Regional Economic Outlook UPDATE
MAY 2013
Middle East and Central Asia Department

Middle East and North Africa: Defining the Road Ahead

Two years after the "Arab Spring" commenced, many countries of the Middle East and North Africa (MENAP)[1] region are still undergoing complex political, social, and economic transitions. Economic performance was mixed in 2012: although most of the region's oil-exporting countries grew at healthy rates, economic growth remained sluggish in the oil importers. In 2013, these differences are expected to narrow because of a scaling-back of hydrocarbon production among oil exporters and a mild economic recovery among oil importers. Many countries face the immediate challenge of re-establishing or maintaining macroeconomic stability amid political uncertainty and social unrest, but the region must not lose sight of the medium-term challenge of diversifying its economies, creating jobs, and generating more inclusive growth.

Narrowing Differences in a Two-Speed Region

Modest growth is anticipated across the region. Last year's subdued growth in MENAP oil importers is expected to improve only somewhat in 2013, and will not be sufficient to begin making sizable inroads into the region's large unemployment problem. MENAP oil exporters' healthy growth rates are projected to moderate this year, as oil producers are expected to scale back increases in production amid modest global oil demand; however, continued strong public spending is expected to support non-oil growth at comfortable levels in many of these countries.

A challenging external environment continues to exert pressure on international reserves in many oil-importing countries. Sluggish economic activity in trading partners, particularly in the euro area, is holding back a quicker recovery of exports, while elevated commodity prices continue to weigh on external balances in countries that depend on food and energy imports. Tourist arrivals are gradually rebounding, but remain well below pre-2011 levels. Foreign direct investment and remittance flows are expected to remain subdued, while portfolio flows will remain lower than in other emerging markets and developing countries. Growing regional economic and social spillovers from the conflict in Syria add to the complexity of the economic environment.

Oil-exporting countries, mainly in the Gulf Cooperation Council (GCC), generally face a more benign outlook. However, if the global outlook worsens, oil exporters would also face serious pressures. A prolonged decline in oil prices, rooted in persistently low global economic activity, could run down reserve buffers and result in fiscal deficits.

Resolute policy action, across the region, will be needed this year. In many MENAP oil importers, greater fiscal consolidation and exchange rate flexibility will be necessary to preserve macroeconomic stability, instill confidence, improve competitiveness, and mobilize external financing. For MENAP oil exporters, further strengthening of fiscal and external positions will be important to reduce their vulnerability to a potential material oil price decline. For both groups of countries, it will be

[1] Middle East, North Africa, Afghanistan, and Pakistan.

important to undertake these efforts in a socially balanced manner, supported by adequate measures to protect the poor and vulnerable.

Arab Countries in Transition: Defining Paths to Success

In the Arab countries in transition,[2] economic developments will depend on confidence, which remains susceptible to political and social developments. The political transitions are complex: many of the countries have yet to adopt new constitutions and elect governments with terms exceeding a year. High unemployment and a rising cost of living exacerbate social tensions among populations impatient for a transition dividend. Confidence could rapidly deteriorate with setbacks in political transitions and worsening domestic security.

Over the past two years, policymakers in these countries responded to social pressures by raising wages and employment in the public sector. These measures, together with increased food and energy subsidies, resulted in higher fiscal deficits and public debt. In many cases, exchange rate stability helped contain inflation but sped up the erosion of foreign exchange reserves.

Despite the complex political situations facing the Arab countries in transition, decisive policy action will be crucial, given diminished fiscal and foreign exchange buffers. Recent subsidy reforms in some countries, paired with measures to implement more targeted social protection, have begun to reduce fiscal and international reserve pressures. However, more fiscal consolidation, as well as exchange rate flexibility, will be needed to bolster confidence, competitiveness, and growth.

Looking ahead, countries should increasingly tap into their vast potential for higher and more inclusive growth. The transition to dynamic economies that create more jobs urgently requires policymakers to design and implement a bold agenda of structural reforms that benefits from broad public support. Each country will define its own unique path, but all paths should converge on accelerated private-sector growth and international trade, through structural reforms that deepen trade integration, lower the cost of doing business, foster hiring by private firms, develop high-quality human capital, and expand access to finance. Moving ahead with defining national agendas and swiftly implementing some quick wins will also give hope to increasingly impatient populations.

The IMF and Other Official Support: Channeling Positive Change

Support from the international community is needed to support countries' efforts toward macroeconomic stabilization and economic transformation. Bilateral and multilateral partners can help—by providing policy and technical advice, financing, and trade access—to support positive change. Even with ambitious domestic efforts, considerable external financial support will be needed in many Arab countries in transition, because private sources are unlikely to fulfill countries' substantial financing needs. Enhanced access to export markets for the region's products and services will also be critical for cultivating competitiveness and jobs.

The IMF is closely engaged in the region through analytical and technical advice, as well as through substantial financial support. It has committed more than US$8 billion in financing arrangements with Jordan, Morocco, and Yemen. It has reached staff-level agreement on a US$1.75 billion Stand-By Arrangement with Tunisia, and is in discussions on a possible arrangement with Egypt, and on a second program with Yemen.

[2] The Arab countries in transition are Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen.

MENAP Oil-Exporting Countries

Non-Oil Economy to Support Growth in 2013

2012 was a year of robust growth of 5.7 percent, on average, in the MENAP oil-exporting countries—Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Yemen. Growth was supported by the almost complete restoration of Libya's oil production and strong expansions in the GCC countries. Non-oil GDP growth was supported by the low global interest rate environment and, in some countries, by large increases in government spending amid high oil prices and in response to social pressures.[3]

Overall, economic growth is projected to fall to about 3 percent in 2013, as oil production growth pauses in the context of subdued global oil demand. In the first few months of 2013, oil exports have been declining. For 2013 as a whole, additional oil supplies from Iraq and Libya are expected to more than offset a decline in oil exports from Iran, while lower net demand for Saudi Arabian exports is expected to result in slightly reduced production. As a result, aggregate hydrocarbon GDP and export volumes are expected to be flat in 2013.

At the same time, growth of about 4 percent in the non-oil economy will be supported by low global interest rates, accommodative fiscal stances in some countries (including stepped-up post-conflict reconstruction and government-financed capital expenditure projects), and consumer spending of public-sector salaries.

Large Balance of Payments Surpluses

Elevated hydrocarbon export volumes and prices allowed the MENAP oil-exporting countries to accumulate current account surpluses of about US$440 billion in 2012. A small decline in projected global oil prices (based on futures markets) and an expected rise in imports will lead to a somewhat smaller current account surplus of about US$370 billion this year.

Despite large balance of payments surpluses and robust economic activity, inflation is expected to decrease from high rates or remain moderate in most oil-exporting countries because of diminishing food inflation, a benign global inflationary environment, and lower increases in rents in some GCC countries. In Iran, while some of these factors are envisaged to help contain prices, a sharp depreciation of the currency and difficult external and macroeconomic environments are expected to keep inflation pressures high.

Oil Exporters Are Vulnerable to Falling Oil Revenues

Risks to the global outlook have somewhat diminished in recent months but remain high. Lower global economic activity would likely result in lower oil prices. Many countries have low public debt levels and would be able to draw on international reserves and other foreign assets to sustain aggregate demand in the event of a brief decline in oil prices, but a prolonged period of low prices would entail significant risks. IMF analysis described in the April 2013 *World Economic Outlook* indicates that, on unchanged policies, slower growth in emerging markets would place oil prices below the level required to balance the budget for most MENAP oil-exporting countries. Similarly, there is a risk that weak policy action in Europe could lead to moderately but persistently lower growth. IMF analysis suggests that the resulting cumulative GDP loss for the MENAP oil exporters in 2013 and 2014 could be about ½ percent; growth rates would also be lower in the

[3] Saudi Arabia recently revised GDP data that resulted in a significant upward revision to the level of GDP and higher estimated growth rates in 2011 and 2012.

medium term, because of lower export volumes and oil prices. By contrast, more rapid progress on agreed policy action in Europe could lift its growth rate over the medium term and have a positive effect on the MENAP oil-exporting countries.

Some of these countries have experienced renewed political uncertainty, unrest, and the sabotage of oil facilities. These have so far not had a material impact on hydrocarbon output, but a deterioration of domestic security or an intensification of regional geopolitical tensions could affect hydrocarbon export volumes in the short term. In the medium term, increased security costs and a less attractive investment climate could curtail the pace at which hydrocarbon supply expands. Long-term risks to hydrocarbon prices include the replication of the U.S. shale revolution in other parts of the world.

Policies to Reduce Dependence on Hydrocarbon Revenues

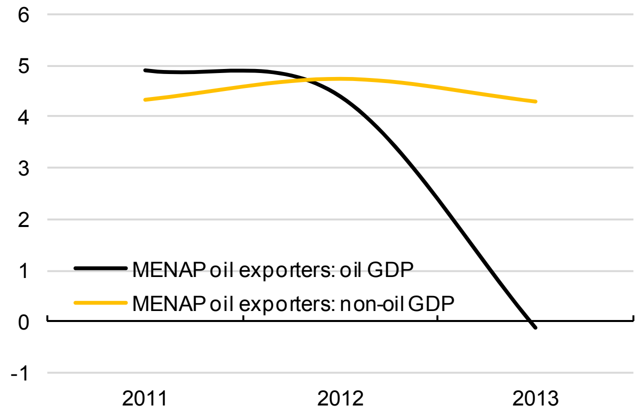
In many countries, high and rising break-even oil prices and spending at levels that would not accumulate sufficient wealth for future generations imply that fiscal policy should be tightened, particularly in times when the non-oil economy is expanding at a comfortable pace. To build resilience to a possible sustained decrease in the oil price, increases in hard-to-reverse current government expenditures, like the wage bill and subsidies, should be contained. In many countries, capital expenditures can be maintained, but need to be prioritized to ensure that the quality of public investment is not compromised. In some countries that are running overall deficits, the need for fiscal consolidation is more pressing, and, in the case of Yemen, it will need to be coupled with continued international financial support. All MENAP oil-exporting countries have scope for further developing their medium-term fiscal frameworks to improve macrofiscal planning and to avoid procyclical swings in expenditure triggered by fluctuations in oil prices.

Effective social and capital expenditure can decrease dependence on oil revenues in the long term by promoting future growth in non-hydrocarbon industries. Given low private-sector employment rates for nationals, remaining oil wealth should increasingly be used to build human capital wealth. The region has done well to converge on the global average in terms of the quantity of schooling: MENAP oil exporters accounted for half of the 10 highest increases in the average years of schooling since 1980 worldwide. However, the quality of school achievement is exceptionally low compared to international benchmarks. Providing a high-quality education at the primary, secondary, and tertiary levels is an essential component of the reforms needed to support job creation and economic diversification. Moreover, educational improvements should be complemented with a rebalancing of incentives that encourage skilled citizens to seek work in the private sector in a way that does not unduly jeopardize incentives for business activity.

MENAP Oil-Exporting Countries: Recent Economic Developments and Outlook

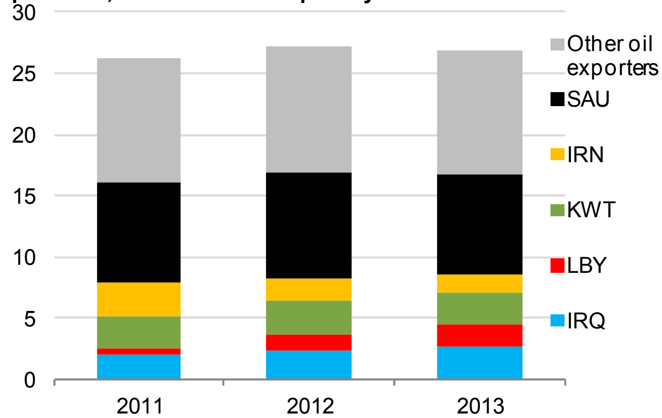
Non-oil GDP growth remains high, but oil GDP growth is slowing.

Oil and non-oil real GDP growth, percent



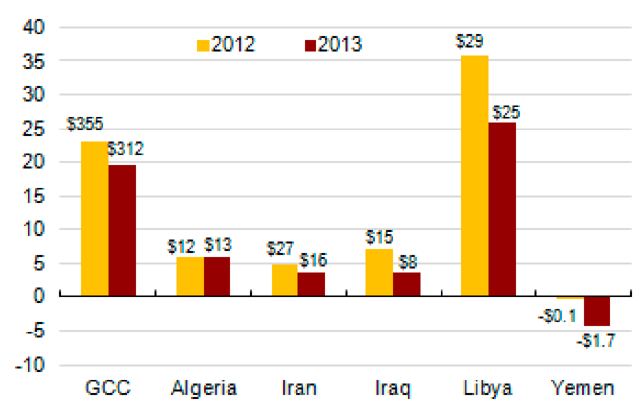
Aggregate hydrocarbon exports are steady, but there have been large fluctuations in some countries.

Exports of crude, gas, condensates and refined products, milions of barrels per day



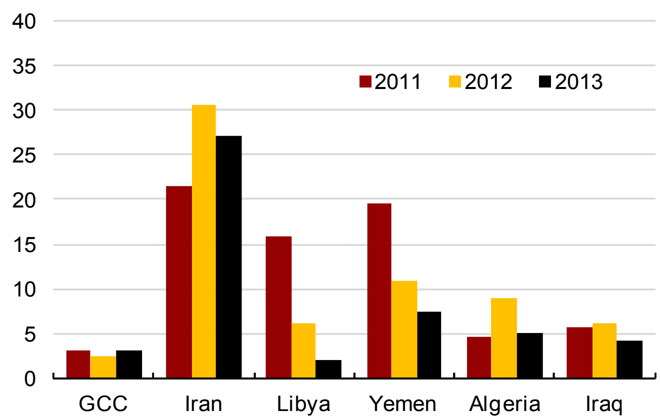
Current account surpluses are expected to fall slightly in many countries.

Current account balance, percent of GDP and billions of U.S. dollars



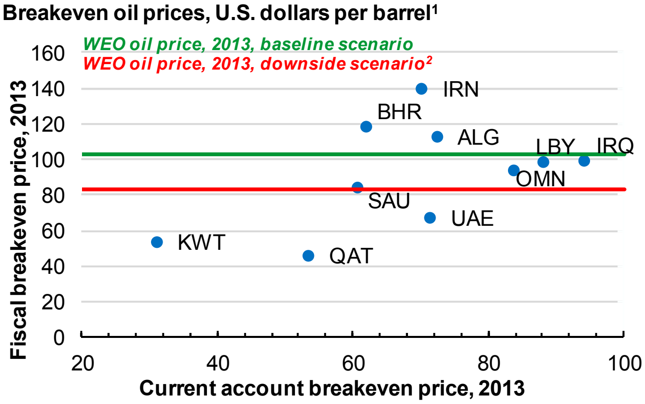
Inflation is moderate or declining in most countries.

Consumer price index, percent change



Slow growth in emerging markets could adversely affect fiscal balances.

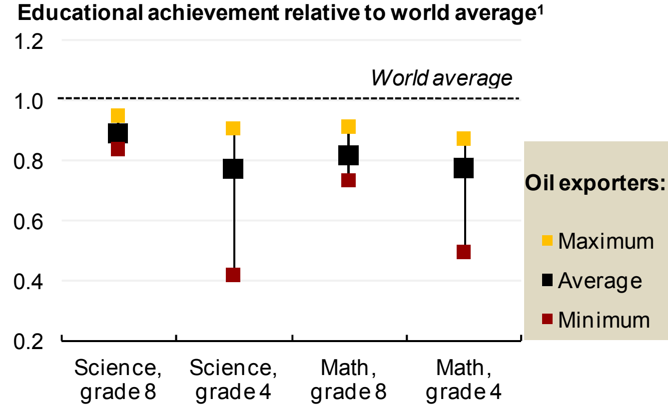
Breakeven oil prices, U.S. dollars per barrel[1]



[1]Yemen breakeven: US$215 (fiscal), US$168 (current account).
[2] Capital outflows and weak private investment in emerging markets.

Educational achievement trails the rest of the world.

Educational achievement relative to world average[1]



[1] Achievement scores from Trends in International Mathematics and Science Study, 2011; 1.1 = "high" benchmark, 0.8 = "low" benchmark.

Sources: National authorities; and IMF staff calculations.
Note: Algeria (ALG), Bahrain (BHR), Iran (IRN), Iraq (IRQ), Kuwait (KWT), Libya (LBY), Oman (OMN), Qatar (QAT), Saudi Arabia (SAU), United Arab Emirates (UAE), and Yemen (YMN).

MENAP Oil-Importing Countries

Tepid Economic Recovery in a Complex Environment

Oil-importing countries in the MENAP region (excluding Syria)—Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, and Tunisia—grew 2.7 percent on average in 2012, with investment and net exports weighed down by political uncertainty, continued social unrest, and a challenging external environment. Steady remittances and public-sector wage growth sustained consumption. Economic activity was also supported by a bumper harvest in Afghanistan and Pakistan, and by a post-drought agricultural rebound in Mauritania, while the downturn in Sudan worsened from the loss of oil production to South Sudan. The modest recovery generated few jobs, and high unemployment persists, especially among women and youth.

Investor confidence stayed weak because of political transitions and social unrest across the Arab countries in transition and regional spillovers from the conflict in Syria—including the cost of supporting refugees, disruptions to bilateral and transit trade, and heightened security concerns. In a number of countries, these factors resulted in a rise in nonperforming loans, a decline in stock market indices, capital outflows, credit ratings downgrades, and widened sovereign spreads.

External positions in the oil-importing countries further weakened. Declining exports, lackluster foreign direct investment, and a fall in tourist arrivals reflected recession in the euro area and sluggish global growth. Meanwhile, rising import bills across the region were rooted in high global food and energy prices. A drought in Morocco and, in Jordan, disruptions to natural gas supplies substituted with expensive fuel imports for electricity production further strained current account balances.

Restrained aggregate demand and large subsidies for food and energy muted inflation, in many cases helped by exchange rate stability—which was achieved at the cost of eroded international reserves, as in Egypt and Pakistan.. By contrast, substantial exchange rate devaluation in Sudan contributed to inflation but helped improve reserves.

In efforts to address social demands and lessen the impact of high international prices for food and energy, governments increased spending on subsidies and the public-sector wage bill, while weak economic activity weighed on tax revenues. The resulting large fiscal deficits (8.4 percent of GDP on average) raised public debt and, in some cases, were financed by domestic banks, which strained their capacity to lend to the private sector.

Recent subsidy reforms, paired with measures to implement more targeted social protection, are making inroads on reducing fiscal and reserve pressures. In Jordan, large cash transfers were applied to mitigate the impact on the poor of last fall's substantial fuel price hikes. Egypt, Morocco, and Tunisia also implemented steps to reduce subsidies, though at a more gradual pace.

The Need to Act

In 2013, growth in the MENAP oil importers is expected to recover at a moderate pace, with only a minor increase, projected at 3 percent. Social, political, and economic conditions remain impaired, with continued social unrest, complex political transitions, and an economic environment characterized by modest global growth, high commodity prices, and weak domestic confidence. Mauritania's growth, buoyed by the recovery of mining production and sustained investment in the sector, is projected to top that of other oil importers. At the other end of the spectrum, recovery can begin in Sudan after the recent signing of security and oil agreements with South Sudan. Persistently high unemployment is liable to spur further social tensions among populations anxious for jobs, better incomes and social conditions, and equal access to economic opportunity. The social situation in Jordan and Lebanon will be affected by growing numbers of refugees from Syria.

Inflation is expected to rise in Egypt, Jordan, Morocco, and Tunisia, reflecting recent and planned subsidy cuts and, in some cases, pressure from monetization of fiscal deficits and supply shortages. Underlying inflation also remains high in Pakistan, as accommodative monetary policy continues. In other countries, tempered domestic demand and declines in certain food prices are likely to subdue inflation.

Even where economic recovery is supporting revenues, fiscal deficits are anticipated to deepen in countries that have not already acted to increase revenues and contain wage and subsidy expenditures. Broadly unchanged deficits are expected where subsidy savings are channeled into strengthened social safety nets and into capital spending in support of growth and employment.

Eroded international reserves are unlikely to improve, absent significantly lower global food and energy prices or a boost in exports, foreign direct investment, or remittances. Impaired investor confidence may imply a further drain on reserves. These factors are compounded in Pakistan by substantial debt repayments to official creditors, bringing reserves to critically low levels.

With low fiscal buffers and depleted reserves, considerable fiscal consolidation and greater exchange rate flexibility will be needed, in many cases, to maintain macroeconomic stability, instill confidence, preserve competitiveness, and mobilize external financing. In particular, countries will need to implement more cutbacks in subsidies, coupled with better-targeted safety nets, and will need to design policies that help contain the wage bill.

Difficult and unpopular policy choices will have to be made in some countries to maintain macroeconomic stability, though upcoming elections in many oil-importing countries and ongoing political transitions and constitutional reforms will complicate policymaking.

Looking past these near-term challenges, there is considerable potential in these countries for higher and more inclusive growth and more jobs. To realize this potential, it will be necessary to press on with structural reforms that deepen trade integration, streamline regulations, increase institutional accountability, remove impediments to business entry and exit, modify labor market regulation to encourage hiring while maintaining adequate worker protection, align the education system with employer needs, and expand access to finance.

Risks Still Largely to the Downside

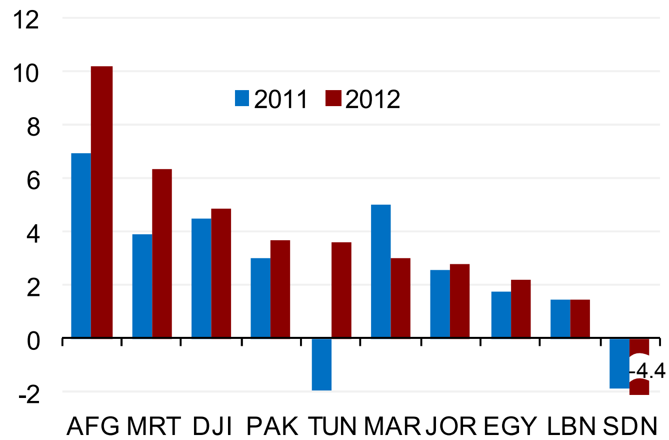
Downside regional and domestic risks dominate the outlook for oil importers. Instability resulting from more setbacks in political transitions may further delay needed policy action and, in combination with regional escalation of the conflict in Syria, could severely damage economic confidence. Output losses and amplified international reserve pressures could result from these risks, as well as from higher global food and energy prices, lower trading partner growth, or re-intensification of global financial risk aversion.

On the positive side, accelerated reform momentum in Europe and smooth political transitions across the region could boost reforms, investor confidence, external inflows, and growth.

MENAP Oil-Importing Countries: Recent Economic Developments and Outlook

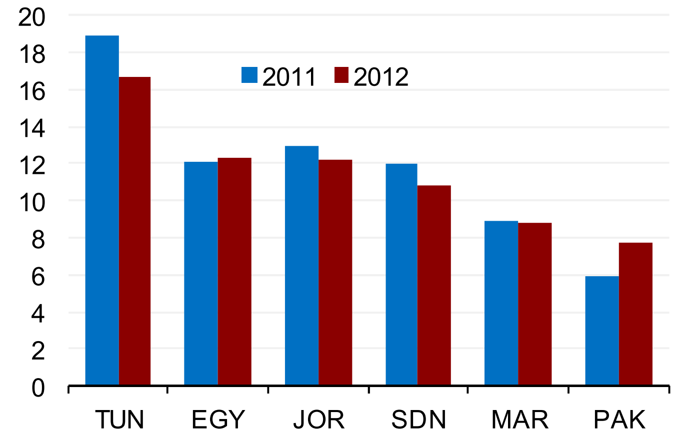
Political uncertainty, social unrest, and external challenges weighed on economic recovery...

Real GDP, annual percent change



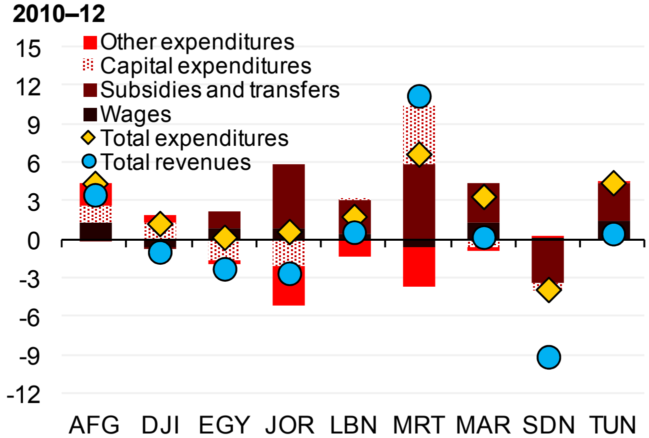
...with persistently high unemployment.

Unemployment rate, percent



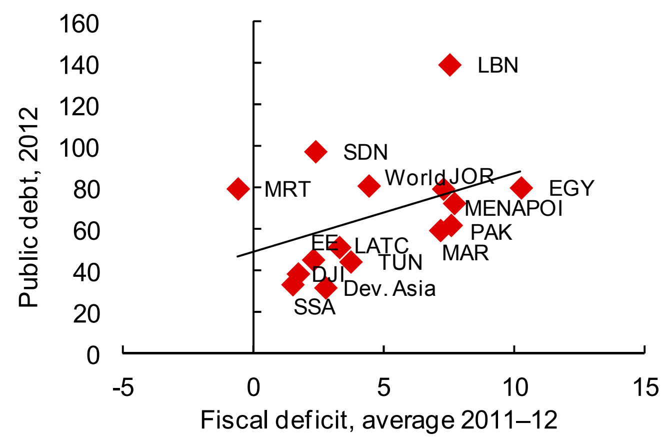
Weakened revenues and higher subsidies and wage bills...

Change in revenue and expenditure, in percent GDP, 2010–12



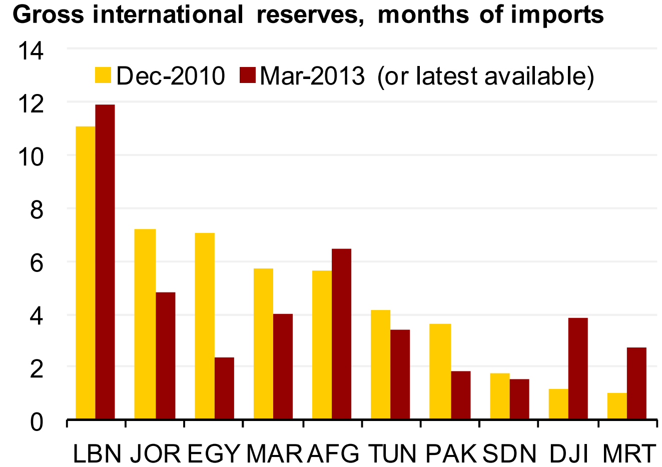
...have raised government deficits and debt.

Public debt vs. fiscal deficit, in percent GDP



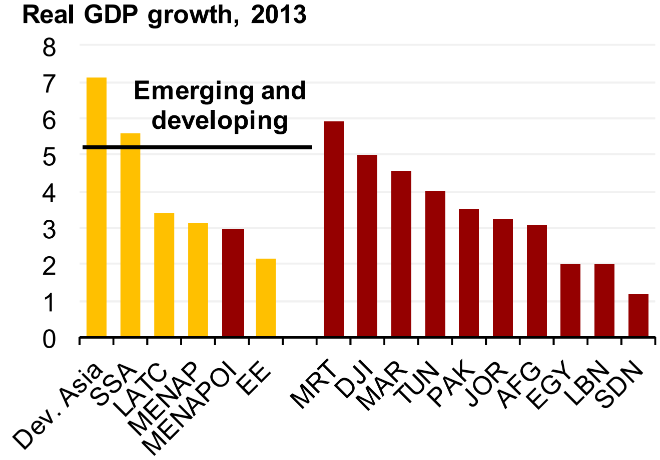
And eroded international reserves leave few buffers...

Gross international reserves, months of imports



...ahead of a challenging outlook.

Real GDP growth, 2013



Sources: National authorities; and IMF staff calculations.
Note: Afghanistan (AFG), Djibouti (DJI), Egypt (EGY), Jordan (JOR), Lebanon (LBN), Mauritania (MRT), Morocco (MAR), Pakistan (PAK), Sudan (SDN), Tunisia (TUN), Latin America and the Caribbean (LATC), MENAP oil importers (MENAPOI), Sub-Saharan Africa (SSA), and Emerging Europe (EE).

MENAP Region: Selected Economic Indicators, 2000–14

(Percent of GDP, unless otherwise indicated)

	Average 2000–07	2008	2009	2010	2011	2012	Projections 2013	Projections 2014
MENAP[1]								
Real GDP (annual growth)	5.8	5.0	2.9	5.3	3.9	4.7	3.1	3.7
Current Account Balance	9.5	13.2	1.9	7.0	13.0	11.5	9.9	8.2
Overall Fiscal Balance	3.4	6.6	-3.0	-0.2	2.3	2.0	0.6	-0.1
Inflation, p.a. (annual growth)	6.5	13.4	7.0	6.9	9.8	11.2	10.1	9.1
MENAP oil-exporting countries								
Real GDP (annual growth)	6.2	4.9	2.3	5.9	4.7	5.7	3.2	3.7
Current Account Balance	13.7	18.9	4.6	10.8	18.2	16.6	14.3	12.0
Overall Fiscal Balance	7.8	13.0	-1.8	2.7	6.8	6.9	4.7	3.1
Inflation, p.a. (annual growth)	7.5	13.6	5.3	6.0	9.8	12.0	10.5	8.8
***Of Which:* Gulf Cooperation Council**								
Real GDP (annual growth)	6.1	8.2	0.8	6.3	7.9	6.0	4.0	4.0
Current Account Balance	15.6	21.8	7.1	13.5	22.9	23.0	19.7	16.8
Overall Fiscal Balance	12.0	24.0	-0.7	4.0	11.3	14.4	10.7	7.9
Inflation, p.a. (annual growth)	2.2	8.9	2.7	2.6	3.1	2.4	3.2	3.3
MENAP oil-importing countries								
Real GDP (annual growth)	5.1	5.3	4.2	4.0	2.2	2.7	3.0	3.6
Current Account Balance	-1.0	-4.1	-4.6	-3.0	-3.5	-5.7	-4.0	-3.6
Overall Fiscal Balance	-4.7	-5.5	-5.2	-5.7	-7.0	-8.4	-8.1	-6.9
Inflation, p.a. (annual growth)	4.9	12.9	10.2	8.5	9.9	9.5	9.2	9.6
MENA[1]								
Real GDP (annual growth)	5.9	5.2	3.0	5.5	4.0	4.8	3.1	3.7
Current Account Balance	10.3	14.7	2.5	7.7	14.0	12.5	10.8	8.9
Overall Fiscal Balance	4.3	8.4	-2.7	0.4	3.4	3.2	1.5	0.7
Inflation, p.a. (annual growth)	6.6	13.6	5.8	6.6	9.3	11.3	10.3	9.0
MENA oil-importing countries								
Real GDP (annual growth)	5.0	6.1	4.9	4.3	1.6	1.9	2.7	3.7
Current Account Balance	-1.4	-2.7	-4.4	-3.4	-5.1	-7.7	-5.7	-4.9
Overall Fiscal Balance	-5.4	-4.7	-5.3	-5.7	-7.2	-8.8	-8.9	-7.0
Inflation, p.a. (annual growth)	4.5	13.6	7.3	8.0	7.9	8.9	9.9	9.8

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

[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.

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

MENAP Oil-Exporting Countries: Selected Economic Indicators

	Average 2000–07	2008	2009	2010	2011	2012	Projections 2013	2014
Real GDP Growth	**6.2**	**4.9**	**2.3**	**5.9**	**4.7**	**5.7**	**3.2**	**3.7**
(Annual change; percent)								
Algeria	4.4	2.0	1.7	3.6	2.4	2.5	3.3	3.4
Bahrain	6.4	6.3	3.2	4.7	2.1	3.9	4.2	3.3
Iran, I.R. of	6.0	0.6	3.9	5.9	3.0	-1.9	-1.3	1.1
Iraq	…	6.6	5.8	5.9	8.6	8.4	9.0	8.4
Kuwait	7.4	2.5	-7.1	-2.4	6.3	5.1	1.1	3.1
Libya	5.4	2.7	-0.8	5.0	-62.1	104.5	20.2	10.1
Oman	4.0	13.2	3.3	5.6	4.5	5.0	4.2	3.5
Qatar	12.0	17.7	12.0	16.7	13.0	6.6	5.2	5.0
Saudi Arabia	4.7	8.4	1.8	7.4	8.5	6.8	4.4	4.2
United Arab Emirates	8.0	5.3	-4.8	1.3	5.2	3.9	3.1	3.6
Yemen	4.2	3.6	3.9	7.7	-10.5	0.1	4.4	5.4
Consumer Price Inflation	**7.5**	**13.6**	**5.3**	**6.0**	**9.8**	**12.0**	**10.5**	**8.8**
(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	1.2	2.6	2.1
Iran, I.R. of	13.9	25.4	10.8	12.4	21.5	30.6	27.2	21.1
Iraq	40.3	2.7	-2.2	2.4	5.6	6.1	4.3	5.5
Kuwait	2.3	10.6	4.0	4.0	4.7	2.9	3.3	3.8
Libya	2.9	10.4	2.4	2.5	15.9	6.1	2.0	5.2
Oman	1.2	12.6	3.5	3.3	4.0	2.9	3.3	3.3
Qatar	5.9	15.0	-4.9	-2.4	1.9	1.9	3.0	4.0
Saudi Arabia	0.8	6.1	4.1	3.8	3.7	2.9	3.7	3.6
United Arab Emirates	5.2	12.3	1.6	0.9	0.9	0.7	1.6	1.9
Yemen	10.9	19.0	3.7	11.2	19.5	11.0	7.5	8.7
General Gov. Overall Fiscal Balance	**7.8**	**13.0**	**-1.8**	**2.7**	**6.8**	**6.9**	**4.7**	**3.1**
(Percent of GDP)								
Algeria	7.2	7.6	-6.8	-1.8	-1.7	-3.4	-1.8	-2.7
Bahrain[1]	1.6	4.9	-6.6	-7.0	-1.7	-2.6	-4.2	-5.0
Iran, I.R. of[2]	3.3	0.7	0.9	3.0	4.1	-2.3	-3.5	-4.0
Iraq	…	-0.9	-12.7	-4.3	4.9	4.0	1.2	1.9
Kuwait[1]	29.5	19.8	26.8	25.2	29.1	30.6	26.9	22.2
Libya	14.7	25.2	-3.0	8.9	-18.7	20.8	18.4	12.1
Oman[1]	9.4	13.7	-2.1	3.8	4.7	10.4	3.8	-1.2
Qatar	9.0	9.8	13.4	2.6	8.3	8.1	11.0	9.8
Saudi Arabia	10.7	31.6	-4.1	3.0	12.4	15.2	9.6	6.4
United Arab Emirates[3]	8.3	17.0	-12.6	-1.8	3.3	10.7	9.7	8.5
Yemen	-0.7	-4.5	-10.2	-4.0	-4.3	-5.5	-5.8	-3.7
Current Account Balance	**13.7**	**18.9**	**4.6**	**10.8**	**18.2**	**16.6**	**14.3**	**12.0**
(Percent of GDP)								
Algeria	16.4	20.1	0.3	7.5	10.0	5.9	6.1	4.5
Bahrain	7.4	10.2	2.9	3.6	12.6	15.4	13.6	11.6
Iran, I.R. of	6.1	6.5	2.6	6.5	12.0	4.9	3.6	1.9
Iraq	…	12.8	-8.3	3.0	12.5	7.0	3.6	2.9
Kuwait	29.8	40.9	26.7	31.9	44.0	45.0	40.8	37.6
Libya	26.5	42.5	14.9	19.5	9.1	35.9	25.8	17.7
Oman	9.7	8.3	-1.2	8.7	17.7	15.6	9.9	4.7
Qatar	25.1	28.7	10.2	26.8	30.4	29.5	29.3	23.7
Saudi Arabia	15.9	25.5	4.9	12.7	23.7	24.4	19.2	16.1
United Arab Emirates	9.4	7.9	3.5	3.2	9.7	8.2	8.4	7.9
Yemen	3.2	-4.6	-10.2	-3.7	-4.0	-0.4	-4.3	-4.1

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

[1]Central government.

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

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

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

MENAP Oil-Importing Countries: Selected Economic Indicators

	Average 2000–07	2008	2009	2010	2011	2012	Projections 2013	2014
Real GDP Growth	**5.1**	**5.3**	**4.2**	**4.0**	**2.2**	**2.7**	**3.0**	**3.6**
(Annual change; percent)								
Afghanistan, Rep. of	…	3.6	21.0	8.4	7.0	10.2	3.1	4.8
Djibouti	3.0	5.8	5.0	3.5	4.5	4.8	5.0	5.0
Egypt	4.7	7.2	4.7	5.1	1.8	2.2	2.0	3.3
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	2.0	4.0
Mauritania	4.3	3.5	-1.2	5.1	3.9	6.4	5.9	5.8
Morocco	4.6	5.6	4.8	3.6	5.0	3.0	4.5	4.8
Pakistan	5.3	3.7	1.7	3.1	3.0	3.7	3.5	3.3
Sudan[1]	8.8	3.0	5.2	2.5	-1.9	-4.4	1.2	2.6
Syrian Arab Republic[2]	4.2	4.5	5.9	3.4	…	…	…	…
Tunisia	4.8	4.5	3.1	3.1	-1.9	3.6	4.0	4.5
West Bank and Gaza[3]	0.6	7.1	7.4	9.3	12.2	6.0	5.0	4.4
Consumer Price Inflation	**4.9**	**12.9**	**10.2**	**8.5**	**9.9**	**9.5**	**9.2**	**9.6**
(Year average; percent)								
Afghanistan, Rep. of	…	26.4	-6.8	2.2	11.8	6.4	5.8	5.8
Djibouti	2.6	12.0	1.7	4.0	5.1	3.7	2.5	2.5
Egypt	5.7	18.3	11.7	11.4	9.9	8.4	10.9	11.6
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	6.7	2.4
Mauritania	6.6	7.5	2.1	6.3	5.7	4.9	4.7	5.2
Morocco	1.8	3.9	1.0	1.0	0.9	1.3	2.5	2.5
Pakistan	5.4	10.8	17.6	10.1	13.7	11.0	8.2	9.5
Sudan[1]	7.6	14.3	11.3	13.0	18.1	35.5	28.4	29.4
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	2.8	2.8
General Gov. Overall Fiscal Balance	**-4.7**	**-5.5**	**-5.2**	**-5.7**	**-7.0**	**-8.4**	**-8.1**	**-6.9**
(Percent of GDP)								
Afghanistan, Rep. of	…	-4.0	-1.3	0.9	-0.8	0.0	-1.4	0.1
Djibouti	-2.0	1.3	-4.6	-0.5	-0.7	-2.7	0.8	0.8
Egypt	-7.2	-8.0	-6.9	-8.3	-9.8	-10.7	-11.3	-8.7
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	-9.7	-8.9
Mauritania[4,5]	1.3	-6.5	-5.1	-1.9	-1.4	2.6	-5.1	-4.2
Morocco[4]	-4.4	0.7	-1.8	-4.4	-6.8	-7.5	-5.5	-4.2
Pakistan	-3.2	-7.3	-5.2	-5.9	-7.0	-8.2	-7.0	-7.1
Sudan[1]	-1.1	0.6	-5.1	0.3	0.2	-5.0	-4.0	-3.7
Syrian Arab Republic[2]	-2.1	-2.9	-2.9	-4.8	…	…	…	…
Tunisia[6]	-2.7	-0.7	-2.3	-0.4	-3.0	-4.4	-6.4	-4.7
West Bank and Gaza[3]	-26.6	-30.5	-26.4	-16.7	-11.0	-10.2	-15.6	-14.6
Current Account Balance	**-1.0**	**-4.1**	**-4.6**	**-3.0**	**-3.5**	**-5.7**	**-4.0**	**-3.6**
(Percent of GDP)								
Afghanistan, Rep. of	…	5.1	1.6	2.8	2.2	4.0	1.6	0.3
Djibouti	-4.4	-24.3	-9.3	-5.8	-12.6	-13.4	-11.0	-9.3
Egypt	1.6	0.5	-2.3	-2.0	-2.6	-3.1	-2.1	-1.6
Jordan	-3.5	-9.3	-3.3	-5.3	-12.0	-18.1	-10.0	-9.1
Lebanon	-13.1	-9.3	-9.8	-9.6	-12.5	-16.1	-16.1	-14.6
Mauritania	-16.4	-14.8	-10.7	-8.7	-7.3	-25.8	-20.5	-3.2
Morocco	1.9	-5.2	-5.4	-4.1	-8.1	-9.6	-7.0	-5.8
Pakistan	0.1	-8.4	-5.7	-2.2	0.1	-2.0	-0.7	-0.8
Sudan[1]	-5.6	-1.5	-9.6	-2.1	-0.4	-11.2	-6.9	-5.9
Syrian Arab Republic[2]	-1.6	-1.3	-2.9	-2.9	…	…	…	…
Tunisia	-2.7	-3.8	-2.8	-4.8	-7.4	-8.0	-7.3	-6.6
West Bank and Gaza[3]	-22.9	10.9	-12.0	-10.6	-23.6	-23.9	-17.8	-15.9

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

[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 electricity company (4.3 and 2.7 percent of GDP in 2013 and 2014).

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

[6]Includes bank recapitalization costs and arrears payments.

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

Regional Economic Outlook UPDATE
MAY 2013
Middle East and Central Asia Department

Caucasus and Central Asia: Favorable Near-Term Outlook Provides Opportunities for Reform

Following a solid growth performance in 2012, the near-term outlook remains broadly favorable across the Caucasus and Central Asia, reflecting high oil prices for the oil and gas exporters and strong non-oil commodity prices and robust remittances in the oil and gas importers. Risks to this favorable outlook could stem from still-subdued world demand, domestic political uncertainties, and geopolitical risks in the region. Policymakers, particularly in the oil-importing countries, should take advantage of the favorable outlook to re-establish fiscal policy buffers that were eroded in the aftermath of the global crisis. Across the region, countries should reinvigorate their reform efforts to address longstanding structural issues, with a view to improving governance, building an investor-friendly environment, developing a more inclusive financial system, and fostering regional trade and finance integration.

Solid but Moderating Growth

The Caucasus and Central Asia (CCA) region continued to post solid economic growth in 2012, though, at 5.7 percent, moderately lower than in previous years. This moderation in growth reflected subdued external demand, a sharp decline in agricultural output in Kazakhstan, and disruptions to gold production in the Kyrgyz Republic.

The near-term outlook remains broadly favorable for CCA oil and gas exporters (Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan), reflecting the region's limited direct exposure to Europe, and continued high oil prices. Growth is projected to be resilient, at an average of 5.8 percent in 2013 and 6.1 percent in 2014. Most oil and gas exporters are projected to grow between 5 percent and 8 percent in 2013–14, supported by high non-oil growth and, in Kazakhstan, higher oil production. Azerbaijan's growth—still largely sustained by strong non-oil growth—is expected to recover in 2013–14, as oil output is beginning to stabilize.

Growth in the CCA oil and gas importers (Armenia, Georgia, the Kyrgyz Republic, Tajikistan) is also expected to remain fairly strong at 6 percent and 5.8 percent on average respectively in 2013 and 2014. Growth is projected to moderate in Armenia, Tajikistan, and Georgia, but to recover strongly in the Kyrgyz Republic on account of the resumption in gold production.

Inflation Low but Concerns Rising

Inflation has declined across the CCA from elevated levels in 2011, benefiting from lower international food prices and monetary policy tightening in some countries. However, inflation remained in double digits in Uzbekistan, reflecting administrative price increases, faster currency depreciation, and demand pressures from wage increases. Average inflation is expected to rebound moderately in 2013 and 2014, in line with strong economic activity, and, particularly in the oil and gas importers, looser fiscal stances.

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Contrasting External Sector Developments

Current account developments are following different paths among oil and gas exporters and importers. The current account balance in the CCA oil and gas exporters declined to 7.1 percent of GDP in 2012, from 10.6 percent in 2011, mainly because of stagnating oil and gas production coupled with strong import growth in light of solid non-oil economic growth. By contrast, the current account deficit in the oil and gas importers remained high at 9.9 percent in 2012, though Tajikistan posted a much lower and declining deficit, helped by benign global conditions for import prices and growing remittances that reflect the continuing recovery of Russia's economy.

The current account balances in the CCA oil and gas exporters are projected to continue declining in 2013 and 2014, reflecting an expansionary fiscal policy in Azerbaijan, and a modest decline in projected global energy prices. By contrast, CCA oil and gas importers are expected to post lower deficits in 2013 and 2014, helped by lower import growth and strong remittance inflows in the Kyrgyz Republic and Tajikistan.

Near-Term Challenges: Policies to Bolster Resilience

Downside risks, arising from slower global growth, domestic political uncertainties, and geopolitical risks in the region, continue to weigh on the outlook for CCA economies. Should any of these risks materialize, growth would sharply decline through lower exports, remittances, and foreign investment.

Policymakers across the CCA economies should take advantage of the still-favorable outlook to re-establish fiscal policy buffers. This should be done through enhancing the quality and efficiency of public spending, avoiding further increases in hard-to-reverse items, revising the numerous existing tax exemptions, improving tax collection, and reining in general subsidies.

Continued solid growth and the recent increases in global food prices may rekindle inflation across the region, as food weighs heavily in CCA consumption baskets. Monetary policy should stand ready to exit from its accommodative stance.

In addition, to improve the effectiveness of monetary policy, the monetary framework should be further strengthened by mopping up excessive liquidity, reducing directed lending, and enhancing communications. Allowing more exchange rate flexibility would help in dealing with external shocks, and would contain sterilization costs. Developing domestic financial markets could also help reduce dollarization and increase the effectiveness of monetary policy.

Medium-Term Challenges: Enhancing Inclusive Growth

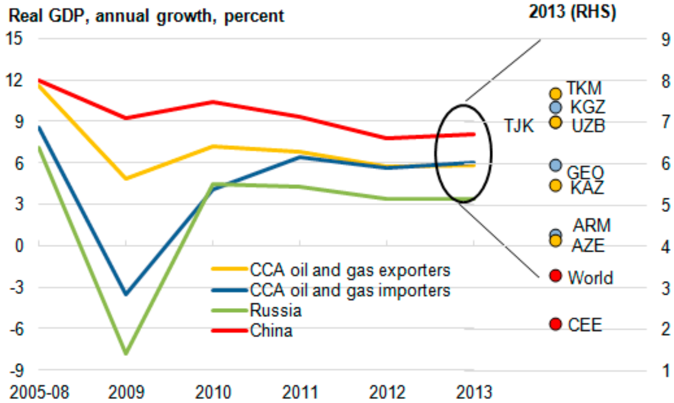
Key medium-term challenges for the region include creating jobs and fostering high, sustained, and inclusive growth. While some CCA countries have made progress toward achieving a business-friendly environment, further efforts toward this end will be needed by all. Countries also need to reinvigorate their efforts to diversify their economies away from natural resources, further improve their infrastructure, reduce the role of the state in the economy, and promote transparency and good governance. Lowering regional trade barriers would also promote greater economic diversification and growth.

Financial sector reform should aim at enhancing competition and improving access to finance. Reform should include improving regulatory and supervisory frameworks, addressing directed or connected lending, deepening domestic capital markets, improving credit information, and strengthening creditor rights.

Caucasus and Central Asia: Recent Economic Developments and Outlook

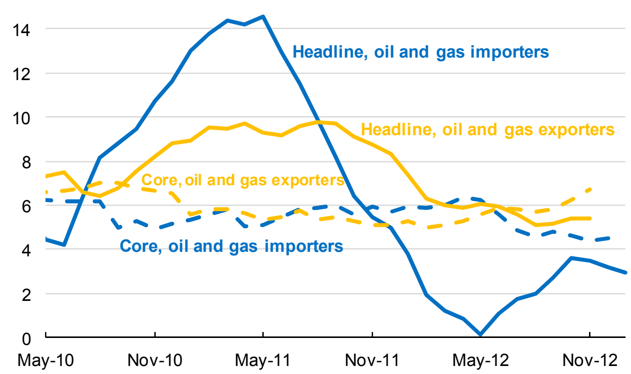
The economic outlook remains favorable across the CCA.

Real GDP, annual growth, percent



Inflationary pressures are currently low in most countries, but headline inflation has been rising in oil importers.

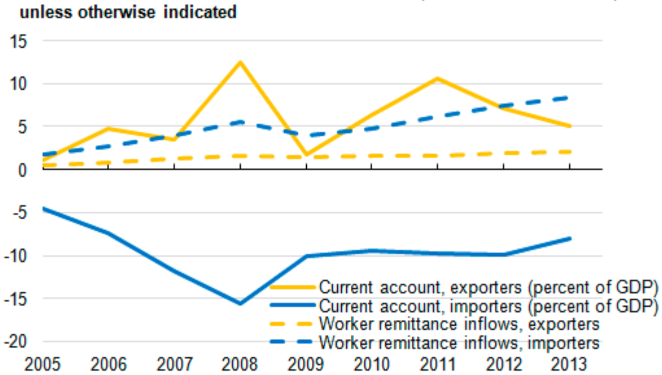
CCA inflation, 12-month change, percent [1]



[1] Based on PPPGDP weights. Turkmenistan is excluded from CCA aggregates.

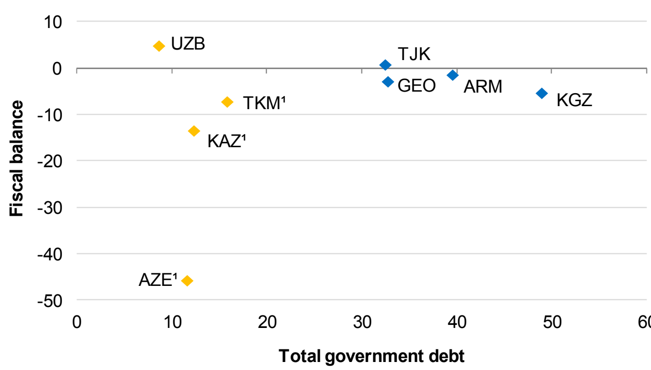
Current account: declining surpluses in the oil and gas exporters, but consolidation in the oil and gas importers.

Current account balances and remittance inflows, billions of U.S. dollars, unless otherwise indicated



Fiscal consolidation is needed to rebuild buffers, particularly in countries with higher debt.

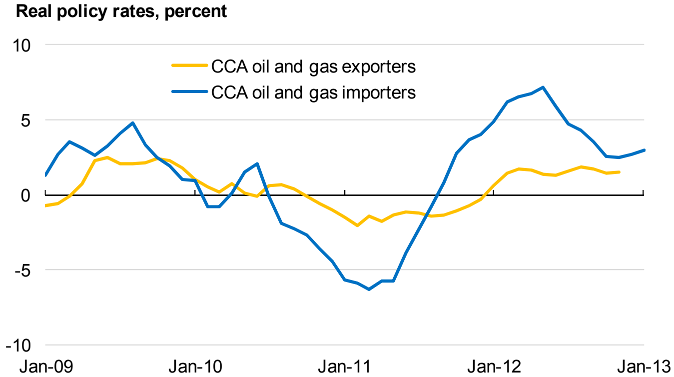
Fiscal balance and debt, percent of GDP



[1] Non-oil and gas fiscal balance in percent of non-oil and gas GDP.

Real interest rates have been declining in the CCA oil importers.

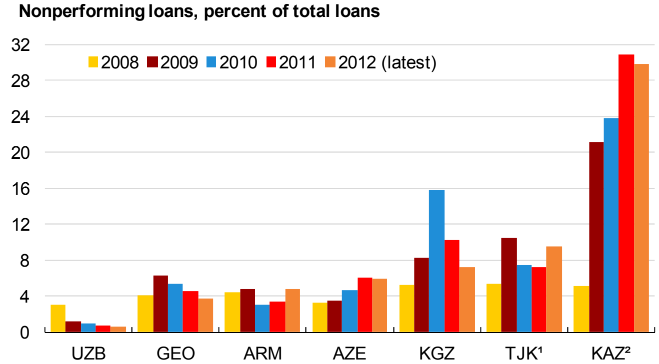
Real policy rates, percent



Sources: National authorities; and IMF staff calculations.

Asset quality remains a source of concern in some countries.

Nonperforming loans, percent of total loans



[1] Overdue by 30 days or more.
[2] 90-day basis.

Caucasus and Central Asia: Selected Economic Indicators

	Average 2000–07	2008	2009	2010	2011	2012	Projections 2013	2014
Real GDP Growth	**10.3**	**6.8**	**3.7**	**6.7**	**6.8**	**5.7**	**5.8**	**6.1**
(Annual change; percent)								
Armenia	12.0	6.9	-14.1	2.2	4.7	7.2	4.3	4.1
Azerbaijan	15.9	10.8	9.3	5.0	0.1	2.2	4.1	5.8
Georgia	7.6	2.3	-3.8	6.3	7.2	6.5	6.0	6.0
Kazakhstan	10.2	3.2	1.2	7.3	7.5	5.0	5.5	5.6
Kyrgyz Republic	4.5	7.6	2.9	-0.5	6.0	-0.9	7.4	7.5
Tajikistan	8.7	7.9	3.9	6.5	7.4	7.5	7.0	6.0
Turkmenistan	15.2	14.7	6.1	9.2	14.7	11.0	7.7	7.9
Uzbekistan	6.0	9.0	8.1	8.5	8.3	8.0	7.0	6.5
Consumer Price Inflation	**9.8**	**16.5**	**6.2**	**7.0**	**9.1**	**5.3**	**6.8**	**7.1**
(Year average; percent)								
Armenia	2.9	9.0	3.5	7.3	7.7	2.5	4.2	4.0
Azerbaijan	6.2	20.8	1.6	5.7	7.9	1.1	3.4	6.7
Georgia	6.4	10.0	1.7	7.1	8.5	-0.9	1.0	4.6
Kazakhstan	8.5	17.1	7.3	7.1	8.3	5.1	7.2	6.4
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	7.7	7.0
Turkmenistan	8.1	14.5	-2.7	4.4	5.3	4.9	5.6	5.5
Uzbekistan	16.8	12.7	14.1	9.4	12.8	12.1	10.9	11.0
General Gov. Overall Fiscal Balance	**1.4**	**6.1**	**0.8**	**3.7**	**6.3**	**4.6**	**2.1**	**1.7**
(Percent of GDP)								
Armenia[1]	-2.5	-1.8	-7.7	-5.0	-2.9	-1.5	-2.8	-2.3
Azerbaijan[1]	0.5	20.3	7.0	14.6	13.3	4.0	-2.7	-4.3
Georgia	-1.8	-6.3	-9.2	-6.6	-3.6	-3.0	-2.8	-2.2
Kazakhstan	3.3	1.1	-1.4	1.4	5.9	4.6	4.8	4.5
Kyrgyz Republic	-4.5	0.0	-3.4	-6.3	-4.6	-5.4	-5.5	-4.0
Tajikistan	-2.8	-5.1	-5.2	-3.0	-2.1	0.6	-2.3	-1.2
Turkmenistan[2]	1.9	10.0	7.0	2.0	3.6	15.5	6.9	4.7
Uzbekistan	0.9	10.2	2.8	4.9	8.8	4.7	1.8	2.7
Current Account Balance	**-0.6**	**8.8**	**0.4**	**4.7**	**8.4**	**5.4**	**3.8**	**2.4**
(Percent of GDP)								
Armenia	-5.9	-11.8	-15.8	-14.8	-10.9	-10.6	-9.6	-8.2
Azerbaijan	-3.5	35.5	23.0	28.0	26.5	20.3	10.6	6.0
Georgia	-10.4	-22.0	-10.5	-10.2	-12.8	-12.0	-10.0	-8.4
Kazakhstan	-2.4	4.7	-3.6	1.2	7.4	4.6	4.0	2.2
Kyrgyz Republic	-1.2	-15.5	-2.5	-6.4	-6.0	-12.7	-7.6	-6.1
Tajikistan	-3.4	-7.6	-5.9	-1.2	-4.7	-1.9	-2.2	-2.4
Turkmenistan	7.0	16.5	-14.7	-10.6	2.0	1.7	2.5	2.8
Uzbekistan	4.9	8.7	2.2	6.2	5.8	2.7	3.5	4.2

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

[1] Central government.

[2] State government.