mauritania[7]	34.0	35.3	...	0.4	1.2	...	45.3	39.2	...
Morocco	12.3	11.7	...	1.2	1.1	...	4.7	4.7	4.8
Pakistan	14.0	15.1	15.4	1.7	2.2	2.1	14.7	15.7	14.5
Sudan	10.0	13.0	12.0	3.9	4.2	4.4	14.4	12.6	11.8
Syrian Arab Republic	6.5	...	...	1.0	...	...	5.1	...	...
Tunisia	11.6	11.9	11.8	0.9	0.6	0.6	13.0	13.3	14.6
CCA									
Armenia	22.2	18.3	16.8	2.2	1.9	1.1	3.1	3.4	3.6
Azerbaijan	16.9	14.7	16.8	0.9	−1.1	0.7	4.7	6.0	5.7
Georgia[8]	23.6	25.6	25.3	1.7	2.9	1.0	5.4	4.6	3.7
Kazakhstan	17.9	17.4	18.1	12.0	−0.1	−1.5	23.8	30.8	28.2
Kyrgyz Republic	31.0	30.3	28.3	1.2	3.0	3.0	15.8	10.2	7.2
Tajikistan[9]	24.5	21.3	23.3	0.8	−0.4	0.2	7.5	7.2	9.5
Turkmenistan	17.2	19.4	45.3	3.6	2.6	2.6	0.1	0.0	0.0
Uzbekistan	23.4	24.2	24.3	1.2	1.9	1.9	1.0	0.7	0.5
Memorandum:									
West Bank and Gaza[10]	26.5	24.5	22.6	2.1	1.9	1.8	3.1	2.8	3.3

Source: National authorities.

[1] December data refer to March data of the following year.

[2] National banks only.

[3] Data refer to all banks except the Housing Bank and CAC Bank.

[4] After tax.

[5] Provisioning to nonperforming loans surpassed 100 percent as of Dec. 2009 and data refer to end of fiscal year.

[6] Capital adequacy ratio (CAR) according to Basel II in 2010 and Basel III from 2011 onwards. Data for 2012 CAR are as of June 2012.

[7] Provisioning to nonperforming loans stood at 89 percent in June 2011.

[8] Cumulative and annualized.

[9] CAR: Tier 1 capital as percent of risk-weighted assets. Return on assets: the quick turnaround in profitability in H1 2013 reflects sizeable underprovisioning for nonperforming assets in some large banks. Nonperforming loans: loans overdue by 30 days or more.

[10] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

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