



MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

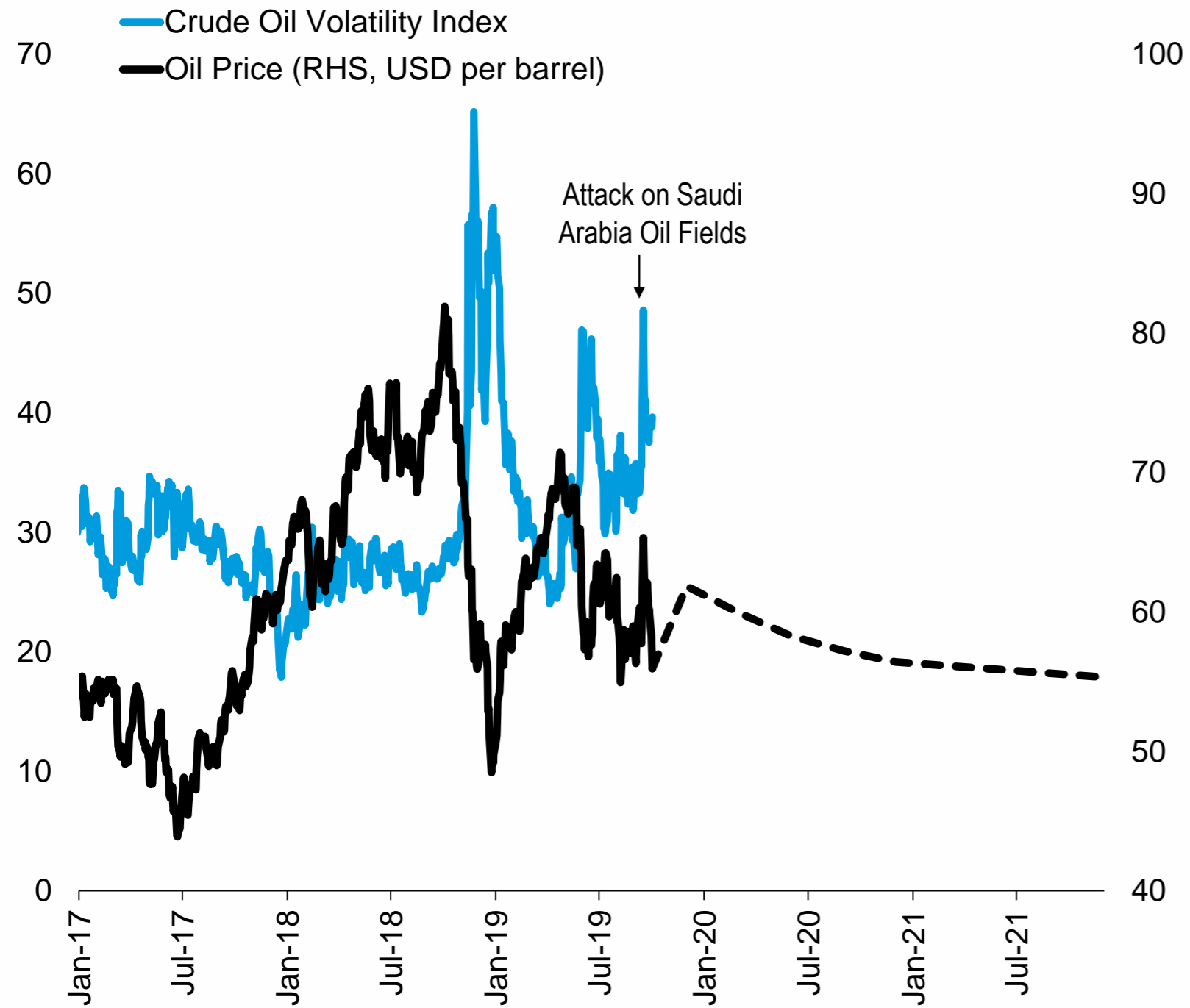
Middle East and North Africa Regional Economic Outlook

OCTOBER 28, 2019

Jihad Azour
Director
Middle East and Central Asia Department

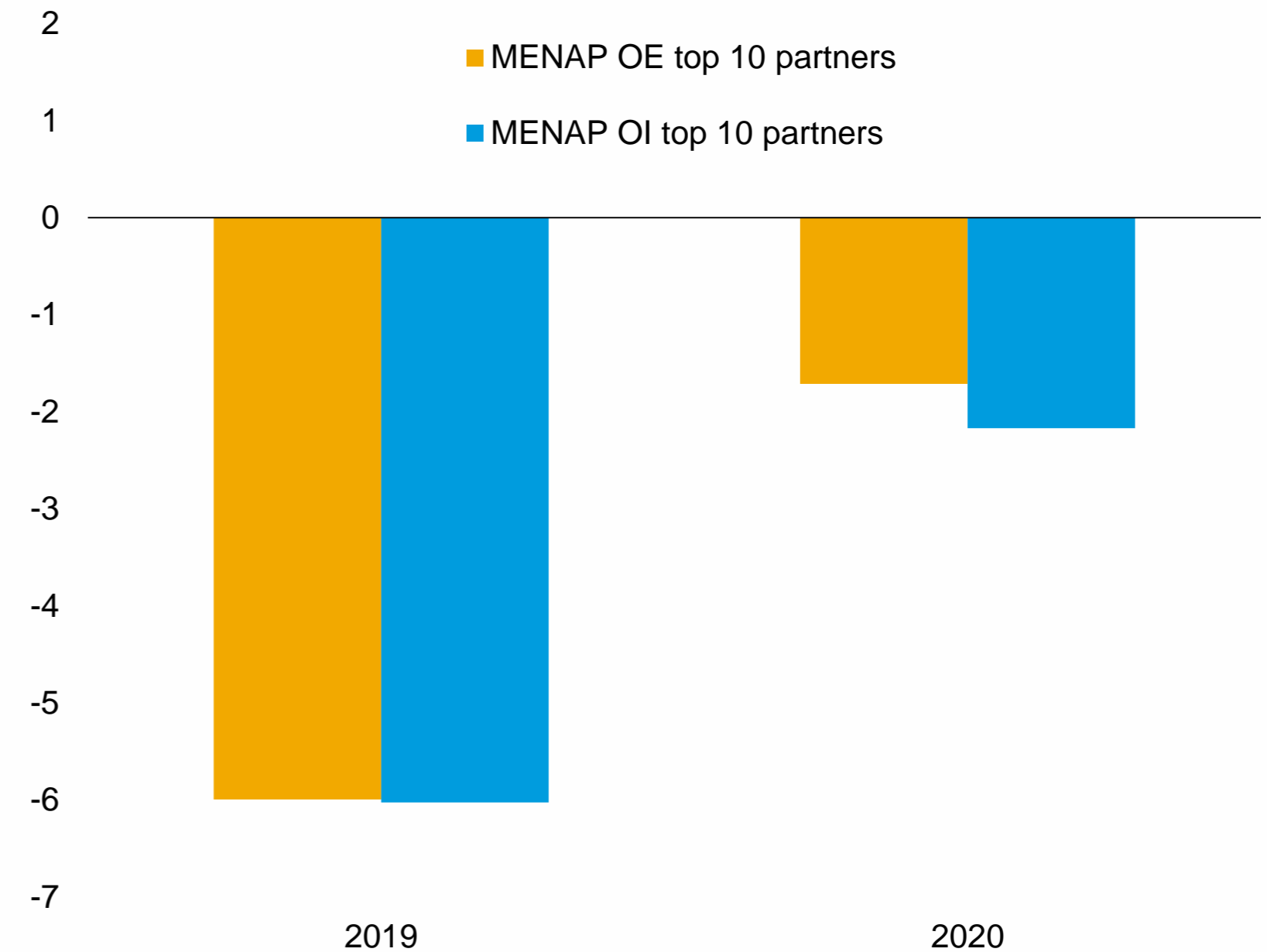
Global developments pose risks to the MENAP outlook

Crude Oil Volatility and Price



Source: Bloomberg.

Top 10 Trading Partners: Revisions to Import Growth (Percentage points)

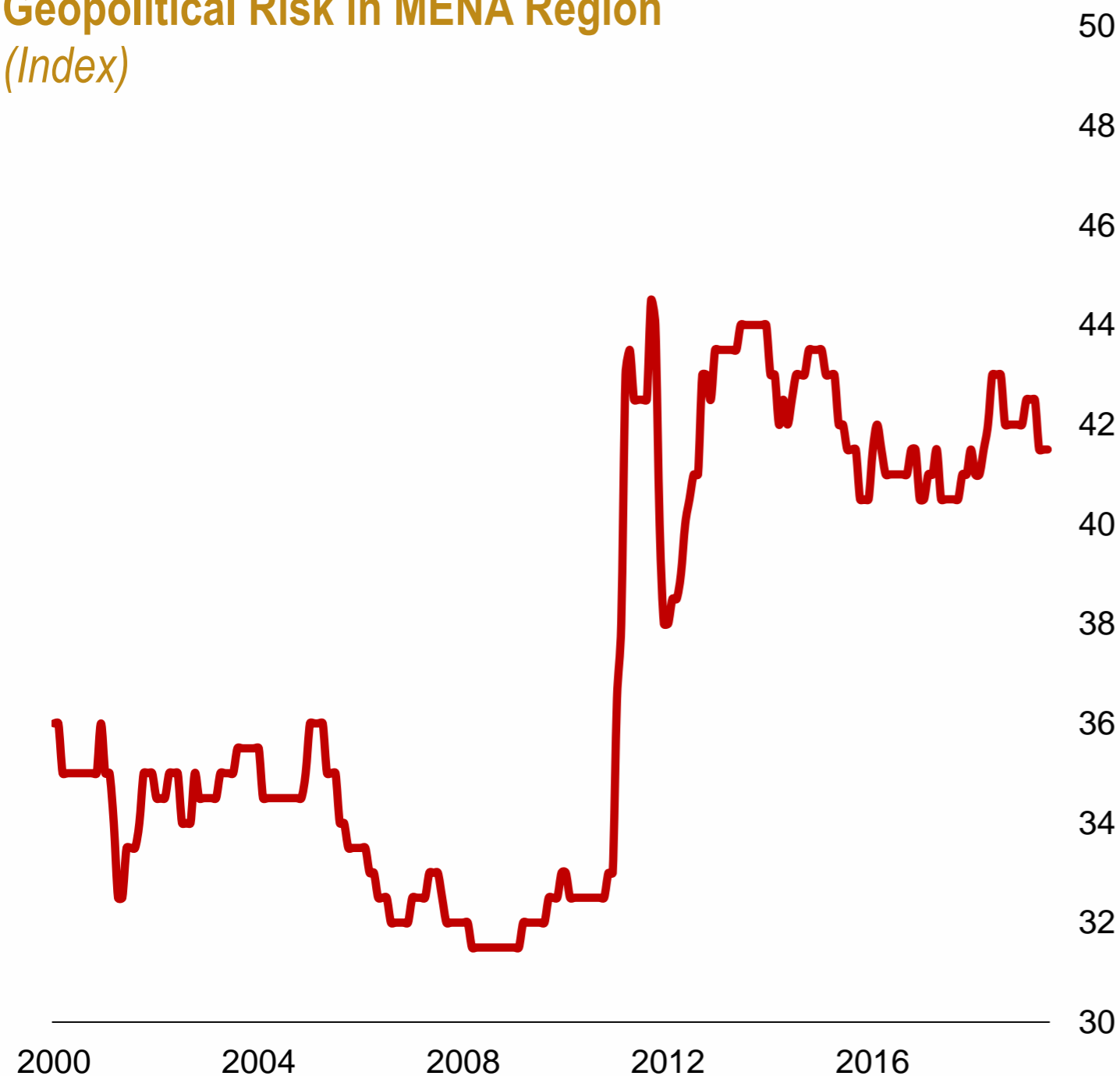


Sources: National authorities; and IMF staff calculations.
Note: Current REO compared to October 2018.

Geopolitical risks and social tensions have risen in the MENAP region

Geopolitical Risk in MENA Region

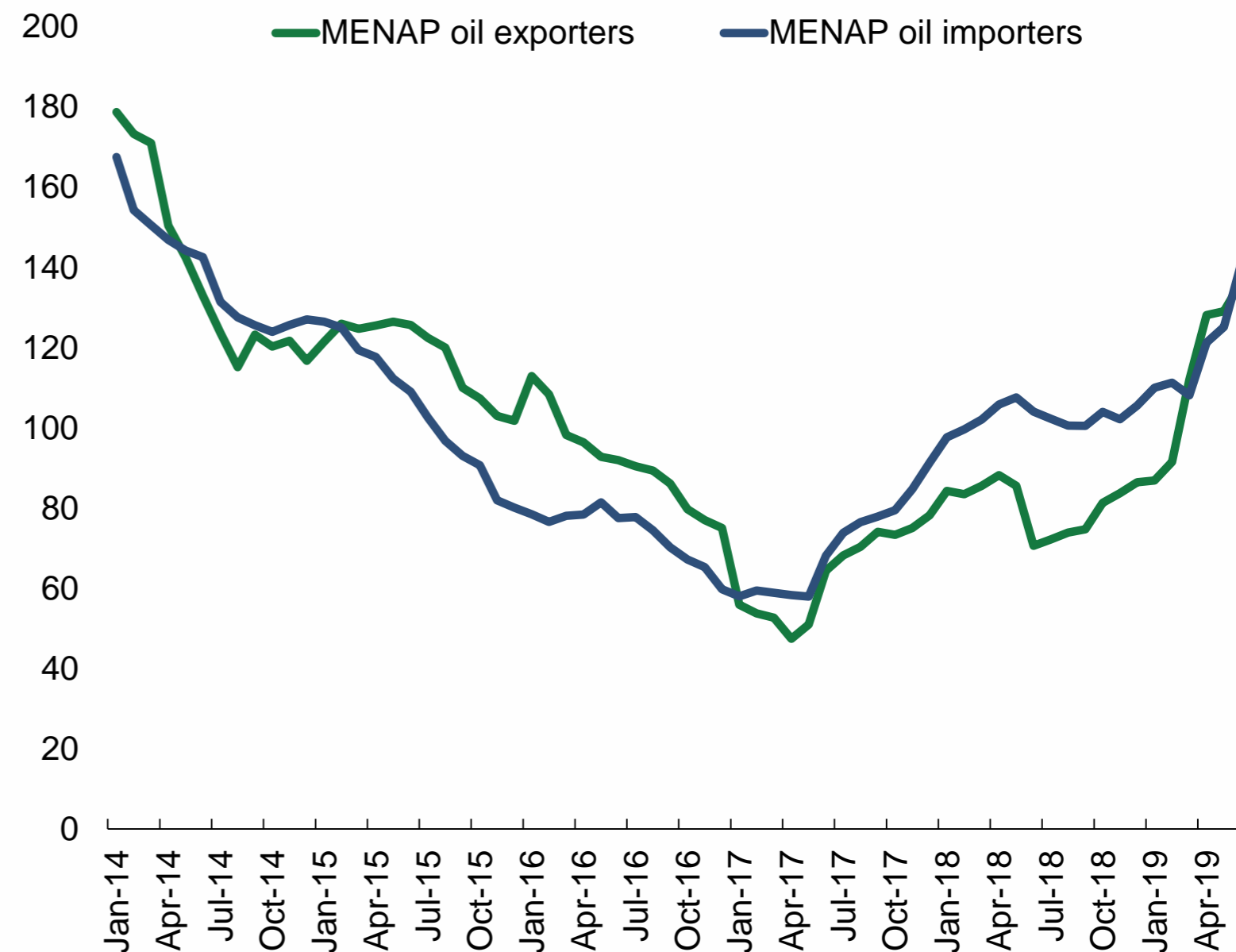
(Index)



Sources: Political risk rating, Political Risk Service.

Reported Social Unrest Index

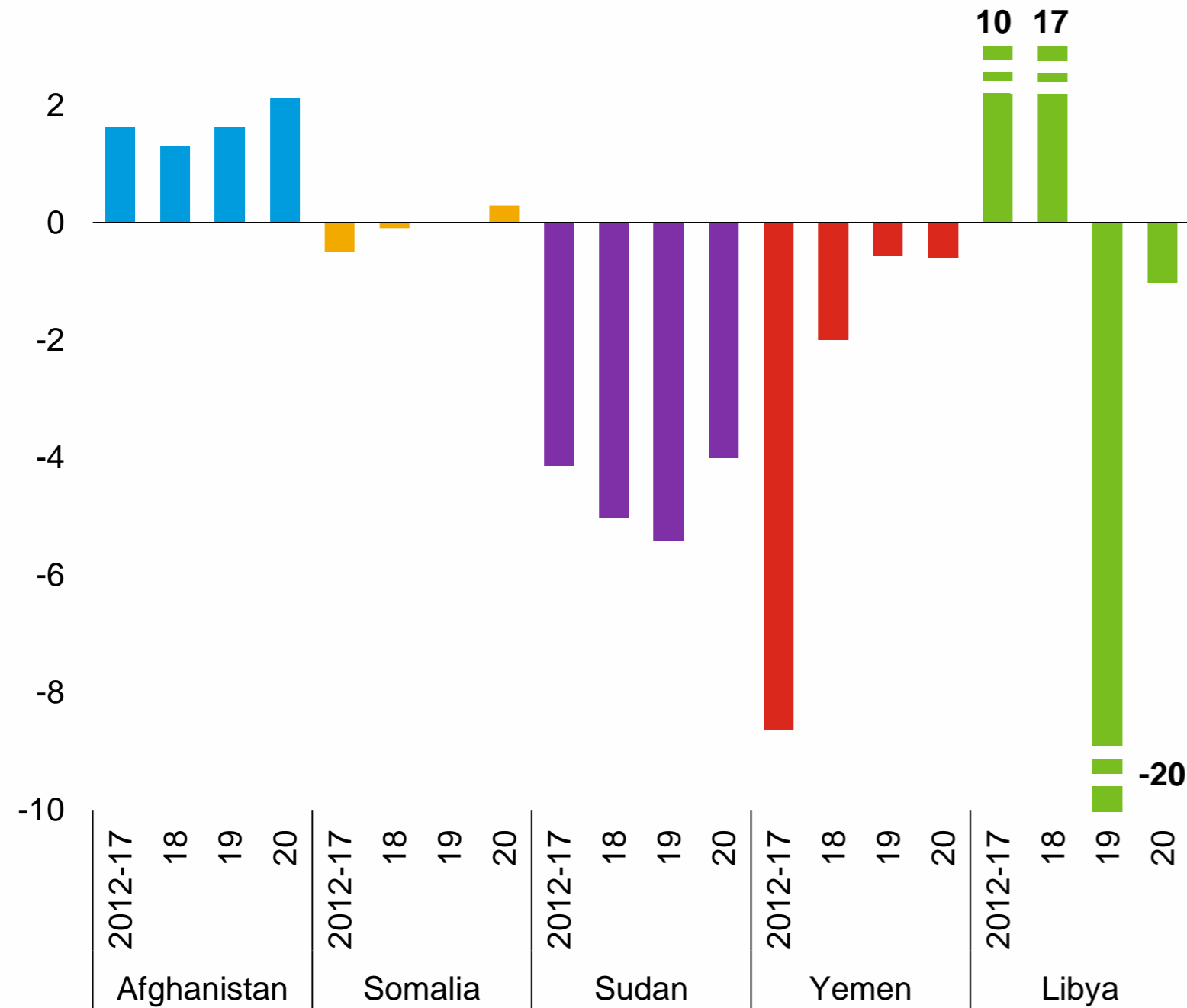
(12-month rolling average, 2014–present = 100)



Sources: Factiva; and IMF staff calculations.

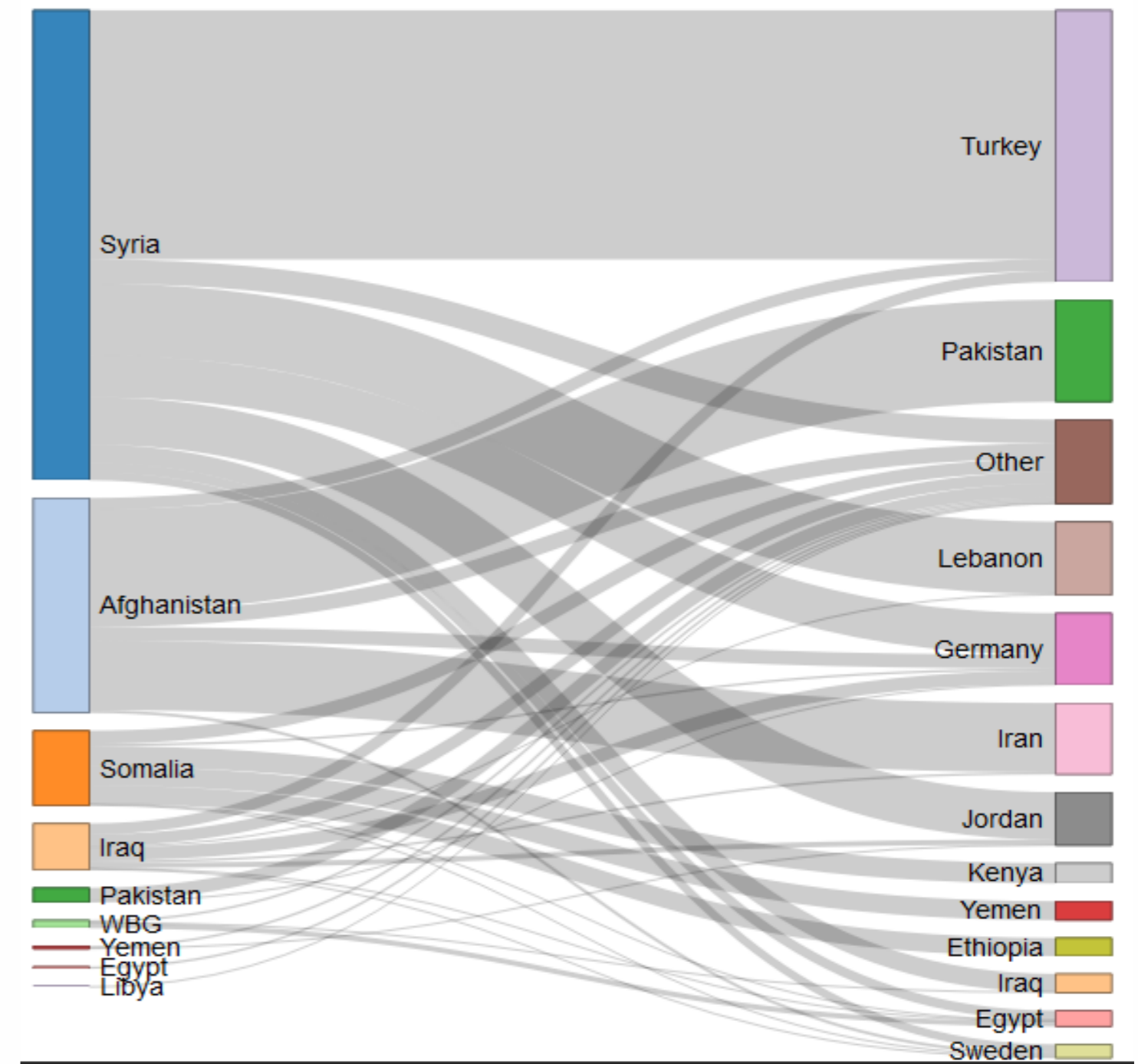
Fragile and conflict-affected states and host countries face ongoing growth and humanitarian challenges

Real GDP Per Capita (Percent change)



Sources: National authorities; and IMF staff calculations.

Migrants, 2018



Source: United Nations High Commissioner of Refugees.

Global headwinds have had relatively limited impact on MENAP growth thus far

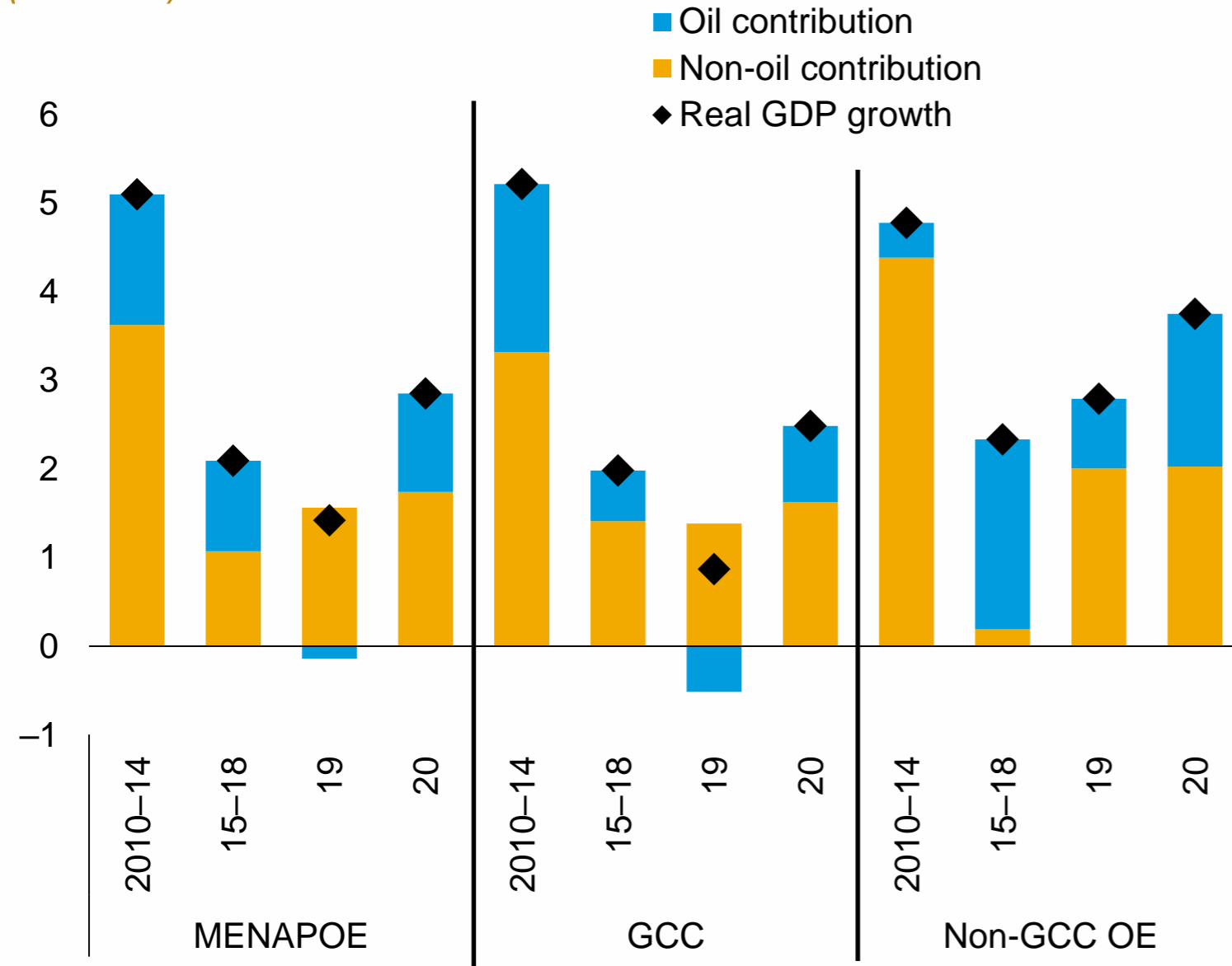
	Oil Exporters		Oil Importers	World	EMs	Oil Exporters (excl. MCD Countries)
	MENAP	GCC	MENAP			
2018	0.2	2.0	4.3	3.6	4.5	1.0
2019	-1.3	0.7	3.6	3.0	3.9	0.1
Revision from Apr. 2019	-1.6	-1.4	0.0	-0.3	-0.4	-0.6
2020	2.1	2.5	3.7	3.4	4.6	1.7
Revision from Apr. 2019	-0.6	-0.3	-0.2	-0.2	-0.3	0.1

Sources: World Economic Outlook (WEO); and IMF staff estimates.

**MENAP oil exporters:
Limited effectiveness of fiscal easing amid rising
vulnerabilities and lower oil prices**

Lower oil prices are weighing on growth and macroeconomic balances

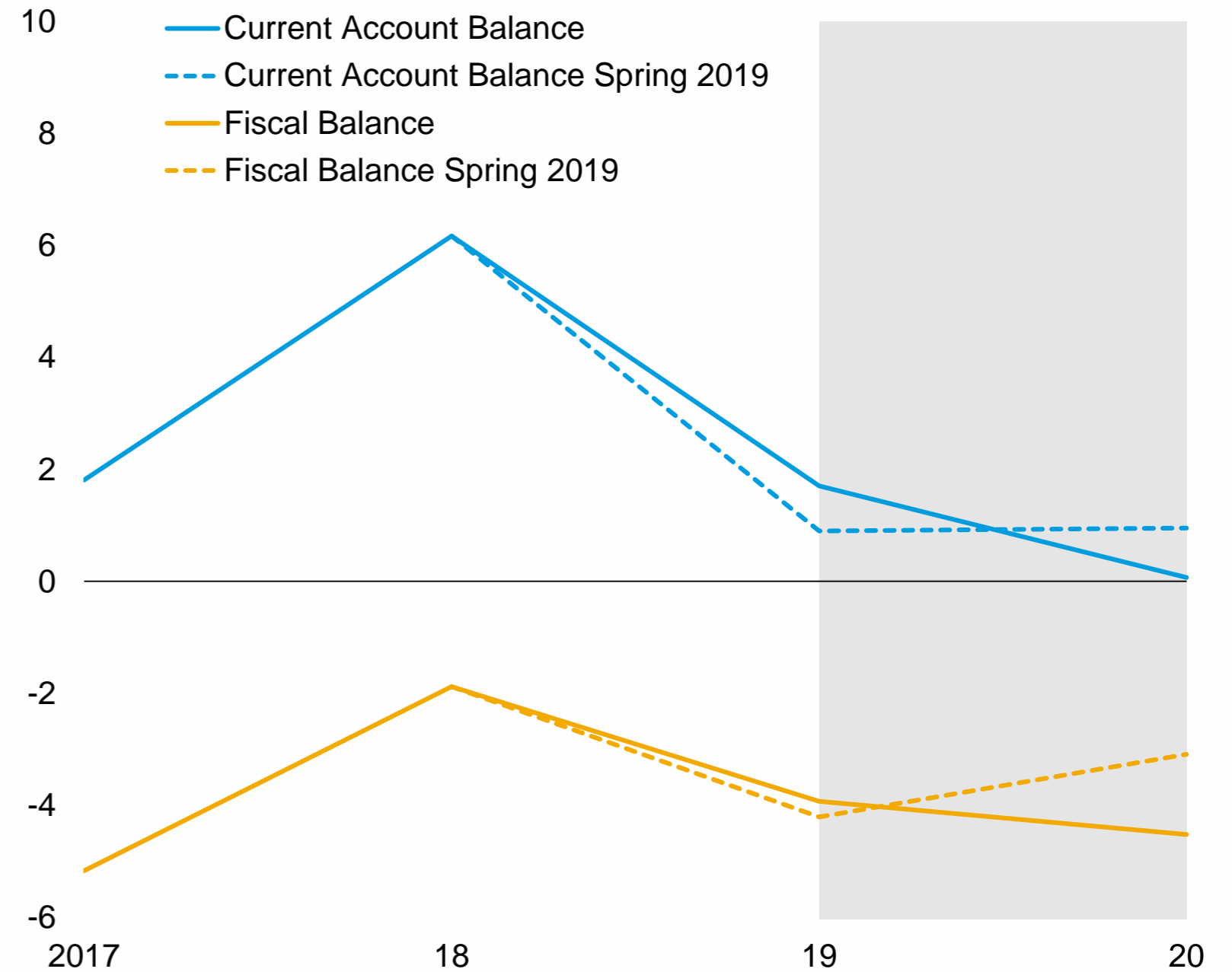
MEANP OE: Real GDP Growth, Non-Oil and Oil Contributions
(Percent)



Sources: National authorities; and IMF staff calculations.

Note: Iran and Libya are excluded from MENAPOE and non-GCC OE.

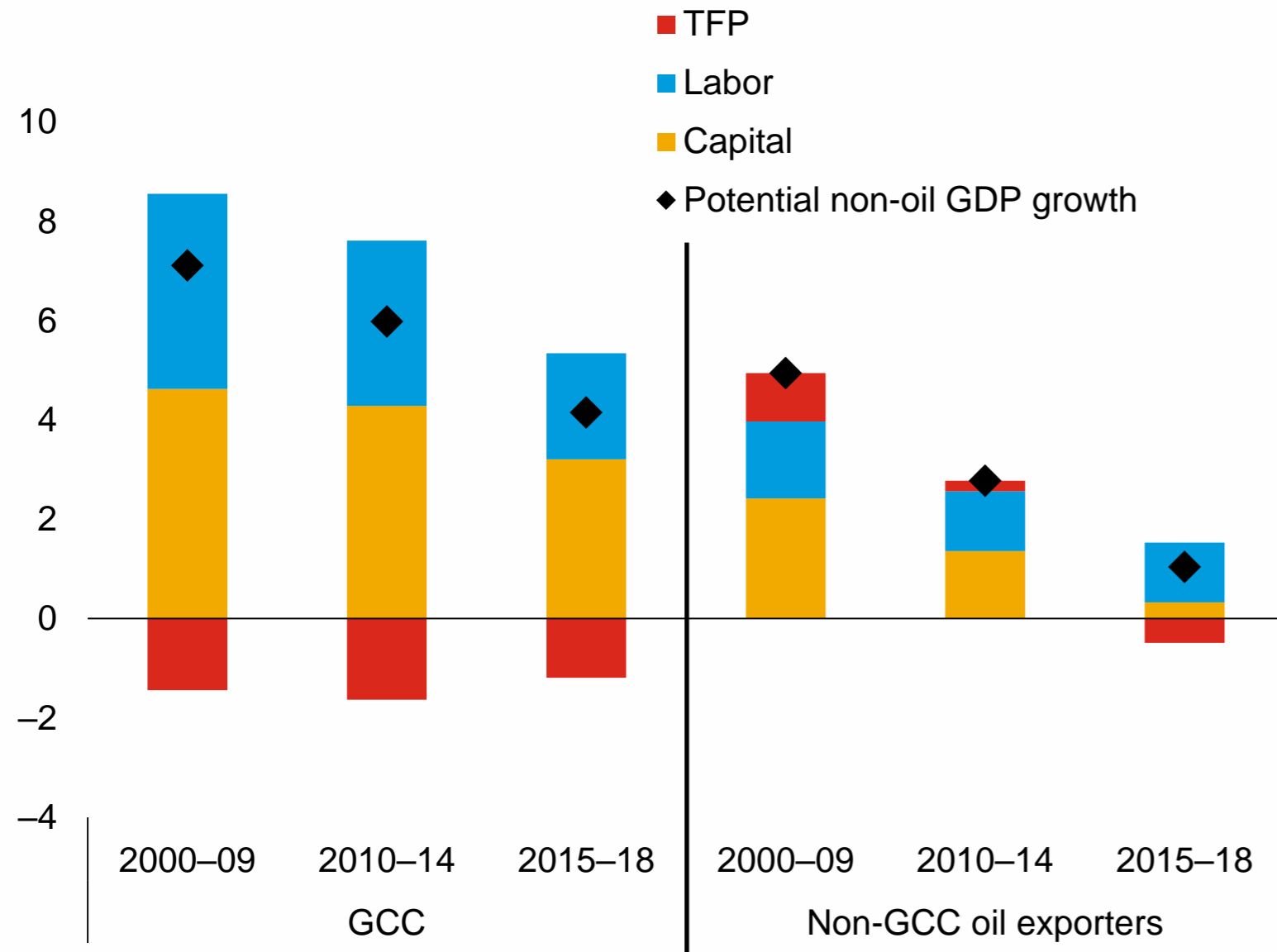
MENAP OE: Current and Fiscal Account Balances
(In percent of GDP)



Sources: National authorities; and IMF staff calculations.

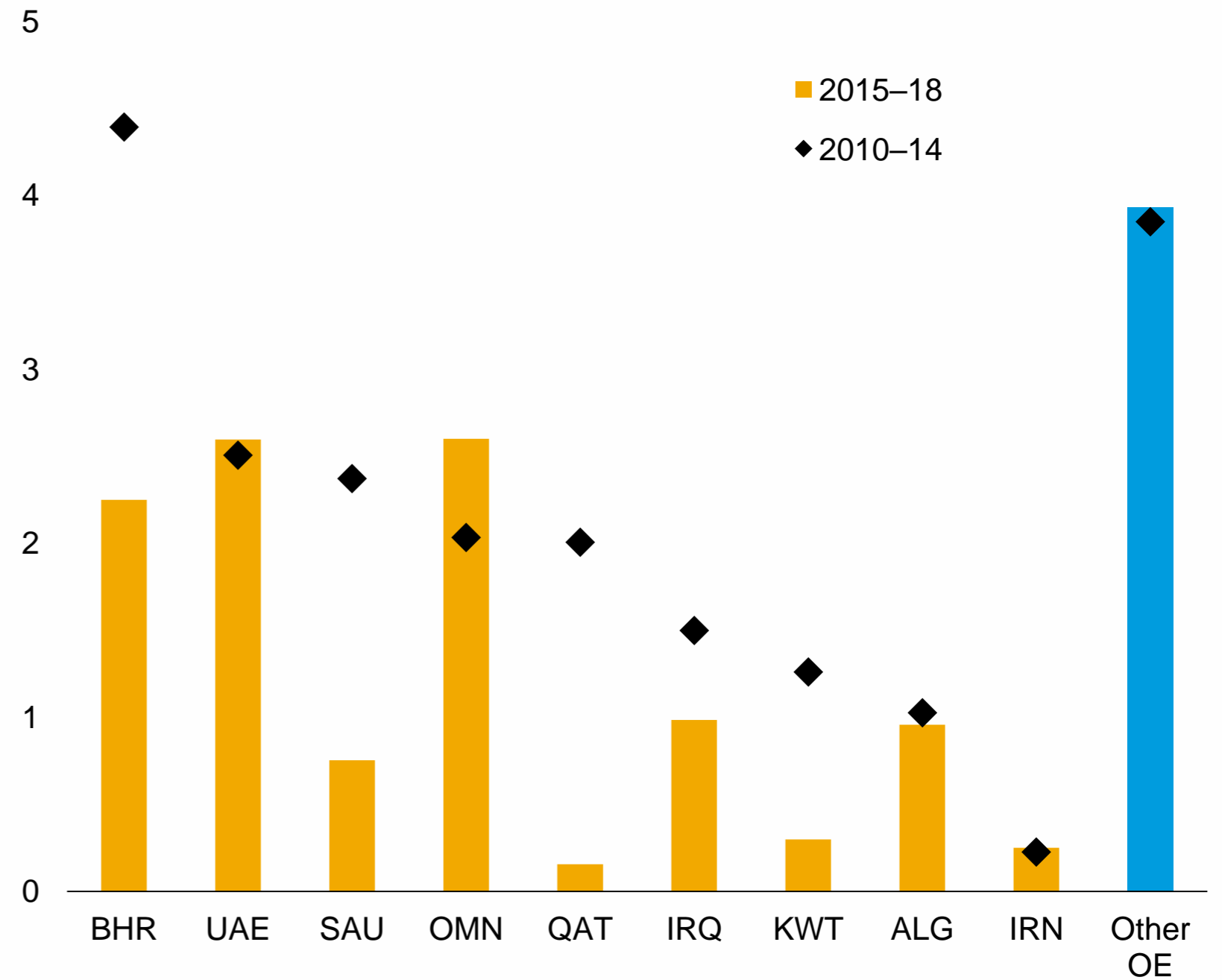
Declining productivity growth and FDI dampen the medium-term outlook

MENAP OE: Declining non-oil growth and TFP (Percent)



Sources: National authorities; and IMF staff calculations.
Notes: Libya is excluded from non-GCC oil exporters

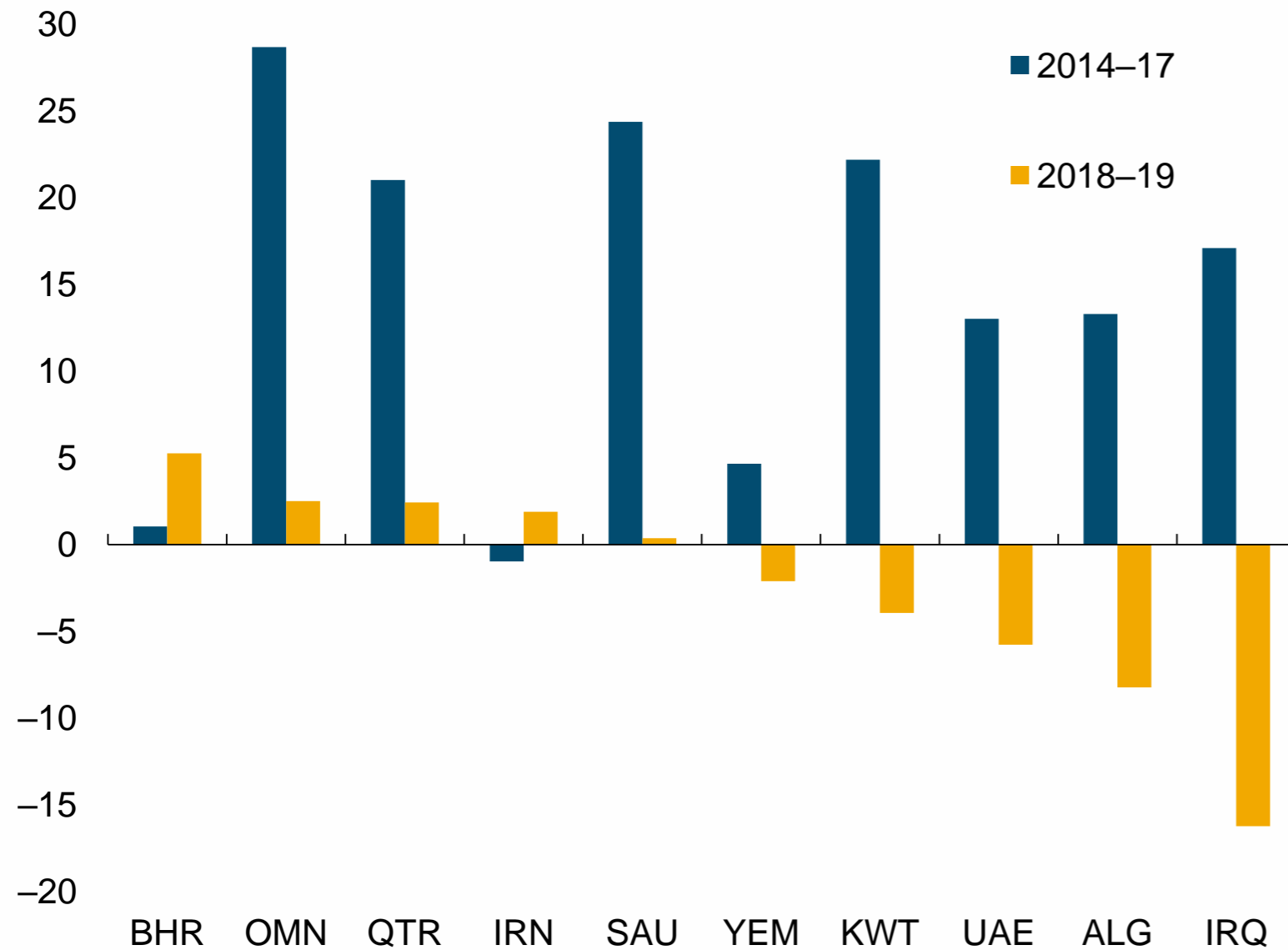
MENAP OE: FDI Inflows, 2010-18 (Percent of GDP)



Sources: National authorities; and IMF staff calculations.

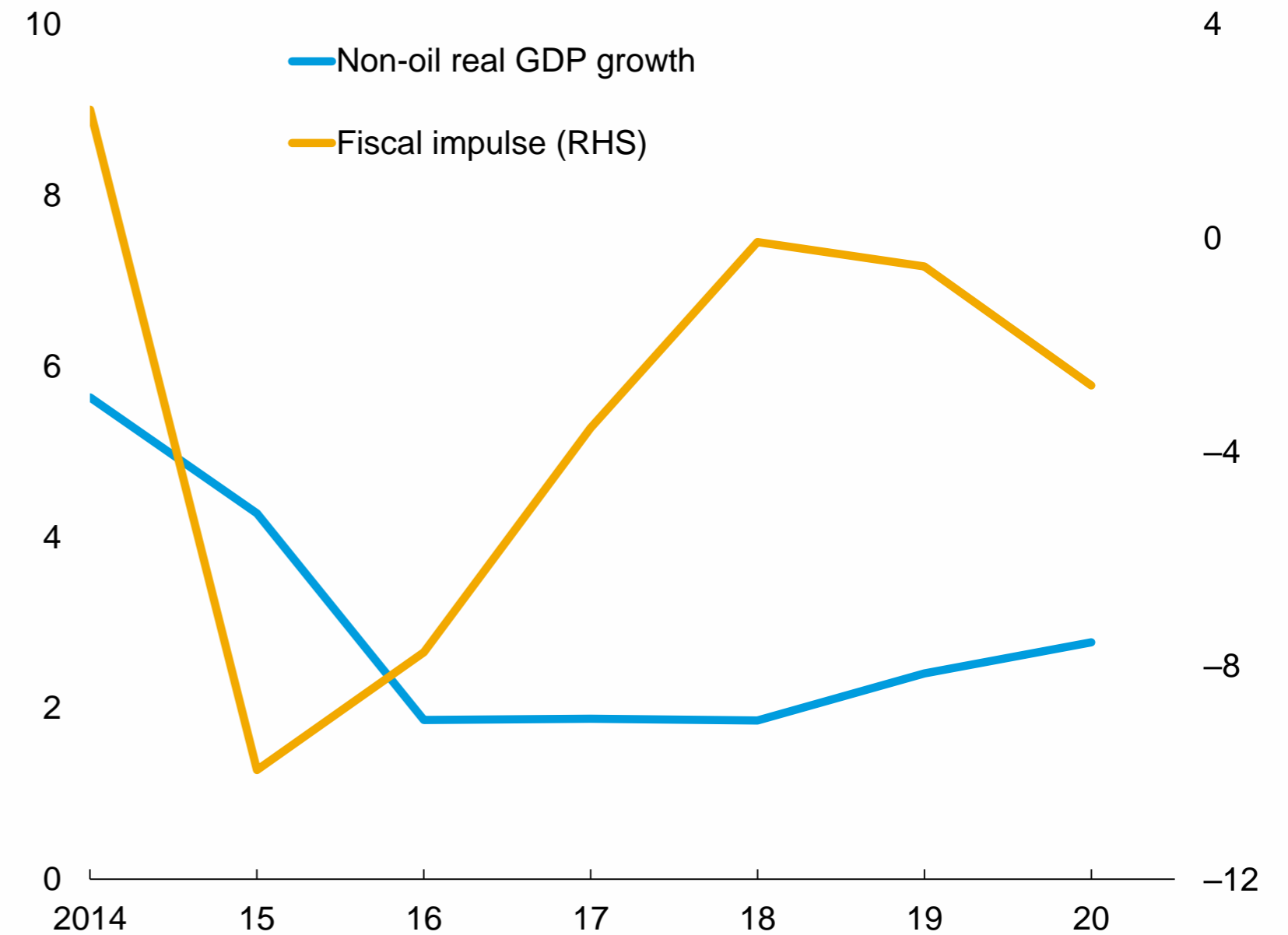
Fiscal consolidation is slowing, but the boost to growth has been modest

MENAP OE: Changes in Non-Oil Primary Fiscal Balances
(Cumulative; Percent of non-oil GDP)



Sources: National authorities; and IMF staff calculations.

GCC: Non-Oil Real GDP Growth and Fiscal Impulses
(Percent and percent of non-oil GDP, weighted averages)



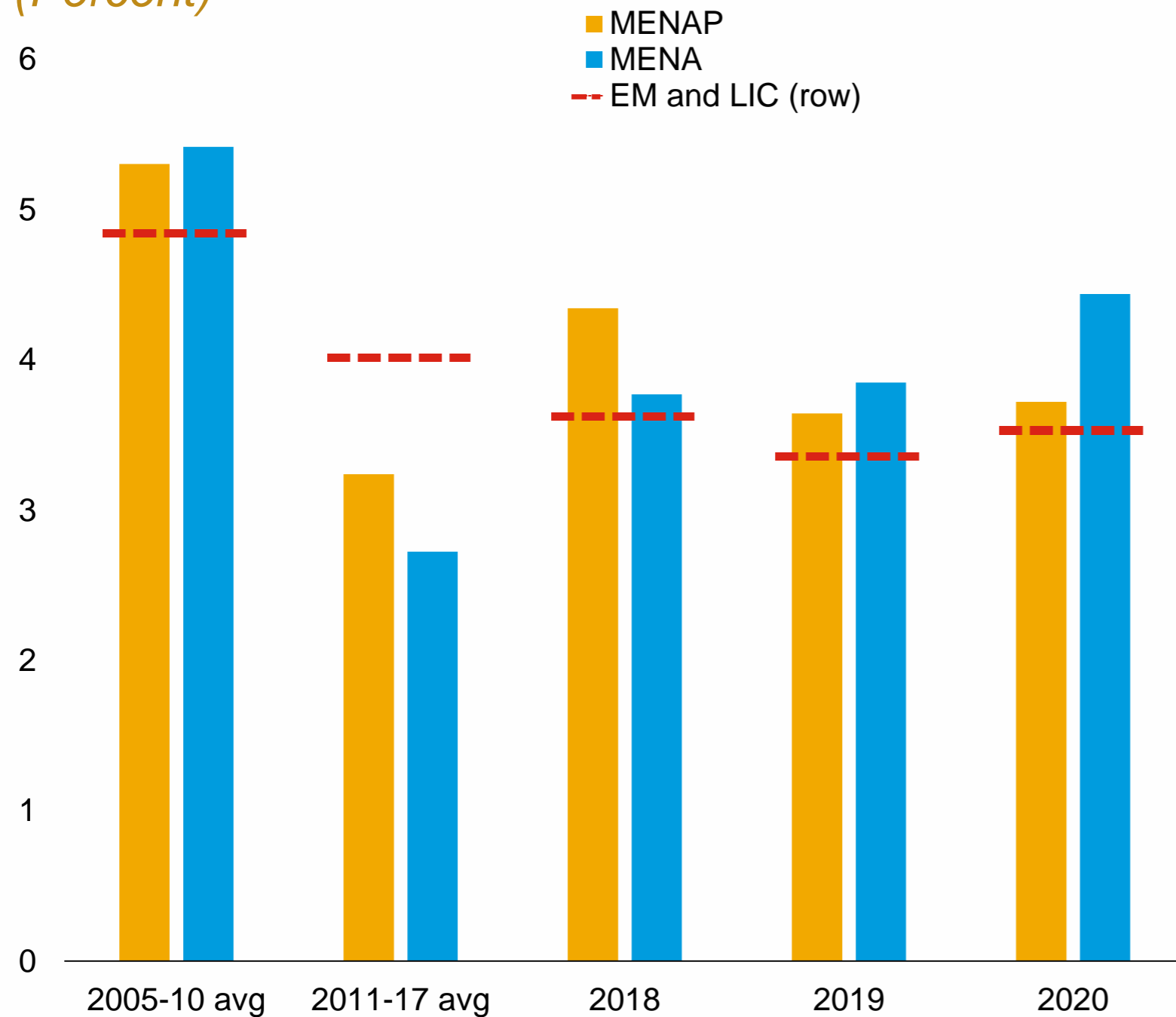
Sources: National authorities; and IMF staff calculations.

Note: Fiscal impulse is calculated using the change in non-oil primary deficit to non-oil GDP ratio.

**MENAP oil importers:
Elevated public debt holding down growth and creating
fiscal strains**

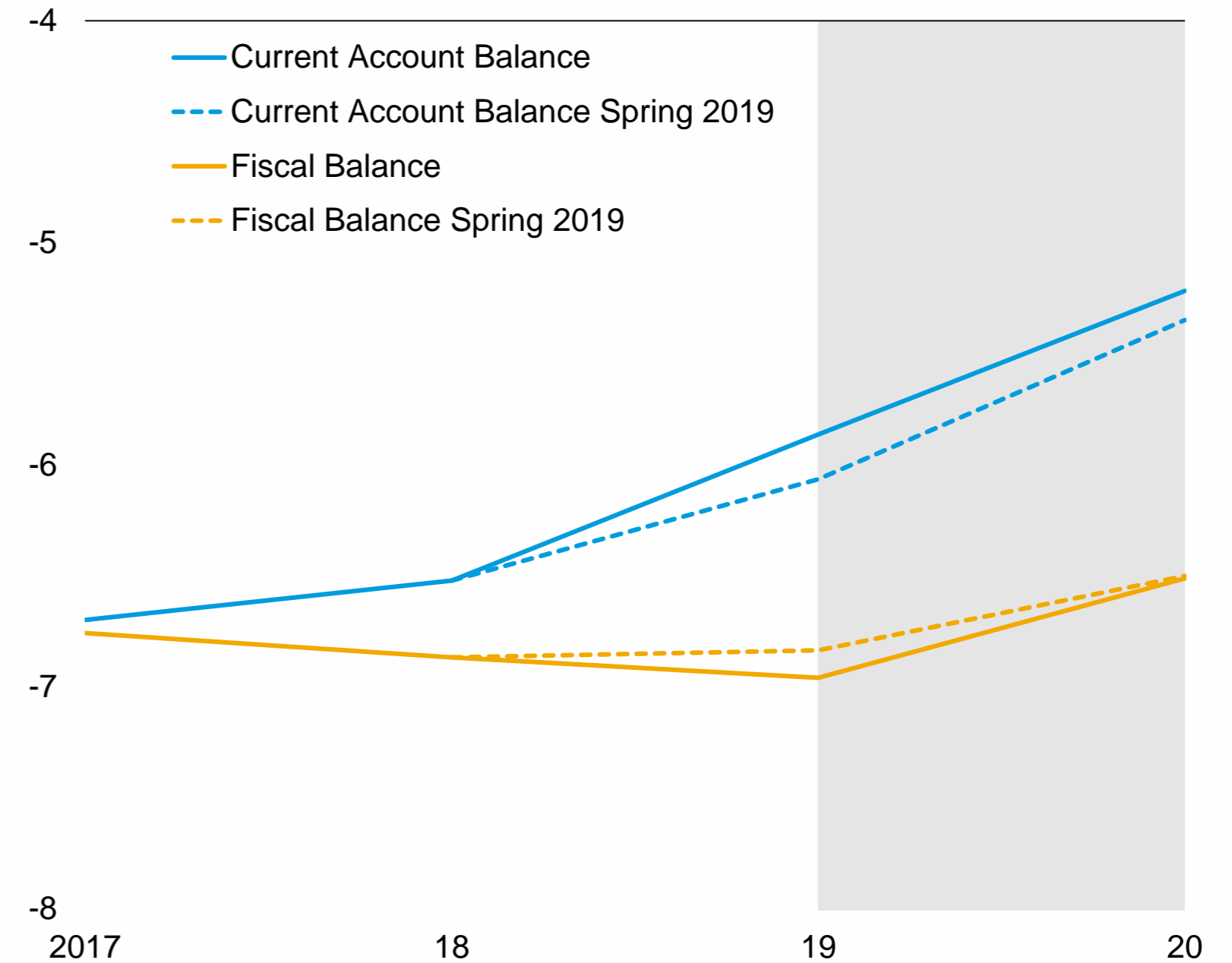
Growth continues to improve, but macroeconomic balances remain weak

MENAP OI: Real GDP Growth, 2005-20
(Percent)



Sources: National authorities; and IMF staff calculations.

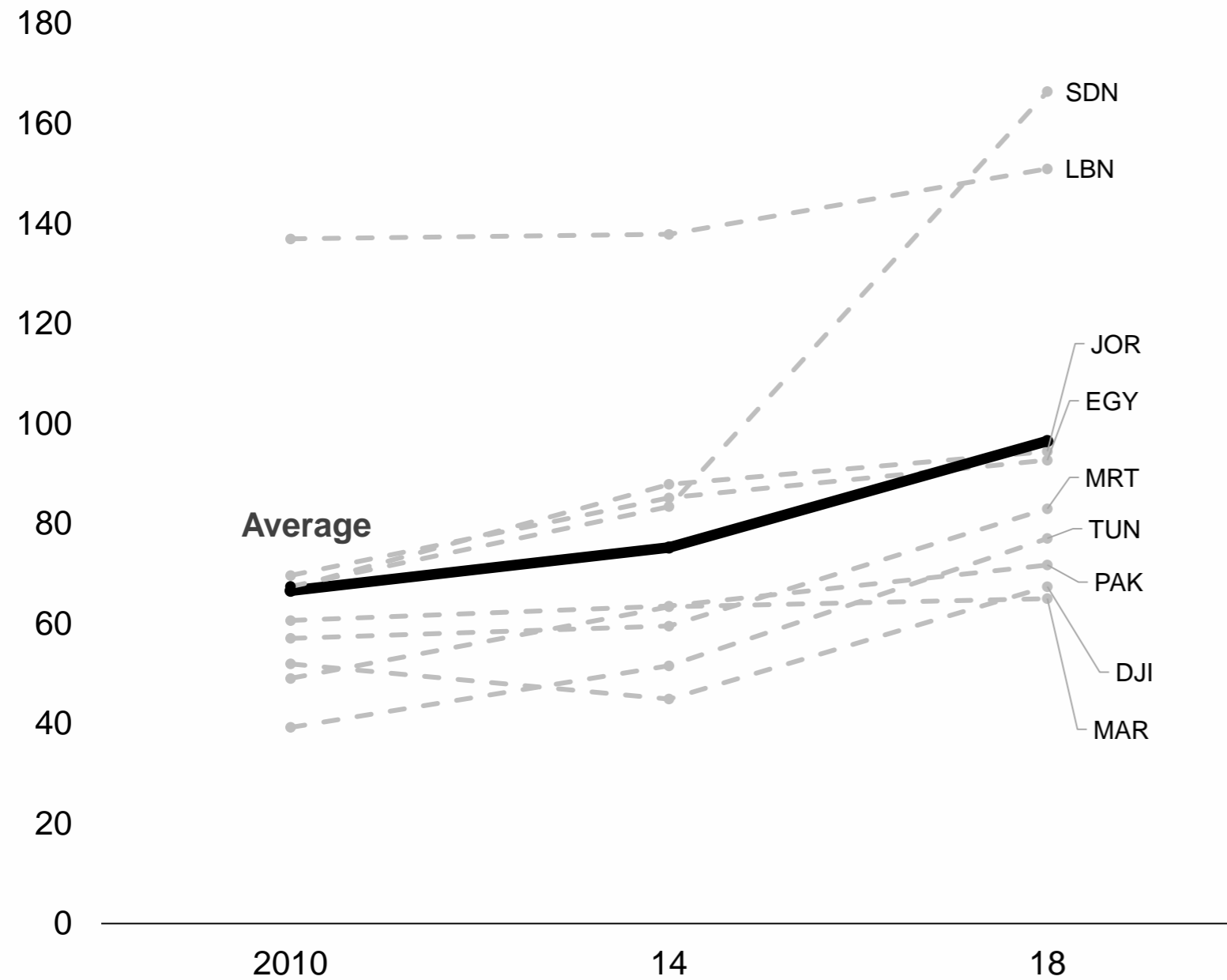
MENAP OI: Current and Fiscal Account Balances
(In percent of GDP)



Sources: National authorities; and IMF staff calculations.

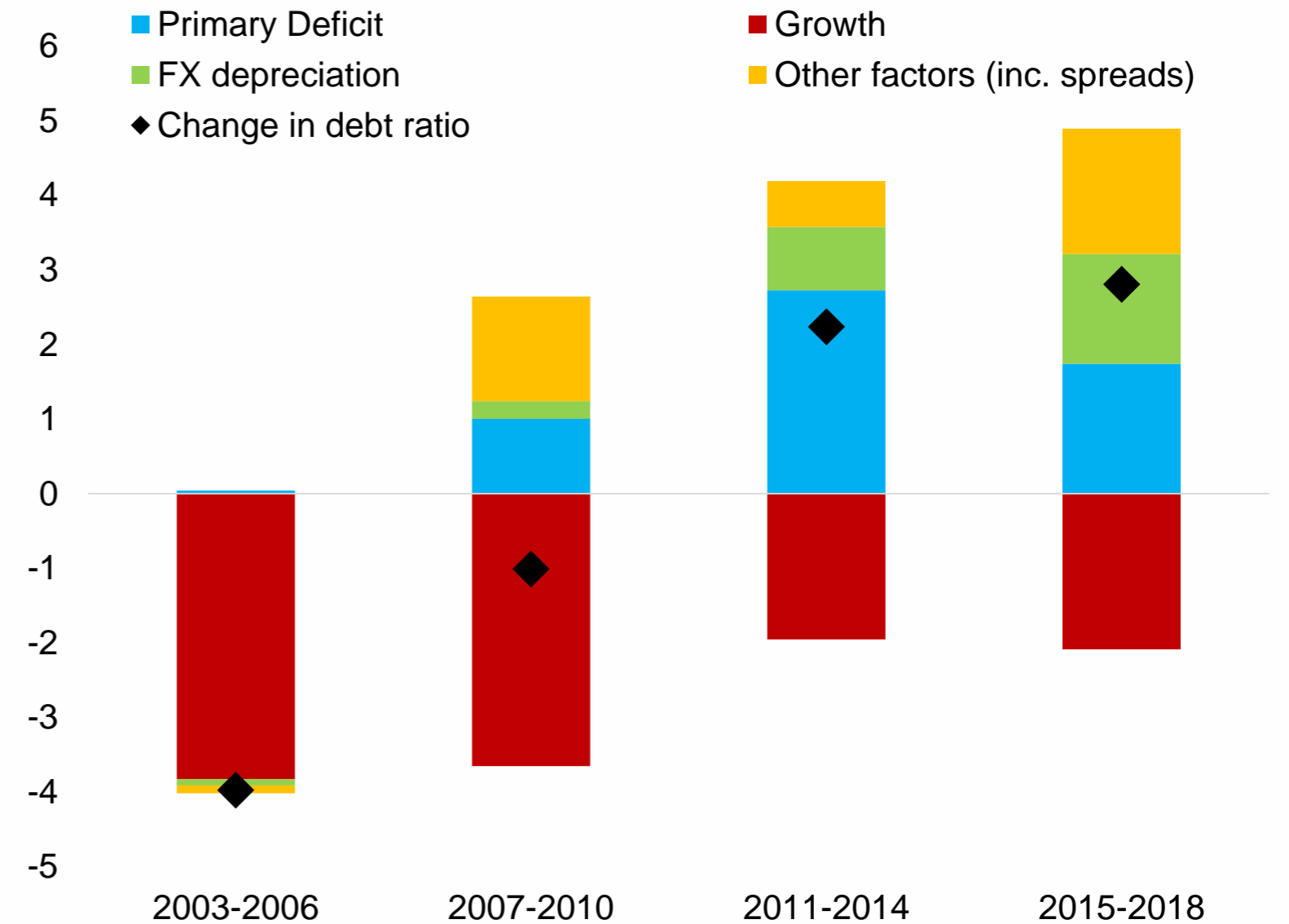
High debt burdens and fiscal slippages are difficult to reverse

MENAP OI: Rising Public Debt (Percent of GDP)



Sources: National authorities; and IMF staff calculations.

MENAP OI: Annualized Contributions to Changes in Debt Ratio¹ (Percentage of GDP, per year)

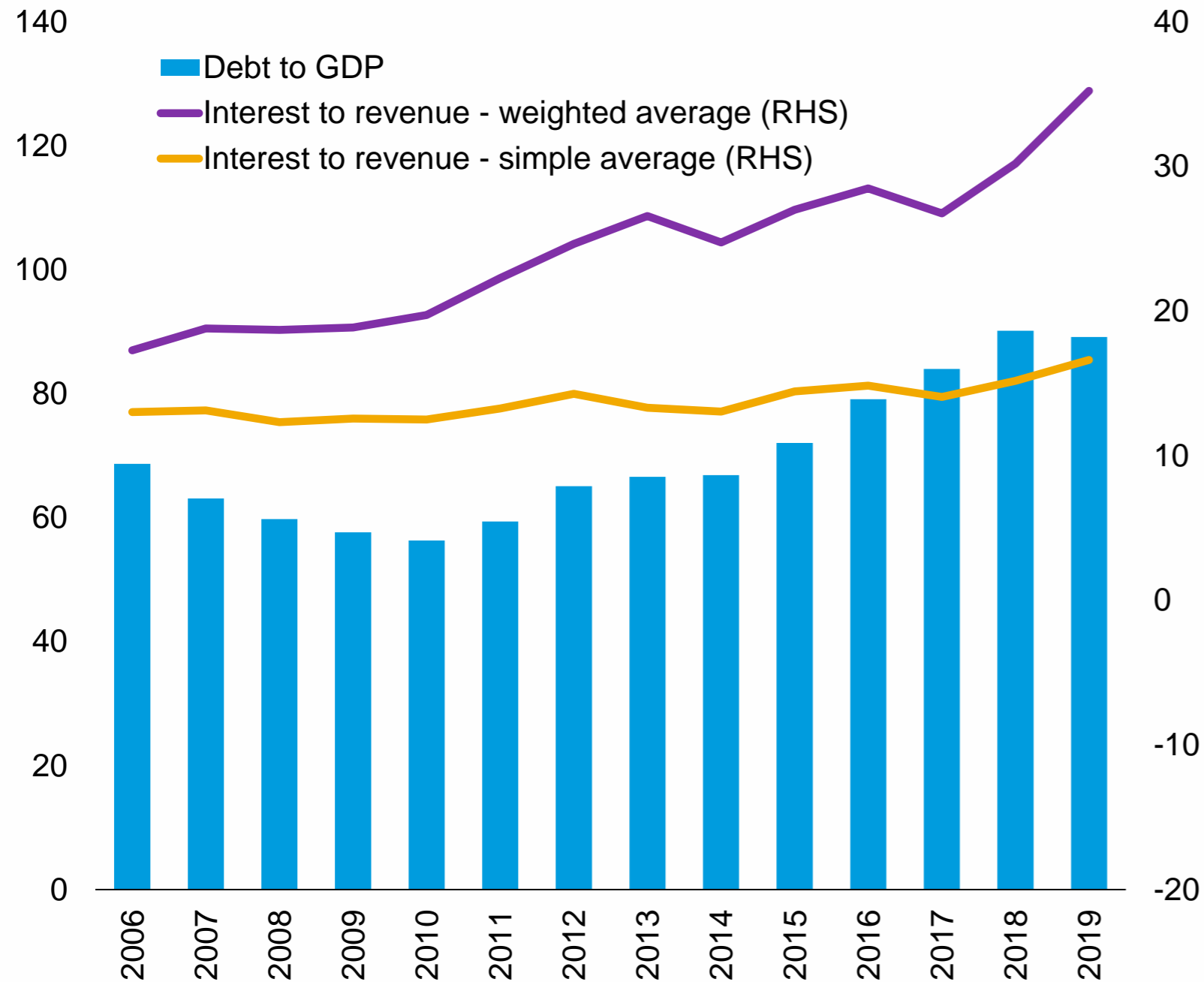


Sources: National authorities; and IMF staff calculations.

¹Aggregates exclude Sudan.

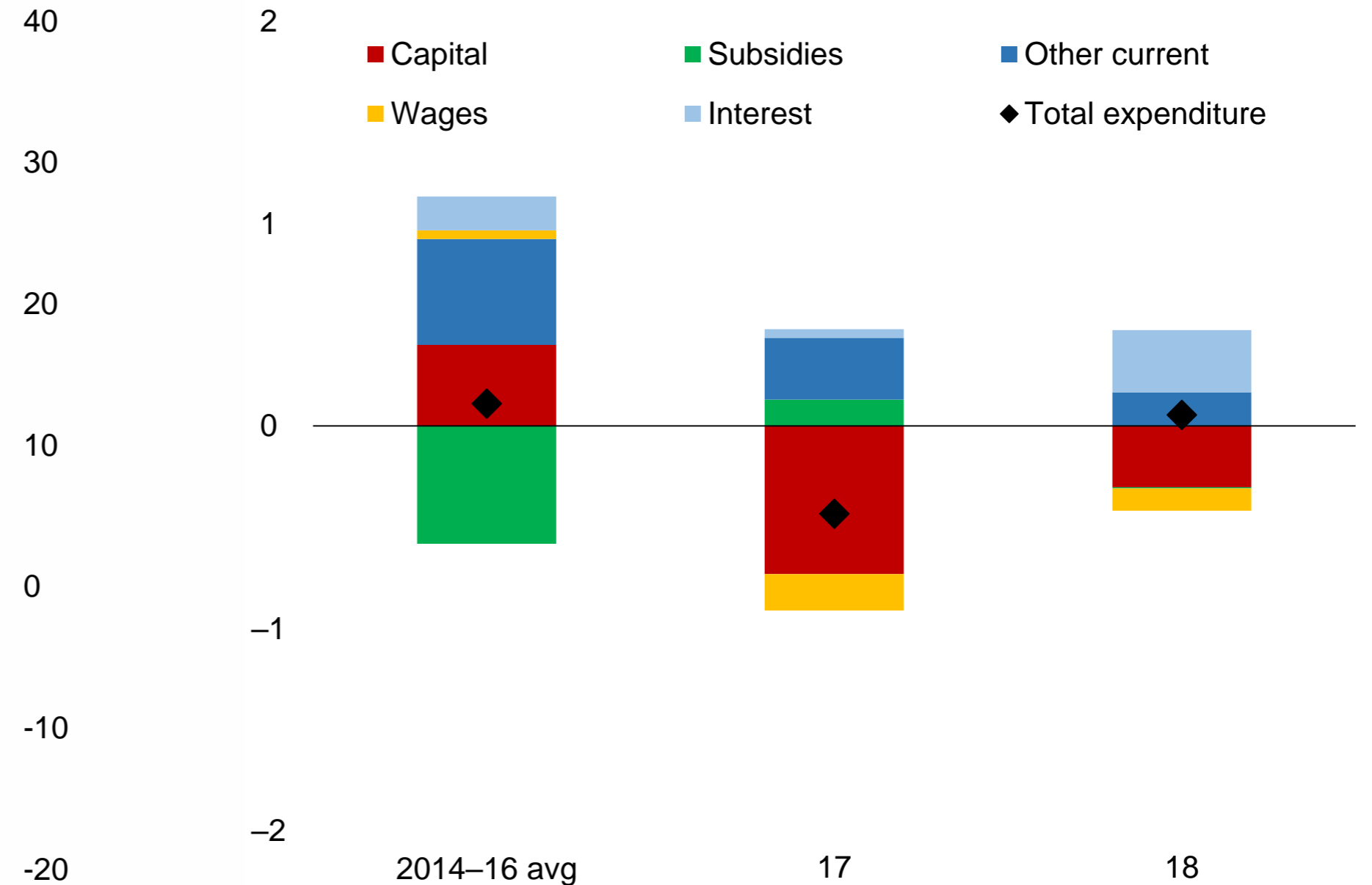
Rising interest payments crowd out growth-enhancing investment and social spending

MENAP OI: General Government Debt and Interest
(Percent)



Sources: National authorities; and IMF staff calculations.

MENAP OI: Changes in Government Spending¹
(Percent of GDP, simple averages)



Sources: National authorities; and IMF staff calculations.

¹ Excludes Jordan, Pakistan, Sudan, and Tunisia due to limited data availability.

Policies for MENAP countries

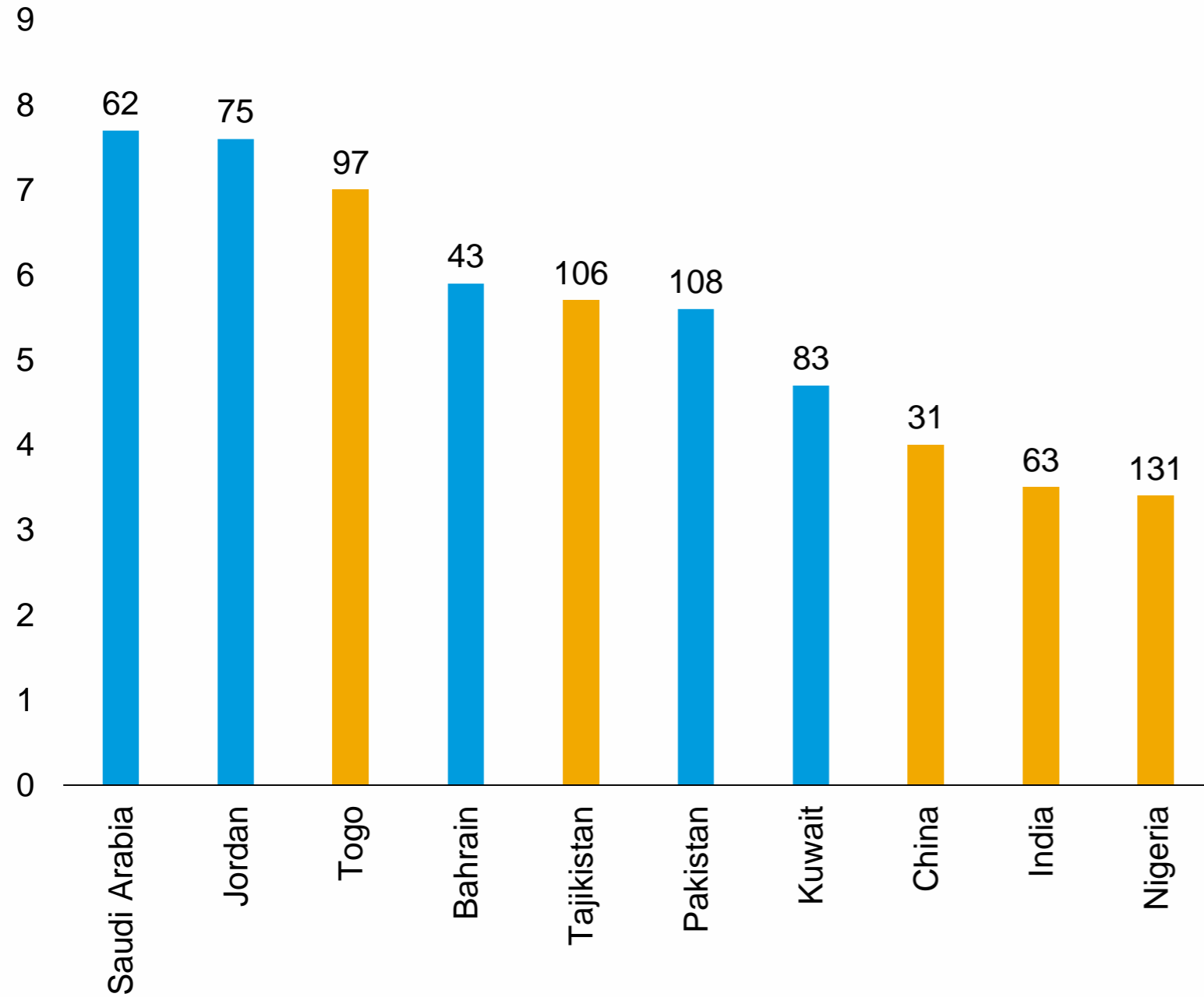
- **Fiscal: Address vulnerabilities**
 - Resume gradual consolidation in OEs
 - Ensure debt sustainability in OIs
 - Strengthen fiscal institutions
- **Structural: Generate job-rich growth across the region**
 - Improve infrastructure
 - Increase access to finance
 - Deepen domestic financial markets
 - Build on recent improvements in Doing Business to promote strong business environments across the region



MENAP countries are among the most improved in Doing Business

Top 10 Most Improved Scores: Doing Business 2020

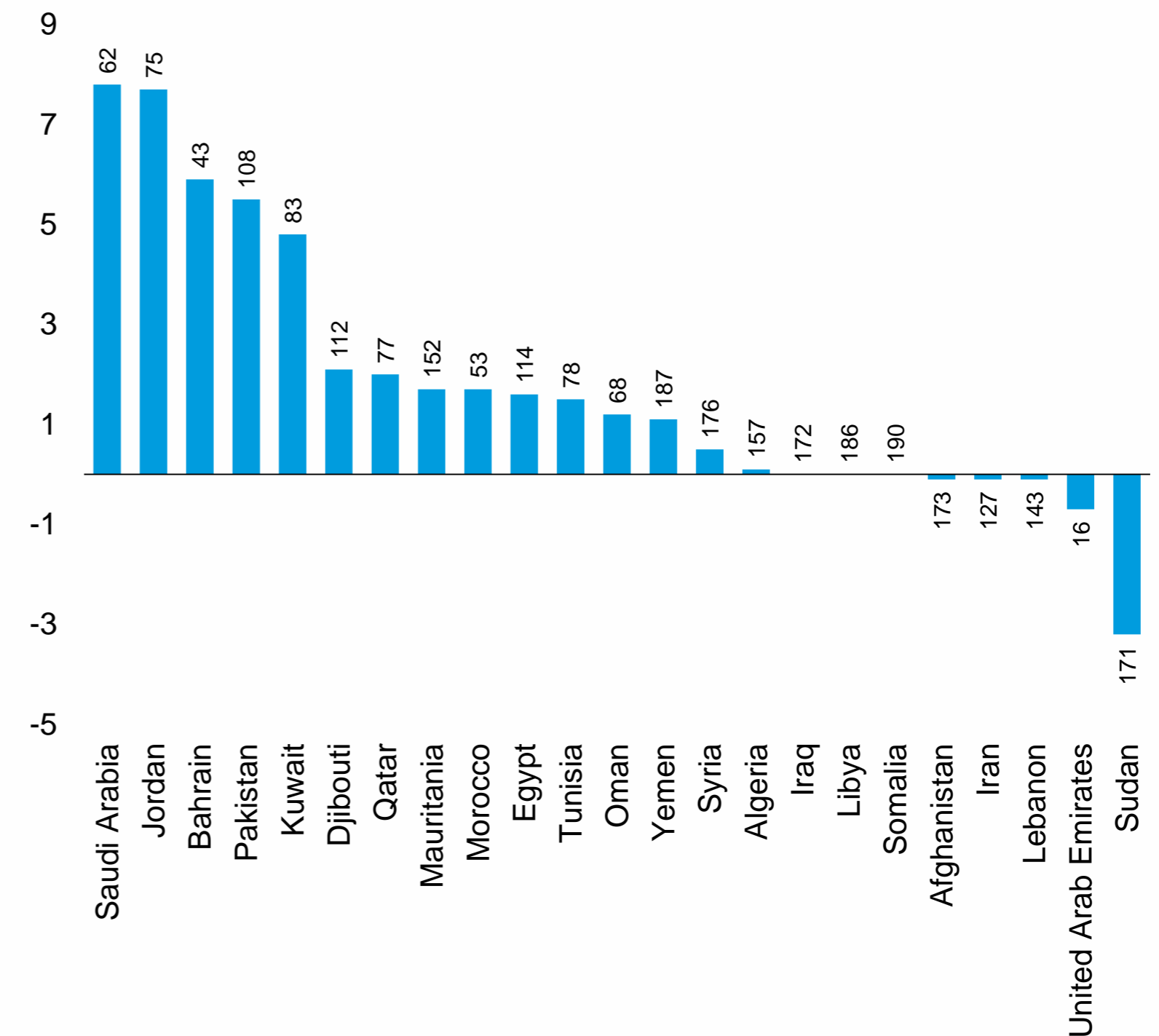
(Change in score, overall ranking above bars)



Source: World Bank.

MENAP Improved Scores: Doing Business 2020

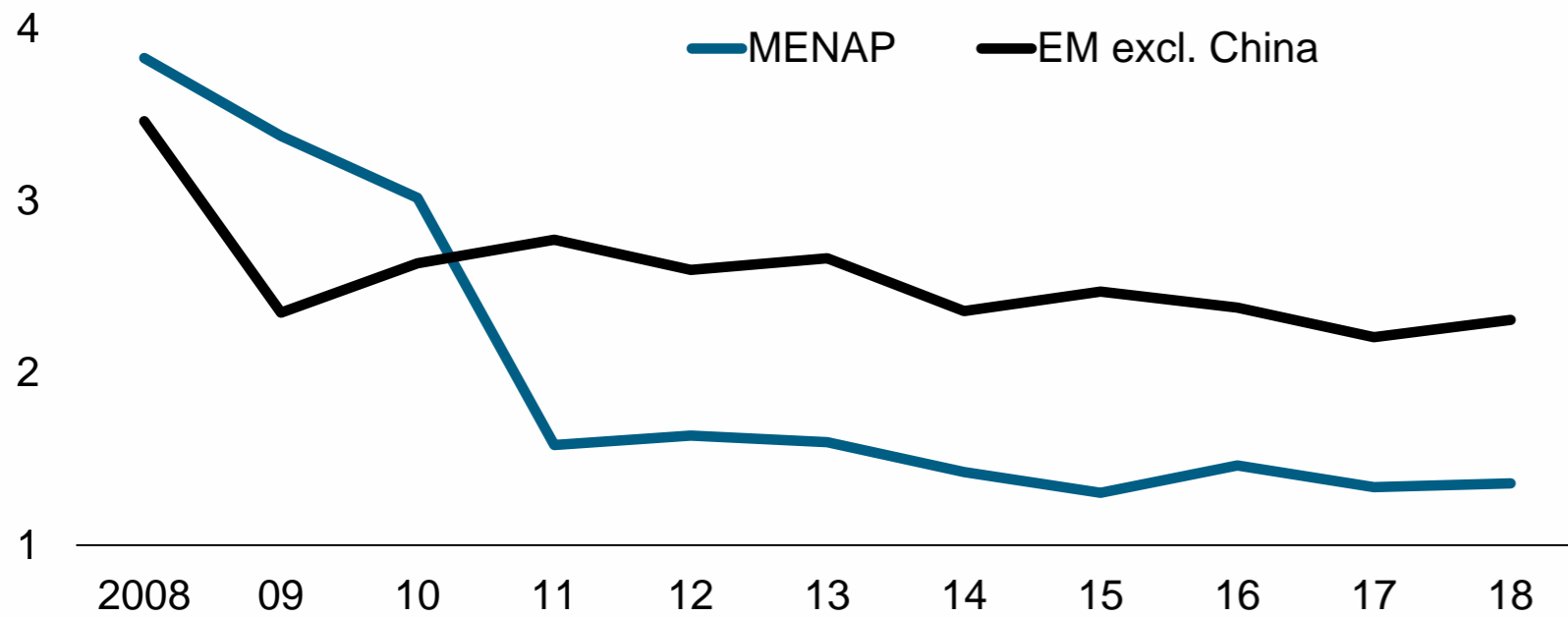
(Change in score from 2019 to 2020, overall ranking above bars)



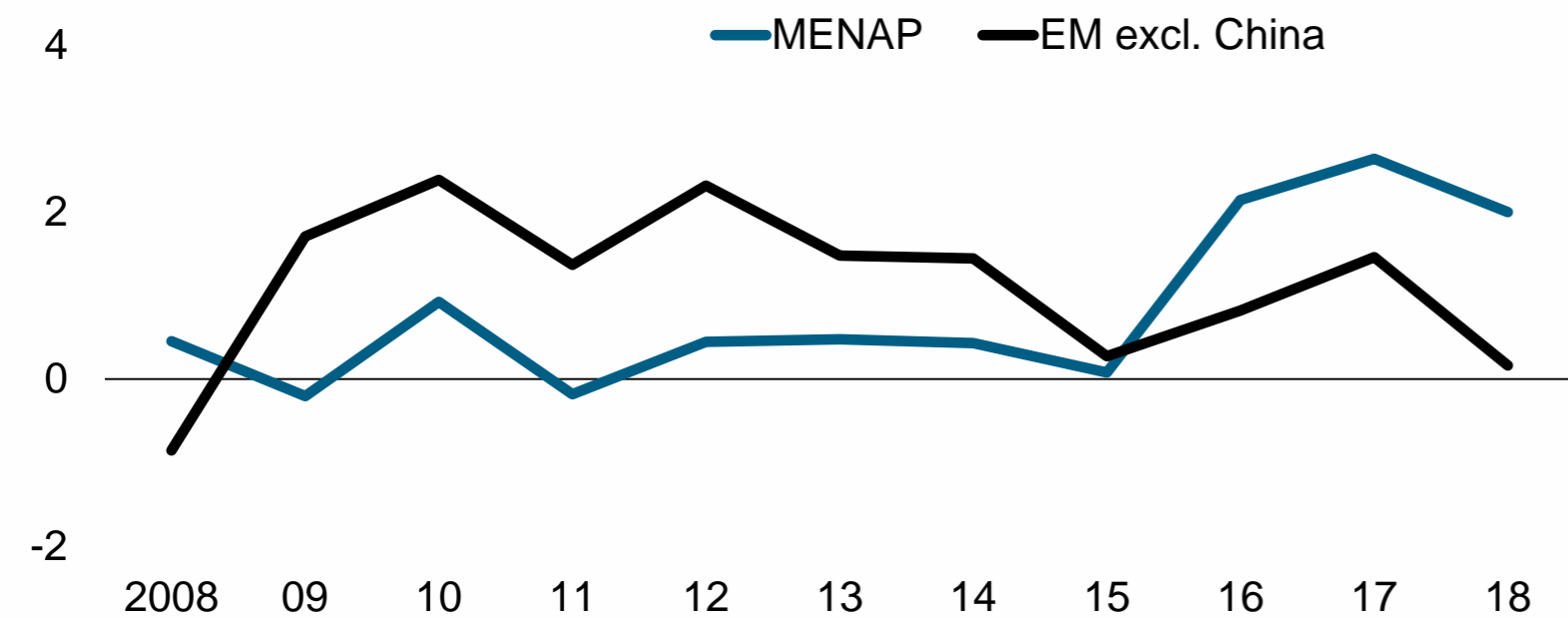
Cross cutting analytical themes: Capital Flows and Fiscal Institutions

Boost FDIs and mitigate risks from volatile portfolio flows

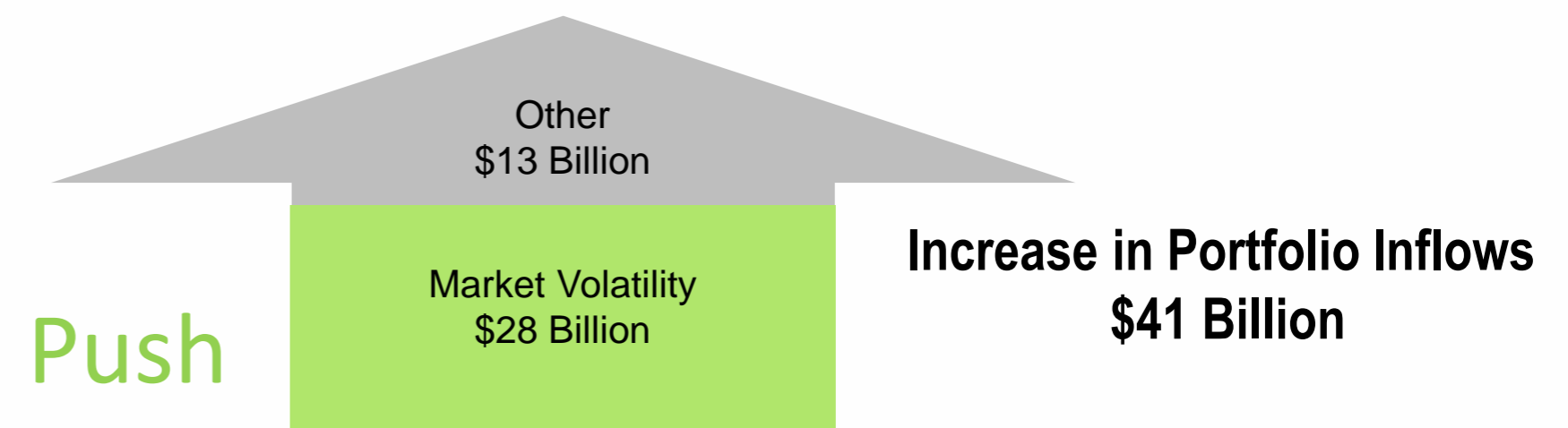
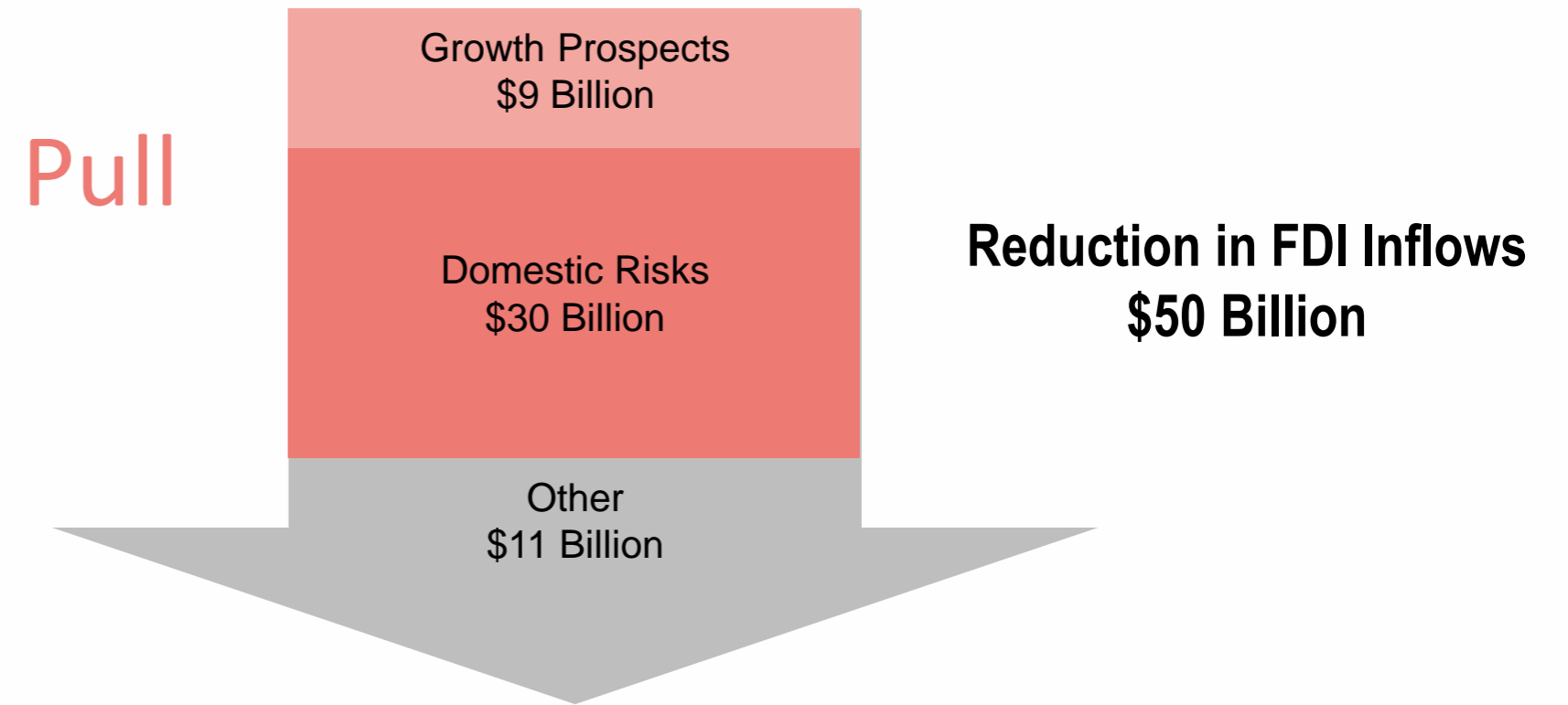
Foreign Direct Investment in MENAP Countries (Percent of GDP)



Portfolio Investment in MENAP Countries (Percent of GDP)



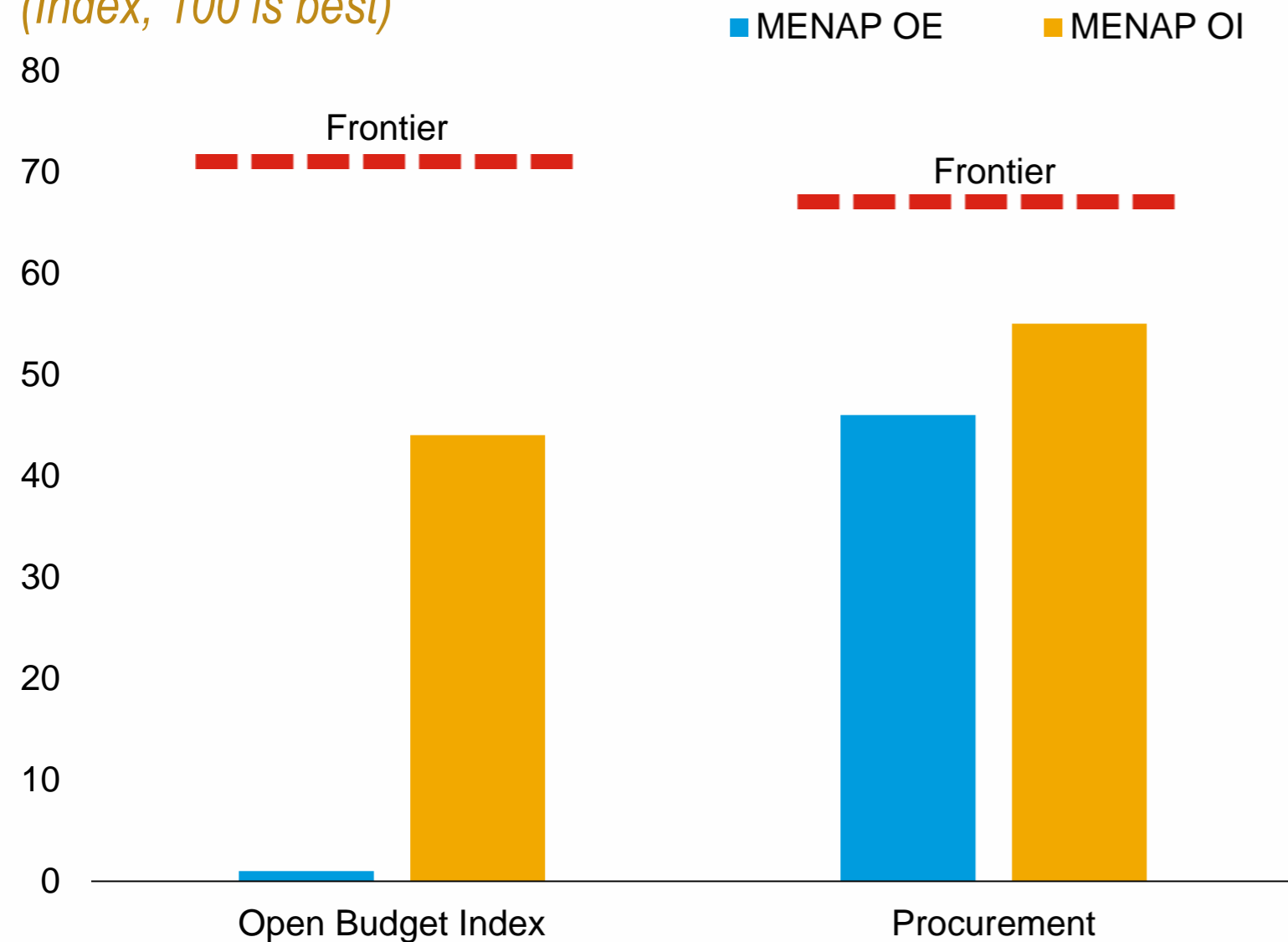
Sources: National authorities; and IMF staff estimates.



Strengthen fiscal institutions to improve fiscal outcomes

Fiscal Institution Indicators for MENAP Countries

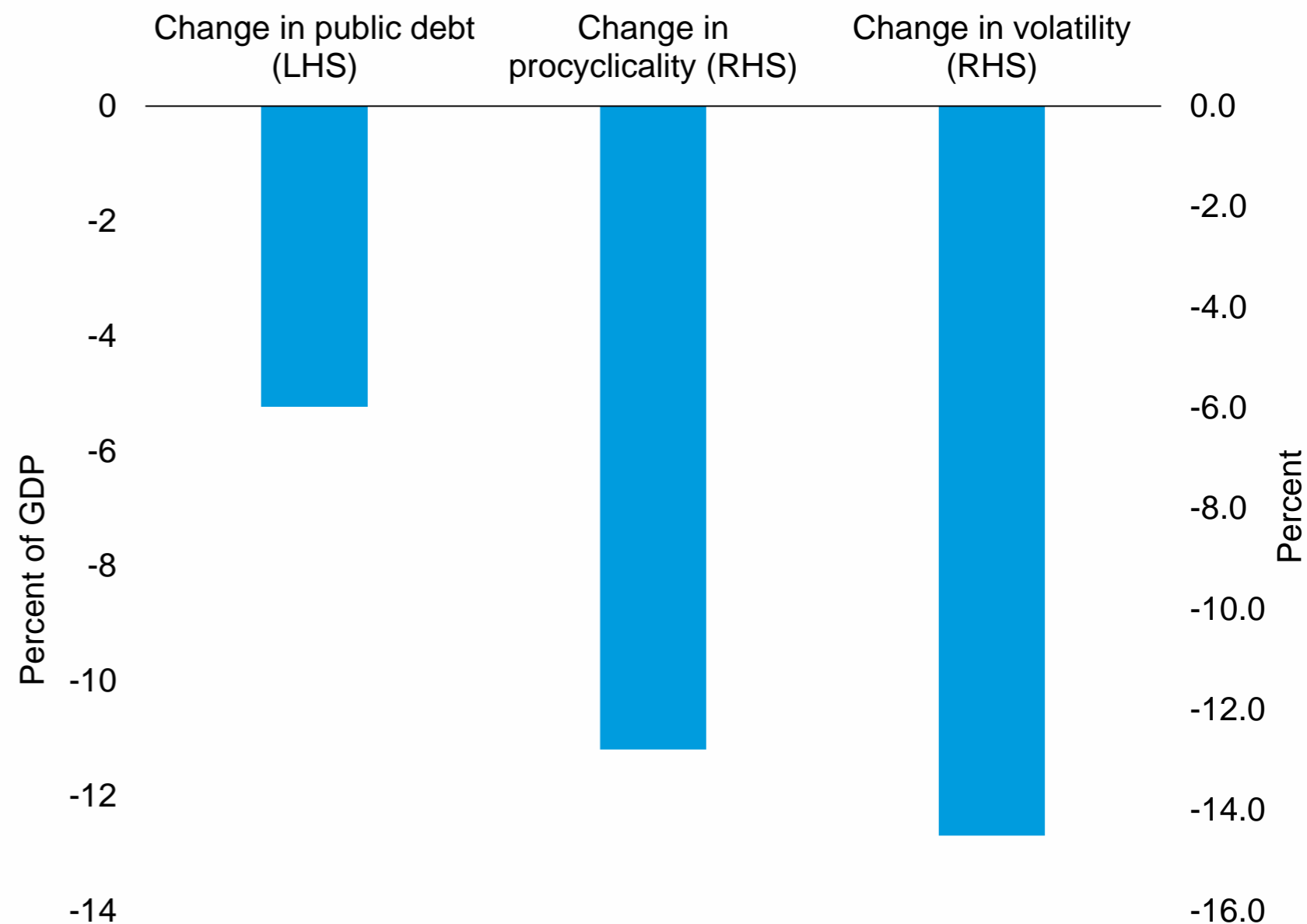
(Index, 100 is best)



Sources: Public Expenditure and Financial Accountability; Open Budget Initiative; and IMF staff calculations.

Note: The Medium-Term Fiscal Framework and PFM controls indicators, where 4 is best score, have been indexed to 100. For the procurement indicator, where 1 is best, the indicator has been indexed to 100. MENAP oil exporters and oil importers aggregates exclude fragile states

Average Effect of Improving Open Budget Index for MENAP Countries



Source: IMF staff calculations.

Key Takeaways

Global headwinds and MENAP vulnerabilities pose risks to growth

- **Fiscal vulnerabilities are rising**
 - Higher public spending (MENAP OE)
 - Elevated debt and interest burdens (MENAP OI)
- **Potential growth is slowing across regions**
 - Falling capital investment
 - Declining productivity
 - Subdued private-sector activity
- **Raise growth and accelerate structural reforms across regions**
 - Attract investment, including FDI
 - Growth friendly fiscal consolidation
 - Strengthen business environments
 - Increase inclusion

Analytical and policy agenda in MCD

Inclusive growth

- “Effectiveness and Efficiency of Social Spending”
- “Inclusive Growth in the CCA”
- “Digitalization in the GCC Economies”
- “Enhancing the Role of SMEs in the Arab World”
- “Financial Inclusion of Small and Medium-Sized Enterprises in the Middle East and Central Asia”
- “Opportunity for All: Promoting Growth and Inclusiveness in the Middle East and North Africa”

Integration and Resilience

- “The Future of Oil and Fiscal Sustainability in the GCC Region
- “Economic Integration in the Maghreb : An Untapped Source of Growth”
- “Opening Up in the Caucasus and Central Asia : Policy Frameworks to Support Regional and Global Integration”
- “Fintech, Inclusive Growth and Cyber Risks in MENAP and CCA”
- “Capital Flows to MENAP and the CCA: Opportunities and Risks” (REO)

Structural Reform Agenda

- “Curbing Corruption Through better Economic Governance”
- “Trade and Foreign Investment: Keys to Diversification and Growth in the GCC”
- “Public Wage Bills in the Middle East and Central Asia”
- “Fiscal Institutions and Fiscal Outcomes” (REO)

Conflict and Fragility

- Somalia’s travel to HIPC Decision Point
- Engagement with Djibouti, Iraq, Sudan, and West Bank & Gaza
- “Macroeconomic Policy Challenges in Conflict Countries and Fragile States: Experience from the Middle East”
- “Conflict in the Middle East and Central Asia: Costs and Economic Policy Priorities” (REO)
- “Estimating Subnational GDP in Afghanistan using Satellite Imagery”
- “Assessing oil and non-oil GDP from space”

Thank you