World Economic and Financial Surveys

Regional Economic Outlook

Middle East and Central Asia

OCT 16

INTERNATIONAL MONETARY FUND

Cataloging-in-Publication Data

Regional economic outlook. Middle East and Central Asia. – Washington, D.C. :
International Monetary Fund, 2004–

v. ; cm. – (World economic and financial surveys, 0258-7440)

Began in 2004.
Some issues have also thematic titles.

1. Economic forecasting – Middle East – Periodicals. 2. Economic forecasting – Asia, Central – Periodicals. 3. Middle East– Economic conditions – Periodicals. 4. Asia, Central – Economic conditions – Periodicals. 5. Economic development – Middle East – Periodicals. 6. Economic development – Asia, Central – Periodicals. I. Title: Middle East and Central Asia. II. International Monetary Fund. III. Series: World economic and financial surveys.

HC415.15.A1

ISBN: 978-1-51353-449-7 (Paper)
ISBN: 978-1-47554-303-2 (Web PDF)

The *Regional Economic Outlook: Middle East and Central Asia* is published annually in the fall to review developments in the Middle East and Central Asia. Both projections and policy considerations are those of the IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF Management.

Please send orders to:
International Monetary Fund
Publication Services
P.O. Box 92780
Washington, DC 20090, U.S.A.
Tel.: (202) 623-7430 Fax: (202) 623-7201
publications@imf.org
www.imfbookstore.org
www.elibrary.imf.org

Contents

Boxes

Figures

Tables

Acknowledgments

The *Middle East and Central Asia Regional Economic Outlook* (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 Daniela Gressani (Deputy Director in MCD), Natalia Tamirisa (Chief of MCD's Regional Studies Division), and Martin Sommer (Deputy Chief of MCD's Regional Studies Division). The primary contributors to this report were Allison Holland, Pritha Mitra, Saad Quayyum, Juan Treviño, and Bruno Versailles.

Other contributors included Gomez Agou, Ritu Basu, Mariana Colacelli, Armand Fouejieu, Pilar Garcia-Martinez, Eddy Gemayel, Matteo Ghilardi, Risto Herrala, Keiko Honjo, Tarak Jardak, Zhe Liu, Gaelle Pierre, Keyra Primus, Andre Santos, Nour Tawk, and Aminata Toure.

Gohar Abajyan and Hong Yang managed the database and computer systems and provided research assistance, with support from Yufei Cai, Sebastian Herrador, Jonah Rosenthal, and Amir Sadeghi. Esther George and Hanan Altimimi were responsible for word processing and document management. Giorgia Albertin, Hanan Altimimi, Aidyn Bibolov, Gaëlle Pierre, Magali Pinat, Azim Sadikov, Farid Talishli, and Hong Yang reviewed the translations, in coordination with Yelena Eydinova. Neil Hickey edited the manuscript and helped manage the production of the publication, in close collaboration with Linda Long of the Communications Department.

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 will average US$43.0 a barrel in 2016 and US$50.6 in 2017, and that the six-month London interbank offered rate (LIBOR) on U.S.-dollar deposits will average 1.0 percent in 2016 and 1.3 percent in 2017. 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 2016 and 2017 data in the figures and tables are projections. These projections are based on statistical information available through early September 2016.

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, FY 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 Fateh, and West Texas Intermediate crude oil.

Country Groupings

The October 2016 *Regional Economic Outlook Update: 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 2016, and prospects and policy issues for 2017. 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 divided into oil exporters and oil importers; and (2) countries of the Caucasus and Central Asia (CCA). The country acronyms and abbreviations used in some tables and 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, Mauritania, Morocco, Oman, 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 **Non-GCC** oil-exporting countries are Algeria, Iran, Iraq, Libya, and Yemen.

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

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

The **ACTs** (Arab Countries in Transition) are Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen.

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

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

CCA oil exporters comprise Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

CCA oil importers comprise Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

Conflict countries include Iraq, Libya, Syria, and Yemen.

---

[1] Somalia is excluded from all regional aggregates owing to a lack of reliable data. For Sudan, data for 2012 onward exclude South Sudan. Because of the uncertain economic situation, Syria is excluded from the projection years of REO aggregates.

World Economic Outlook

The global recovery remains subdued in the context of significant downside risks. Underlying factors shaping the outlook include: ongoing realignments such as the rebalancing in China and the decline in commodity prices; slow productivity growth; unfavorable demographic trends; new shocks such as Brexit—the vote in June by the United Kingdom to leave the European Union; and non-economic factors such as political uncertainty, global conflicts, and refugee crises. These factors imply a generally muted baseline for growth forecasts and substantial uncertainty about economic prospects.

Global growth is projected to slow to 3 percent in 2016, a slightly weaker projection than in the April 2016 *World Economic Outlook*. The revised forecast reflects weaker-than-expected activity in the United States in the first half of 2016, as well as the fallout from the Brexit vote. Although financial market reaction to the result of the U.K. referendum has been contained, the increase in economic, political and institutional uncertainty is expected to have negative macroeconomic consequences, especially in the United Kingdom. More broadly, growth in advanced economies is projected to slow to 1½ percent this year, as these countries still grapple with the fallout from the global financial crisis, low productivity growth, and aging populations. Growth in emerging market and developing economies is expected to marginally strengthen to 4.1 percent in 2016, following five consecutive years of decline. While these countries account for three-quarters of the world's projected growth this year, their outlooks are uneven and generally weaker than in the past, a result of the slowdown in China, lower commodity revenues, weak demand in advanced economies, as well as conflicts, political discord, and geopolitical tensions in several countries.

Overview of the World Economic Outlook Projections
(Annual percent change)

		Projections	
	2015	2016	2017
World output	3.2	3.1	3.4
Advanced economies	2.1	1.6	1.8
Of which: United States	2.6	1.6	2.2
European Union	2.3	1.9	1.7
Emerging and developing economies	4.0	4.2	4.6
Of which: MENAP	2.3	3.4	3.4
CCA	3.2	1.3	2.6
Commonwealth of Independent States	–2.8	–0.3	1.4
Of which: Russia	–3.7	–0.8	1.1
World trade volume (goods and services)	2.6	2.3	3.8
Commodity prices			
Oil[1]	–47.2	–15.4	17.9
Nonfuel[2]	–17.5	–2.7	0.9

Sources: IMF, *World Economic Outlook* (October 2016) and *Regional Economic Outlook: Middle East and Central Asia* (October 2016).
[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 $50.79 in 2015; the assumed price based on future markets is $42.96 in 2016 and $50.64 in 2017.
[2] Average (measured in U.S. dollars) based on world commodity export weights.

In 2017, global growth is projected to strengthen to 3½ percent, but this outlook depends crucially on rising growth in emerging market and developing economies, where the easing of downward pressures on countries with weak growth in 2016—Brazil, Russia, and those in sub-Saharan Africa—is expected to more than offset the slowdown of growth in China. Growth in emerging market and developing economies is projected to increase to 4½ percent and in advanced economies to 1¾ percent.

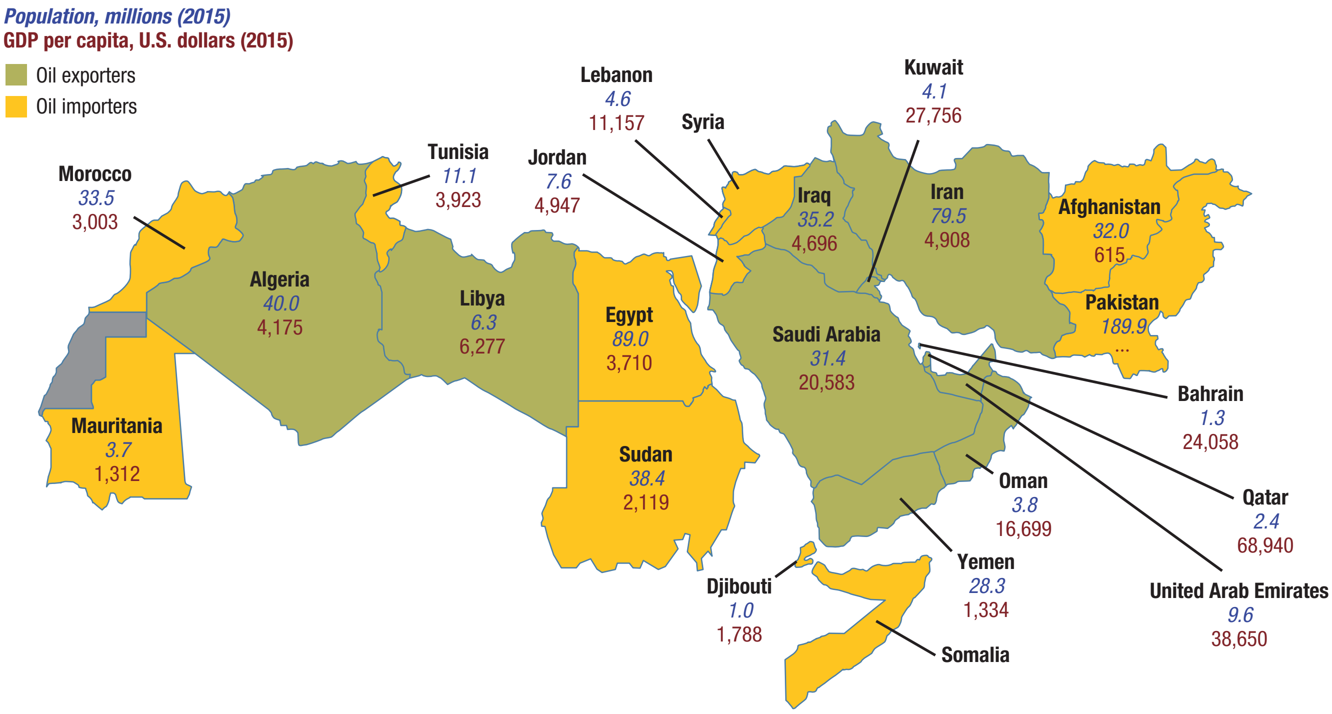
See IMF, *World Economic Outlook*, *Global Financial Stability Report*, and *Fiscal Monitor* (all October 2016) for more information.

Longer-term prospects for advanced economies remain muted, given demographic headwinds and weak productivity growth, although growth in emerging market and developing economies is expected to strengthen further over the medium term. This optimism is based on a number of important favorable assumptions such as gradual normalization of conditions in economies currently under stress, a general pickup in growth in commodity exporters, a continued rebalancing of China's economy, and resilient growth in other emerging market and developing countries.

Against this backdrop, policy priorities differ across individual economies depending on the specific objectives of improving growth momentum, combating deflationary pressures, or building resilience. Globally, urgent action relying on all policy levers is needed to head off further growth disappointments, combat damaging perceptions that policies are ineffective, and that rewards accrue only to those at the higher end of the income distribution. Among advanced economies, policies should aim to support near-term demand through accommodative monetary policy and supportive fiscal stance—calibrated to the amount of fiscal space available—while implementing measures to lift potential growth and, in some cases, steps to strengthen bank and corporate balance sheets. In emerging market and developing economies, the broad policy objective should be to maintain income convergence by reducing distortions in product, labor, and capital markets, addressing financial vulnerabilities, and investing in education and health care. Low-income developing economies should focus on rebuilding policy buffers, while preserving critical capital expenditures and social outlays. Implementation of structural reforms would pave the way for economic diversification and higher productivity. Continued multilateral effort is required to address the ongoing backlash against global trade, establish effective banking resolution frameworks, and build a stronger global safety net.

Middle East, North Africa, Afghanistan, and Pakistan

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 positions. The gray area on the map denotes disputed territory.

MENAP Region Highlights

The slump in oil prices and ongoing conflicts continue to weigh on MENAP's economic outlook. Uncertainties arising from conflicts in Iraq, Libya, Syria, and Yemen are weakening confidence and lower oil prices are taking a toll on exports and economic activity in oil exporters. Oil importers are benefiting from lower oil prices, although declining remittances from oil exporters are partly offsetting these benefits. MENAP growth will be modest at 3½ percent this year, with little improvement expected in 2017. Considerable uncertainty surrounds these forecasts, however, because of the fluctuation in oil prices and the threat of regional conflicts. Structural transformations are needed across the region to raise medium-term prospects and create jobs.

Oil Exporters: Ongoing Adjustment to Cheaper Oil

Despite recent increases, oil prices—the key driver of the outlook for MENAP oil exporters—are projected to remain low over the coming years. Economic activity in the GCC region is projected to slow this year despite continued expansion in hydrocarbon output. Fiscal tightening and declining liquidity in the financial sector are projected to reduce non-oil growth in the GCC to 1¾ percent in 2016, down from 3¾ percent last year. GCC non-oil growth is projected to pick up to 3 percent next year as the pace of fiscal consolidation eases. Over the medium term, less fiscal drag and a partial recovery in oil prices are projected to raise GCC non-oil growth to 3½ percent, well below the 7 percent average during 2000–14. Headline growth in Iran has been revised up to 4½ percent this year, owing to faster-than-expected increases in oil production following the removal of sanctions. The outlook for Iraq, Libya, and Yemen remains predicated on an easing of conflicts in those countries.

Risks are to the downside. The negative impact of fiscal consolidation and tightening liquidity on growth could be larger than anticipated. Regional conflicts could intensify. A deeper slowdown in China could further weaken commodity prices, while a faster-than-expected U.S. monetary tightening could increase global financial volatility, thereby reducing the availability of international financing, especially for lower-rated issuers. Risks to medium-term growth are double-sided. Authorities could make faster-than-expected progress in implementing structural reform plans. However, considering the scope of the envisaged economic transformation, such plans could run into obstacles, which could lead to reform fatigue.

The significant deficit-reduction efforts which began last year are continuing, with the aggregate 2016 non-oil fiscal deficit expected to improve by more than 5 percent of non-oil GDP. Despite recent consolidation measures, including welcome reforms to domestic energy prices, deficits are projected to remain large—all countries are anticipated to record fiscal deficits this year, and only Iraq, Kuwait, and the United Arab Emirates are set to post surpluses by 2021. Further fiscal adjustment is needed, which will require difficult policy choices and the adoption of well-calibrated measures to protect the vulnerable.

Additionally, countries need to accelerate structural reforms to diversify their economies away from hydrocarbons, boost the role of the private sector, and create jobs for their rapidly growing labor forces. The envisaged economic transformation, as reflected in country diversification plans, will take time. Careful and steady implementation will be key to success. As economic diversification proceeds, new skills will be required for new and existing workers to succeed. Upgrades to education and training programs should focus on reducing skill mismatches, while anticipating future needs of the private sector.

Oil Importers: Striving to Foster Inclusive Growth in a Challenging Environment

Recent reforms and lower oil prices have helped improve macroeconomic stability in the oil-importing countries in the region. Yet growth remains weak and fragile, projected to be 3½ percent this year before strengthening to 4¼ percent in 2017. Continued progress in reforms, lower fiscal drag, and stronger external demand, especially from the euro area, are expected to support the recovery. However, amid lingering structural impediments, medium-term growth is likely to remain too low to tackle high unemployment and improve inclusiveness.

Furthermore, risks cloud this outlook. Slow improvement in job creation and living standards could aggravate sociopolitical frictions, and setbacks to political transitions and reform implementation could undermine the recovery. Escalation of regional conflicts could intensify adverse spillovers. Tighter global financial conditions—amid China's rebalancing, the normalization of U.S. interest rates, and/or the fallout from Brexit—could reduce the availability of financing. On the upside, exports could rise faster if, for example, more progress is made on trade pacts with the European Union. China's rebalancing may also expand opportunities for consumption-oriented exports.

Stepping up reform momentum is crucial in this challenging environment. Energy subsidy reforms and revenue-enhancing initiatives have created more room for spending on infrastructure, health, and education, as well as targeted social assistance. Yet investment and productivity growth are still too low to boost growth, fiscal space is limited by high debt service costs and large wage bills, and, in some cases, external vulnerabilities are still high. Continued fiscal consolidation is needed to improve public debt profiles and strengthen buffers. It can focus on targeted revenue measures—eliminating tax exemptions, making income taxes more progressive, and strengthening tax collection—as well as the continued reprioritization of spending from general energy subsidies toward targeted social assistance, investment, and other growth-enhancing areas. Greater exchange rate flexibility would help enhance competitiveness. Structural reforms—especially in the areas of business, trade, and labor and financial markets—are needed to foster private sector expansion and job creation.

MENAP Region: Selected Economic Indicators, 2000–17
(Percent of GDP, unless otherwise indicated)

	Average 2012	2013	2014	2015	Projections 2016	Projections 2017
MENAP[1]						
Real GDP (annual growth)	5.2	2.4	2.7	2.3	3.4	3.4
Current Account Balance	9.2	10.1	5.1	–4.0	–4.6	–2.6
Overall Fiscal Balance	2.8	0.0	–2.9	–8.8	–8.5	–6.0
Inflation, p.a. (annual growth)	6.8	10.0	6.9	5.9	5.6	6.1
MENAP Oil Exporters						
Real GDP (annual growth)	5.4	2.0	2.7	1.6	3.3	2.9
Current Account Balance	13.4	15.1	8.3	–3.8	–4.4	–1.8
Overall Fiscal Balance	6.7	4.3	–0.7	–9.5	–9.2	–6.2
Inflation, p.a. (annual growth)	7.5	10.4	5.8	5.5	4.7	4.2
***Of which:* Gulf Cooperation Council (GCC)**						
Real GDP (annual growth)	5.1	3.1	3.3	3.4	1.7	2.3
Current Account Balance	17.0	21.4	13.6	-2.4	-3.7	-0.5
Overall Fiscal Balance	10.8	10.8	3.1	-9.4	-9.8	-6.9
Inflation, p.a. (annual growth)	2.8	2.8	2.6	2.5	3.6	2.6
MENAP oil importers						
Real GDP (annual growth)	4.6	3.2	2.9	3.8	3.6	4.2
Current Account Balance	–2.5	–5.1	–4.4	–4.5	–4.8	–4.7
Overall Fiscal Balance	–5.2	–9.4	–7.8	–7.3	–7.0	–5.8
Inflation, p.a. (annual growth)	5.5	9.1	9.4	6.6	7.4	9.8
MENA[1]						
Real GDP (annual growth)	5.3	2.2	2.6	2.1	3.2	3.2
Current Account Balance	10.0	10.9	5.6	–4.4	–5.0	–2.8
Overall Fiscal Balance	3.7	0.9	–2.7	–9.3	–9.1	–6.4
Inflation, p.a. (annual growth)	6.6	10.3	6.8	6.1	6.0	6.2
MENA oil importers						
Real GDP (annual growth)	4.6	2.9	2.3	3.8	3.1	3.8
Current Account Balance	–3.2	–7.1	–5.9	–6.2	–6.7	–6.3
Overall Fiscal Balance	–5.7	–10.2	–9.5	–8.6	–8.6	–7.1
Inflation, p.a. (annual growth)	4.1	10.1	9.9	8.0	9.9	12.3

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, Iran (March 21/March 20), and Egypt and Pakistan (July/June). MENAP oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen. GCC countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. MENAP oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, and Tunisia. MENA: MENAP excluding Afghanistan and Pakistan.
[1]2011–17 data exclude Syrian Arab Republic.

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

لا يزال هبوط أسعار النفط والصراعات المستمرة يشكلان عبئا على آفاق الاقتصاد في منطقة «الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان» (MENAP). فأجواء عدم اليقين الناجمة عن الصراعات في العراق وليبيا وسوريا واليمن تتسبب في ضعف الثقة، بينما يؤثر انخفاض أسعار النفط على الصادرات والنشاط الاقتصادي في البلدان المصدرة للنفط. وتستفيد البلدان المستوردة للنفط من انخفاض أسعاره، وإن كان تراجُع التحويلات التي تتلقاها من العاملين في البلدان المصدرة للنفط يعادل جانبا من هذا الأثر. وستحقق المنطقة نموا متواضعا هذا العام بمعدل قدره ٣,٤٪، مع تحسن طفيف متوقع في عام ٧١٠٢. لكن هذه التنبؤات تتسم بقدر كبير من عدم اليقين بسبب تقلب أسعار النفط وخطر الصراعات الإقليمية. ويتعين تحقيق تحولات هيكلية في مختلف بلدان المنطقة لتحسين آفاق المدى المتوسط وخلق فرص عمل جديدة.

البلدان المصدرة للنفط: سعي متواصل للتكيف مع انخفاض أسعار النفط

رغم الارتفاعات الأخيرة في أسعار النفط – المحرك الأساسي لآفاق الاقتصاد في البلدان المصدرة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان – تشير التوقعات إلى بقاء هذه الأسعار منخفضة في السنوات القادمة. ومن المتوقع أن يتباطأ النشاط الاقتصادي هذا العام في منطقة مجلس التعاون الخليجي رغم استمرار التوسع في إنتاج الهيدروكربونات. فمن المتوقع أن يؤدي تشديد سياسة المالية العامة وتناقص السيولة في القطاع المالي إلى تخفيض النمو غير النفطي في مجلس التعاون الخليجي إلى ١,٧٥٪ في ٦١٠٢، هبوطا من ٣,٧٥٪ في العام الماضي. ومن المتوقع أن يتحسن النمو غير النفطي في مجلس التعاون الخليجي إلى ٣٪ في العام القادم مع انخفاض وتيرة التقشف المالي. وعلى المدى المتوسط، يُتوقع أن يؤدي تراجع العبء الضريبي والتحسن الجزئي في أسعار النفط إلى ارتفاع النمو غير النفطي في مجلس التعاون الخليجي إلى ٣,٥٪، وهو أقل بكثير من متوسط الفترة ٠٠٠٢-٤١٠٢ الذي بلغ ٧٪. وقد تم رفع توقعات النمو الكلي في إيران إلى ٤,٥٪ هذا العام، نظرا لزيادات الإنتاج النفطي التي تحققت بسرعة تجاوزت التوقعات في أعقاب رفع العقوبات الدولية. ولا تزال الآفاق المتوقعة للعراق وليبيا واليمن مرهونة بانحسار الصراعات الدائرة هناك.

ويرجِّح ميزان المخاطر كفة التطورات السلبية في المنطقة. فقد تؤدي إجراءات الضبط المالي ونقص السيولة إلى تأثير سلبي أكبر من المتوقع على النمو. وقد تزداد كثافة الصراعات الإقليمية الحالية، كما يمكن أن يزداد عمق التباطؤ الاقتصادي في الصين مما يزيد من انخفاض أسعار السلع الأولية، بينما يؤدي تشديد السياسة النقدية الأمريكية بسرعة تفوق التوقعات إلى زيادة التقلب المالي العالمي، ومن ثم يقل التمويل الدولي المتاح، ولا سيما لمُصْدِري السندات ذات التصنيف الائتماني المنخفض. ويخضع النمو متوسط الأجل لاحتمالات مغايرة للتوقعات على الجانبين السلبي والإيجابي. فقد تحقق السلطات تقدما أسرع من المتوقع في تنفيذ خطط الإصلاح الهيكلي. غير أن هذه الخطط يمكن أن تصادف عقبات بسبب النطاق الواسع الذي يشمله التحول الاقتصادي المتوخى، مما يمكن أن يسبب إرهاقا من كثرة الإصلاح.

ولا تزال الجهود جارية منذ العام الماضي لتخفيض العجز المالي الكبير، حيث يُتوقع أن يتحسن عجز المالية العامة غير النفطي الإجمالي لعام ٦١٠٢ بنسبة تتجاوز ٥٪ من إجمالي الناتج المحلي غير النفطي. ومن المتوقع أن يظل العجز كبيرا رغم الإجراءات التقشفية التي اتخذت مؤخرا، بما في ذلك إصلاحات أسعار الطاقة المحلية التي تستحق بالترحيب - إذ يُتوقع أن تسجل كل البلدان عجزا ماليا قياسيا هذا العام، ولا تتحقق فوائض إلا في العراق والكويت والإمارات العربية المتحدة بحلول عام ١٢٠٢. وهناك حاجة لمزيد من التصحيح المالي، مما سيتطلب مواجهة خيارات صعبة على مستوى السياسات واعتماد تدابير موزونة بدقة لحماية محدودي الدخل.

وبالإضافة إلى ذلك، ينبغي أن تعجل البلدان بإجراء إصلاحات هيكلية لتنويع اقتصاداتها بعيدا عن الهيدروكربونات، وتعزيز دور القطاع الخاص، وخلق فرص عمل لقوتها العاملة المتنامية بمعدل سريع. وسيتطلب الأمر وقتا حتى يتحقق التحول الاقتصادي المتوخى كما تحدده خطط التنويع لدى البلدان، مع أهمية التنفيذ الدقيق والمطرد

كمفتاح للنجاح. ومع التقدم في تنويع الاقتصاد، ستظهر الحاجة لمهارات جديدة تهيئ سبيل النجاح للعمالة الجديدة والحالية. وعند تحديث برامج التعليم والتدريب ينبغي التركيز على الحد من عدم اتساق المهارات مع متطلبات سوق العمل، مع استشراف الاحتياجات المستقبلية للقطاع الخاص.

البلدان المستوردة للنفط: سعي حثيث لتعزيز النمو الاحتوائي في بيئة محفوفة بالتحديات

ساعدت الإصلاحات وانخفاض أسعار النفط مؤخرا على تحسين استقرار الاقتصاد الكلي في البلدان المستوردة للنفط في المنطقة. لكن النمو لا يزال ضعيفا وهشا، حيث يُتوقع أن يبلغ ٣,٥٪ هذا العام ثم يرتفع إلى ٤,٢٥٪ في ٧١٠٢. ومن المتوقع أن يتعزز التعافي الجاري بدعم من التقدم المستمر في الإصلاحات المخططة، وانخفاض العبء الضريبي، وزيادة الطلب الخارجي، وخاصة من منطقة اليورو. غير أن المعوقات الهيكلية الباقية من المرجح أن تُبْقي النمو منخفضا على المدى المتوسط بدرجة لا تساعد على معالجة البطالة المرتفعة وتعزيز احتوائية النمو.

وبالإضافة إلى ذلك، تخيم على الآفاق بعض المخاطر. فبطء التحسن في خلق فرص العمل ومستويات المعيشة يمكن أن يفاقم الاحتكاكات الاجتماعية-السياسية، كما يمكن أن يضعف التعافي الجاري إذا حدثت نكسات في عمليات التحول السياسي ومسيرة تنفيذ الإصلاحات. وقد يتسبب احتدام الصراعات الإقليمية في تكثيف التداعيات المعاكسة. كذلك يمكن أن ينخفض التمويل المتاح بسبب ضيق الأوضاع المالية العالمية – في سياق جهود الصين لاستعادة توازن النمو، وعودة أسعار الفائدة الأمريكية إلى مستوياتها الطبيعية، و/أو تداعيات خروج بريطانيا من الاتحاد الأوروبي. ومن حيث احتمالات تجاوز التوقعات، يمكن أن تزداد الصادرات بسرعة أكبر من المتوقع إذا ما حدث تقدم في المعاهدات التجارية مع الاتحاد الأوروبي على سبيل المثال. وقد تتسع أيضا فرص التصدير الموجه للاستهلاك مع استعادة توازن النمو في الصين.

ومن الضروري تعجيل زخم الإصلاح في هذه البيئة المليئة بالتحديات. وقد أتاحت إصلاحات دعم الطاقة ومبادرات زيادة الإيرادات مساحة أكبر للإنفاق على البنية التحتية والصحة والتعليم، بالإضافة إلى المساعدات الاجتماعية الموجهة للمستحقين. لكن زيادة الاستثمار والإنتاجية لا تزال أبطأ مما يسمح بدعم النمو، ولا يزال الحيز المالي محدودا بسبب ارتفاع تكاليف خدمة الدين وضخامة فاتورة الأجور، كما أن مواضع الانكشاف للمخاطر الخارجية لا تزال كبيرة في بعض الحالات. وهناك حاجة لضبط أوضاع المالية العامة من أجل تحسين مواصفات الدين العام وتعزيز الاحتياطيات الوقائية. ويمكن التركيز في هذا السياق على الإجراءات الموجهة المتعلقة بالإيرادات – إلغاء الإعفاءات الضريبية، وزيادة تصاعدية ضرائب الدخل، وتعزيز التحصيل الضريبي – إلى جانب الاستمرار في إعادة ترتيب أولويات الإنفاق بتحويل التركيز من دعم الطاقة المعمم إلى المساعدات الاجتماعية الموجهة للمستحقين والاستثمارات وغيرها من المجالات الداعمة للنمو. ومن شأن زيادة مرونة أسعار الصرف أن تساعد في دعم التنافسية. وهناك حاجة أيضا لإجراء إصلاحات هيكلية – وخاصة في مجالات الأعمال والتجارة وسوق العمل والأسواق المالية – لتشجيع توسع القطاع الخاص وخلق فرص العمل.

منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان: مؤشرات اقتصادية مختارة، ٢٠٠٠-١٧٠٢

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

	متوسط				توقعات	
	2000-2012	2013	2014	2015	2016	2017
منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان[١]						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	5.2	2.4	2.7	2.3	3.4	3.4
رصيد الحساب الجاري	9.2	10.1	5.1	-4.0	-4.6	-2.6
رصيد المالية العامة الكلي	2.8	0.0	-2.9	-8.8	-8.5	-6.0
التضخم، متوسط سنوي (النمو السنوي)	6.8	10.0	6.9	5.9	5.6	6.1
البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	5.4	2.0	2.7	1.6	3.3	2.9
رصيد الحساب الجاري	13.4	15.1	8.3	-3.8	-4.4	-1.8
رصيد المالية العامة الكلي	6.7	4.3	-0.7	-9.5	-9.2	-6.2
التضخم، متوسط سنوي (النمو السنوي)	7.5	10.4	5.8	5.5	4.7	4.2
منها: دول مجلس التعاون الخليجي						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	5.1	3.1	3.3	3.4	1.7	2.3
رصيد الحساب الجاري	17.0	21.4	13.6	-2.4	-3.7	-0.5
رصيد المالية العامة الكلي	10.8	10.8	3.1	-9.4	-9.8	-6.9
التضخم، متوسط سنوي (النمو السنوي)	2.8	2.8	2.6	2.5	3.6	2.6
البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	4.6	3.2	2.9	3.8	3.6	4.2
رصيد الحساب الجاري	-2.5	-5.1	-4.4	-4.5	-4.8	-4.7
رصيد المالية العامة الكلي	-5.2	-9.4	-7.8	-7.3	-7.0	-5.8
التضخم، متوسط سنوي (النمو السنوي)	5.5	9.1	9.4	6.6	7.4	9.8
منطقة الشرق الأوسط وشمال إفريقيا[١]						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	5.3	2.2	2.6	2.1	3.2	3.2
رصيد الحساب الجاري	10.0	10.9	5.6	-4.4	-5.0	-2.8
رصيد المالية العامة الكلي	3.7	0.9	-2.7	-9.3	-9.1	-6.4
التضخم، متوسط سنوي (النمو السنوي)	6.6	10.3	6.8	6.1	6.0	6.2
البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا						
رصيد الحساب الجاري	-3.2	-7.1	-5.9	-6.2	-6.7	-6.3
رصيد المالية العامة الكلي	-5.7	-10.2	-9.5	-8.6	-8.6	-7.1
التضخم، متوسط سنوي (النمو السنوي)	4.1	10.1	9.9	8.0	9.9	12.3

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

[١] بيانات ١١٠٢-٧١٠٢ لا تتضمن الجمهورية العربية السورية.

ملحوظة: تشير البيانات إلى السنة المالية لكل من البلدان التالية: أفغانستان (١٢ مارس/٠٢ مارس) حتى عام ١١٠٢، و١٢ ديسمبر/٠٢ ديسمبر بعد ذلك، وإيران (١٢ مارس/ ٠٢ مارس)، ومصر وباكستان (يوليو/يونيو).

البلدان المصدرة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان تشمل: الجزائر والبحرين وإيران والعراق والكويت وليبيا وعُمان وقطر والمملكة العربية السعودية والإمارات العربية المتحدة واليمن.

دول مجلس التعاون الخليجي تشمل: البحرين والكويت وعمان وقطر والمملكة العربية السعودية والإمارات العربية المتحدة.

البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان تشمل: أفغانستان وجيبوتي ومصر والأردن ولبنان وموريتانيا والمغرب وباكستان والسودان وسوريا وتون

(MENA) : .بلدان الشرق الأوسط وشمال إفريقيا، باستثناء أفغانستان وباكستان

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

Région MOANAP : Principaux points

La chute des prix du pétrole et les conflits en cours continuent de peser sur les perspectives économiques de la région MOANAP. Les incertitudes découlant des conflits en Iraq, en Libye, en Syrie et au Yémen minent la confiance et les bas prix du pétrole ont des conséquences néfastes sur les exportations et l'activité économique des pays exportateurs de pétrole. Les pays importateurs profitent, quant à eux, des possibilités offertes par le faible coût du pétrole, bien que la baisse des envois de fonds originaires des pays exportateurs annule en partie leurs gains. La croissance de la région MOANAP sera modeste cette année, à 3½ %, et elle ne devrait guère progresser en 2017. Des incertitudes importantes entourent, toutefois, ces prévisions en raison des fluctuations des prix du pétrole et des menaces que représentent les conflits régionaux. Des transformations structurelles dans toute la région sont nécessaires afin d'améliorer les perspectives à moyen terme et de créer des emplois.

Pays exportateurs de pétrole : s'adapter à un pétrole moins cher

Malgré de récentes augmentations, le prix du pétrole — principal déterminant des perspectives des pays exportateurs de la région MOANAP — devrait se maintenir à un niveau faible dans les prochaines années. L'activité économique des pays du CCG devrait ralentir cette année en dépit d'une hausse constante de la production d'hydrocarbures. Le rééquilibrage budgétaire et l'assèchement de la liquidité dans le secteur financier devraient faire baisser la croissance hors pétrole dans ces pays à 1¾ % en 2016, contre 3¾ % l'année dernière. Elle devrait rebondir à 3 % l'an prochain avec le ralentissement du rythme de l'assainissement budgétaire. À moyen terme, la modération du frein budgétaire et un redressement partiel des prix du pétrole devraient porter la croissance hors pétrole des pays du CCG à 3½ %, bien en deçà du taux moyen de 7 % observé sur la période 2000-14. La croissance globale en Iran a été révisée à la hausse et devrait atteindre 4½ % cette année, en raison de l'augmentation plus rapide que prévue de la production de pétrole suite à la levée des sanctions. Les perspectives pour l'Iraq, la Libye et le Yémen restent tributaires d'un apaisement des conflits qui sévissent dans ces pays.

Les risques sont de nature baissière. L'effet négatif de l'assainissement des finances publiques et du resserrement de la liquidité sur la croissance pourrait être plus important qu'escompté. Les conflits régionaux pourraient s'intensifier. En outre, un ralentissement plus marqué de l'activité économique en Chine pourrait faire baisser davantage le prix des produits de base, tandis qu'un durcissement de la politique monétaire aux États-Unis plus rapide que prévu pourrait amplifier la volatilité financière mondiale, et ainsi limiter l'accès au financement international, en particulier pour les émetteurs moins bien notés. Quant aux risques à moyen terme, ils sont à la fois baissiers et haussiers. Les autorités pourraient accomplir des progrès plus rapides dans la mise en œuvre de leurs plans de réformes structurelles. Toutefois, étant donné la portée de la transformation économique prévue, ces plans pourraient rencontrer des obstacles, ce qui risquerait d'entraîner une forme de lassitude à l'égard des réformes.

Les efforts considérables de réduction des déficits déployés depuis l'an dernier se poursuivent et le déficit budgétaire hors pétrole global pour 2016 devrait s'améliorer de plus de 5 % du PIB non pétrolier. Malgré les récentes mesures d'assainissement, dont les réformes salutaires des prix intérieurs de l'énergie, les déficits devraient rester élevés : tous les pays devraient enregistrer des déficits budgétaires cette année, et seuls l'Iraq, le Koweït et les Émirats arabes unis devraient afficher un excédent d'ici 2021. La poursuite du rééquilibrage budgétaire est nécessaire; elle suppose des choix politiques difficiles et l'adoption de mesures bien calibrées pour protéger les populations les plus vulnérables.

En outre, les pays doivent accélérer leurs réformes structurelles afin de diversifier leur économie pour la rendre moins dépendante des hydrocarbures, renforcer le rôle du secteur privé et créer des emplois pour leur main-d'œuvre en croissance rapide. La transformation économique prévue, telle qu'elle apparaît dans les plans de diversification, prendra du temps. Une mise en œuvre rigoureuse et continue sera un facteur déterminant de réussite. Au fur et à mesure que l'économie se diversifiera, de nouvelles compétences seront nécessaires dans l'intérêt des nouveaux travailleurs et des travailleurs existants. L'amélioration des programmes d'éducation et de formation devrait viser prioritairement à réduire l'inadéquation des qualifications tout en anticipant les besoins futurs du secteur privé.

Pays importateurs de pétrole : promouvoir une croissance inclusive dans une conjoncture délicate

Les récentes réformes et le repli des cours du pétrole ont permis aux pays importateurs de pétrole de la région de renforcer leur stabilité macroéconomique. Toutefois, la croissance reste faible et fragile : elle devrait atteindre 3½ % cette année avant de se redresser à 4¼ % en 2017. L'avancement continu des réformes, la modération du frein budgétaire et l'accroissement de la demande extérieure, en particulier de la zone euro, devraient accompagner la reprise. Néanmoins, dans un contexte marqué par la persistance d'obstacles structurels, la croissance à moyen terme restera vraisemblablement trop faible pour remédier au chômage élevé et renforcer l'inclusivité.

En outre, des risques assombrissent ces perspectives. La lenteur des créations d'emploi et de l'amélioration des conditions de vie pourrait aggraver les tensions sociopolitiques, et les revers des transitions politiques et de la mise en œuvre des réformes pourraient compromettre la reprise. L'aggravation des conflits régionaux pourrait amplifier les répercussions négatives. Enfin, le durcissement des conditions financières mondiales, dans un contexte marqué par le rééquilibrage de la Chine, la normalisation des taux d'intérêt aux États-Unis et les retombées du Brexit, pourrait limiter l'accès au financement. En revanche, les exportations pourraient augmenter plus rapidement si, par exemple, davantage de progrès étaient accomplis en matière d'accords commerciaux avec l'Union européenne. Le rééquilibrage de l'économie chinoise pourrait en outre élargir les débouchés pour les exportations de biens de consommation.

L'intensification de la dynamique des réformes est cruciale dans cette conjoncture difficile. Les réformes des subventions énergétiques et les mesures en faveur de l'accroissement des recettes ont donné plus de latitude aux pouvoirs publics pour réaliser des dépenses dans les infrastructures, la santé et l'éducation ainsi que pour mettre en place des politiques d'aide sociale ciblées. Cependant, l'investissement et la croissance de la productivité sont trop faibles pour stimuler la croissance, la marge de manœuvre budgétaire est limitée par le coût élevé du service de la dette et le poids de la masse salariale et dans certains cas les vulnérabilités externes restent fortes. Il est nécessaire de poursuivre l'assainissement des finances publiques afin d'améliorer le profil de la dette publique et de renforcer la marge de manœuvre disponible. Cet assainissement peut mettre l'accent sur des mesures ciblées en matière de recettes — suppression des exonérations fiscales, progressivité accrue des impôts sur le revenu et renforcement du recouvrement de l'impôt — ainsi que sur la poursuite de la redéfinition des priorités en matière de dépenses, en délaissant les subventions énergétiques universelles au profit de l'aide sociale ciblée, de l'investissement et d'autres domaines porteurs de croissance. Une plus grande flexibilité des taux de change permettrait de renforcer la compétitivité. Enfin, des réformes structurelles, en particulier dans les domaines de l'entreprise, du commerce et des marchés du travail et de la finance, sont nécessaires pour favoriser l'expansion du secteur privé et la création d'emploi.

Région MOANAP : principaux indicateurs économiques, 2000–17
(Pourcentage du PIB, sauf indication contraire)

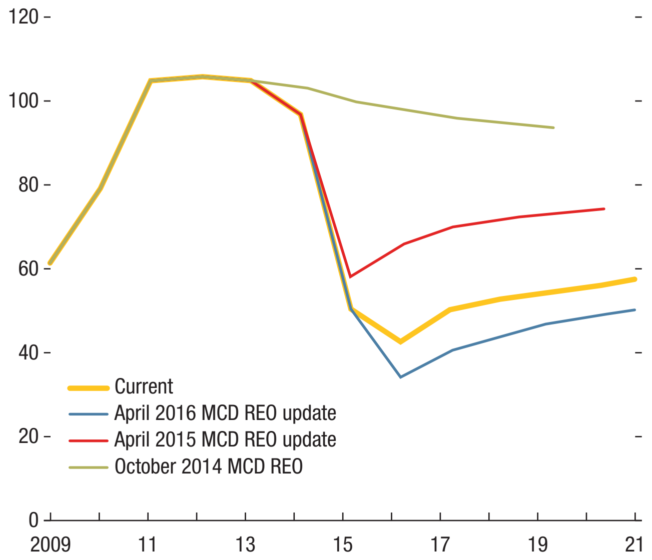
	Moyenne 2000–12	2013	2014	2015	Projections 2016	Projections 2017
MOANAP[1]						
PIB réel (croissance annuelle)	5.2	2.4	2.7	2.3	3.4	3.4
Solde des transactions courantes	9.2	10.1	5.1	–4.0	–4.6	–2.6
Solde budgétaire global	2.8	0.0	–2.9	–8.8	–8.5	–6.0
Inflation (progression annuelle)	6.8	10.0	6.9	5.9	5.6	6.1
Exportateurs de pétrole de la région MOANAP						
PIB réel (croissance annuelle)	5.4	2.0	2.7	1.6	3.3	2.9
Solde des transactions courantes	13.4	15.1	8.3	–3.8	–4.4	–1.8
Solde budgétaire global	6.7	4.3	–0.7	–9.5	–9.2	–6.2
Inflation (progression annuelle)	7.5	10.4	5.8	5.5	4.7	4.2
Dont : Conseil de coopération du Golfe (CCG)						
PIB réel (croissance annuelle)	5.1	3.1	3.3	3.4	1.7	2.3
Solde des transactions courantes	17.0	21.4	13.6	–2.4	–3.7	–0.5
Solde budgétaire global	10.8	10.8	3.1	–9.4	–9.8	–6.9
Inflation (progression annuelle)	2.8	2.8	2.6	2.5	3.6	2.6
Importateurs de pétrole de la région MOANAP						
PIB réel (croissance annuelle)	4.6	3.2	2.9	3.8	3.6	4.2
Solde des transactions courantes	–2.5	–5.1	–4.4	–4.5	–4.8	–4.7
Solde budgétaire global	–5.2	–9.4	–7.8	–7.3	–7.0	–5.8
Inflation (progression annuelle)	5.5	9.1	9.4	6.6	7.4	9.8
MOAN[1]						
PIB réel (croissance annuelle)	5.3	2.2	2.6	2.1	3.2	3.2
Solde des transactions courantes	10.0	10.9	5.6	–4.4	–5.0	–2.8
Solde budgétaire global	3.7	0.9	–2.7	–9.3	–9.1	–6.4
Inflation (progression annuelle)	6.6	10.3	6.8	6.1	6.0	6.2
Importateurs de pétrole de la région MOAN						
PIB réel (croissance annuelle)	4.6	2.9	2.3	3.8	3.1	3.8
Solde des transactions courantes	–3.2	–7.1	–5.9	–6.2	–6.7	–6.3
Solde budgétaire global	–5.7	–10.2	–9.5	–8.6	–8.6	–7.1
Inflation (progression annuelle)	4.1	10.1	9.9	8.0	9.9	12.3

Sources : autorités nationales; calculs et projections des services du FMI.
[1]Les données relatives à la période 2011-17 excluent la République arabe syrienne.
Note : Les données se rapportent aux exercices 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) et Égypte et Pakistan (juillet/juin).
Pays exportateurs de pétrole de la région MOANAP : Algérie, Arabie saoudite, Bahreïn, Émirats arabes unis, Iran, Iraq, Koweït, Libye, Oman, Qatar et Yémen.
Pays du CCG : Arabie saoudite, Bahreïn, Émirats arabes unis, Koweït, Oman et Qatar.
Pays importateurs de pétrole de la région MOANAP : Afghanistan, Djibouti, Égypte, Jordanie, Liban, Maroc, Mauritanie, Pakistan, Soudan, Syrie et Tunisie.

1. MENAP Oil Exporters: Adjustment to Cheaper Oil Continuing

Middle East, North Africa, Afghanistan, and Pakistan (MENAP) oil exporters continue to face an exceptionally challenging environment as low oil prices and conflicts continue to weigh on economic activity, fiscal and external balances, and the financial sector. Many have made progress in fiscal consolidation, yet sustained efforts will be required over the medium term to place public finances on a sound footing. Plans to diversify economies away from oil and create jobs for the rapidly growing populations have also been announced. Such economic transformation will take time. Careful and steady implementation of the diversification plans will be key to their success. In addition, policymakers need to remain vigilant about the financial stability risks, especially tightening liquidity and the risk of deteriorating asset quality.

Figure 1.1. Oil Price[1]
(U.S. dollars a barrel)



Sources: Bloomberg, L.P.; and IMF staff calculations.
Note: MCD REO = *Regional Economic Outlook: Middle East and Central Asia.*
[1]Average of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

Moderate Oil Price Recovery

Oil prices remain the key driver of the outlook for MENAP oil exporters given their high dependence on hydrocarbon budget revenues and exports. Having hit a 10-year low of less than $30 a barrel in January, oil prices have staged a partial recovery to about $40–$50 a barrel, supported by lower output from high-cost oil fields and supply disruptions in Canada and Nigeria, which have outweighed substantial production increases in Iran and Iraq.

However, despite this rebound, the oil market outlook has not fundamentally changed since the April 2016 *Regional Economic Outlook: Middle East and Central Asia* Update (MCD REO Update) Oil prices are assumed to average $43 a barrel in 2016 and $51 a barrel in 2017. Over the medium term, any further oil price recovery is expected to be limited, with futures markets suggesting prices will remain below $60 by 2021 (Figure 1.1). However, considerable uncertainty surrounds the oil price outlook on both the downside and upside, resulting from the global growth risks, sharp swings in the amount of oil supply outages, and ongoing consolidation and efficiency gains in the U.S. shale oil industry.[1]

Weak Growth Outlook, Muted Price Pressures

Overall GDP growth is projected to remain weak, with little change since the April 2016 MCD REO Update—higher-than-expected oil prices will result in smaller budget and external deficits rather than stronger spending. Economic activity in the Gulf Cooperation Council (GCC) region is projected to slow this year despite continued

Prepared by Bruno Versailles (lead author), Mariana Colacelli, Pilar Garcia-Martinez, and Juan Treviño under the supervision of Martin Sommer. Yufei Cai, Sebastian Herrador, Brian Hiland, and Amir Sadeghi provided research assistance.

[1]Husain and others (2015) discuss the fundamental forces driving the oil price outlook and their global implications.

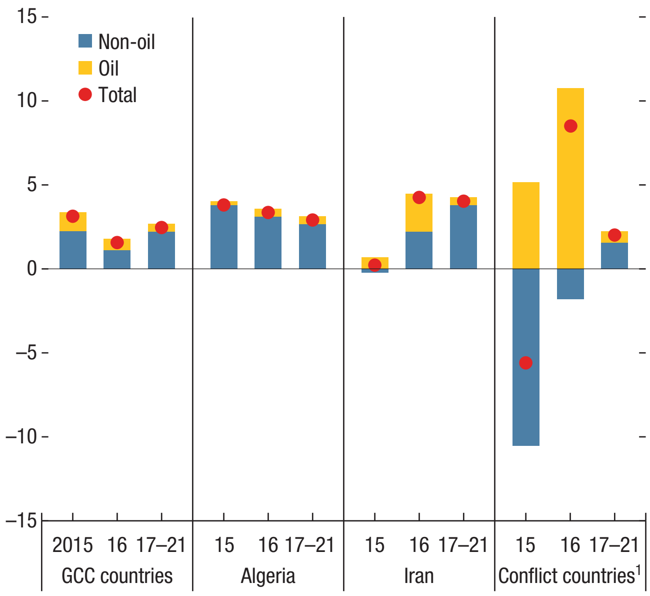
expansion in hydrocarbon output. Non-oil growth is expected to dip from 3¾ percent last year to 1¾ percent in 2016 (Figure 1.2), owing to fiscal consolidation (Box 1.1) and credit constraints due to slowing deposit growth. Next year, non-oil growth is forecast to pick up to 3 percent as the pace of fiscal consolidation eases. Over the medium term, decelerating fiscal consolidation and a partial recovery in oil prices should modestly boost average non-oil growth to about 3½ percent, still well below the 7 percent growth during 2000–14. This sluggish performance will keep a lid on overall growth given the expectations of slow expansion in the hydrocarbon sector. In Algeria, the overall growth slowdown in 2016 will be countered by higher natural gas output, but non-oil growth will remain well below historical norms over the medium term.

Iran's headline growth has been revised up to 4½ percent this year, owing to faster-than-expected increases in oil production and exports following the unwinding of sanctions. Oil output has risen to 3.6 million barrels per day, resulting in positive spillovers to the non-oil economy, although the recovery in oil output is expected to taper sharply next year as production approaches pre-sanctions levels. The growth dividend from the lifting of sanctions is materializing only gradually, with investors remaining cautious, and reintegration into global financial markets and domestic reforms proceeding slowly.

The outlook for countries in conflict (Iraq, Libya, Yemen) remains predicated on an easing of these conflicts (Box 2.1).[2] Despite the recent reduction in ISIL-held territories in Iraq, the medium-term outlook for oil production has been revised down to reflect lower investments in a difficult budget environment and continued security challenges. The recognition by the international community of the Government of National Accord in Libya is yet to translate into improved economic prospects. And a resolution of the conflict in Yemen remains elusive despite ongoing talks.

[2]Rother and others (2016) discuss the macroeconomic implications of regional conflicts.

Figure 1.2. Contributions to Real GDP Growth
(Percentage change)

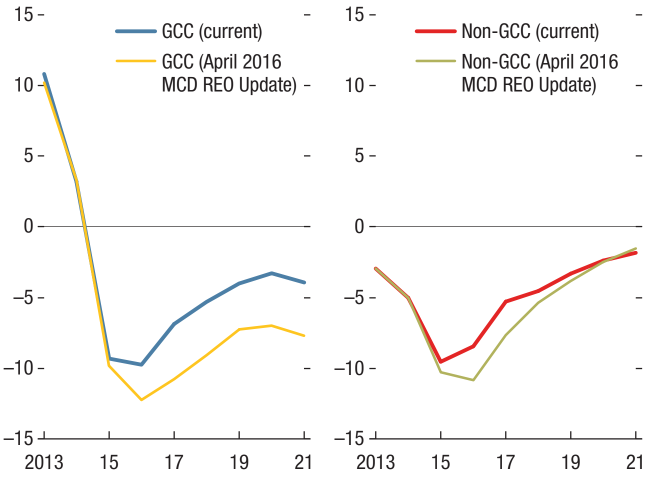


Sources: Country authorities; and IMF staff calculations.
Note: GCC = Gulf Cooperation Council.
[1]Conflict countries include Iraq, Syria, and Yemen. Libya is excluded from conflict countries.

The subdued growth prospects will keep underlying inflation low in the GCC region. Although energy price reforms are expected to temporarily push up headline inflation to about 3½ percent this year, inflation is expected to drop back to 2½ percent in 2017. In Algeria, price pressures are projected to increase further this year, owing in part to the weaker dinar and higher domestic energy prices, before moderating. Iran is making further headway in its disinflation program, bringing consumer price increases to single digits for the first time since 2000. Inflation in Iraq will remain low. Shortages, currency depreciation, and monetization of the fiscal deficit have pushed up inflation in both Libya and Yemen.

Overall, growth risks remain tilted to the downside. In particular, the negative impact of fiscal consolidation and tightening liquidity on growth could be greater than expected (see Box 1.1). Regional conflicts and related adverse spillovers could intensify. A substantial growth

Figure 1.3. Overall Fiscal Balance
(Percent of GDP)



Source: IMF staff calculations.
Note: GCC = Gulf Cooperation Council; MCD REO = *Regional Economic Outlook: Middle East and Central Asia.*

slowdown in China would further reduce commodity prices (Chapter 4), while faster-than-expected tightening by the Federal Reserve could increase global financial market volatility, reducing the availability of international financing, especially for the lower-rated oil exporters. Brexit—the June 2016 U.K. referendum result in favor of leaving the European Union—could worsen these effects through an increase in global risk aversion, even though market reaction has generally been contained (Box 1.2). There is also a double-sided risk to growth over the medium term. Authorities could make faster-than-expected progress in implementing structural reform plans. However, considering the scope of the envisaged economic transformation, such plans could run into domestic obstacles, which could, in turn, lead to reform fatigue.

Further Fiscal Adjustment Needed

Despite higher oil prices and the adoption of consolidation measures, projected fiscal deficits remain large in both the short and medium term (Figure 1.3). Taking into account announced fiscal policy measures, all countries are expected to record fiscal deficits this year, and only Iraq, Kuwait, and the United Arab Emirates are projected to post surpluses by 2021. This year's hydrocarbon budget revenues are projected to be lower by $400 billion compared with 2014. Cumulative fiscal deficits during 2016–21 are forecast to be about $765 billion, down from $1.1 trillion in the April 2016 REO Update.

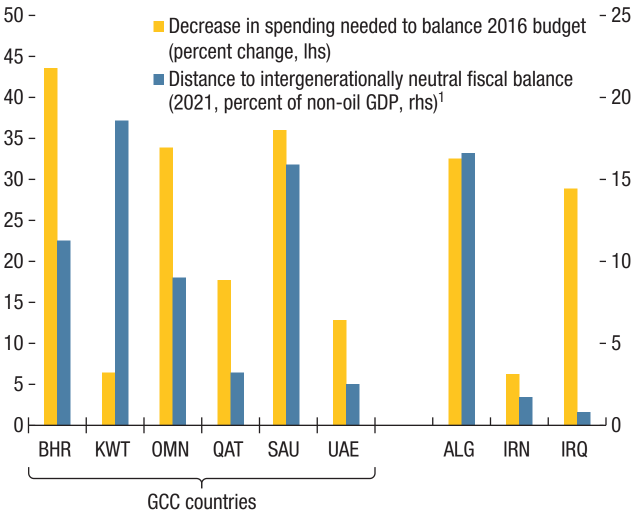
The significant deficit-reduction efforts which began last year are continuing, with the 2016 non-oil fiscal deficit expected to improve by more than 5 percent of non-oil GDP. Fiscal consolidation is particularly fast in Oman and Saudi Arabia, where non-oil deficits are projected to fall by more than 10 percentage points of non-oil GDP. In 2017, the pace of consolidation is expected to ease to about 1½ percent of non-oil GDP.

To help address the large budget deficits, policymakers have adopted a mix of spending cuts and revenue-raising measures. In particular, they have demonstrated resolve in addressing the politically difficult issue of low domestic fuel prices—all GCC countries, for example, have hiked energy prices over the past couple of years (Box 1.3). Some countries have also started—or are planning—to take measures to rein in the public sector wage bill, including through hiring freezes (Algeria, Iraq, Oman) and streamlining benefits (Oman, Saudi Arabia).[3]

Despite the remarkable progress so far, most oil exporters face increasingly difficult policy choices to achieve the significant medium-term fiscal adjustment their economies still need. Eliminating this year's budget deficit would demand an average spending cut of 25 percent. In all MENAP oil exporters, medium-term fiscal balances will fall well short of the levels needed to ensure that an adequate portion of the income from exhaustible oil and gas reserves is saved for future generations (as indicated in Figure 1.4 by the estimated distance to the intergenerationally neutral fiscal balance in 2021). Non-hydrocarbon revenues

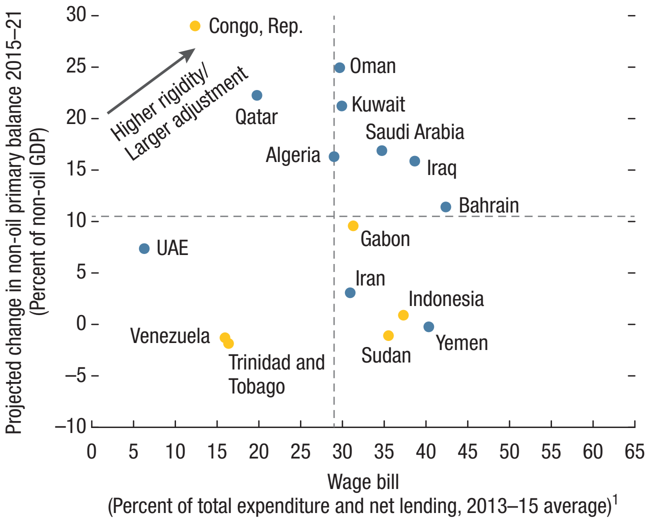
[3]Sommer and others (2015, 2016) discuss the adopted deficit-reduction measures in detail.

Figure 1.4. Illustrative Measures of Fiscal Adjustment



Source: IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. GCC = Gulf Cooperation Council; lhs = left-hand side; rhs = right-hand side.
[1]This is the gap between the projected nonhydrocarbon primary balance and the desirable fiscal balance based on a permanent income hypothesis, using oil prices based on futures markets.

Figure 1.5. Fiscal Plans and Fiscal Rigidity



Source: IMF staff calculations.
Note: The vertical and horizontal lines dividing the chart into four quadrants correspond to the median of the respective variables.
[1]For Bahrain and the United Arab Emirates (UAE), the concept used is total expense rather than total expenditure and net lending.

have the potential to be increased across the region, especially in GCC countries that continue working toward introducing a value-added tax, having already raised some fees, charges, and excises. Iraq aims to broaden the tax base.[4] Other policy priorities include additional streamlining of current expenditures, including the public sector wage bill, increasing the efficiency of public investment (Albino-War and others 2014, Sommer and others 2015, 2016), and additional energy price reforms, all while protecting the socially vulnerable.

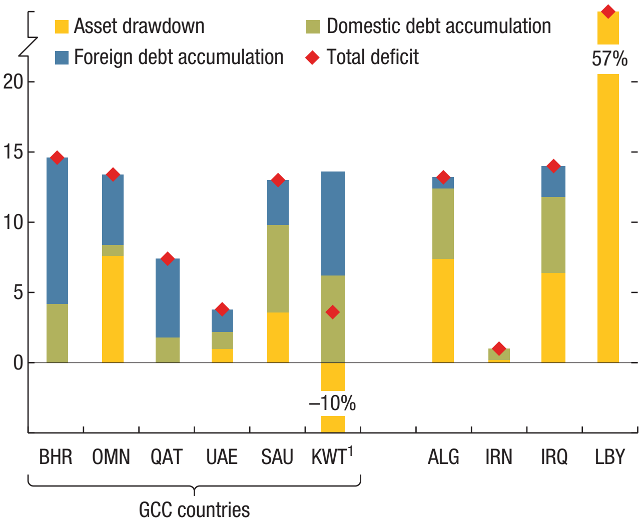
To reduce any adverse impact on growth, countries should phase in these additional deficit-reduction measures gradually. In addition, they should be embedded in a well-defined, medium-term fiscal framework to ensure steady implementation (IMF 2015a).[5] A successful launch of complex projects such as the value-added tax will require enhancements to local capacity. A number of MENAP oil exporters are developing or enhancing their policy frameworks, while improving other aspects of their fiscal institutions. Examples include the establishment of macro-fiscal units in Kuwait, Oman, Qatar, and Saudi Arabia, consolidated medium-term expenditure frameworks for health care and education in the United Arab Emirates, the creation of a debt management and liquidity committee in Oman, and a debt management office in Saudi Arabia, as well as enhancing the capacity of the debt management office in Bahrain. As fiscal consolidation proceeds, policymakers are likely to face headwinds given the high rigidity of public expenditures—for example, public wages account for more than a third of total spending in a number of oil exporters. Countries in the top-right quadrant of Figure 1.5 face the biggest challenge as they are not only planning the largest fiscal adjustment, but also facing a high rigidity of spending.

Deficit-financing options—discussed in more detail in Chapter 5—generally include the

[4]Jewell and others (2015) identify fairness-enhancing revenue-raising options for MENAP countries.
[5]More broadly, Lledo and Poplawski-Ribeiro (2013) find that higher quality of fiscal institutions is associated with better implementation of fiscal policy plans.

drawdown of government financial assets and issuance of domestic and foreign debt. After a significant withdrawal of financial buffers last year, a larger portion of the 2016 fiscal deficits (which amount to about $200 billion) is likely to be covered by issuing debt (Figure 1.6). Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (Abu Dhabi) have issued bonds and/or obtained syndicated loans in international markets this year. Such diversification of financing sources is appropriate given the greater absorptive capacity of international markets. This strategy will also help ease pressure on domestic banks to finance the deficits. International financing conditions remain broadly favorable for now, but the risks involved with international financing will need to be managed carefully.

Figure 1.6. Projected Financing of Fiscal Deficits
(Percent of GDP, 2016)



Source: IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes; GCC = Gulf Cooperation Council.
[1]Borrowing beyond the size of the deficit implies that the authorities are building buffers.

Financing Current Account Deficits

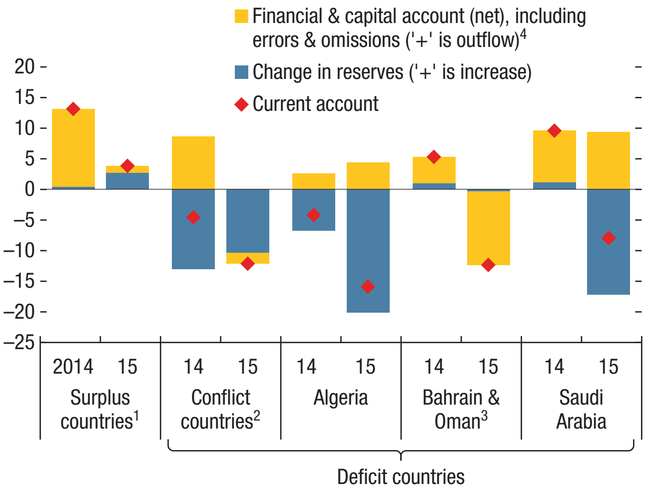
The oil price drop has brought about large export losses—oil-related receipts are projected to fall by about $435 billion this year compared with 2014. Consequently, the aggregate current account balance is projected to turn from a surplus of 8¼ percent of GDP in 2014 to deficits of 4½ percent of GDP in 2016 and 1¾ percent of GDP in 2017. In the GCC countries, the external adjustment to low oil prices should be accomplished through fiscal consolidation given the long-standing currency pegs and relatively undiversified economies. Countries with a more flexible exchange rate regime can attain some of the external adjustment through exchange rate depreciation, particularly diversified oil exporters.

Last year, Algeria and Saudi Arabia used extensive reserves to finance their current account deficits, while some others drew assets from their sovereign wealth funds (Figure 1.7). Conflict countries also drew down their reserves. The increasing international sovereign debt issuance this year, together with the tapping of international markets by government-related entities and the private sector, will help fund the current account shortfalls. Privatization and structural reforms to increase participation by foreign investors in the region would further support capital inflows. Saudi Arabia has announced its intention to sell a stake in Aramco, the world's most valuable oil and gas company, while accelerating capital market reforms to ease access for foreign investors. Oman has drafted a foreign investment law to attract investors. Iraq recently secured official financing from the IMF and other international partners.

Challenging Environment for the Financial Sector

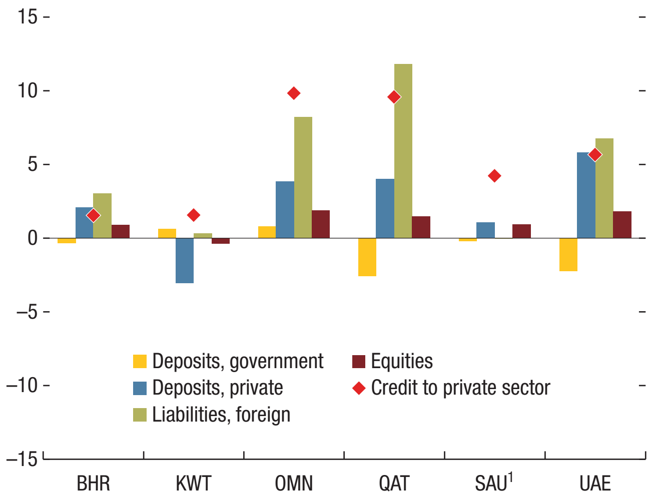
The financial sector has remained resilient following the drop in oil prices, but liquidity has tightened and asset quality is likely to deteriorate. Domestic deposit growth—especially by the government—has slowed significantly, reflecting primarily lower hydrocarbon receipts. The gap between sluggish domestic deposits and robust credit growth has been closed through higher foreign funding, including wholesale. In

Figure 1.7. External Balances
(Percent of GDP)



Sources: Country authorities; and IMF staff calculations.
[1]Iran, Kuwait, Qatar, and United Arab Emirates.
[2]Iraq, Libya, and Yemen.
[3]Weighted average.
[4]Includes transactions by sovereign wealth funds.

Figure 1.8. Trends in Commercial Banking Sector, 2014–15
(Changes in percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]In Saudi Arabia, government deposits are mostly placed at the central bank.

several GCC countries, rapidly growing foreign liabilities have been the key source of financing for continued credit expansion (Figure 1.8). In Saudi Arabia, robust credit growth has been funded by drawing down excess liquidity held at the Saudi Arabian Monetary Agency and running down foreign assets. Short-term interbank rates have generally increased more than in the United States—the key reference point given the exchange rate pegs or close ties of regional currencies to the U.S. dollar. The slowdown in domestic deposits is likely to constrain credit supply over time and thus undermine the private sector's ability to pick up the slack from a downsizing public sector, with negative consequences for growth and jobs (Box 1.1). Meanwhile, banks remain well capitalized, although profitability pressures have emerged as economic growth is slowing and provisioning for nonperforming loans increases.

Policymakers have adopted diverse responses to tightening domestic liquidity, such as increasing the loan-to-deposit ratio and placing government entity deposits in commercial banks (Saudi Arabia), relaxing reserve requirements (Algeria, Oman), and strengthening capacity to manage and forecast liquidity (Algeria). To help boost liquidity where needed, governments could consider transferring some of their foreign financial assets into the local banking system, while continuing to raise budget-deficit financing from international markets.

In the short term, policies should continue to be geared toward mitigating liquidity and credit risks where necessary. Of particular need is ensuring coherence in fiscal and monetary operations to avoid further tightening of domestic liquidity, improving liquidity-forecasting capabilities at central banks, ensuring effective liquidity-assistance frameworks, enforcing open-position limits, and ensuring appropriate loan classification and provisioning. Sufficient capital buffers need to be maintained to manage high-concentration risks, especially since low oil prices can put balance sheets under additional pressure (see IMF 2014 and Lukonga and Souissi 2015 for details). Many countries would benefit from further enhancing their financial sector surveillance, including more frequent and rigorous stress testing. Macroprudential frameworks should continue to be enhanced where necessary by clarifying mandates for macro-financial stability, strengthening interagency coordination, formalizing and refining of the policy toolkit, and developing the market infrastructure for effective policy implementation (IMF 2015b). On the regulatory front, the continued progress in the implementation of Basel regulations across the region is welcome.

Accelerating Diversification and Private Sector Development

In light of the new oil market realities and the downsizing of the public sector, countries need to accelerate structural reforms to diversify their economies away from hydrocarbons and boost the role of the private sector. These reforms—that will inevitably take time to implement successfully—will also be crucial for securing employment opportunities given the rapidly growing labor force.

Most oil exporters have formulated strategic development plans, including Saudi Arabia's recent Vision 2030. These plans typically anticipate that several strategic sectors such as logistics, tourism, energy, financial services, health care, and manufacturing will help generate the much-needed private sector jobs and growth. Policymakers have made some progress in increasing the role of the private sector, including through public-private partnerships (PPPs) in Kuwait and Oman; other countries (for example, Saudi Arabia) are expected to follow. Several countries are developing privatization plans (ongoing in Iran, while Kuwait, Oman, and Saudi Arabia are in the planning stages). Small and medium enterprises (SMEs) have been promoted for job-creation potential across the GCC. Moreover, several countries are modernizing their investment and labor laws (Algeria, Bahrain, Oman, Qatar, and Saudi Arabia). Foreign direct investment inflows have been decreasing in recent years; reducing red tape and stronger institutional quality would help attract more foreign investments (IMF 2016).

All of these plans need to be developed into actionable measures, sequenced, and implemented. Importantly, risks and unintended consequences of reforms need to be identified and addressed. For example, the PPPs should be supported by robust regulatory frameworks that ensure cost-effectiveness and limited fiscal risks, with monitoring to ensure service delivery. A strong legal and institutional framework for privatization would ensure a transparent and competitive environment. Increasing the role of credit bureaus would strengthen lenders' ability to properly monitor the credit risk of SMEs. Upgrades to labor regulations should include feedback from the private sector.

Despite this progress, further measures to improve business environments and to diversify and expand the role of the private sector are urgently needed.[6] The successful cases of Indonesia, Malaysia, and Mexico suggest that reducing commodity dependence takes time (Cherif, Hasanov, and Zhu 2016). In the GCC region, the United Arab Emirates has had some success in diversifying its export base through financial, transport, and business services, as well as through tourism, while Bahrain has increased the roles of financial services and food processing (Figure 1.9).

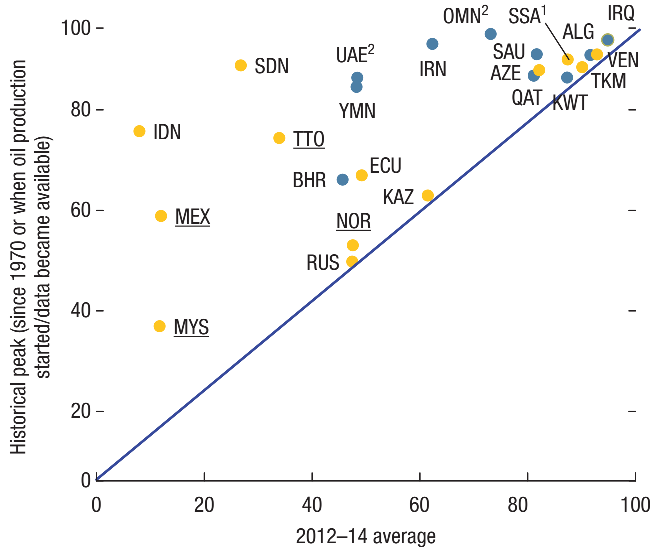
Labor market policies deserve special attention, with the large youth population facing the biggest challenge, given the expected slowdown in public sector hiring that has traditionally been the employer of first resort for nationals. A focus on labor market policies is particularly important in the GCC region, where businesses consistently rank restrictive labor regulations and inadequately educated workforces as their biggest barriers.[7] These challenges have prevented the private sector from significantly expanding its national workforce at a time when the growth of nationals employed by the public sector has been slowing (Figure 1.10). The ongoing reforms include

[6]Mitra and others (2016) identify three policy areas to boost MENAP's growth prospects: improving the business environment, enhancing workers' talent, and developing financial markets.

[7]See, for example, the Global Competitiveness Index (World Economic Forum 2015).

Figure 1.9. Diversification of Exports

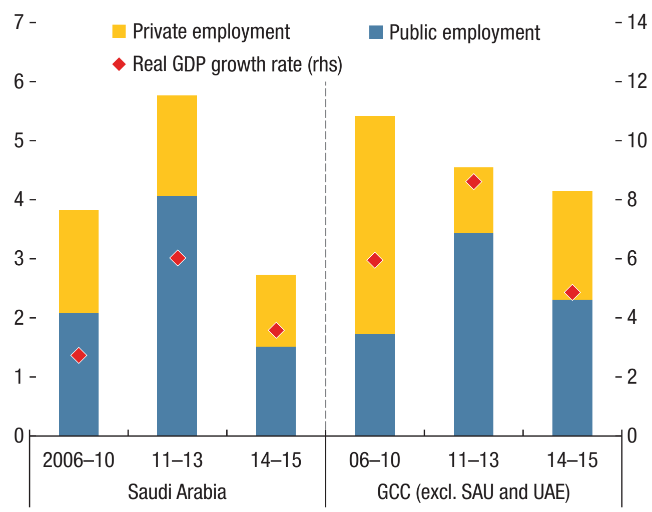
(Oil exports as percent of total exports)



Sources: Country authorities; and IMF staff calculations.
Note: Countries underlined saw oil production decline by more than 30 percent over the past 10 years. Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]SSA is the average of Angola, Republic of the Congo, Equatorial Guinea, Gabon, and Nigeria.
[2]Excludes re-exports.

Figure 1.10. Employment of GCC Nationals

(Contributions to employment growth)



Sources: Country authorities; IMF staff calculations.
Note: GCC = Gulf Cooperation Council; SAU = Saudi Arabia; UAE = United Arab Emirates; rhs = right-hand side.

public sector hiring freezes (Iraq, Oman), plans for greater mobility of foreign workers among employers (Qatar, Saudi Arabia), and increases in fees on foreign work visas (Bahrain, Oman, Saudi Arabia). Narrowing the gap between public and private sector wages would make private sector employment more attractive for nationals. Complementary active labor market policies, in place throughout the region, have been found, when well designed, to improve labor market outcomes (Box 2.2 discusses what makes such programs successful).

Training programs are particularly important as they help make growth more inclusive, thus helping to alleviate social pressures (see Box 2.2). As diversification accelerates and the economy shifts away from hydrocarbon industries, new skills will be needed to succeed in the private sector, for new and existing workers alike. Upgrades to education, training, and retraining programs should focus on reducing skill mismatches, taking into account the upcoming private sector needs.[8]

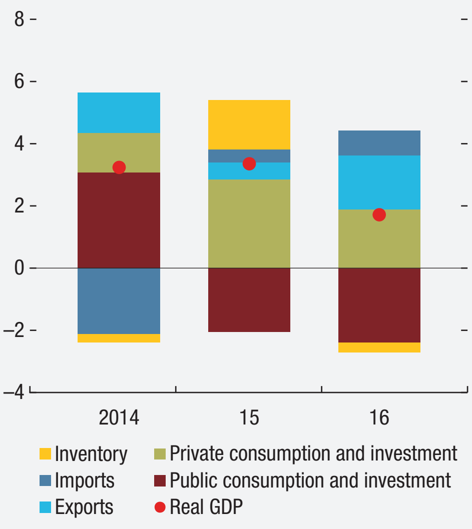
[8]Malaysia's successful diversification, for example, was accompanied by government programs that provided continuous skill upgrades for workers, while Mexico's success in the automobile industry was helped by the local training of engineers, combined with government incentives for firms to provide further training for workers abroad.

Box 1.1. GCC Countries: How Sharp Will the Growth Slowdown Be?

Most Middle East, North Africa, Afghanistan, and Pakistan (MENAP) oil-exporting countries have begun to adjust budget policies to the new reality of persistently low oil prices. Deficit-reduction measures have been particularly significant in the Gulf Cooperation Council (GCC)—the average non-oil deficit is projected to fall by about 20 percent of non-oil GDP during 2014–16. While fiscal consolidation is needed to ensure fiscal sustainability, attain intergenerational equity, and rebuild buffers, it will inevitably weigh on growth.

How much could growth slow? The GCC's non-oil growth is projected to halve from 5½ percent in 2014 to 1¾ percent this year, while Saudi Arabia's non-oil growth has recently turned negative on a year-over-year basis for two consecutive quarters. Lower public consumption and investment may subtract more than 2 percentage points from the estimated GCC growth outturn in 2015 and projections for 2016 (Figure 1.1.1). Last year, this drag was largely offset by resilient private consumption and investment, as well as by higher hydrocarbon production.[1] This year, however, the adverse growth impact will be felt more strongly, although higher exports—especially due to stronger-than-expected petrochemical output in Saudi Arabia—and lower imports will partly soften the drag.

Figure 1.1.1. GCC: Contributions to Real GDP Growth, 2014–16
(Percentage points of GDP)



Sources: National authorities; and IMF staff estimates.

An econometric model of GCC growth suggests that there is a large degree of uncertainty about the central forecasts (Figure 1.1.2).[2] Growth could be either stronger or weaker than currently projected. On the downside, an adverse feedback loop between budget spending cuts and tightening credit conditions could reduce the private sector's ability to pick up the slack created by the shrinking public sector. On the upside, growth headwinds could be smaller than projected if the composition of fiscal consolidation is favorable.

To boost the growth outlook and create jobs, the fiscal adjustment should be implemented in a growth-friendly way and accompanied by these supporting policies:

- *Use appropriate fiscal measures*. Spending cuts should be targeted toward expenditures with the smallest adverse impact on growth, such as those resulting mostly in lower imports and savings. However, the adverse impact of spending cuts on growth could increase over time as governments run out of "low-hanging fruit" and confront the need to curb core expenditures, such as the public sector wage bill, which might reduce consumption. Introducing a value-added tax and property taxes, eliminating exemptions, and increasing excises are

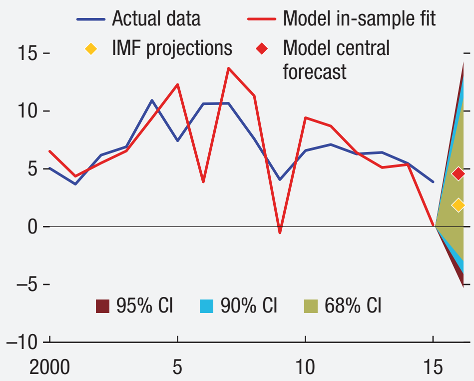
Prepared by Martin Sommer, Armand Fouejieu, and Amir Sadeghi, with support from Yufei Cai and Sebastian Herrador.

[1]Fiscal consolidation has been fastest in Oman and Saudi Arabia—about 25 percent of non-oil GDP during 2014–16. In Oman, smaller defense-related imports and an automatic reduction in on-budget energy subsidies due to lower international oil prices have accounted for nearly one-half of this adjustment. In Saudi Arabia, reduced purchases of land for infrastructure projects have contributed significantly. All these measures likely have zero or a very small direct impact on growth.

[2]The model includes real non-oil GDP, fiscal expenditures, oil prices, credit growth, and controls for the global financial crisis and the post-Arab Spring period. A fixed-effect panel regression is estimated using data for all six GCC countries during 1990–2015.

Box 1.1. *(continued)*

Figure 1.1.2. GCC: Real Non-Oil GDP Growth
(Percent, PPP weighted)



Source: IMF staff calculations.
Note: CI = confidence interval for the model forecast; GCC = Gulf Cooperation Council; PPP = purchasing power parity.

likely to carry a smaller adverse growth impact than other alternatives.

- *Avoid sharp cuts*. Spreading deficit-reduction measures over time would be desirable, to allow the private sector to adjust.

- *Keep bank credit flowing*. Policymakers can ease the risk of a double whammy from tighter fiscal policies and credit conditions by ensuring adequate liquidity in the financial system; for instance, by reducing required reserves and increasing the loan-to-deposit ratio, where appropriate.

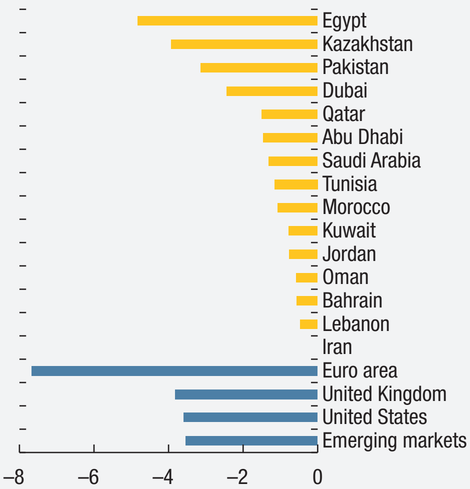
- *Look for new growth opportunities*. Deep structural reforms would, over time, support private sector activity and attract foreign investment, thus weaning the GCC economies off their over-reliance on oil and public spending. In Oman, for example, a focused development plan, the prioritization of public investment, and the draft foreign investment law have all helped to boost private sector confidence. In Bahrain, the upcoming expansions of an aluminum smelter and oil refinery are expected to support growth.

Box 1.2. The Impact of Brexit on MENAP and the CCA

Brexit, the June 2016 U.K. referendum result in favor of leaving the European Union (EU), has so far had a limited impact on the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) and Caucasus and Central Asia (CCA) regions. The regions' financial markets weakened immediately after the Brexit result, in line with global developments. This included a 5 percent drop in oil prices. Stock markets posted losses of 1–5 percent (Figure 1.2.1; Egypt, GCC, Kazakhstan, Pakistan) and five-year credit default swap spreads widened by 10–25 basis points. Currencies weakened only marginally (by 1½ percent in Algeria, Kazakhstan, and Morocco, and by 5 percent in Georgia) and there was no significant impact on forward currency spreads in the GCC, which peg to the U.S. dollar.

However, Brexit has increased uncertainty about global economic prospects. Quantifying the economic impact of Brexit is challenging at this stage, not least because of considerable uncertainty about the nature of future trade arrangements between the United Kingdom and the EU, and the likelihood of any cascading effects from Brexit on the willingness of other countries to remain in the EU. Negotiations between the United Kingdom and the EU are expected to be protracted, raising economic, political, and institutional uncertainty. This is likely to take a toll on confidence and investment, with repercussions on trade and financial market conditions—particularly in advanced Europe—and key commodity prices (Box 1, July 2016 World Economic Outlook Update).

Figure 1.2.1. Stock Market Response to Brexit Vote
(Percent change, June 23–26, 2016)



Sources: Bloomberg, L.P; Haver Analytics.

Bilateral economic linkages between most MENAP and CCA countries and the United Kingdom are limited—including through trade (Figure 1.2.2), remittances, the banking system (Figure 1.2.3), and foreign direct investment (FDI). An exception is the reliance of some banks in Bahrain, Egypt, Qatar, and the United Arab Emirates on wholesale borrowing from the United Kingdom, which may become an issue in the event of a spike in funding costs.

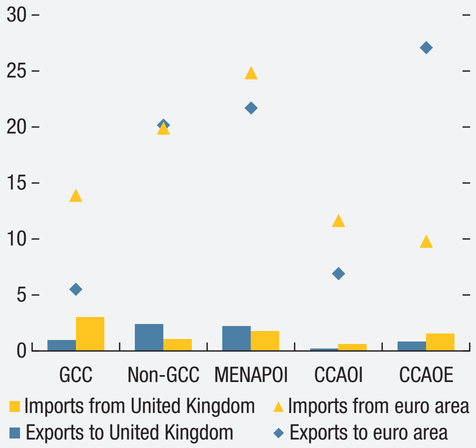
A sharp increase in global risk aversion could push up external financing costs for MENAP and CCA countries and banks. Countries with vulnerable fiscal positions (Egypt) or those expected to tap international markets in the coming months to finance their budget deficits (for example, Egypt, Pakistan, and Saudi Arabia), as well as banks relying on offshore funding (especially in Bahrain and the United Arab Emirates), are also vulnerable through this channel. Cross-border exposures to European banks are sizable for Morocco and Tunisia.

A growth slowdown in the euro area stemming from Brexit would also have a significant impact on the MENAP and CCA regions. Ties to the euro area are strong through trade, remittances, FDI, and tourism, especially for MENAP oil importers in the Maghreb region (Morocco, Tunisia) and the CCA.

Prepared by Pritha Mitra and Juan Trevino, with research assistance from Hong Yang.

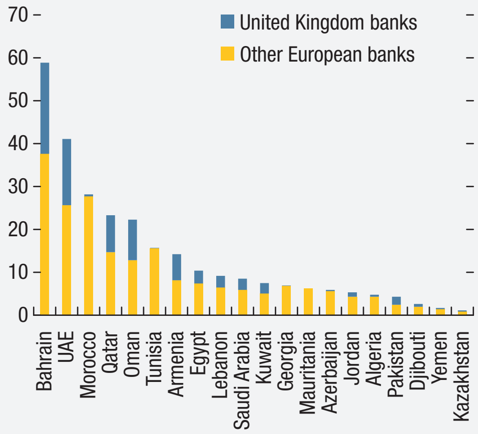
Box 1.2. *(continued)*

Figure 1.2.2. Trade with the United Kingdom and the Euro Area, 2012–14
(Percent of total exports or imports, respectively)



Source: IMF, Direction of Trade database.
Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; OE = oil exporters; OI = oil importers.

Figure 1.2.3. Claims on United Kingdom and European Banks, 2016:Q1
(Percent of recipients' GDP)



Source: Bank for International Settlements.
Note: Countries that have less than 1 percent exposure are excluded (Afghanistan, Iraq, Kyrgyz Republic, Libya, Sudan, Tajikistan, and Turkmenistan). UAE = United Arab Emirates.

A further decline in oil prices owing to slower global growth is another key channel through which the MENAP and CCA regions could be affected—especially the oil exporters. The decline in exports could further deteriorate fiscal balances and ultimately reduce growth prospects. Oil importers in the MENAP and CCA regions could be affected because of decreased import demand or remittances from oil exporters in the region (especially the GCC) or Russia.

Dollar appreciation, triggered by safe haven flows amid increased global risk aversion, is likely to weaken export competitiveness, especially for countries with diversified (non-commodity) exports whose currencies have limited flexibility against the dollar. Dollar appreciation would also raise the servicing cost of external dollar-denominated debt, particularly for the CCA. International reserves and investment portfolios of sovereign wealth funds will be affected by valuation changes.

All in all, Brexit could weaken the outlook for the MENAP and CCA regions to the extent that it increases global risk aversion and reduces global growth and commodity prices.

Box 1.3. Progress in GCC Energy Price Reforms

Faced with dwindling oil revenues, the GCC region has been implementing energy price reforms as a means of reducing spending. All of the GCC countries have seen an increase in energy prices; most increases have occurred since oil prices began dropping in mid-2014, although the depth and breadth of the reforms have varied significantly across countries. The 2016 January–July average prices for diesel in the United Arab Emirates and Oman, and for natural gas in Bahrain and Oman, are very close to or above U.S. price levels (Table 1.3.1). Saudi Arabia initiated substantial energy price reforms in late 2015, and plans to gradually raise domestic prices further over the next five years. Qatar has also started price reforms, but in both Qatar and Saudi Arabia, domestic prices are still well below international levels. In Kuwait, a significant increase in gasoline prices took effect in September this year, and electricity prices are also expected to increase next year (Table 1.3.4). Besides energy price reforms, many GCC countries have begun to implement policies to improve energy efficiency and are exploring the feasibility of generating electricity through renewable sources.

Table 1.3.1. Prices for Energy Products: GCC and the United States
(Average January–July 2016 or latest available)

	Gasoline	Diesel	Natural Gas	Electricity
	(U.S. dollars per liter)		*(U.S. dollars per MMBtu)*	*(U.S. dollars per KWh)*
Bahrain	0.38	0.32	2.75	0.04
Kuwait	0.19	0.39	1.50	0.01
Oman	0.42	0.43	3.00	0.04
Qatar	0.35	0.37	0.75	0.05
Saudi Arabia	0.22	0.10	1.50	0.10
United Arab Emirates	0.41	0.43	0.75	0.12
GCC average	0.33	0.34	1.71	0.06
GCC maximum	0.42	0.43	3.00	0.12
U.S. prices	0.51	0.45	2.18	0.10

Sources: Prices for GCC countries come from country authorities and are averages for 90 and 95 octane gasoline. U.S. gasoline (average for mid and high grade) and diesel prices come from the U.S. Energy Information Agency (EIA) and are adjusted for taxes. Natural gas price for the United States is the Henry Hub spot price. Electricity tariffs for the United States include taxes and come from EIA.
Note: GCC = Gulf Cooperation Council; MMBtu = 1 million British thermal unit; KWh = kilowatt hour.

Higher energy prices will help slow the region's rapid growth in energy consumption and will support fiscal adjustment. Energy consumption per capita in the GCC is not only high, but is also rising rapidly (in Qatar, Saudi Arabia, and the United Arab Emirates, in particular). The average estimated implicit cost of low energy prices for the six GCC countries based on 2016 prices ranges from 0.8 percent of GDP for the United Arab Emirates to over 7 percent of GDP for Kuwait (Table 1.3.2). The explicit cost of energy subsidies in the budget for the GCC region varies considerably across countries, but averages about 1 percent of GCC GDP (Table 1.3.3). The recent energy price reforms will support fiscal adjustment through the reduction in budget costs from explicit energy subsidies and/or through higher revenues from the domestic sale of energy products.

The GCC countries need to continue to ensure the success and sustainability of their energy price reforms. To this end, effective communication campaigns would be important to explain the rationale, objectives, and benefits of these reforms, inform the public of the pace of price increases, and introduce clear and transparent compensation measures to offset the impact of price increases on low-income households. A 2013 IMF study

Prepared by Malika Pant.

Box 1.3 *(continued)*

Table 1.3.2. GCC Implicit Energy Cost Estimates[1]
(Percent of GDP)

	2014	2015	2016
Bahrain	7.4	5.4	3.6
Kuwait	7.5	8.0	7.2
Oman	7.1	4.6	2.8
Qatar	5.0	4.5	3.5
Saudi Arabia	9.3	7.3	4.2
United Arab Emirates	2.4	1.3	0.8
GCC	6.7	5.3	3.4

Source: GlobalPetrolPrices.com; GCC countries' government agencies; International Energy Agency; U.S. Energy Information Administration; World Bank Commodity Price data; IMF staff calculations.
Note: GCC = Gulf Cooperation Council.
[1] The implicit cost of energy products—including gasoline, diesel, natural gas, and electricity—is estimated using the price gap methodology (2016 prices are averages for January–July 2016 or latest available) IMF (2015).

Table 1.3.3. GCC Explicit Energy Cost Estimates in the Budget[1]

	Billions of U.S. dollars	Percent of GDP
Bahrain	1.1	3.5
Kuwait	7.8	6.8
Oman	0.8	1.3
Qatar	1.2	0.7
Saudi Arabia	0.0	0.0
United Arab Emirates	…	…
GCC[2]	10.9	1.1

Sources: Country authorities; and IMF staff estimates.
Note: GCC = Gulf Cooperation Council.
[1] 2016 budget numbers are used for Bahrain and Oman; 2015 budget numbers are used for others. For Qatar, 2015 staff estimates are based on historical data.
[2] GCC total excludes United Arab Emirates.

covering major energy price reform episodes (during the period from early 1990s to 2010s) finds that, in most of these cases, countries relied on mitigating measures to protect the poor: targeted cash transfers or an expansion of existing social programs. In Armenia, Indonesia, and Jordan, transfer programs helped gain support for the reforms. Mitigating measures to help the productive sector included a gradual adjustment in prices (for instance, for natural gas in Bahrain), and financial support to selected enterprises to reduce energy intensity (Iran). Once prices have been raised, the introduction of an automatic pricing formula—as seen in Oman, the United Arab Emirates, and, more recently, Qatar, and, as announced, in Kuwait—may reduce the risk of the reforms being unwound while ensuring that changes in international prices are reflected in domestic prices in a timely manner.

Box 1.3 *(continued)*

Table 1.3.4. Recent Updates on Energy Price Reforms in the GCC

	Pre-oil price drop (before mid-2014)	Post-oil price drop (after mid-2014)
Bahrain	The gas price for existing industrial customers was increased by 50 percent, starting in January 2012, from $1.50 to $2.25 per MMBtu, while the price for new industrial customers remained at $2.50 per MMBtu (prices for new customers were increased from $1.30 to $2.50 in April 2010).	In March 2015, the authorities announced annual increases of $0.25 per MMBtu in the gas price for industrial users starting on April 1, 2015, until the price reaches $4 per MMBtu by April 2021. In March 2015, the authorities increased the fuel price in marine stations. The electricity and water tariff structure was adjusted for non-domestic users, increasing tariffs for higher consumption levels (October 2013). In January 2016, the authorities raised the retail price of gasoline by nearly 60 percent. Price increases for diesel, kerosene, liquified propane gas, and electricity and water tariffs are being phased in gradually by 2019. Bakeries and fishermen are exempt from the diesel and kerosene price increase, while a majority of Bahraini households and small businesses are exempt from higher electricity and water tariffs.
Kuwait	…	Kuwait doubled the price of diesel in January 2015. Authorities have approved and announced an increase in gasoline prices of about 70 percent, on average, effective September 2016. Additionally, a government committee will revise the new gasoline prices every three months depending on international oil prices. A law was recently passed by parliament to reform water and electricity subsidies. The new tariffs will become effective in May 2017.
Oman	In January 2015, the industrial price for natural gas doubled, following a 2013 agreement.	In 2016, the authorities implemented fuel subsidy reform, linking prices to international ones, with monthly revisions to consumer prices. Water tariffs were increased in March 2016 for government, commercial, and industrial users. There is also a proposal to increase electricity tariffs for these users.
Qatar	Qatar raised the pump prices of gasoline by 25 percent and of diesel by 30 percent in January 2011. Diesel prices were again raised in May 2014, by 50 percent.	In October 2015, water and electricity prices were raised and tiered according to consumption. In January 2016, gasoline prices were increased again by 30 percent. Authorities have set up a committee that makes recommendations on whether prices should be adjusted, based on global markets and regional developments, and prices were increased again slightly by 4 percent in August.
Saudi Arabia	Saudi Arabia increased the average price of electricity sold to non-individual users by more than 20 percent on July 1, 2010.	In December 2015, the authorities announced an increase in fuel prices (ranging from 10 percent to 134 percent increase) across most major energy and water products for businesses or households.

Source: Country authorities.
Note: MMBtu = 1 million British thermal units.

Box 1.3 *(continued)*

	Pre-oil price drop (before mid-2014)	Post-oil price drop (after mid-2014)
United Arab Emirates	The United Arab Emirates increased gasoline prices in 2010 to the highest level in the Gulf Cooperation Council. Dubai raised water and electricity tariffs by 15 percent in early 2011.	In August 2015, the United Arab Emirates reformed its fuel pricing policy by adopting a mechanism to adjust monthly gasoline and diesel prices against international prices. With this reform, gasoline prices were increased by 25 percent and diesel prices were reduced by 29 percent. Abu Dhabi is developing a comprehensive electricity and water consumption strategy, which led to an increase in tariffs in January 2015 (by 170 percent for water and by 40 percent for electricity). Water and electricity tariffs were increased again by 14–17 percent in January 2016. The authorities are planning to gradually phase out the remaining electricity, water, and gas subsidies, while protecting lower-tier consumers.

Source: Country authorities.
Note: MMBtu = 1 million British thermal units.

References

Albino-War, M., S. Cerovic, F. Grigoli, J. Flores, J. Kapsoli, H. Qu, Y. Said, B. Shukurov, M. Sommer, and S. Yoon. 2014. "Making the Most of Public Investment in MENA and CCA Oil-Exporting Countries." Staff Discussion Note 14/10, International Monetary Fund, Washington, DC.

Cherif, R., F. Hasanov, and M. Zhu (eds). 2016. *Breaking the Oil Spell.* Washington: International Monetary Fund.

Husain, A., R. Arezki, P. Breuer, V. Haksar, T. Helbling, P. Medas, and M. Sommer. 2015. "Global Implications of Lower Oil Prices." Staff Discussion Note 15/15, International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2014. "Assessing Concentration Risks in GCC Banks." Paper presented at the Annual Meeting of GCC Ministers of Finance and Central Bank Governors. Kuwait City, October 25.

———. 2015a. *Fiscal Monitor*. Washington, April.

———. 2015b. "Oil Prices, Financial Stability, and the Use of Countercyclical Macroprudential Policies in the GCC." Paper presented at the Annual Meeting of GCC Ministers of Finance and Central Bank Governors. Doha, November 10.

———. 2016. *Fiscal Monitor*. Washington, April.

Jewell, A., M. Mansour, P. Mitra, and C. Sdralevich. 2015. "Fair Taxation in the Middle East and North Africa." Staff Discussion Note 15/16, International Monetary Fund, Washington, DC.

Lledo, V., and M. Poplawski-Ribeiro. 2013. "Fiscal Policy Implementation in Sub-Saharan Africa." *World Development* 46: 79–91.

Lukonga, I., and M. Souissi. 2015. "How Might the Sustained Decline in Oil Prices Affect MENA and CCA Banking Systems?" Chapter 6 in *Regional Economic Outlook, Middle East and Central Asia.* Washington: International Monetary Fund.

Mitra, P., A. Hosny, G. Minasyan, G. Abajyan, and M. Fischer. 2016. "Avoiding the New Mediocre: Raising Potential Growth in the Middle East and Central Asia." Middle East and Central Asia Departmental Paper 16/1, International Monetary Fund, Washington, DC.

Rother, B., G. G. Pierre, D. Lombardo, R. Herrala, P. Toffano, E. Roos, G. Auclair, and K. Manasseh. Forthcoming. "The Economic Impact of Conflicts and the Refugee Crisis in the Middle East and North Africa." Staff Discussion Note, International Monetary Fund, Washington, DC.

Sommer, M., G. Auclair, S. Quayyum, A. Tiffin, and B. Versailles. 2015. "Fiscal Adjustment to Lower Oil Prices in MENA and CCA Oil Exporters." Chapter 4 in *Regional Economic Outlook: Middle East and Central Asia.* Washington: International Monetary Fund.

Sommer, M., G. Auclair, A. Fouejieu, I. Lukonga, S. Quayyum, A. Sadeghi, G. Shbaikat, A. Tiffin, J. Trevino, and B. Versailles. 2016. "Learning to Live with Cheaper Oil." Middle East and Central Asia Departmental Paper 16/3, International Monetary Fund, Washington, DC.

World Economic Forum. 2015. *The Global Competitiveness Report 2015–16*. Geneva: World Economic Forum.

MENAP Oil Exporters: Selected Economic Indicators

	Average 2011–12	2013	2014	2015	Projections 2016	Projections 2017
Real GDP Growth	**5.4**	**2.0**	**2.7**	**1.6**	**3.3**	**2.9**
(Annual change; percent)						
Algeria	3.7	2.8	3.8	3.9	3.6	2.9
Bahrain	5.1	5.4	4.4	2.9	2.1	1.8
Iran, I.R. of	4.3	–1.9	4.3	0.4	4.5	4.1
Iraq	…	7.6	–0.4	–2.4	10.3	0.5
Kuwait	5.5	0.4	0.6	1.1	2.5	2.6
Libya	7.1	–13.6	–24.0	–6.4	–3.3	13.7
Oman	3.8	3.2	2.9	3.3	1.8	2.6
Qatar	12.4	4.6	4.0	3.7	2.6	3.4
Saudi Arabia	4.3	2.7	3.6	3.5	1.2	2.0
United Arab Emirates	5.0	4.7	3.1	4.0	2.3	2.5
Yemen	3.0	4.8	–0.2	–28.1	–4.2	12.6
Consumer Price Inflation	**7.5**	**10.4**	**5.8**	**5.5**	**4.7**	**4.2**
(Year average; percent)						
Algeria	3.8	3.3	2.9	4.8	5.9	4.8
Bahrain	1.5	3.3	2.7	1.8	3.6	3.0
Iran, I.R. of	16.3	34.7	15.6	11.9	7.4	7.2
Iraq	17.0	1.9	2.2	1.4	2.0	2.0
Kuwait	3.2	2.7	2.9	3.2	3.4	3.8
Libya	5.4	2.6	2.8	14.1	14.2	12.5
Oman	2.8	1.2	1.0	0.1	1.1	3.1
Qatar	4.5	3.1	3.4	1.8	3.0	3.1
Saudi Arabia	2.1	3.5	2.7	2.2	4.0	2.0
United Arab Emirates	4.5	1.1	2.3	4.1	3.6	3.1
Yemen	11.6	11.0	8.2	39.4	5.0	18.0
General Gov. Overall Fiscal Balance	**6.7**	**4.3**	**–0.7**	**–9.5**	**–9.2**	**–6.2**
(Percent of GDP)						
Algeria	3.9	–0.9	–8.0	–16.8	–13.3	–9.5
Bahrain[1]	0.0	–5.4	–5.8	–15.1	–14.7	–11.7
Iran, I.R. of[2]	1.9	–2.2	–1.2	–2.0	–1.1	–1.0
Iraq	…	–5.8	–5.6	–13.7	–14.1	–5.1
Kuwait[1]	28.5	34.3	28.1	1.5	–3.6	3.2
Libya	12.7	–4.0	–40.3	–52.5	–56.6	–43.8
Oman[1]	9.2	4.7	–1.1	–16.5	–13.5	–10.3
Qatar	9.3	22.2	15.0	5.4	–7.6	–10.1
Saudi Arabia	8.2	5.8	–3.4	–15.9	–13.0	–9.5
United Arab Emirates[3]	11.1	10.4	5.0	–2.1	–3.9	–1.9
Yemen	–2.7	–6.9	–4.1	–10.6	–11.3	–5.5
Current Account Balance	**13.4**	**15.1**	**8.3**	**–3.8**	**–4.4**	**–1.8**
(Percent of GDP)						
Algeria	13.5	0.4	–4.4	–16.5	–15.1	–13.7
Bahrain	6.3	7.4	4.6	–3.1	–4.7	–3.8
Iran, I.R. of	4.9	7.0	3.8	2.1	4.2	3.3
Iraq	…	1.4	–0.8	–7.2	–10.8	–3.6
Kuwait	32.8	39.9	33.3	5.2	3.6	8.4
Libya	24.4	13.5	–27.8	–42.1	–47.4	–36.9
Oman	9.1	6.7	5.7	–17.5	–21.3	–17.6
Qatar	20.0	29.9	23.5	8.2	–1.8	0.0
Saudi Arabia	16.7	18.2	9.8	–8.3	–6.6	–2.6
United Arab Emirates	12.5	19.1	10.0	3.3	1.1	3.2
Yemen	0.2	–3.1	–1.7	–5.5	–6.1	–2.8

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

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

[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.

2. MENAP Oil Importers: Striving to Foster Inclusive Growth in a Challenging Environment

Macroeconomic stabilization is advancing on the heels of recent energy subsidy reforms and low oil prices. Yet growth remains weak and fragile amid ongoing regional conflicts, lingering structural impediments, and subdued external demand. Over the medium term, growth is set to remain too low to address persistently high unemployment and low economic inclusiveness. Fiscal space is limited by high debt service costs and large wage bills and, in some cases, external vulnerabilities are still high. To boost private sector growth and employment, deeper structural reforms are needed to lower business costs, improve access to finance and export markets, and enhance worker talent. Greater exchange rate flexibility would also help improve competitiveness in some cases.

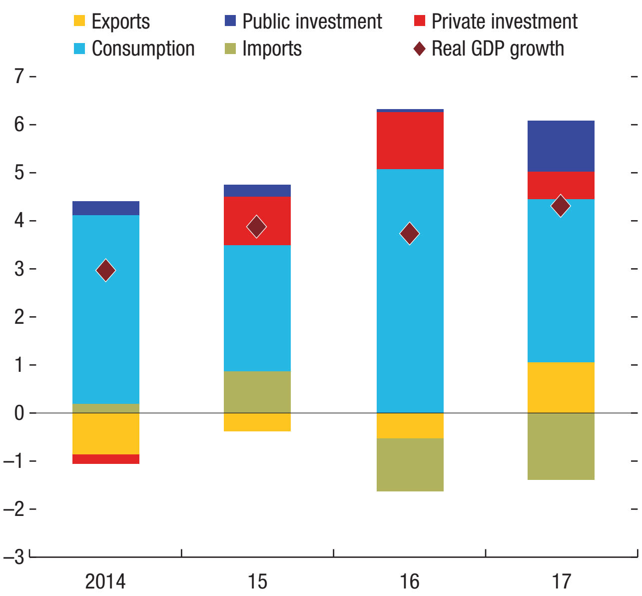
Subdued Economic Activity

Recent progress in reforms, a gradual recovery in the euro area, and lower oil prices have improved confidence and macroeconomic stability. This year, growth is expected to be 3.6 percent and, assuming continued progress in reforms, 4.2 percent in 2017. Persistent regional conflicts and social tensions, low competitiveness, and deep-rooted structural impediments continue to hamper efforts to boost economic activity. Growth of 3–4 percent since the Arab Spring has been too low and not inclusive enough to address high unemployment (11 percent), especially among the young (25 percent).

Recent structural reforms and monetary easing are set to boost investment, which is expected to become an increasingly important driver of growth (Figure 2.1). Improvements in the business environment, including initial efforts to tackle corruption (Afghanistan, Egypt), better electricity provision to industries (Pakistan), progress in simplifying regulations and improved investor protection (Egypt, Jordan, Morocco), and monetary easing (Jordan, Pakistan) are helping boost private investment and private sector credit growth. Public investment has benefited from recent subsidy reforms.

Strong consumption continues to be underpinned by large public wage bills. Remittances, mostly from Europe and the Gulf Cooperation Council (GCC), have also traditionally supported consumption, although they have started to decline because of slowing economic activity in the GCC (Figure 2.2). Consumer confidence and spending have also been supported by the pass-through of lower oil prices. However, a recent partial recovery in the crude oil price is expected to erode these gains somewhat, albeit with a lag, as increases over recent months have not yet been passed on to consumers by retailers. In Morocco, weak production in the

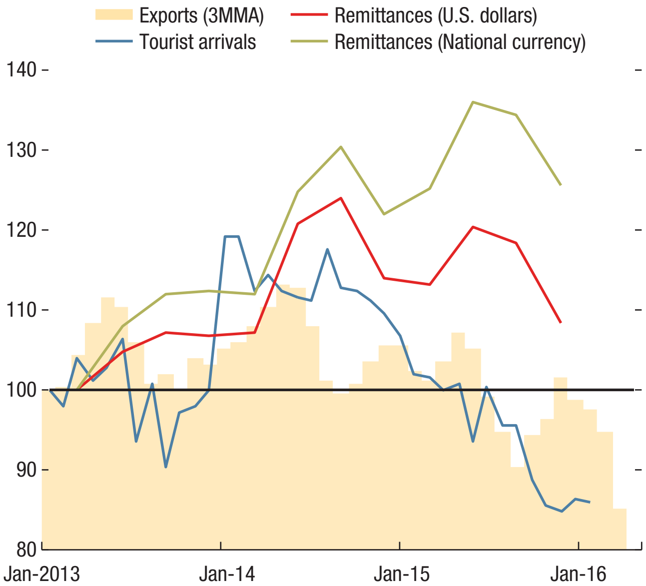
Figure 2.1. Contributions to Growth: Sustained by Consumption and Advanced by Investment
(Percent change, 2014–17[1])



Sources: National authorities; and IMF staff calculations.
[1]MENAP aggregate excludes Sudan.

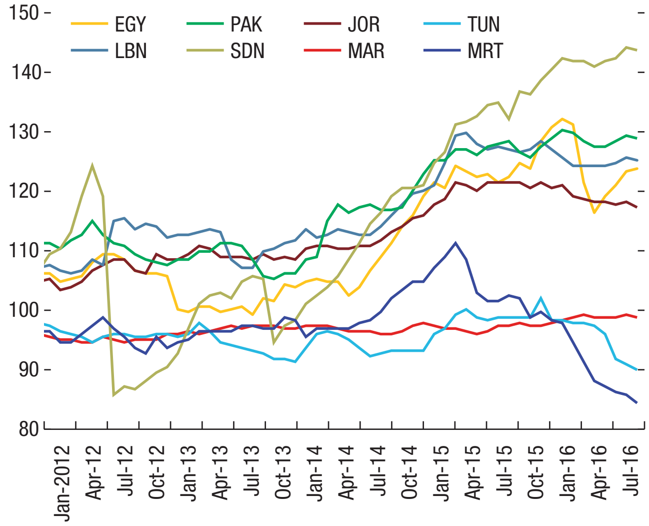
Prepared by Pritha Mitra, with research assistance from Gohar Abajyan and Sebastian Herrador.

Figure 2.2. Declining Exports, Tourism, and Remittances
(Index values, January 2013 = 100)



Sources: Bloomberg, L.P.; national authorities; and IMF staff calculations.
Note: Exports and remittances are measured in U.S. dollars. Exports are expressed in constant January 2010 exchange rates. 3MMA = three-month moving average.

Figure 2.3. REER Index
(January 2010 = 100)



Sources: National authorities; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. REER = real effective exchange rate.

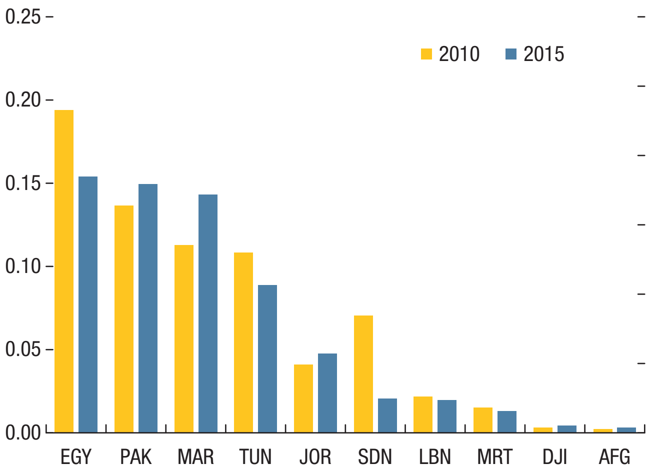
agricultural sector (employing more than one-third of the population) weighed on incomes and consumption this year, although a rebound is expected next year.

External activity has been subdued partly because of weak external demand and low competitiveness. Exports and tourism have declined sharply in recent months (Figure 2.2), in part due to slowing GCC growth. In Mauritania, low iron ore prices (largely owing to China's rebalancing) have reduced exports and, in Sudan, low oil prices had a similar effect. A mild rebound of the region's exports is expected in 2017, as they benefit from increased external demand from advanced economies. In particular, the euro area's domestic demand (the Maghreb's largest trading partner) is expected to rise, notwithstanding risks from Brexit—the June 2016 U.K. referendum result in favor of leaving the European Union (Box 1.2). Nevertheless, weak competitiveness (Figure 2.3)—explained also by an appreciation of the U.S. dollar, to which many of the region's currencies are tied, and despite recent exchange rate depreciation (Egypt, Tunisia)—is anticipated to continue depressing export shares (Egypt, Mauritania, Tunisia; Figure 2.4). Imports will continue to rise across the region in line with increased investment. The resolution of foreign currency shortages in Egypt will also contribute to this pickup and support investment and production.

Spillovers from regional conflicts are also holding back economic activity. Challenging security conditions, including recent terrorist attacks in Afghanistan, Egypt, Pakistan, and Tunisia hamper confidence (Figure 2.5) and hurt tourism (Figure 2.2). Accommodating growing numbers of refugees (Jordan, Lebanon, Tunisia) adds to pressures on infrastructure, health, and education services.

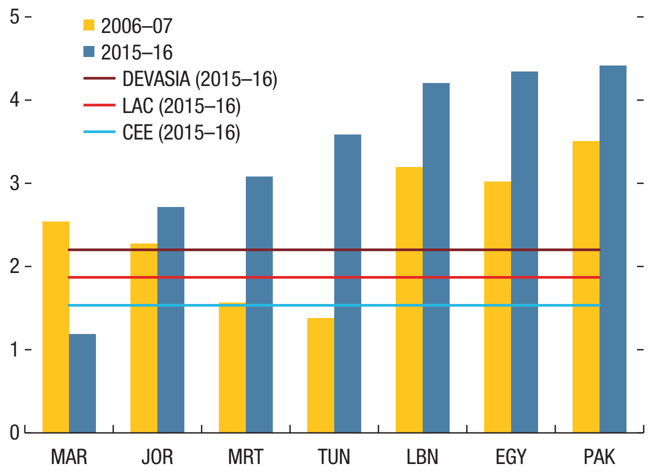
Despite recent progress, structural impediments to growth persist. Poor transport and telecommunications infrastructure and shortages of electricity, fuel, and water continue to hamper economic activity. Small and medium enterprises (SMEs) still struggle with the availability of bank

Figure 2.4. Share of Exports to the World
(Percent of total world exports)



Sources: National authorities; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

Figure 2.5. The High Business Cost of Terrorism
(Indicator, 1–7; 7 being the highest cost)[1]



Sources: World Economic Forum, *The Global Competitiveness Report 2015–16*; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. CEE = central and eastern Europe; DEVASIA = developing Asia; and LAC = Latin America and the Caribbean.
[1]The business cost of terrorism is a survey-based indicator that asks respondents the extent to which the threat of terrorism imposes costs on businesses.

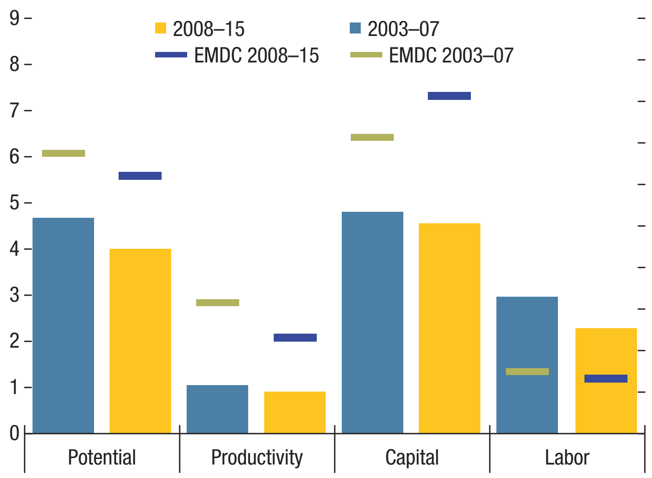
credit as banks mainly finance government and large state-owned enterprises (SOEs). Confidence is also being influenced by the mixed progress of structural reforms, which have been relatively steady in some (Jordan, Morocco, Pakistan), more varied in others (Egypt, Mauritania, Tunisia), and slowed by a lack of political cohesion elsewhere (Lebanon).

Inflation is expected to gather speed next year. At 7.4 percent in 2016, inflation is almost 1 percent higher than last year and is expected to rise to 9.8 percent next year, driven largely by the inflation rate in Egypt. So far, persistently large output gaps, low global food and energy prices (where pass-through has been allowed), and currency appreciation against major import partners (China and the euro area with 15 percent and 25 percent of imports, respectively) have put downward pressures on inflation. These pressures have been offset by energy subsidy phase-outs, increased food prices, and, in some cases, currency depreciations (Egypt, Tunisia), monetization of fiscal deficits, and accommodative monetary policies. Next year, the region will face additional upward pressures from rising global energy prices, further electricity and water subsidy phase-outs (Egypt, Tunisia), and increased domestic demand from increased large-scale public and private investment (Egypt).

Lackluster Medium-Term Prospects

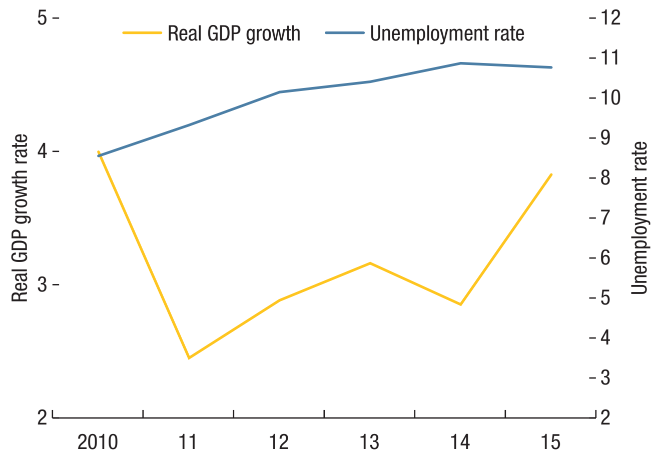
Medium-term growth prospects remain insufficient to reduce unemployment, raise incomes, and improve economic inclusiveness. Weak productivity growth and slow capital accumulation are keeping potential growth weak, and the region is falling further behind its global peers in terms of its medium-term economic prospects (Figure 2.6), especially in per capita terms given the region's fast-growing population. Although economic growth has picked up in recent years, it has not yet made a dent in unemployment (Figure 2.7). The low sensitivity of unemployment to growth suggests that unemployment is mostly structural and due, in particular, to mismatches in job skills. On current

Figure 2.6. Potential Growth and Productivity, Capital, and Labor Growth
(Percentage points)



Source: Mitra and others (2016).
Note: EMDC = emerging markets and developing countries.

Figure 2.7. Unemployment and Real GDP Growth Rates, 2010–15
(Percent)



Sources: National authorities; and IMF staff calculations.

medium-term growth projections of slightly more than 5 percent, the unemployment rate of nearly 11 percent is anticipated to decline by only 3 percentage points to 8 percent by 2021.

Rising Downside Risks

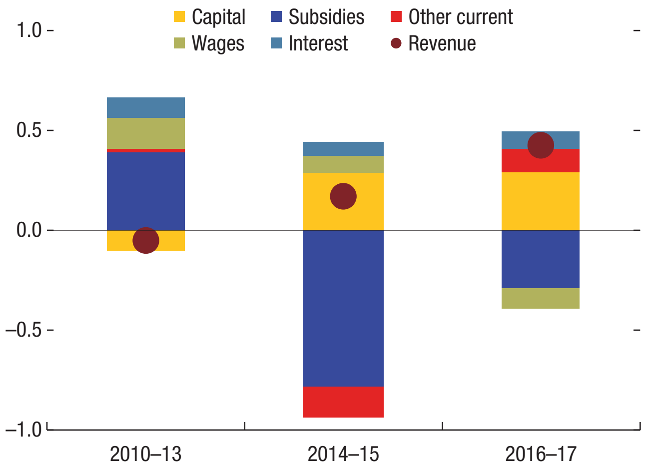
Domestic and external downside risks have increased. A worsening of security conditions or social tensions, reform fatigue, increased spillovers from regional conflicts, and/or slower euro area growth (perhaps triggered by Brexit uncertainties) could undermine economic growth. The rebalancing in China could translate into lower-than-expected infrastructure financing for the region (Djibouti, Pakistan), slower emerging market growth prospects, and lower commodity export prices (Mauritania, Pakistan). A withdrawal of correspondent bank relationships could catalyze reductions in financial services by global or regional banks (Djibouti, Sudan) or closer banking scrutiny (Lebanon). Risk premiums may rise sharply—raising financing costs for governments and banks (and, in turn, reducing their profitability)—if global financial conditions were to tighten more than expected amid China's rebalancing and slowdown, the normalization of U.S. interest rates, and/or the fallout from Brexit. Investors' flight to safety could strengthen the U.S. dollar, resulting in a greater loss of competitiveness for those countries that peg to the dollar but export largely to China and the euro area.

On the upside, exports could rise as Iran reintegrates into the regional economy (see October 2015 *Regional Economic Outlook: Middle East and Central Asia*) and progress is made on trade pacts with the European Union (Jordan). The rebalancing in China may also provide opportunities for an increase in consumption-related exports (Chapter 4).

Vulnerable Fiscal and External Positions

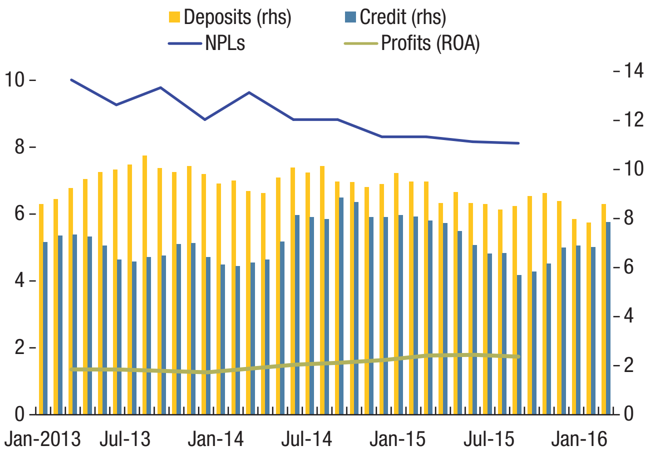
Despite recent improvements, significant fiscal vulnerabilities remain. Subsidy and revenue reforms are expected to reduce fiscal deficits in most Middle East, North Africa, Afghanistan, and Pakistan (MENAP) oil importers by 0.3 percentage point to 7 percent of GDP in 2016 and further to 5.8 percent in 2017, stabilizing

Figure 2.8. Subsidy Reforms Create Space for Growth-Enhancing Social Spending[1]
(Percent of GDP, change from prior year)



Sources: National authorities; and IMF staff calculations.
[1]Excluding Djibouti, Lebanon, and Pakistan.

Figure 2.9. Banks Remain Healthy: Private Credit, Deposits, Nonperforming Loans, Return on Assets
(Percent, year-over-year monthly growth for credit and deposits)



Sources: National authorities; and IMF staff calculations.
Note: NPL = nonperforming loans; rhs = right-hand side; ROA = return on assets.

public debt. These reforms also created space (Figure 2.8) for increased spending on education, health care, and targeted social assistance. This targeted spending will have the dual effect of softening some of the near-term adverse impact of fiscal consolidation on economic activity while also supporting long-term growth. Further growth-enhancing spending on infrastructure and social sectors is needed to address supply bottlenecks and improve growth prospects. However, there is little scope for increased spending given the weakness of state revenues, large public wage bills, and high debt service—especially in Egypt, Jordan, and Lebanon, where debt ranges from 90 percent to 145 percent of GDP. The recent partial recovery in oil prices will support fuel tax revenues, but for those countries yet to complete energy subsidy reforms, they will increase government subsidy spending (Egypt, Sudan, Tunisia) or SOE imbalances (particularly in the electricity sector), raising debt pressures in most countries.

External positions have pockets of weakness as well. International reserves currently average six months of imports across the region but are below three months in Egypt and Sudan. In particular, for Sudan, the withdrawal of foreign bank correspondent relationships and the reduction of trade financing activities have slowed trade, remittances, and foreign investment—increasing pressure on reserves. So far, the region's weak exports have been largely offset by low energy import bills. As oil prices partially recover, coupled with increased investment-related imports, import bills and balance of payments pressures will rise. In some cases, reduced oil dependence (Jordan's shift from expensive, short-term oil contracts to cost-effective, long-term natural gas contracts), increased foreign direct investment (Morocco, Pakistan), and external public financing inflows (possible sovereign debt issues in Egypt, Pakistan, and Tunisia) will help.

The financial sector is stable but needs improvements to be safeguarded. Banking systems remain healthy with generally well-capitalized, liquid, and profitable banks (Figure 2.9)—given solid deposit growth, despite the recent pickup in credit. Nonperforming loans are high but gradually declining. Regulatory and supervisory frameworks—as well as corporate insolvency and bankruptcy regimes, and, in some cases, deposit insurance schemes—need to be strengthened.

Implementing Fiscal, Monetary, and Structural Reforms

Achieving fiscal sustainability over the medium term, while supporting economic activity in the near term, demands careful fiscal policy choices. Carefully designed and clearly communicated medium-term plans, in particular, can help sustain an easier fiscal stance in the near term without upward pressure on borrowing rates. The key components of such plans could include the following:

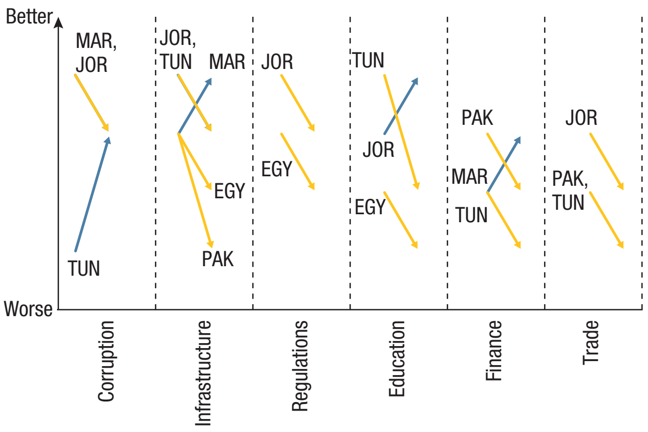
- On the revenue side, the recent reduction of exemptions and loopholes (Morocco and Pakistan; those planned in Egypt, Jordan, and Tunisia), better tax administration, and rationalization of customs processes (Pakistan) support revenues, inclusiveness, and growth by leveling the playing field for companies, and reducing compliance costs. Revenue measures targeting higher-income earners or greater use of technology in tax collection also increase equity (Jewell and others 2015). Policies that will also play important roles are the introduction of a value-added tax (Egypt), revised income tax thresholds (Jordan, Tunisia), and higher excises.

- On the spending side, increased funding for infrastructure, health care, education, and social services (including active labor market policies, Box 2.2) will support employment and growth. Measures to reduce SOE losses (including automatic pricing mechanisms for energy companies) would cut their arrears to the government and private sector. Spending efficiency can also be improved by strong evaluation, prioritization, and implementation of large projects. Public sector wage bills should be contained and plans for their gradual rationalization would ultimately create space for more growth-enhancing spending. Morocco's recent pension reforms are a step in that direction. In contrast, Tunisia has raised wages in efforts to soothe social tensions.

Reforming public debt financing would reduce financing risks while improving the business environment. With global financial conditions tightening, policymakers are likely to continue relying mainly on domestic bank financing. More regular domestic bond issuance with longer maturities, market-determined yields, and a broader investor base would reduce rollover risks, deepen financial markets, encourage financing of public-private partnerships, and reduce banking system risks from high public sector loan concentration. A more balanced mix of domestic and external borrowing would reduce the crowding out of bank loans to the private sector. Privatization of SOEs would improve government finances and create better incentives for efficiency, although the near-term job losses would need to be carefully managed.

Accommodative monetary policy and greater exchange rate flexibility would help support growth and macroeconomic stability. Where competitiveness is deteriorating, nominal exchange rate pressures are rising (for example, growing gaps between official and unofficial exchange rates), and balance sheet mismatches are limited, a faster transition to more flexible exchange rate systems is needed to avoid a more difficult macroeconomic adjustment later on. Greater flexibility needs to be complemented by building central bank independence (recent progress in Morocco, Pakistan, and Tunisia is welcome), determining an alternative nominal anchor, building institutional capacity, addressing fiscal dominance, developing deeper and more liquid foreign exchange markets, and strengthening banking supervision and regulation. For countries in which inflation is expected to remain moderate, accommodative monetary policy could be used to mitigate the adverse effects of fiscal consolidation. In countries pursuing exchange rate flexibility, this approach needs to be balanced against inflationary pressures from depreciation. Central banks must remain vigilant to any signs of increasing financial stress, stepping up supervisory actions as necessary.

Figure 2.10. Falling Behind Global Peers in Key Reform Areas
(Arrows begin at 2007 ranking and end at 2016 ranking)



Sources: International Country Risk Guide; The PRS Group; World Bank (only finance indicator); World Economic Forum; and IMF staff calculations.
Note: The vertical axis shows the ranking of a country's performance relative to the performance of their global peers defined as emerging markets and developing countries (EMDCs). The 100 ranking reflects the top ranking among EMDCs; an 80 ranking means a country is performing among the top 80 percent of EMDCs, and so on. The arrows demonstrate changes in rankings that reflect changes in countries' own performance and/or performance of their global peers (defined as EMDCs). Countries without a substantial change in rankings relative to global peers are not shown. Sources of structural indicators were chosen based on data availability. Results are robust to using alternative sources. Country abbreviations are International Organization for Standardization (ISO) country codes.

Raising economic potential and creating jobs require higher productivity growth and the building of physical capital. Despite recent progress, the pace of reforms in the region is still slower than in its global peers—MENAP oil importers' relative rankings have even been declining in key areas such as infrastructure (where all but Morocco's rankings fell), education, the regulatory environment, corruption, finance, and trade (Figure 2.10). Together with other analyses (for example, Mitra and others 2016 as well as IMF 2014), these rankings point to areas where reform efforts can have the largest impact on raising capital and productivity growth, taking into account capacity constraints. Building the region's physical capital hinges on infrastructure investment and financial market development. For the latter, the establishment and wider use of credit bureaus would ease access to finance (especially for SMEs)—facilitating private capital accumulation, business expansion, and job creation. Reducing the cost of doing business through stronger investor protection, and fewer and less burdensome regulations would support productivity growth. Shrinking the economic dominance of SOEs would also be important to level the playing field and enhance economic efficiency. Nurturing worker talent through education and vocational training that aligns skills with job market needs, leveraging the talent and knowledge of diasporas, and raising female labor force participation are also critical to raising productivity. Increased trade openness could enable countries to join job-creating global manufacturing supply chains.

International Support

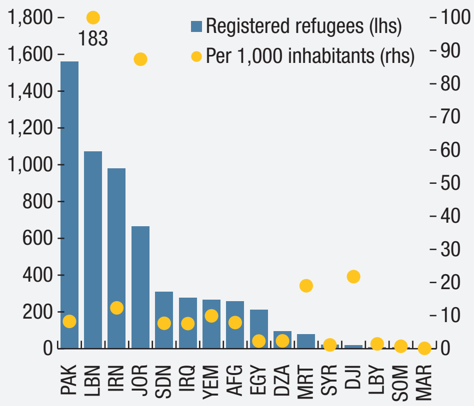
Support from the international community can facilitate the transition to higher growth, better living standards, and more jobs while shoring up macroeconomic stability. Bilateral and multilateral official financing can help create fiscal space for growth-enhancing social spending and catalyze additional private financing, especially for countries that are already moving forward with challenging macroeconomic and structural reforms. International support is especially needed in countries coping with growing numbers of refugees, as they are providing a global public good (Box 2.1) and raising their debt levels to do so. However, absent sound reforms, financing only delays the unwinding of underlying imbalances—which may be abrupt and more painful in the future. Current IMF arrangements in MENAP oil-importing economies—committing more than $20 billion in Afghanistan, Egypt, Jordan, Morocco (a credit line against external shocks), and Tunisia—aim to support countries' reform efforts and macroeconomic adjustment. The arrangements have been characterized by flexibility (in financing amounts and program conditionality) in responding to unexpected shocks, especially in Jordan and Tunisia. The international community can also provide support through technical advice, other capacity-building initiatives, and enhanced access to export markets for the region's products and services.

Box 2.1. Economic Policies During Conflict

During the second half of the past century, the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region experienced more frequent and more severe conflicts than any other part of the world. With conflicts having recently intensified, the region faces new challenges. Violent non-state actors have emerged as significant political and military powers, holding large areas of sovereign territory. A refugee crisis on a scale not seen since the end of World War II is affecting not only the MENAP region but also Europe, with attendant economic and social implications.

Violent conflicts not only destroy human, social, and economic capital—with severe consequences for growth potential—they also pose major and immediate challenges to economic policymaking. Countries most exposed to conflict (Afghanistan, Iraq, Libya, Somalia, Syria, Yemen) face, to varying degrees, deep recessions, high inflation, worsened fiscal and financial positions, and damaged institutions. Economic spillovers to neighboring MENAP countries and other regions, notably Europe, are also large, including the challenges of hosting large numbers of refugees, weaker confidence and security, and declining social cohesion (Figure 2.1.1).

Figure 2.1.1. Refugees, Many Escaping Conflict, Hosted in MENAP Countries
(Thousands)



Sources: United Nations High Commissioner for Refugees Statistics database; and IMF staff calculations.
Note: These are the sixteen MENAP countries with the most registered refugees. Estimates of inhabitants (including refugees) are from the UN Population Division. Country abbreviations are International Organization for Standardization (ISO) country codes. lhs = left-hand side; rhs = right-hand side.

The experience with recent MENAP conflicts shows that, even in the context of ongoing violence, policymakers need to both ensure the continuity of government and minimize harm to the public and economic activity. Three priorities stand out: (1) protecting institutions from becoming inoperative or corrupt; (2) prioritizing public spending to protect human life, limiting fiscal deficits, and preserving economic potential; and (3) stabilizing macroeconomic and financial developments through effective monetary and exchange rate policy.

Protecting institutions has been difficult at a time when political systems are disintegrating. The experience with MENAP conflicts stresses the importance of keeping core government institutions—such as fiscal agents and central banks—functioning amid difficult operational challenges, including the threat of corruption. Policymakers may be tempted to "capture" government institutions for personal benefit: financial flows may be redirected to the political constituencies of those in power; regulations may be biased in favor of a privileged few; and the collection of revenue may be aimed at political foes.

Prioritizing spending is also critical, as conflicts in the MENAP region have been typically associated with increased fiscal pressures. While conflict often brings urgent spending needs, fiscal space is squeezed by declining revenue collection and reduced access to external financing. The end result has often been ballooning fiscal deficits. The magnitudes can be dramatic. In Yemen, for example, preliminary data on the 2015 outturn suggest that central government revenue fell by as much as 60 percent—reflecting the combined effect of the sharp fall in oil prices and the shutdown of oil production facilities in the wake of the escalation of the

Prepared by Risto Herrala.

Box 2.1. *(continued)*

conflict. Donor support has been an unreliable source of funding for conflict-ridden countries. In West Bank and Gaza, donor financing for the budget decreased by one-third in 2015, despite an upturn in violence and persistently high security-related expenditure needs.

Stabilization is particularly challenging, as conflicts push central banks into a greater role in financing government activities. In 2015, governments in Iraq and Yemen financed part of their budgets via their central banks. To safeguard the continuation of government activities, central banks have sometimes been forced to take on very broad mandates. In Libya, the central bank has become the fiscal agent responsible for operating government finances, and has also played a key role in negotiating export contracts. Monetary policy toolkits have often been augmented through increased recourse to administrative measures to control domestic credit allocation and foreign exchange flows. For example, Libya has tightened foreign exchange controls to curb a thriving parallel market; and Yemen took measures to channel domestic funding toward policy priorities.

Box 2.2. Active Labor Market Policies: What Can MENAP and the CCA Learn from Others?

In the context of weak labor market outcomes, active labor market policies (ALMPs) have become increasingly popular across the world. ALMPs work through enhancing the employability of job seekers, more aptly connecting workers and jobs, and promoting job creation and labor force participation. If designed appropriately, these policies can improve individual labor market outcomes and contribute to reducing poverty and improving equity. ALMPs are part of the policy mix to address labor market deficiencies, together with passive labor market, social, and demand-side policies.

ALMPs can help address some of the labor market deficiencies in the MENAP and CCA regions. There are five main types of ALMPs—from expensive training programs to relatively low-cost employment services (Table 2.2.1). Training programs are most popular and common in the region. All other types are also used, to varying degrees. The main challenges in establishing successful ALMPs in the region relate to their target audience—beneficiaries are usually selected from the pool of the unemployed, few of whom are registered—and capacity for being implemented. For example, although intermediation services are offered in many countries, they are largely ineffective and rarely used. Very few programs in the region are monitored or evaluated, even in the oil-exporting countries, which have greater means and stronger implementation capacity.

Table 2.2.1. Typology of Active Labor Market Policies

Program Type	Goal
Training and retraining programs	Improve the employability of workers through providing skills
Intermediation services	Reduce information asymmetries in the labor market
Wage or employment subsidies	Foster the employment of individuals with lower productivity
Public works programs	Provide temporary employment with a training element
Self-employment programs	Provide technical and financial support to unemployed persons to set up their own businesses

Source: Author.

While evaluations from the region are scarce, large-scale meta-analyses of studies from advanced economies provide useful insights on the impact of ALMPs on the income and employment of beneficiaries:

- *Employment*. Training programs have long-term positive impacts. In the short term, public employment services can be very successful in helping job seekers find work. Public works programs have negligible or even negative effects on beneficiaries. A recent inventory of youth interventions shows that about one-third of reviewed programs had increased employment or earnings. At the aggregate level, higher spending on ALMPs is most often associated with a reduction in cyclical and long-term unemployment.
- *Skills improvement*. Even when ALMPs are not found to have a positive measurable effect on earning and employment, they can have other desirable effects, such as increasing the well-being of beneficiaries through maintaining social contacts, attachment to the labor market, and improving soft and technical skills.

Inclusive growth can also be fostered. Public works programs can help with anti-poverty goals. ALMPs that include a stipend, or some form of paid work, can support incomes, especially in countries that do not have unemployment benefits or assistance. When targeted at the most vulnerable groups, they can reduce inequity. However, it is not clear if ALMPs are a superior way of addressing inclusive growth objectives, compared with social safety nets.

Prepared by Gaëlle Pierre.

Box 2.2. *(continued)*

The impact of ALMPs depends on how services are chosen and delivered. It is undermined if program beneficiaries simply replace other workers, if programs find positions for workers who would have found a job regardless, or when the most promising candidates are selected. Beneficiaries can also end up being stigmatized and negatively viewed by employers.

Based on extensive international experience, the following best practices can be identified:

- ALMPs work best when they are integrated with other policies, including passive labor market and social policies. This can be a complex requirement in countries with limited capacities, but avoiding system fragmentation can help avoid duplications. Effectiveness can be improved by combining services that respond to the different needs of participants. For example, successful youth programs include multiple components and intensive implementation (Job Corps in the United States and New Deal for Young People in the United Kingdom).
- Since ALMPs require significant institutional capacity, countries can scale down their goals to have manageable programs, and can involve private sector providers.
- Program design, which is crucial for success, involves several key dimensions: setting clear goals, setting up adequate targeting, favoring demand-driven approaches, including exit strategies (graduation), emphasizing human capital accumulation, and ensuring relevance. For example, youth programs in Latin America combine in-classroom activities with on-the-job training, and closely involve the private sector, thereby providing marketable skills. When using private providers, it is important to put in place proper certification, incentive systems, and monitoring.
- Finally, establishing monitoring and evaluation regimes helps inform decisions about improving and fine-tuning ALMPs. For example, this is done in the Organisation for Economic Co-operation and Development, which recently proposed a new framework to improve the effectiveness of ALMPs.

References

International Monetary Fund (IMF). 2014. "Toward New Horizons: Arab Economic Transformation Amid Political Transitions." Middle East and Central Asia Department Paper, Washington, DC.

Jewell, A., M. Mansour, P. Mitra, and C. Sdralevich. 2015. "Fair Taxation in the Middle East and North Africa." Staff Discussion Note 15/16, International Monetary Fund, Washington, DC.

Mitra, P., A. Hosny, G. Abajyan, and M. Fischer. 2015. "Estimating Potential Growth in the Middle East and Central Asia." Working Paper 15/62, International Monetary Fund, Washington, DC.

Mitra, P., A. Hosny, G. Minasyan, G. Abajyan, and M. Fischer. 2016. "Avoiding the New Mediocre: Raising Potential Growth in the Middle East and Central Asia." Middle East and Central Asia Departmental Paper 16/1, International Monetary Fund, Washington, DC.

MENAP Oil Importers: Selected Economic Indicators

	Average 2011–12	2013	2014	2015	Projections 2016	Projections 2017
Real GDP Growth	**4.6**	**3.2**	**2.9**	**3.8**	**3.6**	**4.2**
(Annual change; percent)						
Afghanistan, Rep. of	…	3.9	1.3	0.8	2.0	3.4
Djibouti	3.7	5.0	6.0	6.5	6.5	7.0
Egypt	4.5	2.1	2.2	4.2	3.8	4.0
Jordan	5.6	2.8	3.1	2.4	2.8	3.3
Lebanon	4.6	2.5	2.0	1.0	1.0	2.0
Mauritania	4.6	6.1	5.4	1.2	3.2	4.3
Morocco	4.6	4.5	2.6	4.5	1.8	4.8
Pakistan	4.4	3.7	4.1	4.0	4.7	5.0
Sudan[1]	5.9	5.2	1.6	4.9	3.1	3.5
Syrian Arab Republic[2]	4.3	…	…	…	…	…
Tunisia	3.9	2.4	2.3	0.8	1.5	2.8
West Bank and Gaza[3]	4.2	2.2	-0.2	3.5	3.3	3.5
Consumer Price Inflation	**5.5**	**9.1**	**9.4**	**6.6**	**7.4**	**9.8**
(Year average; percent)						
Afghanistan, Rep. of	…	7.4	4.7	–1.5	4.5	6.0
Djibouti	3.6	2.4	2.9	2.1	3.0	3.5
Egypt	3.3	9.5	10.1	10.4	14.0	17.3
Jordan	3.9	4.8	2.9	–0.9	–0.5	2.3
Lebanon	3.1	4.8	1.9	–3.7	–0.7	2.0
Mauritania	6.1	4.1	3.8	0.5	1.3	4.2
Morocco	1.7	1.9	0.4	1.5	1.3	1.3
Pakistan	8.5	7.4	8.6	4.5	2.9	5.2
Sudan[1]	11.8	36.5	36.9	16.9	13.5	16.1
Syrian Arab Republic[2]	4.9	…	…	…	…	…
Tunisia	3.1	5.8	4.9	4.9	3.7	3.9
West Bank and Gaza[3]	3.8	1.7	1.7	1.4	1.1	1.2
General Gov. Overall Fiscal Balance	**–5.2**	**–9.4**	**–7.8**	**–7.3**	**–7.0**	**–5.8**
(Percent of GDP)						
Afghanistan, Rep. of[4]	…	–0.6	–1.7	–1.4	0.1	0.0
Djibouti	–1.9	–5.9	–12.2	–15.7	2.1	3.3
Egypt	–7.4	–13.4	–12.9	–11.5	–12.0	–9.7
Jordan[5]	–4.7	–11.1	–10.3	–5.4	–3.8	–2.6
Lebanon[4]	–11.9	–8.7	–6.0	–7.4	–8.1	–9.5
Mauritania[4,6]	–2.6	–0.8	–3.3	–3.4	–0.4	–1.8
Morocco[4]	–4.0	–5.2	–4.9	–4.4	–3.5	–3.0
Pakistan[7]	–4.4	–8.4	–4.9	–5.2	–4.4	–3.6
Sudan[1]	–1.2	–2.3	–1.4	–1.9	–2.0	–2.1
Syrian Arab Republic[2]	…	…	…	…	…	…
Tunisia[8]	–2.7	–7.4	–3.9	–5.1	–4.5	–3.6
West Bank and Gaza[3]	–24.1	–12.6	–12.5	–11.4	–9.6	–9.3

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]2011–17 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.

[5]Overall fiscal balance includes the transfers to the electricity company NEPCO until the end of 2014. From 2015 transfers were stopped.

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

[7]Including grants.

[8]Includes bank recapitalization costs and arrears payments.

(continues)

MENAP Oil Importers: Selected Economic Indicators *(continued)*

	Average 2011–12	2013	2014	2015	Projections 2016	Projections 2017
Current Account Balance	**–2.5**	**–5.1**	**–4.4**	**–4.5**	**–4.8**	**–4.7**
(Percent of GDP)						
Afghanistan, Rep. of	…	8.7	2.4	4.7	4.5	1.1
Djibouti	–7.9	–23.3	–25.6	–30.7	–17.2	–14.4
Egypt	–0.4	–2.2	–0.8	–3.7	–5.8	–5.2
Jordan	–5.8	–10.3	–6.8	–9.0	–9.0	–8.9
Lebanon	–14.7	–26.7	–28.1	–21.0	–20.4	–20.6
Mauritania	–14.8	–28.6	–33.3	–27.0	–21.9	–24.9
Morocco	–3.0	–7.6	–5.7	–1.9	–1.2	–1.4
Pakistan	–1.3	–1.1	–1.3	–1.0	–0.9	–1.5
Sudan[1]	–5.3	–8.7	–7.0	–7.8	–5.9	–4.9
Syrian Arab Republic[2]	–0.4	…	…	…	…	…
Tunisia	–3.8	–8.4	–9.1	–8.8	–8.0	–6.9
West Bank and Gaza[3]	–17.8	–12.3	–7.4	–13.5	–13.4	–11.4

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]2011–17 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.

[5]Overall fiscal balance includes the transfers to the electricity company NEPCO until the end of 2014. From 2015 transfers were stopped.

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

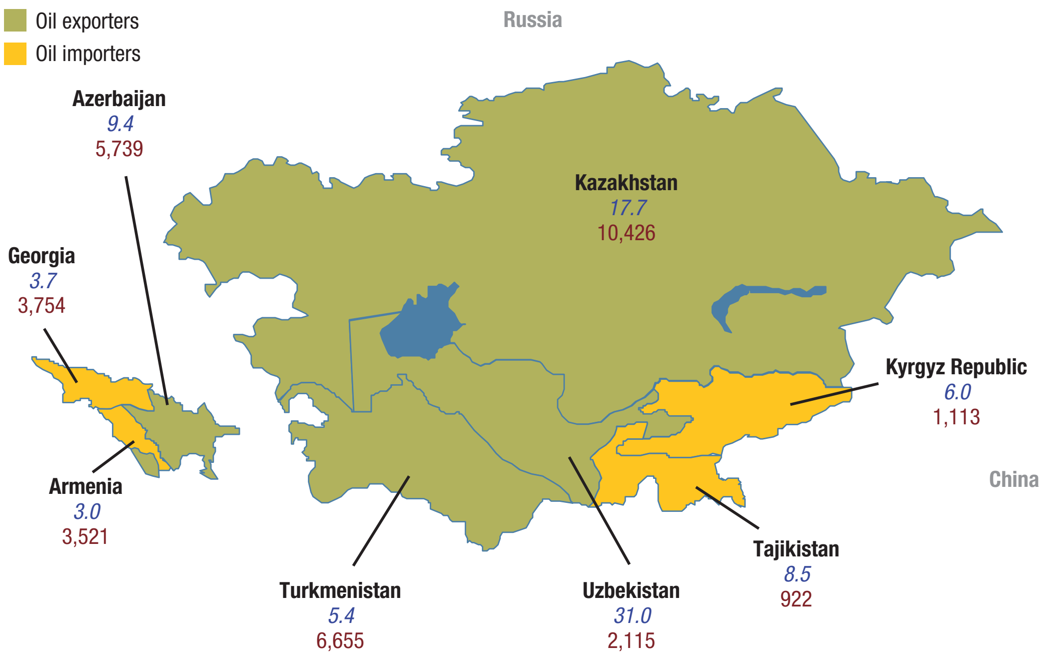
[7]Including grants.

[8]Includes bank recapitalization costs and arrears payments.

Caucasus and Central Asia

Caucasus and Central Asia

Population, millions (2015)
GDP per capita, U.S. dollars (2015)



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 positions.

CCA Region Highlights

The CCA region has been hit by large and persistent external shocks since 2014, particularly the slump in commodity prices and slowdown in its key economic partners (mainly Russia and China). Regional growth is projected to average 1.3 percent this year. This represents a sharp weakening of economic activity compared with the rates observed in the 15 years before the shocks, especially for oil exporters. Next year, the region's economies should turn a corner, with average growth picking up to 2.6 percent. However, available policy space has declined, and vulnerabilities have risen. Medium-term prospects are weak, with growth projected to average 4 percent in 2018–21, half that in 2000–14. Under this scenario, the gains that have been made in living standards since independence, vis-à-vis emerging markets, would be partly reversed.

Shocks Mitigated, Vulnerabilities Heightened

Fiscal accommodation, along with currency adjustment, has helped the CCA mitigate the impact of the external shocks. However, amid weakening revenues, increased public spending has widened budget deficits by some 6.3 percentage points of GDP on average since 2014. With financial assets being drawn down and public debt rising, policy space has declined. Going forward, fiscal policy needs to strike a balance between supporting growth in the short term and ensuring debt sustainability, intergenerational equity, and precautionary savings over the longer term. This requires prioritizing pro-growth capital spending and safeguarding social expenditures, while consolidating fiscal positions in the context of credible medium-term plans.

Currency adjustment has supported competitiveness but temporarily raised inflation and, amid weakening growth, contributed to the buildup of vulnerabilities in the highly dollarized financial sectors. With many countries opting for more exchange rate flexibility, the need to strengthen monetary policy frameworks has become a priority. This must be complemented with further steps to contain risks to financial stability and intermediation, including capital injections, restructuring and closing of troubled banks, and revamping of lending practices, as well as strengthening of financial surveillance and macroprudential and crisis management frameworks.

Structural Transformation Needed

Most CCA countries made rapid gains in living standards in the two decades following their independence. However, these gains have lost momentum in recent years amid weak productivity growth and deceleration of investment. Structural transformation to diversify away from reliance on commodities and remittances is imperative to improve medium-term prospects, create jobs, and raise living standards. Many countries have already drawn up diversification and privatization plans. But decisive actions are now needed to implement them. Efforts could focus on improving governance, accountability, property rights and financial intermediation, areas where the CCA lags behind its emerging market peers. Growth will also need to be made more inclusive, to allow the broader population to enjoy the benefits of higher living standards.

CCA Region: Selected Economic Indicators, 2000–17

(Percent of GDP, unless otherwise indicated)

	Average 2012	2013	2014	2015	Projections 2016	Projections 2017
CCA						
Real GDP (annual growth)	8.7	6.6	5.3	3.2	1.3	2.6
Current Account Balance	1.5	2.1	2.0	–3.0	–4.1	–2.8
Overall Fiscal Balance	2.7	2.7	1.5	–4.6	–4.9	–3.0
Inflation, p.a. (annual growth)	9.4	6.1	5.9	6.2	9.9	8.3
CCA Oil and Gas Exporters						
Real GDP (annual growth)	9.0	6.7	5.3	3.1	1.0	2.4
Current Account Balance	2.7	2.8	3.3	–2.4	–3.5	–2.0
Overall Fiscal Balance	3.4	3.3	1.9	–4.7	–4.8	–2.8
Inflation, p.a. (annual growth)	9.6	6.4	6.1	6.4	10.8	8.7
CCA Oil and Gas Importers						
Real GDP (annual growth)	6.5	5.7	4.7	3.7	3.7	4.1
Current Account Balance	–7.6	–4.8	–9.4	–7.9	–8.5	–8.8
Overall Fiscal Balance	–3.2	–2.5	–2.0	–3.6	–5.3	–4.4
Inflation, p.a. (annual growth)	7.7	3.6	4.6	4.8	2.4	4.9

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

Note: 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

Регион КЦА подвергается сильным и долговременным внешним шокам с 2014 года, особенно в результате падения цен на биржевые товары и замедления роста в странах, являющихся важнейшими экономическими партнерами региона (в основном в России и Китае). Темпы роста в регионе, по прогнозам, составят в среднем в этом году 1,3 процента. Это означает резкое ослабление экономической активности по сравнению с темпами, наблюдавшимися в течение 15 лет до шоков, особенно для стран—экспортеров нефти. На будущий год в экономике стран региона должен наступить поворотный момент, с повышением средних темпов роста до 2,7 процента. При этом имеющиеся возможности экономической политики сокращаются, и факторы уязвимости усиливаются. Темпы роста в среднесрочной перспективе невысоки, они прогнозируются в среднем на уровне 4 процентов в 2018–2021 годах, что составит половину достигнутых в 2000–2014 годы. Соответственно, прогресс в повышении уровня жизни и его приближении к странам с формирующимся рынком, который был достигнут после обретения независимости, частично сойдет на нет.

Смягчение шоков, усиление факторов уязвимости

Адаптивная налогово-бюджетная политика, наряду с корректировкой обменного курса, помогает экономике стран КЦА смягчить последствия внешних шоков. При этом, в условиях сокращения доходов, повышение государственных расходов увеличило бюджетные дефициты в среднем примерно на 6,3 процентного пункта ВВП с 2014 года. С использованием финансовых активов и ростом государственного долга уменьшились возможности выбора экономической политики. В будущем налогово-бюджетная политика должна обеспечивать баланс между поддержкой роста в краткосрочной перспективе и обеспечением устойчивости долговой ситуации, справедливого распределения ресурсов между поколениями и сбережения средств на непредвиденные расходы в более долгосрочной перспективе. Для этого необходимо установить приоритетность капитальных расходов, способствующих росту, и защитить расходы на социальные нужды, проводя бюджетную консолидацию в контексте внушающих доверие среднесрочных планов.

Корректировка обменного курса поддерживает конкурентоспособность, но временно повысила инфляцию и, в условиях ослабления динамики роста, стала одной из причин повышения уязвимости в значительной степени долларизированных финансовых секторов. При растущем числе стран, предпочитающих бо́льшую гибкость обменного курса, укрепление основ денежно-кредитной политики становится приоритетной задачей. Это должно дополняться дальнейшими мерами по сдерживанию рисков для финансовой стабильности и посредничества, в том числе вливанием капитала, реструктуризацией и закрытием проблемных банков и пересмотром механизмов кредитования, а также укреплением финансового надзора и макропруденциальных основ, а также основ антикризисного управления.

Необходимы структурные преобразования

Большинство стран КЦА добились быстрого повышения уровня жизни за два десятилетия после обретения независимости. Эти достижения, однако, потеряли набранные обороты в последние годы в условиях вялого роста производительности и замедления роста инвестиций. Без структурных преобразований в целях диверсификации экономики для уменьшения зависимости от биржевых товаров и денежных переводов невозможно улучшение среднесрочных перспектив, создание рабочих мест и повышение уровня жизни. Многие страны уже разработали планы диверсификации и приватизации. Но для реализации этих планов необходимы решительные действия. Усилия могут быть направлены на совершенствование сфер управления, подотчетности, прав собственности и финансового посредничества, в которых КЦА отстает от сопоставимых стран с формирующимся рынком. Необходимо также добиться более всеобъемлющего характера роста, чтобы позволить более широким слоям населения воспользоваться преимуществами более высокого уровня жизни.

Регион КЦА: отдельные экономические показатели, 2000–2017 годы
(В процентах ВВП, если не указано иное)

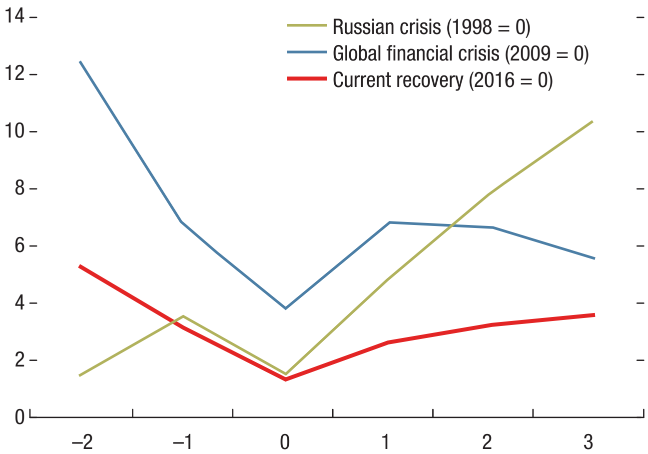
	Среднее				Прогнозы	
	2000–12	2013	2014	2015	2016	2017
КЦА						
Реальный ВВП (годовой рост)	8.7	6.6	5.3	3.2	1.3	2.6
Сальдо счета текущих операций	1.5	2.1	2.0	–3.0	–-4.1	–2.8
Общее сальдо бюджета	2.7	2.7	1.5	–4.6	–4.9	–3.0
Инфляция, в среднем за период (годовой рост)	9.4	6.1	5.9	6.2	9.9	8.3
Страны-экспортеры нефти и газа КЦА						
Реальный ВВП (годовой рост)	9.0	6.7	5.3	3.1	1.0	2.4
Сальдо счета текущих операций	2.7	2.8	3.3	–2.4	–3.5	–2.0
Общее сальдо бюджета	3.4	3.3	1.9	–4.7	–4.8	–2.8
Инфляция, в среднем за период (годовой рост)	9.6	6.4	6.1	6.4	10.8	8.7
Страны-импортеры нефти и газа КЦА						
Реальный ВВП (годовой рост)	6.5	5.7	4.7	3.7	3.7	4.1
Сальдо счета текущих операций	–7.6	–4.8	–9.4	–7.9	-8.5	–8.8
Общее сальдо бюджета	–3.2	–2.5	–2.0	–3.6	-5.3	–4.4
Инфляция, в среднем за период (годовой рост)	7.7	3.6	4.6	4.8	2.4	4.9

Источники: официальные органы стран; расчеты и прогнозы персонала МВФ.
Страны – экспортеры нефти и газа КЦА: Азербайджан, Казахстан, Туркменистан и Узбекистан.
Страны – импортеры нефти и газа КЦА: Армения, Грузия, Кыргызская Республика и Таджикистан.

3. Caucasus and Central Asia: Is the Worst Over?

Fiscal accommodation and exchange rate adjustment have helped the Caucasus and Central Asia (CCA) mitigate the immediate impact from large and persistent external shocks, particularly the slump in commodity prices and weaker growth in key trading partners. Growth is starting to recover, but these shocks have left the region with increased fiscal, external, and financial sector vulnerabilities, along with less policy space and weaker medium-term prospects. Policies should continue to support growth in the near term where policy space is available, while aiming to reduce vulnerabilities over time, including through the formulation of credible multiyear fiscal plans, modernization of monetary policy frameworks, and strengthening of financial supervision. Structural transformation to diversify away from commodities and reduce reliance on remittances is needed to improve medium-term growth prospects, boost job creation, and avoid a deterioration in living standards.

Figure 3.1. Not a Historical V-Shaped Recovery
(Real GDP, percent change)



Source: IMF staff calculations.

Weak and Fragile Recovery

The CCA continues to adjust to large and persistent shocks from abroad, particularly the slump in oil and other commodity prices, depressed economic conditions in Russia, and slowing economic activity in China. GDP growth in the region is projected to be 1.3 percent this year. This represents a sharp weakening of economic activity compared with the historical rates observed before the shocks. Fiscal accommodation and exchange rate adjustment, combined with some improvement in the external environment (a partial recovery in the prices of oil and other key commodities, a milder recession in Russia, and a policy stimulus in China) have provided some relief to the region. However, over the medium term, the oil price recovery is expected to be limited, with futures markets suggesting the price will stay below $60 by 2021. In addition, the recovery in Russia is likely to remain modest, and the ongoing prospects for a mild deceleration in China remain. As a result, CCA growth is anticipated to pick up only to 2.6 percent in 2017, a much slower recovery than in previous episodes of economic slowdown (Figure 3.1), reflecting a larger magnitude and greater persistence of the shocks and more limited policy space.

For CCA oil exporters, GDP growth in 2016 is projected to be 1 percent, about 2 percentage points lower than last year and the lowest since 1998—despite fiscal easing in Azerbaijan and Uzbekistan. In Kazakhstan, indicators point to an estimated contraction of ¾ percent this year, partly owing to weaker oil-related activities and contractionary fiscal policy. GDP growth for oil exporters is projected to pick up to 2.4 percent next year, supported by the recent recovery in oil prices and an increase in hydrocarbon production in Kazakhstan, as well as by a pickup in non-hydrocarbon activities, especially in Azerbaijan.

Oil-importers' economies are anticipated to expand by 3.7 percent this year, the same rate as in

Prepared by Saad Quayyum and Juan Treviño (lead author). Research assistance was provided by Hong Yang.

2015. Armenia is benefiting from stronger-than-expected exports to Russia and rapid growth in services, but domestic demand remains weak. In Georgia, increased public spending is boosting domestic demand. In Tajikistan, growth figures have been revised up significantly on a pickup in investment, which is more than offsetting lower consumption owing to weak remittance flows. With economic activity projected to strengthen, especially in Armenia and Georgia, growth in the CCA oil importers' group is set to firm to 4.1 percent in 2017.

Challenging Yet Critical Exchange Rate Adjustment

Currency weakening and, in some cases, increased exchange rate flexibility, have been an important element of the CCA's adjustment to the new environment of persistently low commodity prices and reduced growth in key trading partners (Figure 3.2).[1] This has helped to both reduce exchange rate misalignments and limit the rundown of foreign currency reserves, support competitiveness (Box 3.1), and, in oil exporters, absorb the fiscal impact of lower oil revenues. With the external shocks receding this year, most CCA exchange rates have stabilized (Figure 3.2). Concerns about adverse economic effects of heightened exchange rate volatility and further depreciations (the so-called "fear of floating") have also kept some CCA currencies inflexible, limiting the necessary adjustment in real terms.

Policy agendas for moving to greater exchange rate flexibility remain incomplete in many countries (Horton and others 2016). A key challenge is the modernization of monetary policy frameworks, including the adoption of credible nominal anchors and the strengthening of central bank independence. Sustained communication efforts are also needed to foster policy credibility and support orderly market conditions. These include providing guidance on factors that influence policy decisions and setting out conditions for intervention in foreign exchange markets. Enhanced financial sector supervision could help preserve the soundness of the highly dollarized financial sectors, which have been weakened by recent depreciations and economic slowdown (Box 3.1).

Easing Inflationary Pressures

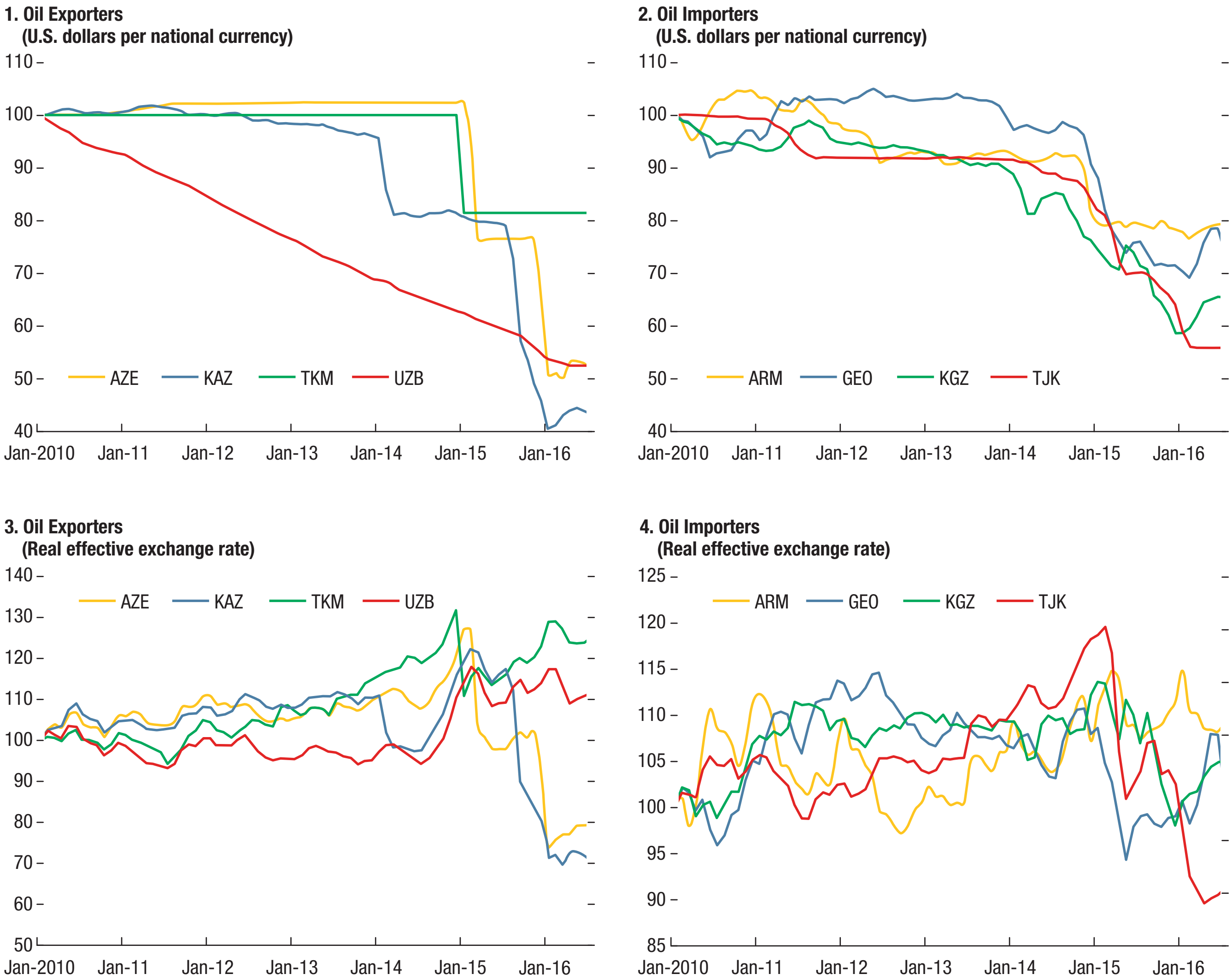
Inflation is expected to moderate gradually as the effects of currency depreciations unwind. In oil exporters, inflation is set to reach double digits this year for the first time since 2008, reflecting significant depreciations in Azerbaijan and Kazakhstan last year (Figure 3.3). As the effect of currency weakening dissipates, inflation is likely to decline amid weak domestic demand and declining food prices. However, inflation will remain at a rather high 8.7 percent in 2017, partially reflecting high inflation expectations owing to weakness in monetary policy frameworks.

In oil importers, inflationary pressures are expected to remain subdued. Stronger currencies in Armenia, Georgia, and the Kyrgyz Republic, slack in economic activity, together with weak oil and food prices, should help to bring inflation down to 2.4 percent this year. Inflation is expected to pick up to 4.9 percent in 2017 as domestic economic activity starts to recover.

With inflationary pressures easing, some central banks, for example in Armenia, Georgia, and Kazakhstan, have started to gradually shift their tight monetary policy stance to support the recovery by lowering interest rates. In Azerbaijan and Tajikistan, where inflationary pressures remain high, tight monetary policy remains warranted.

[1]Kazakhstan devalued its currency in early 2014 and officially adopted a floating exchange rate regime in August 2015. Azerbaijan and Turkmenistan undertook step devaluations of their currencies in early 2015, and Azerbaijan devalued again in December. The pace of depreciation in Uzbekistan picked up temporarily toward the end of 2015. Armenia and Georgia experienced large depreciations in late 2014 and early 2015, respectively. Depreciation in the Kyrgyz Republic accelerated from mid-2014 until late 2015, while the crawling pace of devaluation of Tajikistan's currency was accelerated late in 2014 (Figure 3.2). Armenia, Georgia, Kazakhstan, and the Kyrgyz Republic—*de jure* under floating exchange rate regimes—all have a form of inflation-targeting framework in place, with exchange rate interventions remaining an important instrument throughout the region (Horton and others 2016).

Figure 3.2. Exchange Rate Pressures Moderating
(Index, January 2010 = 100)



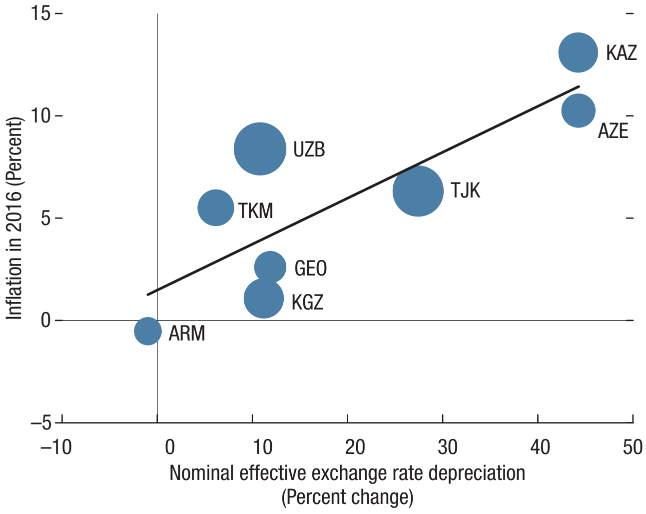
Sources: Information Notice System database; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

Financial Vulnerabilities Still Rising

Financial vulnerabilities continue to build up across the region. Banking sector risks have increased with currency depreciations, as highly dollarized balance sheets have further weakened (Box 3.1). Some banks continue to report losses and, given their exposure to foreign currency fluctuations, remain vulnerable to further depreciations. The prevalence of unhedged borrowers is putting downward pressure on asset quality (Figure 3.4).

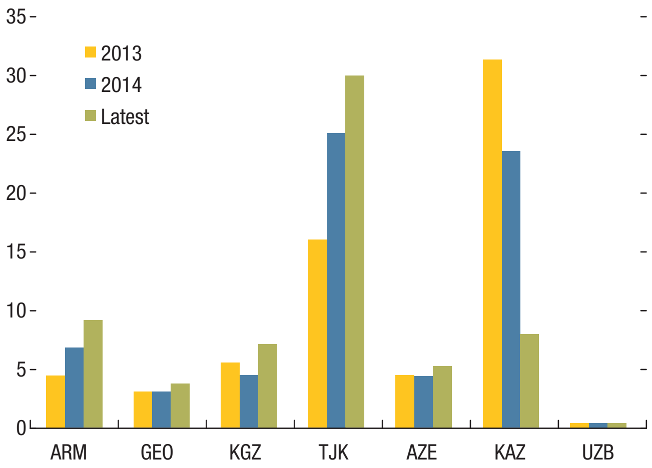
Country authorities are taking actions to contain risks to financial stability and financial intermediation. These actions include capital injections, restructuring and closing of troubled banks, and revamping lending practices, asset quality review processes, and stress-testing procedures. In Azerbaijan, for example, the licenses of eight banks have been revoked, bank restructuring has gathered momentum, and

Figure 3.3. Pickup in Inflation Driven by Currency Depreciation
(Percent change)



Sources: World Economic Outlook database; IMF, Information Notice System database; and IMF staff calculations.
Note: Country-specific episodes are described in footnote 1. Bubble size indicates average inflation between 2000 and 2013. Country abbreviations are International Organization for Standardization (ISO) country codes.

Figure 3.4. Nonperforming Loans Continue to Rise
(Percent of total loans)



Sources: National authorities; and IMF staff calculations.
Note: Nonperforming loans (NPLs) in Azerbaijan include only the overdue portion of the loans. In Kazakhstan, the reduction reflects the de-licensing of a bank with significant NPLs and legislation changes allowing banks to move NPLs to an external special purpose vehicle. Data are not available for Turkmenistan. Country abbreviations are International Organization for Standardization (ISO) country codes.

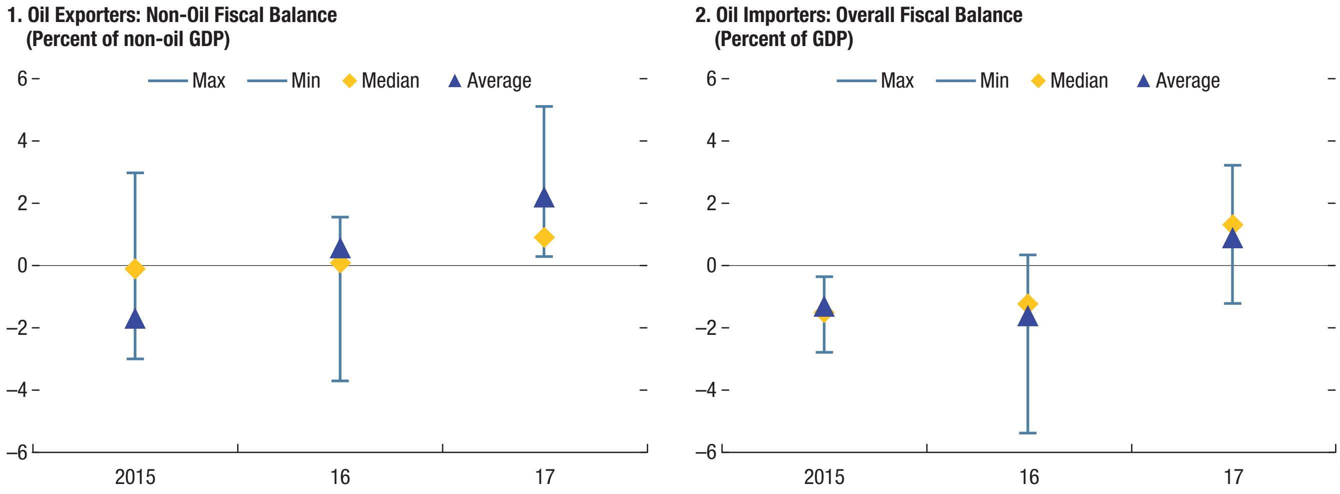
independent stress testing and asset quality review is underway. In Kazakhstan, liquidity conditions have improved, reflecting a number of policy actions that favored an increase in local currency deposits, and country authorities are expected to review their liquidity and resolution frameworks. In the Kyrgyz Republic, near-term vulnerabilities have been mitigated through the implementation of macroprudential measures, higher capital requirements, and a plan to transition to risk-based supervision. These important efforts need to continue, supported by a further strengthening of financial sector surveillance, such as the monitoring of liquidity risks. Stronger macroprudential and crisis management policies would also help reduce financial sector vulnerabilities.

Declining Space for Further Fiscal Easing

Increased public spending, together with weak revenue, has resulted in wider budget deficits in oil exporters and importers alike, with overall balances for the region deteriorating some 6.4 percentage points of GDP on average since 2014. However, most countries are projected to consolidate their fiscal positions in 2017 (Figure 3.5).

- The fiscal stance has differed across oil exporters. Average non-oil fiscal deficits are expected to be at 19 percent of non-oil GDP this year, 0.4 percentage points lower than in 2015. With revenues remaining subdued, Kazakhstan and Turkmenistan have tightened their fiscal policies mainly by reducing capital spending, which has helped to improve their non-oil primary balances by about 1.5 percentage points of GDP each, relative to 2015, with further reductions expected in 2017. In Azerbaijan, public investment is projected to decline significantly in 2017, reversing the expansionary fiscal stance following a countercyclical stimulus package this year. Supported by a projected pickup in revenues in line with oil prices, these

Figure 3.5. Fiscal Balance
(Change from previous year)



Sources: National authorities; and IMF staff calculations.
Note: Uzbekistan is excluded from the oil exporters aggregate.

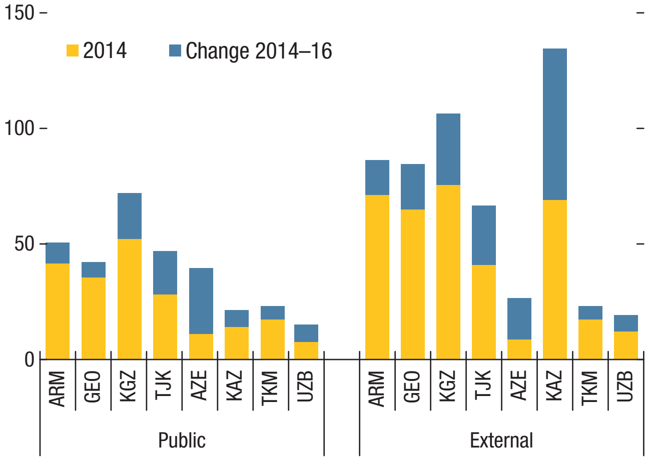
actions are expected to improve non-oil fiscal balances in oil exporters by some 2.2 percentage points of non-oil GDP in 2017.

- In oil importers, budget deficits are projected to widen to 5.3 percent of GDP in 2016 from 3.6 percent last year. This reflects weaker revenues, as well as increased spending in support of economic activity, particularly in Georgia, the Kyrgyz Republic, and Tajikistan. Increases in expenditure were driven by increases in the wage bill in the Kyrgyz Republic, and by strong public investment both there and in Tajikistan. With the recovery projected to strengthen next year, all countries except Georgia are expected to improve their fiscal positions in 2017, modestly narrowing the deficit of the group to 4.4 percent of GDP. Georgia is set to provide additional incentives to boost investment and growth by replacing the corporate income tax with a tax on dividends which is expected to reduce tax revenue and widen the deficit, unless offsetting measures are implemented.

Although fiscal easing has helped support domestic demand in a number of countries, policy space is declining in many of them, as fiscal buffers are run down and debt increases rapidly. Since 2014, oil exporters have used some $20 billion of their savings (equivalent to almost 6 percent of their 2015 GDP) to finance budget deficits, and public debt, although remaining at moderate levels in most cases, has increased by double digits in many oil exporters and importers (Figure 3.6, left panel). In addition to widening deficits, currency depreciations and the decline in nominal GDP in oil exporters from lower oil prices have all contributed to an increase in the debt-to-GDP ratio. With public debt levels and debt service rising, and, given large contingent liabilities, fiscal space for any further stimulus has shrunk in the Kyrgyz Republic and Tajikistan. In Armenia and Georgia, public debt has reached or surpassed 40 percent of GDP and, while short-term obligations are not a concern, a weak growth outlook and rising financing costs suggest that these countries may find it difficult to maintain public debt at or below current levels.

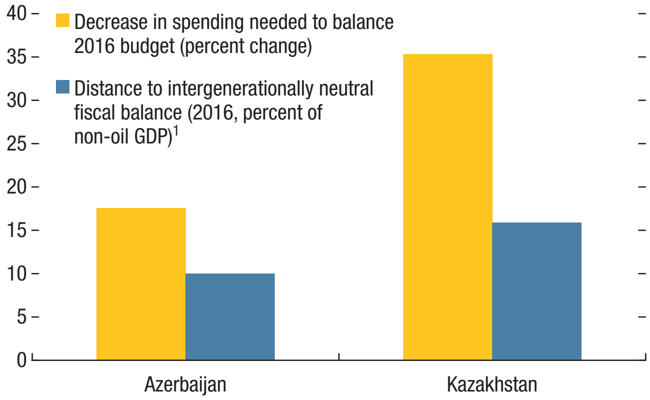
Fiscal policy will need to strike a balance between supporting economic activity in the short term

Figure 3.6. Debt Has Increased Rapidly
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: The cumulative height of the two bars reflect the debt levels projected for 2016. Public debt includes both domestic and external public debt. External debt includes both private and public debt with the exception of Azerbaijan. External debt in Azerbaijan only includes public external debt. The external debt figure for Georgia excludes inter-company loans. Country abbreviations are International Organization for Standardization (ISO) country codes.

Figure 3.7. Illustrative Fiscal Adjustment Needs in Oil Exporters
(Percent)



Source: IMF staff estimates.
[1]This is the gap between the projected nonhydrocarbon primary balance and the desirable fiscal balance based on a permanent income hypothesis.

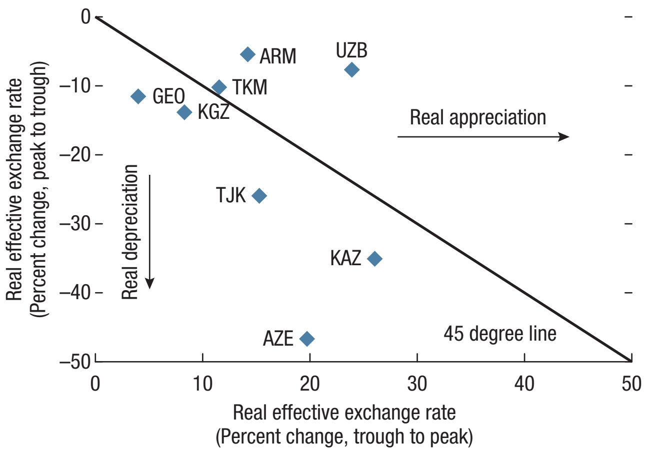
and ensuring long-term sustainability, as countries adjust to the persistent declines in the price of oil and other commodities, and in trading partners' growth prospects. With growth at an 18-year low, oil exporters with strong buffers should support economic activity in the near term through fiscal easing, while putting in place plans to consolidate their fiscal positions over the medium term as soon as conditions allow. These adjustments are needed to ensure fiscal sustainability and intergenerational equity, and rebuild fiscal buffers against any future shocks (Figure 3.7). Oil importers also need to consolidate their fiscal positions in the coming years to both ensure debt sustainability, and create fiscal space for countercyclical policy. Raising non-oil revenues in a growth-friendly way and developing credible medium-term fiscal frameworks that guide the pace of fiscal adjustment are particularly important. As regards the composition of adjustment, countries should aim to prioritize and safeguard capital spending that supports growth and social spending that supports the poor and vulnerable.

Exports Supporting External Positions

At 4.1 percent of GDP, the CCA's current account deficit for 2016 is projected to deteriorate by 1.1 percentage points compared with last year. Export volumes are projected to rise this year in most countries (with the exceptions of Kazakhstan and Uzbekistan), likely supported by improvements in competitiveness from exchange rate depreciation (Figure 3.2 lower panels, Figure 3.8, and Box 3.1) and the recent pickup in commodity prices (Figure 3.9), as well as some strengthening in external demand from Russia—which has also helped remittances to stabilize—and from China, where a policy stimulus is helping boost economic activity.[2] In CCA oil exporters, the combined deficit is projected to be 3.5 percent of GDP this year, reflecting a deficit of 18.5 percent of GDP in Turkmenistan, which more than offsets a move into surplus in Azerbaijan and a lower deficit in Kazakhstan relative to last year. Having received a boost from currency depreciation, the value of non-oil exports is projected to increase and offset some of the losses from oil exports.

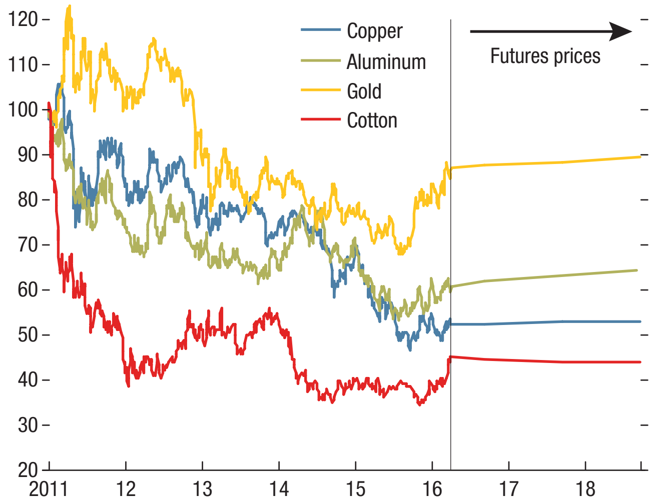
[2]Horton and others (2016) discuss the extent to which currency adjustment has helped correct earlier real exchange rate misalignments in the CCA region.

Figure 3.8. Earlier Appreciations Unwinding
(Percent change)



Sources: IMF, Information Notice System database; and IMF staff calculations.
Note: Pre-shock real appreciation is depicted on the horizontal axis; post-shock real depreciation on the vertical axis (peak-trough dates are country-specific). Country abbreviations are International Organization for Standardization (ISO) country codes.

Figure 3.9. Recent Pickup in Key Commodity Prices
(Index, June 2011 = 100)



Source: Bloomberg, L.P.; Haver Analytics.

In CCA oil importers, current account deficits are projected to be 8.5 percent of GDP in 2016, 0.6 percentage point wider than last year, mainly reflecting developments in the Kyrgyz Republic and Georgia. The deficit is set to reach 15 percent in the Kyrgyz Republic, due to large investment projects, and edge up to 12.1 percent in Georgia.

External debt has continued to rise in a number of countries (Figure 3.6, right panel). This reflects currency depreciations and increased borrowing by governments and oil companies in some oil-exporting countries. External imbalances throughout the region are anticipated to gradually unwind as exports pick up further—in line with a recovery in commodity prices—and economic conditions improve in key trading partners, particularly Russia.

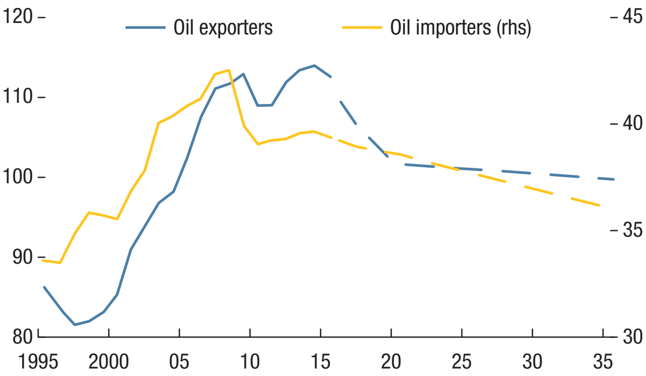
Downside Risks Are Multifarious

Although fiscal easing and currency adjustment have helped mitigate the immediate impact of the recent shocks on the CCA economies, adjustment to the persistent component of these shocks—the fact that, over the medium term, oil prices and growth in Russia are expected to be much lower than their recent historical levels—is not yet complete. Moreover, increased vulnerabilities suggest that the region is now more exposed to future adverse shocks. In this context, a further drop in oil prices, and/or slower-than-anticipated growth in key trading partners—China, Russia, and Europe (for example, from Brexit; see Box 1.3)—could delay the recovery. With weaker-than-anticipated economic conditions under baseline assumptions, governments could find it difficult to implement multiyear fiscal consolidation plans, which, in turn, could undermine fiscal sustainability and confidence. In the absence of further actions, amplification of financial vulnerabilities could slow credit growth and weaken economic activity further.

Structural Transformation Needed

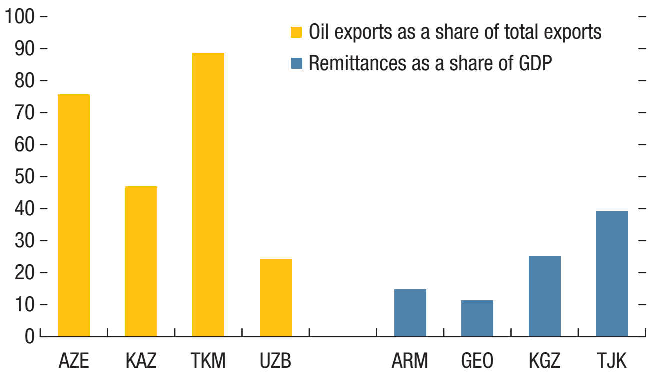
The region has grown strongly since independence to close the gap in living standards with emerging markets (Figure 3.10). However, growth in GDP per capita has steadily lost momentum since the global financial crisis of 2008–09, especially in

Figure 3.10. Risk of Living Standards Falling Behind Peers?
(GDP per capita, percent of emerging market average)



Source: IMF staff calculations.
Note: GDP per capita is assumed to grow at the same rate as 2021 for the years 2022–35. rhs = right-hand side.

Figure 3.11. High Reliance on Commodities and Remittances
(Percent, 2015)



Sources: National authorities; World Bank.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

oil importers. This loss of momentum is, in part, due to weak growth in productivity relative to emerging market and developing countries, and deceleration in investment growth in oil importers (Mitra and others 2016). The recent slump in commodity prices and remittances has exacerbated this trend. While regional GDP growth is expected to average 4 percent in 2018–21 based on a modest pickup in commodity prices and economic activity in key trading partners, it is about half of the 8.3 percent average of 2000–14. With weaker medium-term growth prospects, the gains made in living standards vis-à-vis emerging markets during the two decades since independence are expected to be partly reversed.

A structural transformation from the growth models based on commodity exports and remittance inflows is needed, to diversify sources of growth and boost job creation (Figure 3.11). Many countries have already announced privatization and diversification plans. However, decisive actions are now needed for their implementation. As macroeconomic conditions start to improve, it is important that the urgency of reforms does not wane. Transparency in the privatization process is essential, with clear timetables and implementation strategies communicated to all stakeholders. To be successful, diversification plans need to be market-driven, accompanied by structural reforms to further improve the business climate, strengthen corporate governance, and foster competition. Efforts could focus on improving governance, accountability, property rights, and financial markets—some of the areas where many of the countries lag behind emerging markets.

While growth in the past decades has increased average living standards, it has yet to trickle down to benefit all, as about 16 percent of the population in the region still lives below the poverty line, with poverty rates exceeding 30 percent in Armenia, the Kyrgyz Republic, and Tajikistan.[2] At this juncture, labor market pressures continue to intensify with the return of some migrant workers to their home countries. These challenges underscore the importance not only of raising growth, but doing so in a way that provides benefit to all segments of the population.

Further investment in education and strengthening labor market policies (Box 2.2), in particular, could help to improve the productivity of the labor force and make growth more inclusive. The rebalancing in China provides a unique opportunity for the region to fill the rising demand for consumption goods in that country,

[2]Calculation is based on 2013 World Development Indicators data for population living below the national poverty line and excludes Turkmenistan and Uzbekistan, for which data are missing.

and attract some of its manufacturing activities (Chapter 4). Accelerating the pace of structural reforms will not only help the countries in the region overcome the current macroeconomic challenges, but will also help them capitalize on such opportunities, unlock the region's significant potential, boost long-term growth, and lift people out of poverty.

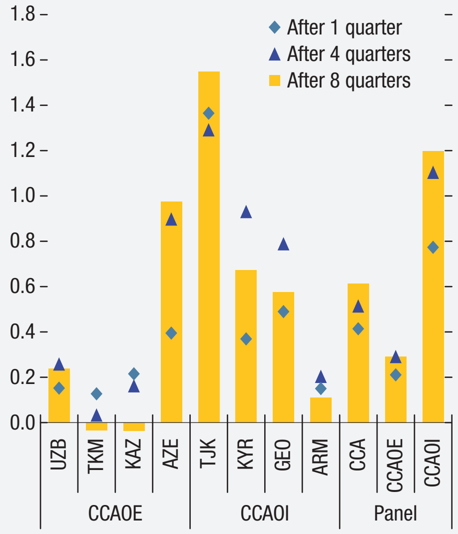
Box 3.1. Exploring the Effects of Currency Adjustment in CCA Countries

Currency adjustment and, in some cases, increased exchange rate flexibility, have been an important part of the Caucasus and Central Asia (CCA) countries' policy response to the recent external shocks. This box quantifies how changes in exchange rates affect key economic and financial sector variables in the region.

Inflation. Pass-through for the region is estimated at 52 percent and 61 percent after four and eight quarters, respectively.[1] This is higher than the 20 to 30 percent average for emerging Asia and Latin America after 1 to 2 years, but close to the 50 percent estimated for emerging Europe. There is substantial heterogeneity across CCA countries (Figure 3.1.1), with oil importers exhibiting higher pass-through than oil exporters. This may reflect the timing of the policy change since oil exporters maintained pegs to the U.S. dollar during most of the sample period (1997–2015), and a higher share of administered prices in their consumption basket, especially in Turkmenistan and Uzbekistan. There is also evidence of asymmetry, as depreciations are generally associated with a higher pass-through than appreciations (80 percent versus 46 percent).

Foreign currency-denominated loans and deposits. A vector autoregression analysis finds that a devaluation/depreciation shock tends to increase the currency mismatch in CCA banking systems (Figure 3.1.2). Deposits in dollars tend to rise by 0.1 percentage point in response to a 1 percentage point increase in the nominal effective exchange rate (NEER) on impact, while dollar-denominated loans increase by some 0.07 percentage point (a somewhat puzzling result which requires further analysis). The countries with the highest elasticities are Armenia for the case of loans, and Kazakhstan for deposits.

Figure 3.1.1. Exchange Rate Pass-Through to Inflation
(Percent)



Source: IMF staff estimations.
Note: Impulse response to 1 percentage point temporary shock to the nominal effective exchange rate. Country abbreviations are International Organization for Standardization (ISO) country codes. CCA = Caucasus and Central Asia; OE = oil exporters; OI = oil importers.

Non-oil exports. Depreciation in the real effective exchange rate (REER) is associated with improvements in non-oil exports in the CCA region (Figure 3.1.3). Overall, a 10 percent REER depreciation is associated with an improvement in non-oil exports of 1.6 percent of GDP. The relationship between changes in the REER and improvements in non-oil exports is stronger in oil importers than in oil exporters. This reflects, in part, greater export diversification in the former, as well as greater exchange rate pass-through to domestic prices. In oil importers, most of the impact appears to be in the first year of the depreciation; whereas, oil exporters have a modest but significant impact in the following year.

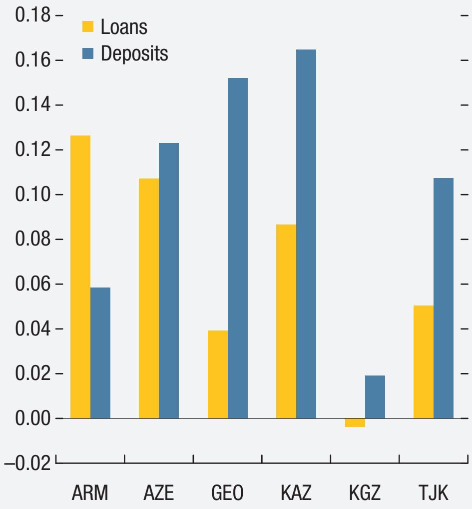
The analysis suggests that currency adjustment is indeed an important channel through which external imbalances can be lowered in the CCA. Adopting greater flexibility has allowed the exchange rate to play its shock-absorbing role by adjusting relative prices and supporting export

Prepared by Matteo Ghilardi, Tarak Jardak, Keyra Primus, Saad Quayyum, Juan Treviño, and Hong Yang.

[1]The effects of changes in the exchange rate on inflation are estimated using the local projections method developed by Jordà (2005), which allows estimation of the impact over time of a shock by using impulse-response functions obtained by ordinary least squares regressions.

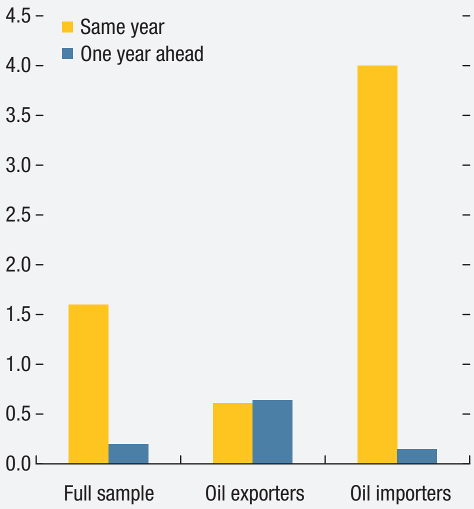
Box 3.1. ***(continued)***

Figure 3.1.2. Response to a Depreciation Shock[1]
(Percentage points, one period ahead)



Source: IMF staff estimations.
[1]1 percentage point shock to the log difference of nominal effective exchange rate.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

Figure 3.1.3. Change in Non-Oil Exports[1]
(Percent of GDP)



Source: IMF staff estimations.
[1]Response to a 10 percent real effective exchange rate depreciation.
Note: The results are robust to the use of non-oil exports in percent of non-oil GDP.

competitiveness. To mitigate the adverse effects of currency adjustment on inflation, countries need to develop stronger monetary policy frameworks as they move toward increased exchange rate flexibility. They also need to strengthen efforts toward building confidence in local currency-denominated assets, and improving financial sector oversight. Structural reforms can help the CCA economies diversify and develop more vibrant private sectors, which can, in turn, help them adjust more quickly to exchange rate changes.

References

Jordà, O. 2005. "Estimation and Inference of Impulse Responses by Local Projections." *American Economic Review* 95(1): 161–82.

Horton, M., H. Samiei, N. Epstein, and K. Ross. 2016. "Exchange Rate Developments and Policies in the Caucasus and Central Asia." Middle East and Central Asia Department Paper, International Monetary Fund, Washington, D.C.

Mitra, P., A. Hosny, G. Minasyan, M. Fischer, and G. Abajyan. 2016. "Avoiding the New Mediocre: Raising Long-Term Growth in the Middle East and Central Asia." Middle East and Central Asia Department Paper, International Monetary Fund, Washington, DC.

CCA: Selected Economic Indicators

	Average 2011–12	2013	2014	2015	Projections 2016	2017
Real GDP Growth	**8.7**	**6.6**	**5.3**	**3.2**	**1.3**	**2.6**
(Annual change; percent)						
Armenia	7.9	3.3	3.6	3.0	3.2	3.4
Azerbaijan	11.9	5.8	2.8	1.1	–2.4	1.4
Georgia	6.1	3.4	4.6	2.8	3.4	5.2
Kazakhstan	8.1	6.0	4.3	1.2	–0.8	0.6
Kyrgyz Republic	3.9	10.9	4.0	3.5	2.2	2.3
Tajikistan	7.9	7.4	6.7	6.0	6.0	4.5
Turkmenistan	13.6	10.2	10.3	6.5	5.4	5.4
Uzbekistan	6.9	8.0	8.1	8.0	6.0	6.0
Consumer Price Inflation	**9.4**	**6.1**	**5.9**	**6.2**	**9.9**	**8.3**
(Year average; percent)						
Armenia	4.1	5.8	3.0	3.7	–0.5	2.5
Azerbaijan	6.7	2.4	1.4	4.0	10.2	8.5
Georgia	6.0	–0.5	3.1	4.0	2.6	3.6
Kazakhstan	8.7	5.8	6.7	6.5	13.1	9.3
Kyrgyz Republic	8.7	6.6	7.5	6.5	1.1	7.4
Tajikistan	14.6	5.0	6.1	5.8	6.3	7.3
Turkmenistan	7.1	6.8	6.0	6.4	5.5	5.0
Uzbekistan	15.1	11.7	9.1	8.5	8.4	9.6
General Gov. Overall Fiscal Balance	**2.7**	**2.7**	**1.5**	**–4.6**	**–4.9**	**–3.0**
(Percent of GDP)						
Armenia[1]	–3.3	–1.6	–1.9	–4.8	–4.5	–3.0
Azerbaijan[1]	4.7	1.0	3.2	–6.8	–9.9	–3.9
Georgia	–3.3	–2.6	–2.9	–3.8	–4.7	–6.0
Kazakhstan	2.9	4.7	1.7	–6.9	–5.7	–4.2
Kyrgyz Republic	–3.2	–5.1	–2.8	–3.2	–8.8	–5.5
Tajikistan	–2.8	–0.8	0.0	–2.3	–4.0	–2.7
Turkmenistan[2]	3.4	1.2	0.8	–0.7	–0.8	–0.4
Uzbekistan	3.2	2.9	1.9	0.7	–0.5	–0.3
Current Account Balance	**1.5**	**2.1**	**2.0**	**–3.0**	**–4.1**	**–2.8**
(Percent of GDP)						
Armenia	–9.1	–7.3	–7.6	–2.7	–2.5	–3.0
Azerbaijan	8.1	16.4	13.9	–0.4	0.7	3.1
Georgia	–11.4	–5.8	–10.6	–11.7	–12.1	–12.0
Kazakhstan	–1.0	0.4	2.6	–2.4	–2.2	0.0
Kyrgyz Republic	–0.4	–1.1	–17.8	–10.4	–15.0	–14.9
Tajikistan	–3.8	–2.9	–2.8	–6.0	–5.0	–5.0
Turkmenistan	3.8	–7.2	–7.5	–10.3	–18.5	–18.0
Uzbekistan	4.9	2.9	0.7	0.1	0.1	0.2

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

4. How Will China's Rebalancing Affect the Middle East and Central Asia?

Weaker commodity prices, slower global growth, and higher global risk aversion are the channels through which the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) and the Caucasus and Central Asia (CCA) economies could be most affected by China's rebalancing, especially if the rebalancing leads to a hard landing. Overall, the impact on the MENAP and CCA regions is likely to be small—between 0.01 percent and 0.1 percent for each 1 percentage point slowdown in China's growth—given the limited bilateral trade and financial linkages with China. Within the regions, commodity exporters would be impacted the most. On the positive side, China's One Belt One Road (OBOR) investments, mainly in infrastructure, could help increase growth in the CCA and Pakistan—even if this investment is less than originally planned. China's rebalancing also presents an opportunity for the region to increase consumption-oriented exports, for example, tourism, agricultural products, and clothing, while creating jobs. To reap these benefits, however, countries need to step up structural reforms to improve their business environment and boost productivity and competitiveness.

Global Spillovers from China's Rebalancing

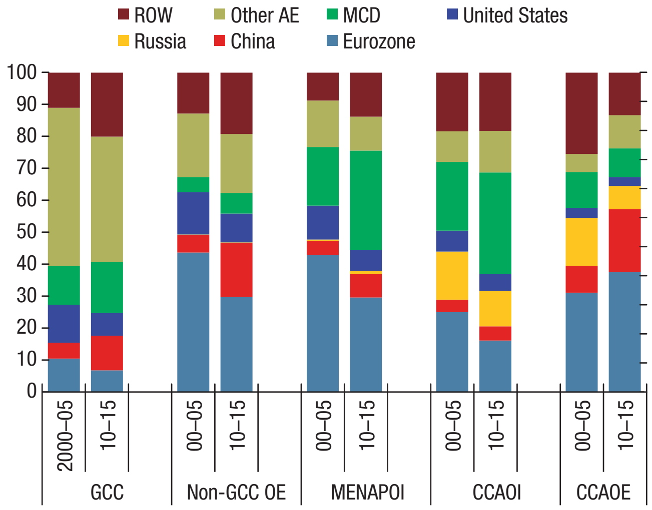
The Chinese economy is undergoing a substantial structural change. It is moving toward a model in which consumption and services increasingly drive growth rather than public investment and exports (also known as rebalancing). In the long term, the rebalancing should be beneficial for the global economy, as it reduces the risk of a collapse in unsustainable investment and a hard landing in China. In the near term, however, the transition (which began in 2012) entails China's growth gradually slowing to a more sustainable pace. Since China is the world's second-largest economy (at market exchange rates), its slowdown is expected to lower global growth (IMF 2016).

Given China's size, high investment rate, and high import content of its investment and exports, an economic slowdown in China is likely to spill over to the rest of the world through trade, commodity prices, and confidence. Growing financial linkages with the rest of the world, especially with ongoing internationalization of the renminbi and China's gradual capital account liberalization, may also impact currency valuations and increase global financial market volatility—as exemplified by market turbulence triggered by concerns about China's growth in 2015. China's rebalancing away from investment is also contributing to a slowing in demand for many commodities—especially metals, for which it accounted for about 40 percent of total global demand—and their prices, which have fallen by about 60 percent since 2011 (April 2016 *Regional Economic Outlook: Asia and Pacific* [APD REO]).

Global macroeconomic modeling suggests that a 1 percentage point (investment-driven) drop in China's output growth would reduce Group of Twenty (G20) growth by ¼ percentage point (April 2016 *World Economic Outlook*). How other countries would be affected by China's rebalancing depends on the extent and nature of their bilateral exposures to China and their exposure to countries with heavy bilateral exposures to China (April 2016 APD REO). Countries exporting investment-related goods to China, such as those in Southeast Asia, would be hit hardest: a 1 percentage point slowdown in China's growth rate is expected to lead to a 0.15–0.30 percentage point slowdown in that region's growth (Duval and others 2014; Cashin, Mohaddes, and Raissi 2016). Financial spillovers, especially in equity and foreign exchange markets, are likely to be higher for economies with stronger trade linkages to China—for example, Korea, Singapore, and Taiwan Province of China—and countries that

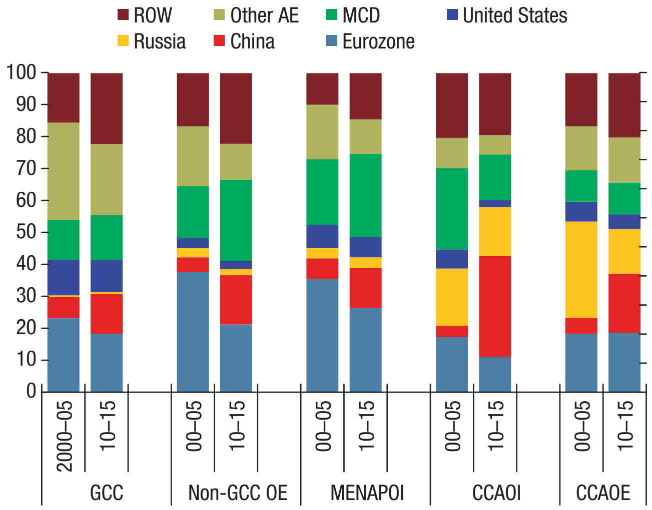
Prepared by Alexei Kireyev, Pritha Mitra (lead author), Nour Tawk, and Hong Yang with input from Ritu Basu, Eddy Gemayel, Keiko Honjo, and Jonah Rosenthal.

Figure 4.1. Share of Exports by Destination
(Percent, period averages)



Sources: IMF, Direction of Trade database; and IMF staff calculations.
Note: AE = advanced economy; CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; OE = oil exporters; OI = oil importers; ROW = rest of the world.

Figure 4.2. Share of Imports by Destination
(Percent, period averages)



Sources: IMF, Direction of Trade database; and IMF staff calculations.
Note: AE = advanced economy; CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; OE = oil exporters; OI = oil importers; ROW = rest of the world.

are sensitive to changes in global risk aversion (April 2016 APD REO). Slowing trade and financial inflows would reduce investment and consumption, hurting both near- and long-term global growth prospects. Lower inflows would increase exchange rate pressures, though the effect would be partly offset by import contraction.

Moderate Linkages Between MENAP and CCA Regions and China

MENAP and CCA countries' links to China, primarily through trade, have grown substantially yet remain moderate (Figures 4.1 and 4.2). Trade links are strongest with Europe and Russia, and within the regions.[1] However, since 2000, China has gained importance as an export destination: exports to China have grown tenfold for MENAP oil exporters ($100 billion in 2015) and CCA oil exporters ($15 billion in 2015) and nearly quadrupled for the rest of the region ($6 billion for MENAP oil importers; $400 million for CCA oil importers). The pattern is similar for imports. In the early 2000s, the region had virtually no imports from China. Over the next 15 years, imports picked up pace rapidly and grew almost 10 times—except MENAP oil importers, for which imports grew by about half as much.

The regions' exports to China are varied, ranging from natural resources to electronic components, with commodities accounting for the bulk of exports. MENAP and CCA oil exporters sell hydrocarbons to China (Figure 4.3)—now a top-five export market destination for the CCA. China is a large export market for iron ore from Mauritania (more than 40 percent of total exports) and Tajikistan (about 10 percent of total exports), as well as copper from Armenia (about 5 percent of total exports). The rest of the regions' exports to China are mainly consumption-oriented goods (or inputs for them; well below 10 percent of total exports), including cotton from Pakistan and electronic components from Morocco. The presence of Chinese tourists has been growing

[1]Transit trade within MENAP and CCA countries may understate export shares to other destinations in Figure 4.1.

across the region but remains well below 5 percent of the overall total.

Imports from China have driven a large trade deficit with China. Mostly textiles, electronics, and machinery (Figure 4.4), these imports have continued growing—and at a faster pace than exports—despite the various economic shocks recently faced by the region. Consequently, they have contributed to a rising trade deficit with China for MENAP oil importers and a consistently large deficit for CCA oil exporters, as well as shrinking surpluses for MENAP oil exporters (along with lower oil export revenues) and CCA oil importers (along with lower metal export revenues).

Financial linkages among the CCA, Pakistan, and China are substantial, and they are strengthening owing to the One Belt One Road Initiative (OBOR). China's official lending to CCA countries has risen from $300 million (0.1 percent of GDP) in 2007 to $4.4 billion (1 percent of GDP) in 2014. Over the next five years, as part of OBOR (Box 4.1), China is expected to invest an additional cumulative $35 billion (2 percent of GDP) in the CCA, mainly in infrastructure and mining. As a part of this initiative, China is also investing $28 billion (2 percent of GDP) in Pakistan (mainly energy and infrastructure) over the same period and another $16.5 billion over the longer term. In the rest of MENAP, China contributes less than 5 percent of total foreign direct investment, mainly for energy and transport infrastructure. In Egypt, China's direct investment would rise if it moves forward with financing energy projects worth $15 billion (totaling 0.9 percent of GDP over the next five years). Otherwise, financial links between China and the MENAP region are modest. Foreign direct investment, banking flows, remittances, and portfolio flows are mainly from Europe and the Gulf Cooperation Council (GCC) (Figure 4.5).

What Does China's Economic Transition Mean for MENAP and CCA?

On the upside, exposure to China's rising consumption growth could boost its consumption-related imports. As part of the rebalancing process, China's exports are also moving up the value chain and exiting some sectors. This creates opportunities for developing economies to enter those sectors to both satisfy China's rising consumption demand and replace some of China's exports to the rest of the world (April 2016 APD REO).[2]

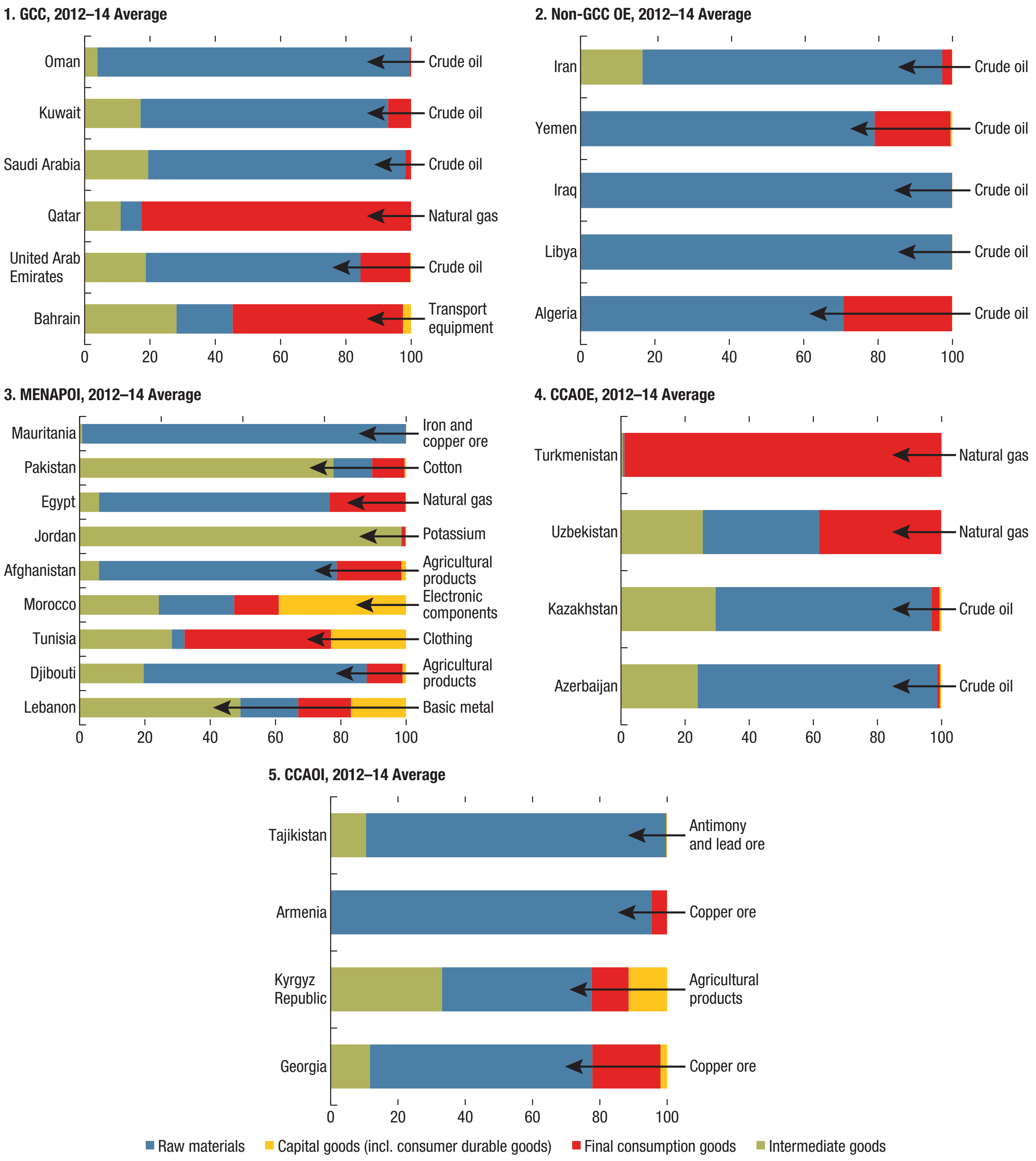
The impact of China's rebalancing could be large for MENAP and CCA oil exporters due to reduced oil exports. So far, China's demand for oil has only marginally declined and is expected to rise with increased consumption. However, China's lower import demand and its adverse effects on global growth are weighing on global oil demand—accounting for about one-third of the past two years' oil price decline (April 2016 APD REO). This price decline, combined with lower oil demand from MENAP and CCA oil exporters' main trading partners, weakens their export revenues and economic growth.

Spillovers from China's rebalancing to the MENAP and CCA regions are estimated using a global vector autoregression (GVAR) model. The model analyzes interactions in the global economy, applying a long time series on more than 30 countries taking into account trade and financial linkages.[3] A 1 percentage point decline in China's growth is estimated to reduce GCC growth by 0.1 percentage point in the near term (Figure 4.6)—about one-half of the impact on the region expected to be hit hardest, Southeast Asia—and would mainly occur through the decline in global oil demand and prices. The impact on non-GCC oil exporters is smaller due to sanctions on Iran

[2]China's move up the value chain has increased competition for some advanced economies (Germany, Japan, Korea, and the United States).

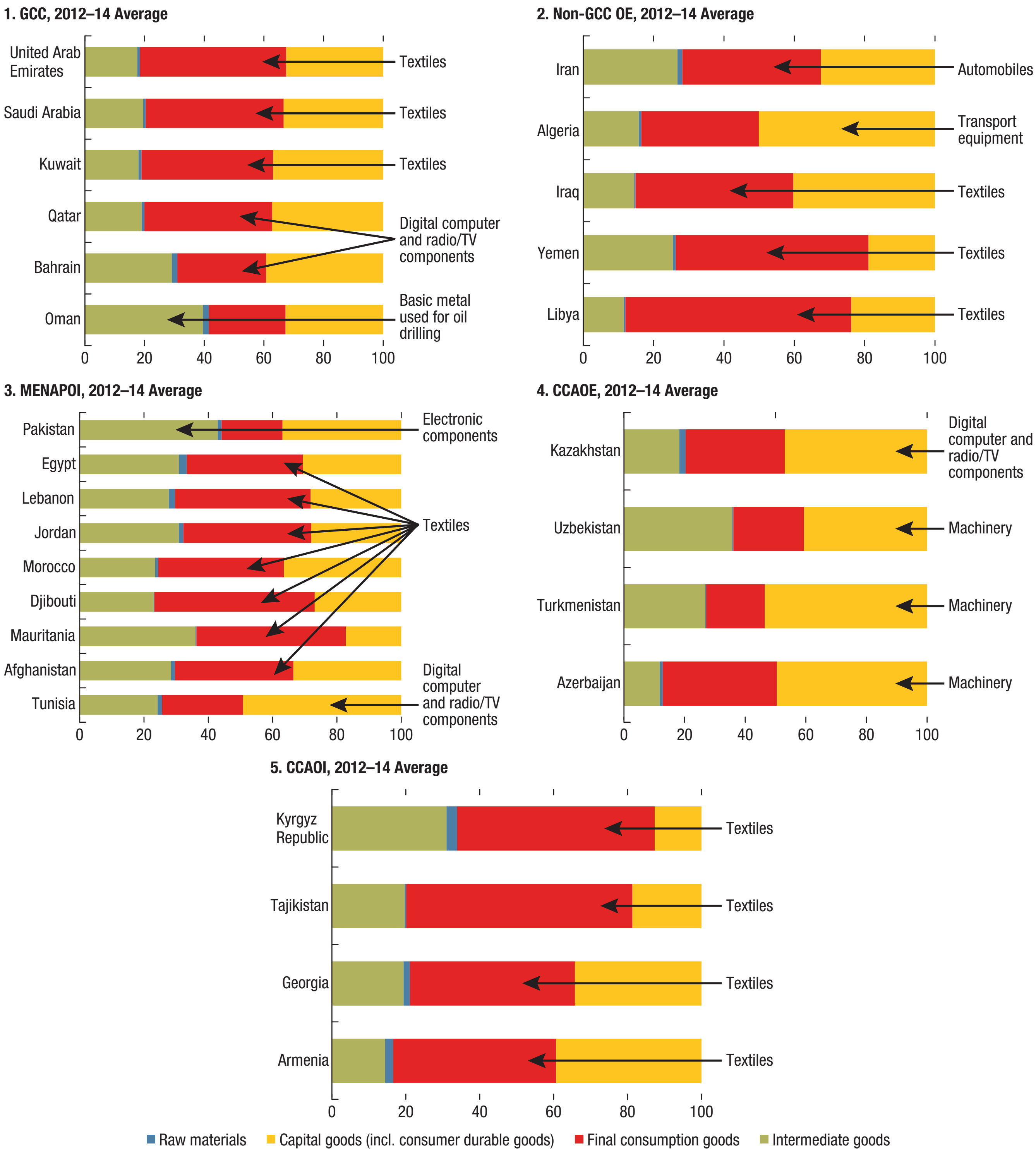
[3]For simplicity, the rebalancing in China is modeled as a negative growth shock in China.

Figure 4.3. Exports to China
(Percent of total exports to China)



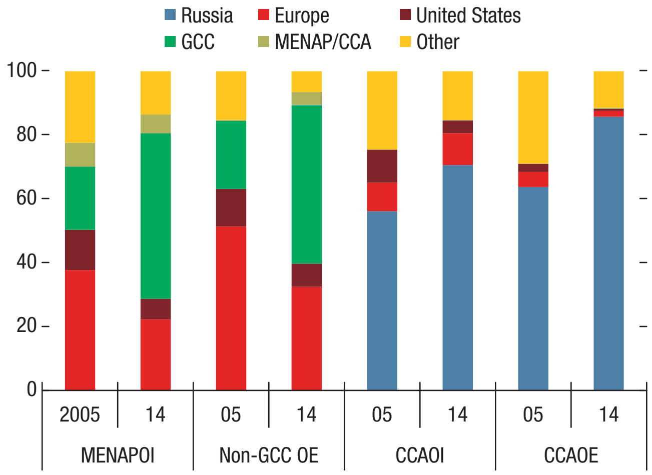
Sources: Centre d'Etudes Prospectives et d'Informations Internationales BACI International Trade database; and IMF staff calculations.
Note: Classifications based on UN Stage of Processing in which natural gas is classified as a final consumption good although it may also be used as an intermediate good. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; OE = oil exporters; OI = oil importers.

Figure 4.4. Imports from China
(Percent of total imports from China)



Sources: Centre d'Etudes Prospectives et d'Informations Internationales BACI International Trade database; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; OE = oil exporters; OI = oil importers.

Figure 4.5. Remittance Inflows by Region, 2014 vs. 2005
(Percent)



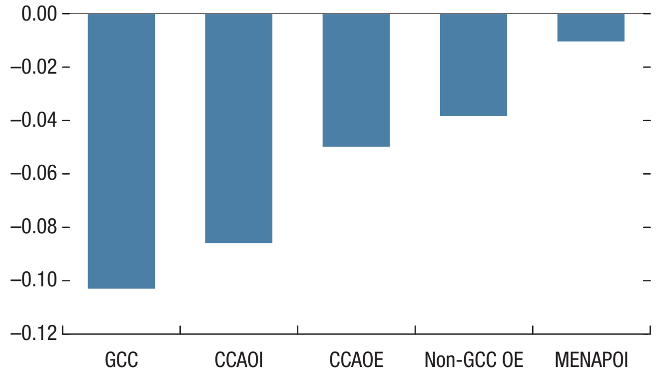
Sources: World Bank; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; OE = oil exporters; OI = oil importers.

having lowered the sensitivity of its total exports to changes in oil prices. (With the recent removal of the sanctions, the impact might increase.) CCA oil exporters are also expected to have a lower impact because they export a significant amount of natural gas directly to China and we assume China's gas demand will continue to be relatively stable (Figure 4.7 highlights the large direct trade links of the CCA oil exporters with China).

Other commodity exporters in the MENAP and CCA regions are also likely to be affected. Globally, about 40 percent of the recent decline in metal prices is attributable to China. In 2015, Mauritania's growth fell to one-third of what it was the previous year, largely due to iron exports losses to China—which have declined by $180 million. Similarly, Armenia's copper exports fell by $16 million over the past year. Further declines in metal prices could force the closure of some of the region's mines.

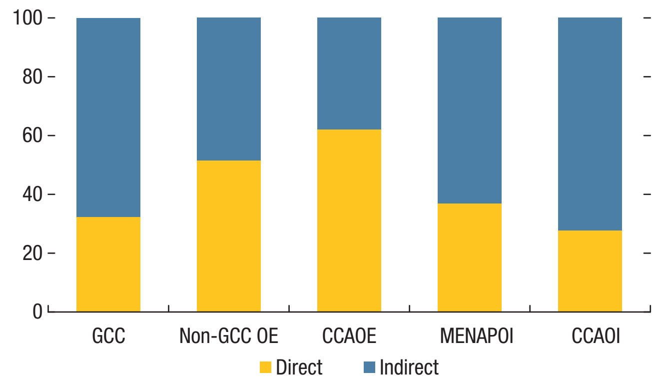
MENAP and CCA oil importers' exposures to China reflect their strong links to China's trading partners: Europe, the GCC, and Russia. Lower Chinese demand for imports reduces economic growth in its trading partners. Lower oil prices

Figure 4.6. Near-Term Growth Impact of 1 Percentage Point Slowdown in China's Growth
(Percentage points)



Source: IMF staff estimates based on global vector autoregression model.
Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; OE = oil exporters; OI = oil importers.

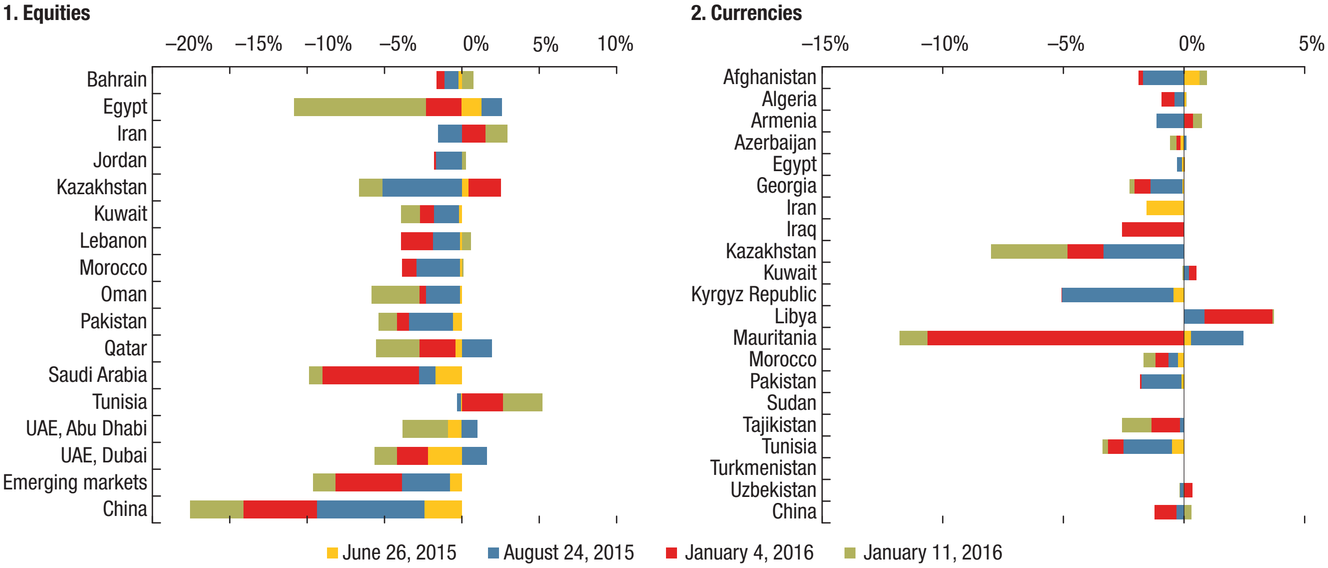
Figure 4.7. Direct and Indirect Trade Spillovers from China's Slowdown
(Percent)



Sources: Kireyev and Leonidov (2015); and IMF staff estimates.
Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; OE = oil exporters; OI = oil importers.

partly mitigate the impact by improving their (and Europe's) terms of trade, disposable incomes, and input costs. The latter effect dominates for the MENAP oil importers (directly and indirectly by softening the impact of China's rebalancing on Europe) where a 1 percentage point decline in China's growth has almost no impact on growth in the near term (Figure 4.6). In contrast, the CCA oil importers are almost as affected as the GCC, reflecting spillovers from lower Russian growth in

Figure 4.8. Financial Market Response to Sharp Drops in Chinese Equities
(Percent change, during three days after event)



Sources: Bloomberg L.P.; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; UAE = United Arab Emirates.
Country abbreviations are International Organization for Standardization (ISO) country codes.

response to China's rebalancing, including lower remittances and foreign direct investment.

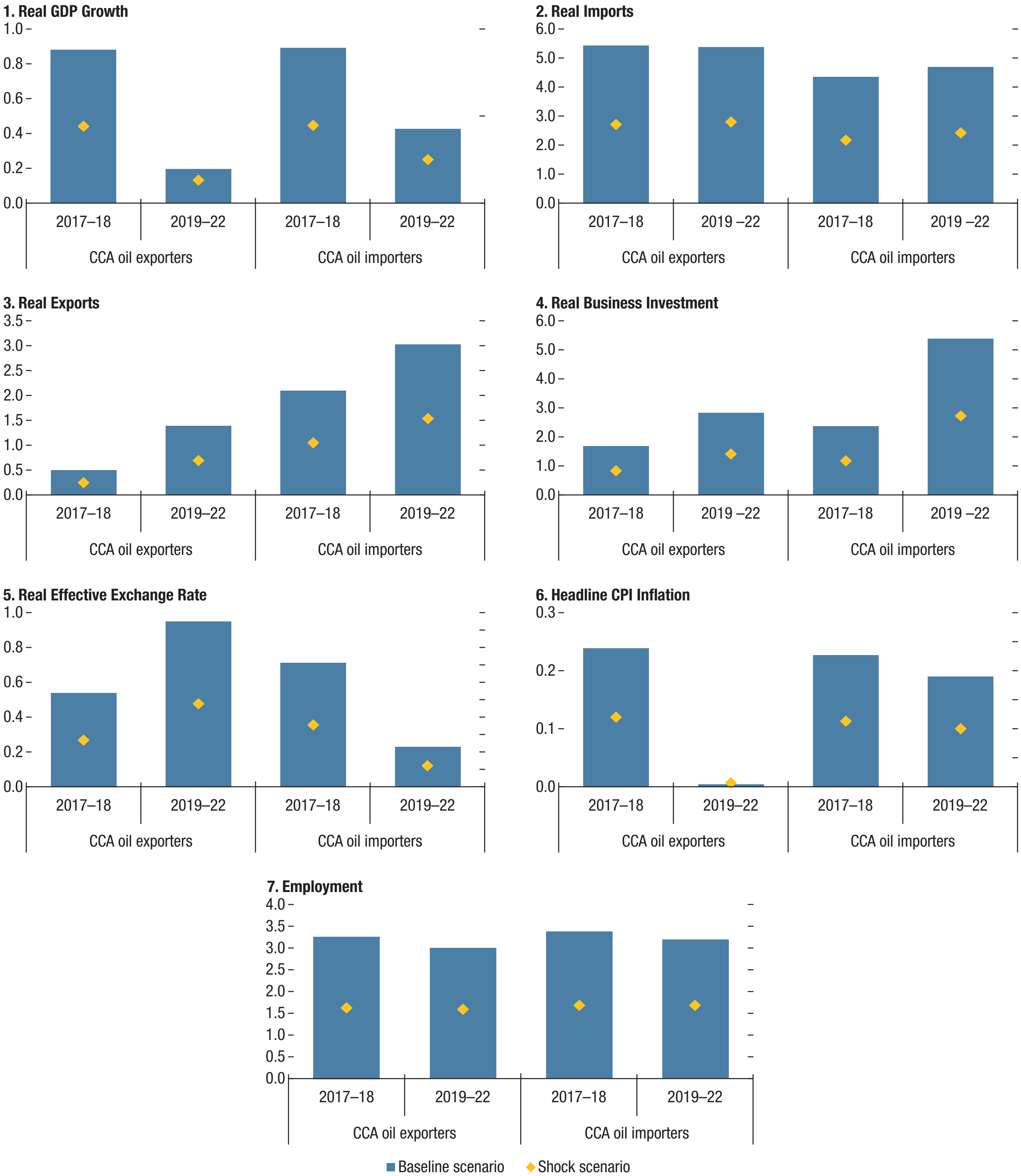
In addition to spillovers through commodity prices and trade, the MENAP and CCA regions have been sensitive to increases in global risk aversion—as evidenced by financial market reactions during recent risk-off episodes related to China. However, the financial market impact has been short-lived and smaller than in other regions that are more integrated in global financial markets (Figure 4.8).

Looking ahead, the CCA could benefit the most from China's OBOR investments. According to the authorities from countries involved in OBOR, it could potentially raise CCA investment (mostly infrastructure) by nearly 2 percent of GDP annually for the next five years. Under these assumptions, simulations using a global dynamic stochastic general equilibrium model—notwithstanding significant uncertainty surrounding such estimates—suggest that the anticipated increase in productivity growth would boost exports and employment (net of any increase in investment-related imports of goods, services, or labor) with annual economic growth rising by 1½ percentage points in the near term and by 0.3 in the long term (Figure 4.9). However, initially, increased investment demand would raise price pressures (possibly hurting competitiveness) and imports, eroding some of the benefits to growth. Half as much OBOR investment would dampen the net positive impact on growth, exports, and employment by about one-half in the near term and by about one-third in the long term (shock scenario, Figure 4.9).

Policies To Help MENAP and CCA Respond to China's Rebalancing

How can the regions mitigate against adverse economic spillovers from China's rebalancing? If policy space and/or buffers are available, fiscal policy could be used to help smooth adjustment to the growth and commodity price shocks that may accompany China's transition. Where financing constraints are tight, raising

Figure 4.9. Model-Based Estimates of One Belt One Road Impact
(Percentage points)



Source: IMF staff estimates.
Note: Estimates are based on simulations from a dynamic stochastic general equilibrium model. CCA = Caucasus and Central Asia; CPI = consumer price index.

the efficiency of public spending and revenue collection may help create savings that can be channeled toward growth-enhancing spending, supporting demand over the near term and raising potential growth. Greater exchange rate flexibility would also facilitate adjustment to shocks in some cases. If global risk aversion starts to weigh on the regions' financial systems, prudential policies could be applied to safeguard financial stability by increasing liquidity and mitigating risks to asset quality.

If MENAP and CCA countries implement appropriate supporting policies, China's rebalancing can offer them an opportunity to expand exports and create jobs. The shift toward a consumption- and services-driven economy in China is likely to boost China's demand for tourism and consumption goods, as well as demand for services along the OBOR corridor.

- This shift creates an opportunity for the region (especially commodity importers) to expand exports to China—notwithstanding competition from Southeast Asia—since most of the MENAP and CCA non-commodity exports to China are already consumption-oriented or inputs to consumption goods (including, for example, agricultural products, cotton, and clothing). Although so far there is no evidence that China's rebalancing has had any significant impact on the growth of consumption-oriented exports, structural reforms targeted at boosting productivity and competitiveness of consumption-oriented industries could help raise the regions' market shares in China over time. Greater exchange rate flexibility could also help improve competitiveness in some cases. In addition to raising economic diversification, the regions' commodity exporters that export directly to China could seek out new export markets.
- Tourism is another potential growth area. Kazakhstan, Morocco, and Tunisia, are already starting to target Chinese tourists by increasing marketing efforts and facilitating transportation. Other countries may follow suit.
- As China's exports move up the value chains, MENAP and CCA countries could seek to pick up the slack. Success will hinge not only on improving the business environment but also increasing labor market efficiency and boosting worker talent across the region.
- Increased transit across the OBOR corridor provides an opportunity for countries to increase sales of transit-related services (for instance, restaurants, fuel stations, and hotels). To this end, structural reforms—including infrastructure and access to financing — should aim to facilitate the growth of these businesses.

OBOR offers a unique opportunity to improve infrastructure and raise potential growth in CCA and other countries in the region, and macroeconomic policies need to mitigate against OBOR's risks to debt sustainability and inflation. In the initial years of its implementation, some fiscal tightening (through taxes or cuts in noninvestment spending) and monetary tightening may be needed to avoid overheating. Capacity building will be important to ensure that the countries involved with OBOR can implement the planned increase in investment. Careful debt management is needed to minimize risks to debt sustainability.[4]

[4] Djibouti's recent experience offers a cautionary example in this context. This country's debt increased by 50 percent over the past three years, owing to Chinese debt-financed public infrastructure projects.

Box 4.1. The One Belt One Road Initiative

To raise connectivity and cooperation across Eurasia, China is spearheading the One Belt One Road (OBOR) initiative. The aim is to create the Silk Road Economic Belt connecting the Caucasus and Central Asia (CCA), South Asia, Southeast Asia, the Middle East, and Europe in a transport-linked corridor via land roads, in tandem with the 21st Century Maritime Silk Route, which will connect China to Europe via sea routes through Asia (Figure 4.1.1). These initiatives are supported by the $40 billion Silk Road Development Fund and the $100 billion Asian Infrastructure Investment Bank. China's involvement is expected to expand the economic prospects of the Middle East, North Africa, Afghanistan, and Pakistan and CCA regions by enhancing the scope for addressing infrastructure gaps and economic diversification.

Figure 4.1.1. One Belt One Road Map

Sources: *The Economist* (2016); national authorities of Pakistan.

Prepared by Pritha Mitra.

References

Cashin, P., K. Mohaddes, and M. Raissi. 2016. "China's Slowdown and Global Financial Market Volatility: Is World Growth Losing Out?" IMF Working Paper 16/63, International Monetary Fund, Washington.

Duval, R., K. Cheng, K. H. Oh, R. Saraf, and D. Seneviratne. 2014. "Trade Integration and Business Cycle Synchronization: A Reappraisal with Focus on Asia." IMF Working Paper 14/52, International Monetary Fund, Washington.

International Monetary Fund (IMF). 2016. "The People's Republic of China: 2016 Article IV Consultation—Press Release, Staff Report." Country Report 16/270, Washington, DC.

Kireyev, A., and A. Leonidov. 2016. "China's Imports Slowdown: Spillovers, Spillins, and Spillbacks." Working Paper 16/51, International Monetary Fund, Washington.

"Our Bulldozers, Our Rules." 2016. *The Economist*. July 2.

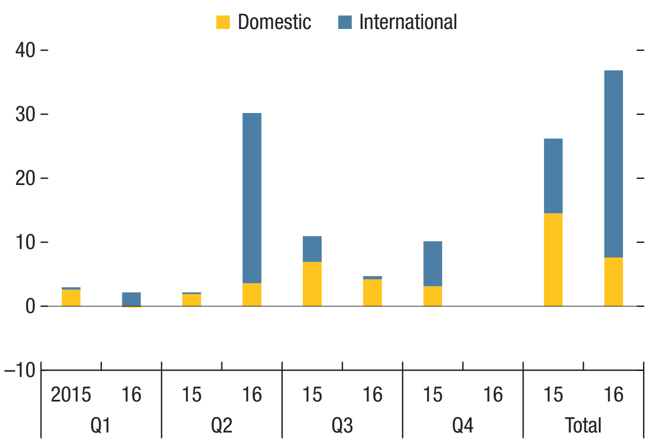
5. Financing Fiscal Deficits in Selected MENAP and CCA Oil Exporters

Despite efforts to consolidate, fiscal deficits will remain large in the Gulf Cooperation Council (GCC), the Caucasus and Central Asia (CCA) oil exporters, and Algeria over the medium term. Countries will need robust strategies to finance these deficits, striking a balance between drawing down assets and issuing debt. These financing choices should be underpinned by strong institutional arrangements and clear medium-term fiscal frameworks. In the short term, constraints on domestic financing sources will lead countries to rely heavily on external financing. But the scale of ongoing financing needs provides opportunities and incentives to develop domestic debt markets, which could generate broader economic benefits.

How Fiscal Deficits Have Grown

In 2015, the GCC, CCA oil exporters, and Algeria had an aggregate general government fiscal deficit of about \$153 billion, six times that of 2014 (of about \$25 billion), with most (\$108 billion) concentrated in the countries of the GCC.[1] About 80 percent of these deficits were covered by drawing down financial assets, including deposits at commercial banks, limiting the recourse to debt. However, in 2016, GCC countries are expected to switch their relative use of assets and debt, with asset drawdowns expected to provide only about 20 percent of total financing needs. In some cases, this reflects concerns regarding the impact of a sustained withdrawal of government deposits from the commercial banking sector on domestic liquidity conditions, while, for others, it reflects a desire to maintain high-return investments or keep precautionary buffers. Overall, with the GCC, CCA oil exporters, and Algeria facing an aggregate fiscal deficit of \$143 billion in 2016, new borrowings are set to reach about \$100 billion.

Figure 5.1. Marketable Debt Issuance in 2016 Has Outstripped 2015, with International Issuance Dominating[1]
(Billions of U.S. dollars)



Sources: Bloomberg, L.P.; and IMF staff calculations.
[1]Data for 2016 are as of August 31.

This greater reliance on debt is reflected in a surge in issuance of marketable debt. While in 2015 about three-quarters of the debt raised, or \$26 billion, was in the form of marketable debt (including a record \$4 billion Eurobond by Kazakhstan and a \$5.5 billion syndicated loan by Qatar), \$37 billion had already been issued by August 2016 (Figure 5.1). International debt issuance has dominated in 2016—comprising close to 80 percent of the total issuance compared with slightly less than half in 2015. This includes a jumbo \$9 billion deal from Qatar, a \$5 billion deal from the United Arab Emirates (Abu Dhabi), Oman's return to the Eurobond markets after a 19-year absence (with a \$2.5 billion deal), and a \$10 billion syndicated loan from Saudi Arabia. Meanwhile, a large debut international bond is expected from Saudi Arabia in the fourth quarter.

Looking ahead, the cumulative fiscal deficit for the GCC, CCA oil exporters, and Algeria for 2017-21 is projected to be about \$336 billion. The scale and sustained nature of these deficits will

Prepared by Gomez Agou, Allison Holland (lead author), Zhe Liu, Andre Santos, and Aminata Toure.

[1]This chapter focuses on the GCC, Algeria, and CCA oil exporters. Other MENAP oil exporters are excluded from this analysis as developments there are primarily driven by conflicts (Iraq, Libya, Yemen) or by the removal of sanctions (Iran).

require robust financing strategies that strike an appropriate balance between drawing down assets and issuing debt domestically or abroad. Such strategies should provide a systematic evaluation of the costs and risks of different options, facilitate risk measurement and management, enhance policy coordination, and support domestic debt market development (IMF and World Bank 2014).

Choice of Financing Strategies: Key Considerations

Asset-Liability Management

The GCC and CCA oil exporters have substantial financial savings that could be used to cover some or, in a few cases, all of their medium-term financing needs. In addition, there may be scope to privatize other assets (including in Algeria) to reduce the overall financing need. To help determine the most appropriate financing mix of assets and debt, countries will need to develop a comprehensive sovereign asset-liability management (SALM) framework. Such a framework should analyze each country's sovereign balance sheet to determine the relative use of assets (sovereign wealth funds, or SWFs, bank deposits, privatization) versus borrowing, and to integrate various macroeconomic and financial trade-offs with the objective of maximizing the net return, or minimizing the net cost, while containing overall balance sheet financial risks (Das and others 2012).

The rates of return on assets relative to the cost of debt will be a key consideration in this decision. However, other considerations also come into play. For instance, given the spread between deposit rates and bond yields, a purely quantitative analysis of the relative cost-return trade-off would indicate that countries should first draw down their deposits in the commercial banking system. This approach would have the added benefit of providing access to readily available funds, thereby providing certainty regarding the timing and availablity of financing. However, it could also lead to a tightening of liquidity conditions in the banking system and less credit to the private sector. These deposits also provide insurance against unanticipated budget or financing shocks, so maintaining a minimum cash balance may be desirable despite the cost. This practice has been employed in some emerging markets, such as Turkey and Uruguay, to insure against the risk of a "sudden stop" in international markets. So, seeking alternative sources of financing even while deposits remain available may be an appropriate policy choice (for example, IMF 2016).

Similarly, in determining the relative use of SWF assets and debt accumulation, countries need to consider the relative cost-return trade-off. The relatively low level of financing costs in international markets suggests this trade-off might currently favor issuing more debt, especially for higher-rated countries (see Figure 5.3).[2] Note that this comparison should be made on the basis of risk-adjusted returns. Alongside the cost-return considerations, countries also need to consider the institutional issues related to the intended purpose of these savings. These considerations may be more straightforward for budget stabilization SWFs. However, drawing down assets set aside for future generations would require a clear assessment—and communication—that the decision is consistent with delivering intergenerational equity. Alternatively, some countries may value the implicit insurance benefits provided by savings. For instance, those countries with fewer financial assets may want to rely first on borrowing, with their residual savings again providing some insurance in the event of any unanticipated budget or financing shocks. Or some countries may choose to issue some debt, even if the relative cost-return trade-off is not clearly met, to secure greater financing diversification and preserve savings. This approach

[2]This is difficult to assess as many SWFs do not publish their rates of return. However, as an illustration, Oman's State General Reserve Fund reports an average annual rate of return of 7.5 percent from its inception to 2013 (see State General Reserve Fund 2014). If that were indicative of current and projected returns (on a risk-adjusted basis), that would compare favorably with the 4.75 percent yield on its recent 10-year Eurobond issue.

would also be consistent with a country's objective to develop the domestic debt market to expand the private sector's financing sources or investment choices.

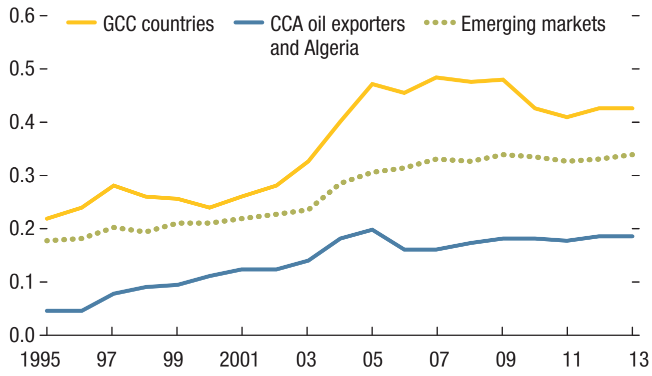
Privatization of corporate assets could also provide substantial deficit financing. For instance, the plan to privatize a small share (5 percent) of Saudi Aramco, the world's biggest oil and gas company with assets estimated at over $2 trillion, is likely to yield significant financing. Privatization would bring other benefits by encouraging private sector investment (including attracting foreign direct investment) and improving efficiency in operations. However, realizing these assets will likely take considerable time and require interim debt financing to bridge the delay, and some assets may need restructuring in order to maximize value. In addition, countries need to weigh other factors, such as the strategic importance of these assets, while any losses owing to a perceived "forced sale" may prove negative for investor confidence.

Domestic Versus External Debt

Once the targeted quantity of debt is identified, policymakers need to decide whether to borrow domestically or externally. While domestic debt has many benefits, including a generally more stable investor base and an absence of any currency risk, the scope to rely on domestic debt will be constrained by the extent of financial development.

As with other emerging markets, financial development has been on the rise in these countries (Figure 5.2). However, this has been underpinned by developments in the banking sector rather than broader financial market development. While financial market depth and efficiency increased strongly in the GCC during 2000–08, translating into a rapid increase in financial market development, that trend reversed with the global financial crisis.[3] Consequently, in the near term, the scope to rely on domestic debt will be largely determined by the capacity of the banking sector to absorb it.

Figure 5.2. Financial Development Index



Sources: Sahay and others (2015); and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council.

The development of the banking sector has seen a doubling of credit to the private sector since 2000, to 80 percent of GDP in the GCC, while it increased eightfold in the CCA oil exporters and Algeria—although it is still only half that of the GCC. To limit any "crowding out" and to maintain the benefits of this increased availability of credit to the private sector, any decision to intermediate more government borrowing via the banking system requires caution (Box 5.1).[4]

Analysis suggests the domestic banking system could readily absorb net financing of only about 17 percent, on average, of countries' individual cumulative deficits without a change in banks' asset composition (Box 5.1, scenario 1). That would generate about $76 billion in total of the aggregate $500 billion needed by deficit countries in our sample. With asset substitution (for example, from foreign assets or a run down of excess reserves), this could increase to about $250

[3]Financial market depth is measured by a variety of stock and debt market indicators, while financial market efficiency is measured with reference to the stock market. Note that the stock market will be the most representative proxy for financial market development in these countries given their limited need to access debt markets in the past. See Sahay and others (2015), Annex I, for a fuller discussion on measurement of financial development.

[4]For the purposes of this chapter, "crowding out" is taken to mean a reduction in the share of credit to the private sector in banks' assets as a consequence of an increase in the share of claims on the government.

billion.[5,6] Undertaking this borrowing through issuance of debt securities rather than by loans would support banks' continued liquidity by providing collateral to be used in central bank facilities or interbank markets if necessary. The capacity of the domestic banking system to absorb new government borrowing could be increased through continued efforts to increase financial inclusion. These efforts could bring more savings into the formal financial sector, thereby increasing the size of bank balance sheets.

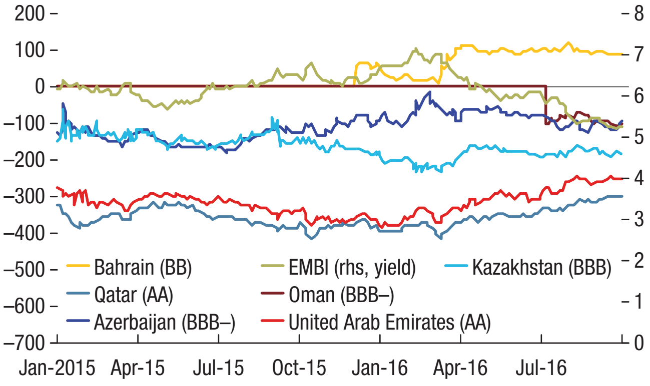
This analysis indicates that countries will need to use alternative financing sources to cover the residual $250 billion cumulative deficit to avoid any crowding out. Although current conditions in international markets are very favorable (see October 2016 *Global Financial Stability Report*), and the GCC and CCA oil exporters have enjoyed good market access so far—accounting for about 30 percent of the total emerging market sovereign issuance of $100 billion in the first half of 2016.[7] However, sustaining this into the medium term could prove challenging. In particular, while there was an estimated $3.6 trillion of emerging market issuance in international markets over the past six years, suggesting the market capacity exists, emerging market sovereign issuers only accounted for $600 billion of this, suggesting some substitution from non-sovereign issuers could be needed to support sustained access at current levels by these sovereign issues.

Cost considerations also support a reliance on international markets. While, on a relative basis, international cost conditions have deteriorated for GCC oil exporters through 2016 (reflecting the decline in the economic outlook coupled with a number of sovereign downgrades) (Figure 5.3),[8] the continued appetite for emerging markets means they have fallen on an absolute basis. In contrast, less favorable domestic liquidity conditions (see Chapter 1) mean domestic financing costs have increased absolutely and are generally higher than equivalent international yields. For example, Qatar issued a five-year domestic bond in August at a yield 60 basis points higher than the yield on its five-year Eurobond, while the 10-year domestic bond was issued at a yield 85 basis points higher than the yield on the 10-year Eurobond.

Nevertheless, despite the benefits of having access to a broader investor base and relatively low cost, accessing international markets entails some important risks that will need managing. In particular, international issuance is more exposed to sudden shifts in investor sentiment that affects both the risk of a "sudden stop," which can be mitigated by short-term contingent credit arrangements or maintaining access to alternative financing sources, and the risk that international financing conditions deteriorate suddenly, which can be partly mitigated by countries maintaining their deficit-reduction efforts and placing their

Figure 5.3. International Financing Conditions Remain Benign, although Relative Costs Are Increasing for GCC Issuers

(Sovereign yield spread to EMBI, basis points; EMBI yield, percent)



Sources: Bloomberg, L.P.; and IMF staff calculations.
Note: Credit ratings refer to Standard & Poor's rating. EMBI = Emerging Market Bond Index; rhs = right-hand side.

[5]This shift could be supported by reducing reserve requirements or changes in macroprudential limits, if appropriate. For example, Oman recently changed the measurement of the reserve requirement to allow government securities to meet up to 2 percent of the required 5 percent, while in parallel it increased the maximum holding limit to 45 percent of net worth. It also reduced the maximum permitted exposure to foreign assests by half. Note that any such changes would need to consider the subsequent impact on other risk exposures to determine whether they are appropriate or not.

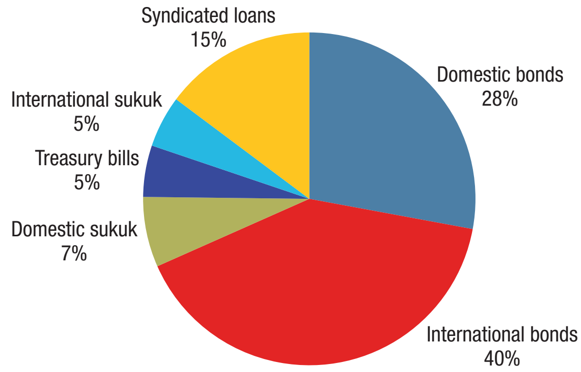
[6]Individual country projections will involve more tailored assumptions regarding the evolution of bank balance sheets.

[7]Source: Dealogic. Note that Algeria has not borrowed externally since 1999.

[8]Spreads relative to U.S. Treasury bonds have also deteriorated.

medium-term fiscal trajectories on a sounder footing (Chapter 1). In addition, the associated foreign currency risks, which also apply to other forms of external debt, will need to be carefully managed. For example, the exchange rate pressures experienced by CCA oil exporters (Chapter 3) will have translated into a significant increase in their debt burden given the dominance of foreign currency borrowing in their debt stock. Again, countries can mitigate these risks by implementing sound policy frameworks that support broader confidence in the economy.

Figure 5.4. Outstanding Marketable Debt by Instrument Type
(Percent of total outstanding debt)



Sources: Bloomberg, L.P.; country authorities; and IMF staff calculations.
Note: Data for Algeria are as of end-December 2015.

Instrument Design and Market Infrastructure

Operationalizing decisions on the scale of domestic or international issuance also requires technical decisions on instrument design. These decisions should reflect considerations on costs, risks, and potential benefits,[9] as well as the preferences of investors (to reduce the risk of financing shortfalls). Overall, the goal is to find an appropriate mix of instruments that delivers an acceptable level of portfolio risk at an acceptable cost (IMF and World Bank 2014). In particular, instruments with fixed interest rates offer more predictable repayment structures, while long-term debt helps reduce the rollover risk, with both helping to limit interest rate risks. However, short-term debt might be more attractive for specific investors, such as banks, given their own balance sheet considerations, and may be generally more attractive to investors when the macroeconomic environment is uncertain (with the greater price sensitivity of long-term debt more challenging to manage).[10] Consequently, the relative cost premium generally associated with long-term debt needs to be considered against the risk mitigation properties.

As of August 31, 2016, 60 percent of marketable debt outstanding of the GCC, CCA oil exporters, and Algeria comprised international securities (Figure 5.4).[11] This is also reflected in the currency composition, with only 40 percent denominated in local currency, indicating some exposure to exchange rate risk. However, interest rate and rollover risks appear limited given the dominance of debt with fixed coupons (73 percent of total marketable debt) and only 13 percent due to be repaid within 12 months.[12]

Conventional debt instruments dominate, with Islamic instruments representing only about 12 percent of outstanding marketable debt. These have been issued by Bahrain, Oman, Qatar, and the United Arab Emirates. An exclusive reliance on conventional borrowing might exclude sizable sources of Islamic finance that would provide an important opportunity to expand and diversify the investor base. Despite a number of obstacles—specifically the need for a suitable legal framework—the potential gains, including by providing Islamic investors with access to a relatively low credit-risk instrument, could justify the effort to develop these instruments.

Given the current level of financial development, countries aiming to expand the set of financing instruments also need to weigh the likely growth

[9]Sommer and others (2016).
[10]Long-term debt has greater duration which increases the price sensitivity to small changes in yield.

[11]Marketable debt comprises Treasury bills, bonds, Islamic instruments (such as Sukuk), and syndicated loans; bilateral loans are not captured.
[12]Based on the residual maturity of the debt.

and sophistication of institutional investors (insurance, pension, hedge, and mutual funds) and households. The development of the domestic debt market should be gradual and underpinned by a robust issuance framework that addresses the modalities of sale (including the role of primary dealers, use of a retail network, and auction design), provision of auction calendar, and size of instrument. Where feasible, countries should promote large benchmark issuances to support the development of a secondary market, while at the same time balancing the associated rollover risk. Regular issuance of securities at key maturities would also support the development of a reliable yield curve. This approach would not only support the development of the broader corporate debt market, but also provide a useful tool with which to measure the market's expectations about macroeconomic conditions and prospects. Coordination across regional issuers on key elements of a debt market development strategy could facilitate the participation of foreign investors and more rapidly expand the capacity of the domestic debt market relative to independent efforts (Box 5.2).

To underpin the development of a large and diverse investor base (providing the maximum scope for portfolio risk mitigation), emerging market experience suggests a robust investor relations program is essential. An effective investor relations program would establish a two-way continuous communication channel between the government and investors that (1) provides key economic and financial information quickly, including medium-term fiscal plans and debt strategy; (2) allows a continual assessment of market sentiment on key policies; and (3) ensures that issuers can communicate clear and controlled messages to investors.

Conclusions and Policy Recommendations

The GCC, CCA oil exporters, and Algeria face significant financing needs into the medium term—about $680 billion over 2016–21. The scale of these financing needs, coupled with the likely capacity of markets to absorb new debt, suggests that countries will need to continue combining asset drawdowns with debt issuance to meet these needs. Choosing the balance between asset drawdown or debt issuance is not straightforward. While the relative return on assets versus the cost of debt is relevant in all cases, other policy considerations are also important.

Countries will need to develop robust financing strategies, reflecting a comprehensive view of each country's sovereign balance sheet, to minimize the potential burden of these financing choices on the economy. Countries will need to invest in their capacity and institutional frameworks to develop such strategies:

- To complement existing asset management operations, countries need to establish debt management structures that (1) are adequately staffed; (2) have clear governance frameworks that clarify objectives, establish well-defined mandates, roles and responsibilities, and a robust legal framework; and (3) feature robust portfolio management frameworks to monitor and report on evolving costs and risks.
- To support effective decision making, countries will also need to develop coordination mechanisms across key stakeholders, especially between asset and debt management operations, but also those that bring together monetary, fiscal, and financial sector considerations. Although the design of such mechanisms vary, they should provide clear decision-making authority and accountability.
- Other technical impediments may also need attention. For example, effective coordination between cash and debt management can be impeded by the absence of a single treasury account, as in the GCC.

Countries should continue to focus on international borrowing in the short term, but associated risks will need managing. These markets have the capacity to absorb large volumes of financing, while bringing in external financing will enhance domestic liquidity, address any external financing gaps, and minimize any crowding out. To date, the GCC and CCA oil exporters have enjoyed good market access on favorable terms. However, to maintain this level of access, countries will need to continue strengthening their fiscal sustainability, along with their broader economic policy framework, to support their credit ratings. Countries also need to develop systematic investor relation programs—targeted at enhancing the transparency and predictability of fiscal policy, ensuring timely and quality data on financial assets and liabilities, and developing continuous two-way communication with investors—to support this market access.

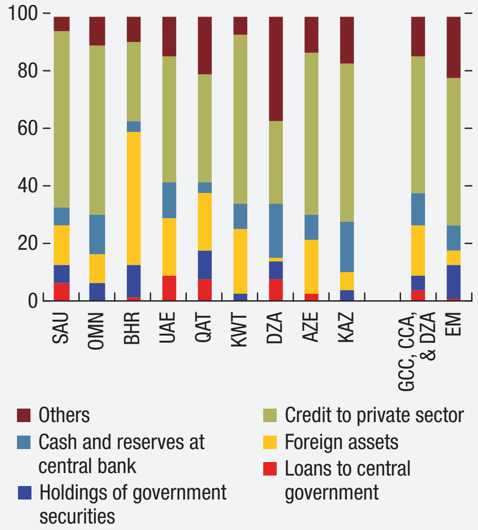
Over the medium to long term, all countries should seek to develop their domestic debt markets. That would provide a meaningful alternative to international borrowing, allowing the risks associated with international market access to be managed more effectively. Because these efforts take time, countries need to begin now to expand the reach of the financial sector. In developing domestic markets, countries should seek to also broaden financing options for the private sector, including by establishing a yield curve. Where relevant, countries should consider the scope for coordination with others to enhance the impact of their market development efforts and maximize appeal to a broad investor base.

Box 5.1. Scope for Domestic Banks in Selected MENAP and CCA Oil Exporters to Absorb Government Debt

By the end of 2015, commercial bank assets in the Gulf Cooperation Council (GCC), the Caucasus and Central Asia (CCA) oil exporters, and Algeria totaled $2.2 trillion, of which about 50 percent were claims on the private sector (Figure 5.1.1).[1] On average, total claims on the government (including both loans and securities holdings) accounted for a smaller portion of assets compared with other emerging market oil exporters —9 percent compared with 13 percent.[2] In other emerging market oil exporters, this exposure is concentrated in holdings of government securities; however, for the GCC, CCA oil exporters, and Algeria this exposure is more evenly split across loans and securities. In contrast, banks in the GCC, CCA oil exporters, and Algeria hold a greater proportion of foreign assets (18 percent on average) relative to other emerging market oil exporters (5 percent).

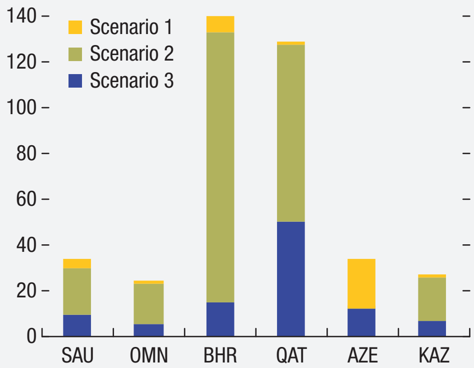
To assess the potential absorptive capacity of the banking sector to meet countries' projected financing needs, six oil exporters[3] with a cumulative fiscal deficit projected at about $500 billion for 2016–21 are examined

Figure 5.1.1. Composition of Oil Exporters' Bank Assets, 2015



Sources: Haver Analytics; IMF, International Financial Statistics; *Regional Economic Outlook: Middle East and Central Asia*; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. CCA = Caucasus and Central Asia; EM = emerging market; GCC = Gulf Cooperation Council.

Figure 5.1.2. Cumulative Changes in Claims on the Government, 2016–21
(Percent of cumulative fiscal deficit)



Source: IMF staff estimates.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

Prepared by Zhe Liu.
[1]Data are not available for Turkmenistan and Uzbekistan.
[2]Including Brazil, Columbia, Indonesia, and Mexico.
[3]Including Algeria, Bahrain, Kazakhstan, Oman, Qatar, and Saudi Arabia. Azerbaijan and Kuwait are not included in the analysis as they are projected to run a cumulative fiscal surplus over the horizon. The United Arab Emirates is also excluded as it is projected to run a broadly balanced budget (with a cumulative deficit of $1 billion during 2016–21).

Box 5.1. *(continued)*

under three scenarios. In all scenarios, bank balance sheets are assumed to grow in line with countries' respective nominal non-oil GDP.

Scenario 1 envisages no change in asset composition, meaning banks' claims on the government also grow in line with nominal non-oil GDP; scenario 2 assumes that, in addition to the increase in claims on the government implied under scenario 1, banks reduce their holdings of foreign assets by 50 percent and reallocate those funds to claims on the government; and scenario 3 entails an additional reallocation of 50 percent of any excess liquidity at the central bank.

Under scenario 1, banks could absorb new debt equivalent to an average of 17 percent of each country's cumulative deficit without changing their asset composition, while under scenario 3, this would increase to 65 percent without changing the share of credit to the private sector in bank assets. This result is driven by Bahrain, where a very large proportion of foreign assets (47 percent) is held by the banking system, and Qatar, which has the smallest cumulative fiscal deficit relative to total banking assets of the sample (Figure 5.1.2).[4] However, even excluding these two countries, capacity would still notably increase—to 30 percent on average, and to a minimum of at least 25 percent. Nevertheless, that would still leave most of these financing needs to be met elsewhere to avoid crowding out.

[4]Data for Bahrain comprise only the retail banks; wholesale banks are excluded from this analysis given their limited integration with the Bahraini economy.

Box 5.2. Facilitating Domestic Debt Market Development: Scope for Coordination across the GCC

One way to expand the capacity of the domestic debt market is to broaden the involvement of foreign investors. That is likely to require building greater awareness among potential foreign investors of countries' domestic debt markets, as well as undertaking various technical, regulatory, and other operational reforms to help investors access them. Countries could coordinate these market development efforts, especially at the regional level, to generate positive spillovers. Given that a framework for cooperation already exists, the Gulf Cooperation Council (GCC) is well placed to explore such opportunities.

A simple step would be to coordinate market promotion efforts. The Asian Bond Markets Initiative (ABMI) provides a useful example. The ABMI was initiated in 2003 to support bond market development in Southeast Asian countries, as well as China, Japan, and Korea. Asian Bonds Online, established under the ABMI in 2004, acts as a depository of information on sovereign and corporate bonds, with regional and country-specific information structured in a way that provides market participants and potential investors access to timely and relevant market information (Asian Development Bank 2016). The website provides an overview of market conditions—bond yields, exchange and interest rates, sovereign ratings, and information on market structure—as well as instruments, issuers, clearing and settlement arrangements, trading platforms, and rules and regulations. Standardizing market practices and harmonizing regulations can also help facilitate the entry of foreign investors into the domestic market. For instance, the ASEAN+3 Bond Market Forum,[1] also established under the ABMI in 2010, is mandated to encourage this in the context of cross-border bond transactions (Kurihara 2012).

Similarly, the Economic and Financial Committee (EFC) Sub-Committee on European Union (EU) Sovereign Debt Markets was mandated in 1999 to improve the functioning of the EU's primary and secondary government debt markets to make them more attractive and competitive (European Union 2015). Efforts have included the harmonization of day-count and settlement conventions, primary dealer arrangements (through a code of conduct), and reporting requirements (through a common reporting format). Similarly, the EFC has also supported debt management authorities' efforts to expand the range of instruments issued (for example, the introduction of inflation-indexed bonds and very long-maturity bonds), including by facilitating the exchange of analysis and experience. In addition, the increasing popularity of a common electronic trading platform for secondary market activity—the MTS trading platform—has helped integrate EU government bond markets, narrow spreads, and improve liquidity (Leclerq 2015).

Prepared by Andre Santos.

[1]The ASEAN+3 countries comprise the 10 member states of the Association of Southeast Asian Nations—Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam—plus China, Japan, and the Republic of Korea.

References

Asian Development Bank. 2016. Asian Bonds Online website. Manila.

Das, Udaibir S., Yin Lu, Michael G. Papaioannou, and Iva Petrova. 2012. "Sovereign Risk and Asset and Liability Management—Conceptual Issues." IMF Working Paper 12/241, International Monetary Fund, Washington, DC.

European Union. 2015. EFC Sub-Committee on EU Sovereign Debt Markets website. Brussels.

International Monetary Fund (IMF). 2009. "Managing Public Debt-Formulating Strategies and Strengthening Institutional Capacity." IMF Policy Paper, Washington, DC.

———. 2016. "United Arab Emirates: Article IV Staff Report." IMF Country Report 16/251, Washington, DC.

———, and World Bank. 2014. "Revised Guidelines for Public Debt Management." IMF and World Bank Policy Paper, Washington, DC.

Kurihara, T., 2012. "Achievements of Asian Bonds Market Initiative (ABMI) in the Last Decade and Future Challenges." Presentation at the OECD–ADBI 12th Roundtable on Capital Market Reform in Asia, Tokyo, February 7.

Leclercq, A., 2015. "European Sovereign Debt Markets (ESDM) Sub-Committee of the EFC." Presentation at European Central Bank Bond Market Contact Group, Frankfurt, April 21.

Sahay, R., M. Cihak, P. N'Diaye, A. Barajas, R. Bi, D. Ayala, Y. Gao, A. Kyobe, L. Nguyen, C. Saborowski, K. Svirydzenka, and S. Yousefi. 2015. "Rethinking Financial Deepening: Stability and Growth in Emerging Markets." IMF Staff Discussion Note 15/08, International Monetary Fund, Washington, DC.

Sommer, M., G. Auclair, A. Fouejieu, I. Lukonga, S. Quayyum, A. Sadeghi, G. Shbaikat, A. Tiffin, J. Trevino, and B. Versailles. 2016. "Learning to Live with Cheaper Oil." Middle East and Central Asia Departmental Paper, International Monetary Fund, Washington, DC.

State General Reserve Fund. 2014. State General Reserve Fund website. Oman.

Statistical Appendix

This publication features an abbreviated version of the Statistical Appendix. The full Statistical Appendix is available online at www.imf.org/external/pubs/ft/reo/2016/mcd/eng/pdf/mreost1016.xlsx

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.

Somalia is excluded from all regional aggregates due to a lack of reliable data.

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

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

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, 8, and 9 include data for West Bank and Gaza.

In Table 2, "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: Real GDP Growth, Table 2: Oil and Non-Oil Real GDP Growth, Tables 3–5, and Table 8: Consumer Price Inflation) 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 relating to the domestic economy for Table 1: Nominal Gross Domestic Product in U.S. dollars are sums of individual country data converted to U.S. dollars at the average market exchange rates.
- Composites relating to the external economy (Tables 6 and 7) denominated in U.S. dollars 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 relating to the external economy (Tables 6 and 7) denominated in percent of GDP/months of imports are sums of individual country data divided by sums of dollar denominated GDP/sums of imports 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 Nominal GDP

	Real GDP Growth (Annual change; percent)					Nominal Gross Domestic Product (Billions of U.S. dollars)				
	Average			Projections		Average			Projections	
	2009–13	2014	2015	2016	2017	2009–13	2014	2015	2016	2017
MENAP	**3.7**	**2.7**	**2.3**	**3.4**	**3.4**	**3,014.3**	**3,470.1**	**3,133.4**	**2,536.9**	**2,757.5**
Oil exporters	**3.8**	**2.7**	**1.6**	**3.3**	**2.9**	**2,242.0**	**2,582.4**	**2,191.9**	**2,179.0**	**2,371.0**
Algeria	2.8	3.8	3.9	3.6	2.9	183.3	213.5	166.8	168.3	178.4
Bahrain	3.6	4.4	2.9	2.1	1.8	28.1	33.4	31.1	31.8	33.9
Iran, I.R. of	0.8	4.3	0.4	4.5	4.1	438.4	414.9	390.0	412.3	438.3
Iraq	7.8	–0.4	–2.4	10.3	0.5	177.7	222.5	165.1	156.3	173.6
Kuwait	1.9	0.6	1.1	2.5	2.6	144.7	162.7	114.1	110.5	124.9
Libya	6.6	–24.0	–6.4	–3.3	13.7	64.1	44.4	39.7	39.4	51.4
Oman	4.8	2.9	3.3	1.8	2.6	65.0	81.8	64.1	59.7	65.8
Qatar[1]	10.9	4.0	3.7	2.6	3.4	157.0	210.1	166.9	156.6	170.8
Saudi Arabia	4.1	3.6	3.5	1.2	2.0	620.7	753.8	646.0	637.8	689.0
United Arab Emirates	2.6	3.1	4.0	2.3	2.5	330.1	402.0	370.3	375.0	407.6
Yemen	1.2	–0.2	–28.1	–4.2	12.6	32.9	43.2	37.7	31.3	37.3
Oil importers	**3.2**	**2.9**	**3.8**	**3.6**	**4.2**	**772.3**	**887.7**	**941.5**	**357.9**	**386.5**
Afghanistan, Rep. of	10.7	1.3	0.8	2.0	3.4	17.1	20.4	19.7	18.4	19.3
Djibouti	4.6	6.0	6.5	6.5	7.0	1.2	1.6	1.7	1.9	2.1
Egypt	3.2	2.2	4.2	3.8	4.0	247.5	301.5	330.2	...	...
Jordan	3.2	3.1	2.4	2.8	3.3	28.7	35.9	37.6	39.5	41.7
Lebanon	4.9	2.0	1.0	1.0	2.0	41.0	49.9	50.8	51.8	53.4
Mauritania	4.1	5.4	1.2	3.2	4.3	4.8	5.5	4.9	4.7	4.8
Morocco	4.2	2.6	4.5	1.8	4.8	98.5	109.9	100.6	104.9	111.1
Pakistan	2.8	4.1	4.0	4.7	5.0	202.8	244.4	271.0	...	...
Somalia	...	...	...	...	...	...	...	...	...	...
Sudan	1.6	1.6	4.9	3.1	3.5	62.8	71.1	81.4	94.3	112.5
Syrian Arab Republic	...	...	...	...	...	57.0	...	...	...	...
Tunisia	2.0	2.3	0.8	1.5	2.8	45.0	47.6	43.6	42.4	41.7
CCA	**5.9**	**5.3**	**3.2**	**1.3**	**2.6**	**356.7**	**456.9**	**378.7**	**304.8**	**333.5**
Oil and gas exporters	**6.2**	**5.3**	**3.1**	**1.0**	**2.4**	**320.4**	**412.1**	**339.8**	**267.2**	**293.5**
Azerbaijan	4.5	2.8	1.1	–2.4	1.4	60.9	75.3	54.0	35.7	38.5
Kazakhstan	5.4	4.3	1.2	–0.8	0.6	184.7	227.4	184.4	128.1	148.3
Turkmenistan	10.3	10.3	6.5	5.4	5.4	29.7	46.2	35.9	36.6	39.6
Uzbekistan	8.2	8.1	8.0	6.0	6.0	45.2	63.2	65.5	66.8	67.1
Oil and gas importers	**3.6**	**4.7**	**3.7**	**3.7**	**4.1**	**36.3**	**44.8**	**39.0**	**37.6**	**40.0**
Armenia	0.6	3.6	3.0	3.2	3.4	10.0	11.6	10.5	10.8	11.2
Georgia	3.9	4.6	2.8	3.4	5.2	13.8	16.5	14.0	14.5	15.7
Kyrgyz Republic	3.7	4.0	3.5	2.2	2.3	5.9	7.5	6.7	5.8	6.2
Tajikistan	6.5	6.7	6.0	6.0	4.5	6.6	9.2	7.8	6.6	6.8
Memorandum										
MENA	**3.7**	**2.6**	**2.1**	**3.2**	**3.2**	**2,794.3**	**3,205.4**	**2,842.7**	**2,518.5**	**2,738.2**
MENA oil importers	**3.2**	**2.3**	**3.8**	**3.1**	**3.8**	**552.3**	**623.0**	**650.7**	**339.5**	**367.2**
Arab Countries in Transition (excl. Libya)	**3.1**	**2.2**	**2.4**	**2.9**	**4.4**	**452.6**	**538.1**	**549.6**	**218.1**	**231.8**
GCC	**4.3**	**3.3**	**3.4**	**1.7**	**2.3**	**1,345.6**	**1,643.8**	**1,392.5**	**1,371.4**	**1,491.9**
Non-GCC oil exporters	**3.3**	**2.0**	**–0.4**	**5.0**	**3.7**	**896.4**	**938.6**	**799.4**	**807.7**	**879.1**
Arab World	**4.4**	**2.2**	**2.5**	**2.9**	**3.0**	**2,356.0**	**2,790.5**	**2,452.7**	**2,106.2**	**2,299.9**
West Bank and Gaza[2]	7.5	–0.2	3.5	3.3	3.5	10.0	12.7	12.7	13.5	14.2

Sources: National authorities; and IMF staff estimates and projections.
[1] Qatar's data since 2010 reflect the recently published national accounts based on 2013 constant prices; data prior to 2010 are from Haver Analytics.
[2] 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 2009–13	2014	2015	Projections 2016	Projections 2017	Average 2009–13	2014	2015	Projections 2016	Projections 2017
	Oil GDP (Annual percent change)					Non-Oil GDP (Annual percent change)				
MENAP oil exporters	**–0.8**	**2.2**	**3.3**	**7.7**	**7.6***	**5.6**	**4.0**	**0.6**	**1.4**	**3.1**
Algeria	–4.5	–0.6	0.4	3.0	2.0	7.2	5.6	5.5	3.7	3.1
Bahrain	2.0	3.0	–0.1	0.9	0.0	4.1	4.7	3.6	2.4	2.2
Iran, I.R. of	–9.6	6.1	4.9	21.0	3.8	2.8	4.1	–0.1	2.5	4.1
Iraq	5.5	4.3	12.8	20.6	0.7	10.3	–5.1	–18.7	–5.0	0.0
Kuwait	1.6	–2.1	–0.5	2.0	2.0	2.7	5.0	3.5	3.2	3.5
Libya	…	…	…	…	…	…	…	…	…	…
Oman	3.9	–0.8	2.6	0.8	1.4	5.7	6.6	4.0	2.7	3.7
Qatar[1]	10.3	–1.5	–0.2	–0.8	0.9	11.9	10.6	7.8	6.1	5.7
Saudi Arabia	1.2	2.1	4.0	2.3	1.1	7.0	4.8	3.1	0.3	2.6
United Arab Emirates	2.4	0.8	4.6	2.0	2.0	2.7	4.1	3.7	2.4	2.7
Yemen	7.1	–11.3	–61.0	–59.8	419.2	0.8	1.0	–25.0	–1.5	4.5
CCA Oil Exporters	**2.6**	**–0.6**	**–1.0**	**–1.3**	**1.8**	**7.3**	**7.0**	**2.8**	**–0.1**	**1.5**
Azerbaijan	1.0	–2.4	0.3	–0.4	–0.1	7.9	6.9	1.1	–3.6	2.4
Kazakhstan	3.0	–1.3	–2.3	–2.5	2.4	6.4	6.3	2.3	–0.2	0.0
Turkmenistan	3.0	6.9	2.8	2.8	2.3	11.9	10.7	8.5	6.6	6.7
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**2.5**	**0.9**	**3.1**	**1.8**	**1.4**	**6.0**	**5.4**	**3.8**	**1.8**	**3.1**
Non-GCC oil exporters	**–4.7**	**3.6**	**3.6**	**14.7**	**14.9**	**5.2**	**2.4**	**–3.5**	**1.0**	**3.0**
	Crude Oil Production (Millions of barrels per day)					Natural Gas Production (Millions of barrels per day equivalent)				
MENAP Oil Exporters	**24.4**	**24.7**	**25.7**	**27.3**	**28.0**	**11.7**	**13.2**	**13.2**	**13.4**	**13.9**
Algeria	1.1	1.0	1.0	1.0	1.0	1.5	1.5	1.5	1.5	1.6
Bahrain	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.4
Iran, I.R. of[2]	3.3	2.8	2.9	3.6	3.8	2.7	3.1	3.1	3.1	3.2
Iraq	2.7	3.1	3.5	4.2	4.2	0.0	0.0	0.0	0.0	0.0
Kuwait	2.6	2.9	2.9	2.9	3.0	0.2	0.3	0.3	0.3	0.3
Libya	1.2	0.5	0.4	0.4	0.6	0.1	0.0	0.0	0.0	0.0
Oman	0.9	0.9	1.0	1.0	1.0	0.6	0.6	0.6	0.7	0.7
Qatar	0.8	0.7	0.6	0.6	0.6	3.3	4.0	4.0	4.0	4.2
Saudi Arabia	9.0	9.7	10.2	10.3	10.4	1.7	2.0	2.0	2.1	2.1
United Arab Emirates	2.5	2.8	3.0	3.0	3.1	1.2	1.3	1.3	1.3	1.3
Yemen	0.2	0.2	0.1	0.0	0.1	0.1	0.2	0.1	0.0	0.1
CCA Oil Exporters	**2.8**	**3.0**	**2.7**	**2.7**	**2.8**	**1.3**	**1.6**	**1.6**	**1.6**	**1.6**
Azerbaijan	0.9	0.8	0.8	0.8	0.8	0.3	0.3	0.3	0.3	0.3
Kazakhstan	1.7	1.9	1.6	1.6	1.6	0.0	0.0	0.0	0.0	0.0
Turkmenistan	0.2	0.2	0.3	0.3	0.3	1.0	1.3	1.3	1.3	1.3
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**16.0**	**17.2**	**17.8**	**18.0**	**18.3**	**7.3**	**8.5**	**8.5**	**8.7**	**9.0**
Non-GCC oil exporters	**8.5**	**7.5**	**7.8**	**9.2**	**9.7**	**4.4**	**4.7**	**4.7**	**4.7**	**4.9**

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

[1] Qatar's data since 2010 reflect the recently published national accounts based on 2013 constant prices; data prior to 2010 are from Haver Analytics.

[2] Including condensates.

*Non-oil GDP annual percent change for MENAP oil exporters would be 2 percent in 2017 were Yemen to be excluded from the aggregate.

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 2009–13	2014	2015	Projections 2016	Projections 2017	Average 2009–13	2014	2015	Projections 2016	Projections 2017
MENAP	**0.1**	**–2.9**	**–8.8**	**–8.5**	**–6.0**	**32.4**	**33.2**	**37.7**	**43.0**	**44.5**
Oil exporters	**3.6**	**–0.7**	**–9.5**	**–9.2**	**–6.2**	**16.0**	**14.0**	**19.6**	**26.2**	**28.8**
Algeria	–3.1	–8.0	–16.8	–13.3	–9.5	9.6	8.0	9.1	13.0	17.1
Bahrain[1]	–4.3	–5.8	–15.1	–14.7	–11.7	32.8	44.4	61.9	75.2	82.3
Iran, I.R. of[1,2]	–0.6	–1.2	–2.0	–1.1	–1.0	12.9	15.6	15.9	14.9	15.0
Iraq[3]	–2.8	–5.6	–13.7	–14.1	–5.1	49.5	33.5	61.4	75.8	73.4
Kuwait[1]	30.7	28.1	1.5	–3.6	3.2	8.8	7.5	11.2	18.3	22.4
Libya	2.4	–40.3	–52.5	–56.6	–43.8	7.6	36.4	73.8	101.8	100.2
Oman[1]	4.8	–1.1	–16.5	–13.5	–10.3	5.6	4.9	14.9	21.8	24.5
Qatar	12.4	15.0	5.4	–7.6	–10.1	36.5	31.7	39.8	54.9	66.2
Saudi Arabia[1]	5.4	–3.4	–15.9	–13.0	–9.5	6.7	1.6	5.0	14.1	19.9
United Arab Emirates[4]	5.1	5.0	–2.1	–3.9	–1.9	19.3	15.6	18.1	19.0	18.8
Yemen	–6.4	–4.1	–10.6	–11.3	–5.5	46.7	48.7	66.7	82.4	67.5
Oil importers	**–7.1**	**–7.8**	**–7.3**	**–7.0**	**–5.8**	**66.6**	**74.0**	**75.3**	**78.0**	**76.5**
Afghanistan, Rep. of	–0.4	–1.7	–1.4	0.1	0.0	9.0	6.4	6.2	6.8	6.9
Djibouti	–3.3	–12.2	–15.7	2.1	3.3	48.5	43.2	39.5	36.0	32.6
Egypt	–9.4	–12.9	–11.5	–12.0	–9.7	74.3	86.3	89.0	94.6	93.4
Jordan[1,5]	–8.0	–10.3	–5.4	–3.8	–2.6	74.0	89.0	93.4	94.4	94.0
Lebanon[1]	–7.7	–6.0	–7.4	–8.1	–9.5	136.4	133.4	138.4	143.9	149.2
Mauritania[1,6]	–0.4	–3.3	–3.4	–0.4	–1.8	76.3	77.1	91.2	75.0	81.5
Morocco[1]	–5.0	–4.9	–4.4	–3.5	–3.0	53.5	63.5	64.1	64.4	63.8
Pakistan[7]	–7.0	–4.9	–5.2	–4.4	–3.6	61.2	63.7	63.6	66.1	64.2
Somalia	...	...	...	...	...	...	...	...	...	...
Sudan	–2.1	–1.4	–1.9	–2.0	–2.1	80.0	77.3	72.9	63.2	56.8
Syrian Arab Republic	–5.5	...	...	...	...	30.6	...	...	...	...
Tunisia	–3.8	–3.9	–5.1	–4.5	–3.6	43.5	51.6	55.7	59.0	58.9
CCA	**3.7**	**1.5**	**–4.6**	**–4.9**	**–3.0**	**14.0**	**15.3**	**23.5**	**26.4**	**25.9**
Oil and gas exporters	**4.6**	**1.9**	**–4.7**	**–4.8**	**–2.8**	**11.0**	**12.6**	**20.9**	**23.5**	**22.5**
Azerbaijan[1]	7.9	3.2	–6.8	–9.9	–3.9	12.6	11.2	28.3	39.6	36.1
Kazakhstan	2.9	1.7	–6.9	–5.7	–4.2	10.9	14.1	21.9	21.4	21.3
Turkmenistan[8]	4.0	0.8	–0.7	–0.8	–0.4	11.1	17.4	23.2	23.2	23.4
Uzbekistan	5.6	1.9	0.7	–0.5	–0.3	9.4	7.6	10.8	15.1	13.9
Oil and gas importers	**–4.1**	**–2.0**	**–3.6**	**–5.3**	**–4.4**	**39.3**	**38.6**	**45.8**	**50.9**	**54.2**
Armenia[1]	–3.7	–1.9	–4.8	–4.5	–3.0	35.6	41.4	46.9	50.6	51.6
Georgia[9]	–5.0	–2.9	–3.8	–4.7	–6.0	37.9	35.5	41.5	42.1	43.5
Kyrgyz Republic	–5.2	–2.8	–3.2	–8.8	–5.5	52.5	52.3	66.0	72.1	72.2
Tajikistan	–2.1	0.0	–2.3	–4.0	–2.7	33.9	28.2	34.1	46.9	58.1
Memorandum										
MENA	**1.0**	**–2.7**	**–9.3**	**–9.1**	**–6.4**	**29.2**	**29.7**	**34.8**	**40.5**	**42.3**
MENA oil importers	**–7.4**	**–9.5**	**–8.6**	**–8.6**	**–7.1**	**71.1**	**81.7**	**83.8**	**86.6**	**85.4**
Arab Countries in Transition (excl. Libya)	**–8.0**	**–10.2**	**–9.5**	**–9.5**	**–7.5**	**66.5**	**77.4**	**81.3**	**86.2**	**84.5**
GCC	**8.2**	**3.1**	**–9.4**	**–9.8**	**–6.9**	**12.8**	**9.0**	**13.4**	**21.3**	**26.2**
Non-GCC oil exporters	**–1.4**	**–5.1**	**–9.6**	**–8.5**	**–5.3**	**19.3**	**19.7**	**27.0**	**31.9**	**31.9**
Arab World	**1.3**	**–3.1**	**–10.8**	**–10.8**	**–7.6**	**33.2**	**32.9**	**38.9**	**46.2**	**48.5**
West Bank and Gaza[3,10]	–17.7	–12.5	–11.4	–9.6	–9.3	21.4	19.0	20.0	20.6	20.5

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 goverment gross debts 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] Debt figures include IMF obligations.

[8] State government.

[9] 2017 data are an assessment based on announced policies.

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

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			Projections		Average			Projections	
	2009–13	2014	2015	2016	2017	2009–13	2014	2015	2016	2017
MENAP	**30.7**	**28.9**	**24.5**	**23.2**	**24.2**	**33.2**	**35.1**	**35.7**	**34.8**	**32.9**
Oil exporters	**36.2**	**33.8**	**27.4**	**25.6**	**26.3**	**36.2**	**38.2**	**40.0**	**38.9**	**36.1**
Algeria[1]	37.7	33.4	30.0	27.9	29.6	40.7	41.3	46.8	41.2	39.0
Bahrain[2]	23.5	24.6	17.7	17.2	19.4	22.4	22.8	17.2	19.0	21.0
Iran, I.R. of[2,3]	18.1	14.6	15.5	16.0	16.0	16.9	14.6	15.2	16.0	16.0
Iraq	43.8	40.2	33.0	34.7	38.9	97.1	91.7	93.3	97.6	87.9
Kuwait[2]	71.4	72.4	58.0	52.8	55.0	40.6	44.3	56.5	56.5	51.8
Libya	58.9	37.9	21.5	18.0	24.0	56.5	78.2	74.0	74.7	67.9
Oman[2]	45.6	45.8	37.6	35.4	37.3	30.9	36.4	41.7	40.4	37.6
Qatar	42.4	47.7	46.4	35.1	30.3	30.0	32.8	41.0	42.7	40.5
Saudi Arabia[2]	40.1	36.9	25.4	23.2	23.6	34.7	40.3	41.3	36.2	33.1
United Arab Emirates[4]	36.8	37.3	28.5	26.2	26.4	31.7	32.3	30.6	30.0	28.3
Yemen	24.1	21.0	12.4	11.7	16.8	32.5	27.8	23.5	26.1	26.1
Oil importers	**19.3**	**18.5**	**18.5**	**18.4**	**19.9**	**27.0**	**28.6**	**26.7**	**26.2**	**26.4**
Afghanistan, Rep. of	10.1	8.6	10.2	10.3	10.7	22.8	25.7	26.4	27.6	28.2
Djibouti	28.7	26.3	30.9	28.1	26.6	34.9	30.9	36.8	36.2	34.0
Egypt	22.4	20.2	20.9	20.2	23.2	32.3	36.7	33.5	32.4	32.9
Jordan[2]	22.1	23.0	21.7	22.6	23.1	33.3	37.9	29.1	29.6	30.3
Lebanon[2]	22.0	21.8	18.8	19.3	19.3	29.8	27.8	26.2	27.3	28.8
Mauritania[2,5]	22.6	25.3	27.4	28.8	29.1	24.4	28.7	32.6	31.7	31.6
Morocco[2,6]	27.4	26.6	26.0	25.7	26.5	32.7	33.0	30.9	30.4	30.5
Pakistan	13.3	14.4	14.3	15.1	15.8	20.5	20.1	19.7	19.6	19.6
Somalia	...	...	...	...	...	...	...	...	...	...
Sudan	14.3	11.4	10.7	9.4	9.3	16.8	13.4	12.9	11.8	11.7
Syrian Arab Republic	22.3	...	...	...	...	22.2	...	...	...	...
Tunisia	24.5	25.4	23.0	24.1	24.1	28.5	29.7	28.5	28.8	28.1
CCA	**29.7**	**27.8**	**24.0**	**23.3**	**24.2**	**26.3**	**26.4**	**28.8**	**28.6**	**27.5**
Oil and gas exporters	**30.2**	**27.9**	**23.6**	**23.0**	**24.0**	**25.7**	**25.9**	**28.4**	**27.9**	**26.9**
Azerbaijan[2,7]	42.7	38.9	33.4	34.6	37.2	35.0	35.7	40.5	44.9	41.5
Kazakhstan	24.3	23.1	16.6	16.0	17.0	21.4	21.4	23.5	21.7	21.1
Turkmenistan[6]	18.6	16.9	16.6	15.1	14.8	14.5	16.0	17.3	15.9	15.2
Uzbekistan	38.0	34.9	35.3	33.0	33.0	32.7	33.0	34.6	33.5	33.3
Oil and gas importers	**25.0**	**26.9**	**26.9**	**26.4**	**25.6**	**31.3**	**30.6**	**32.7**	**34.3**	**32.2**
Armenia[2,7]	20.7	21.7	21.0	20.5	20.7	26.6	25.2	27.6	26.9	25.0
Georgia	27.0	27.0	27.2	27.6	25.7	33.4	31.0	32.0	33.2	32.5
Kyrgyz Republic	30.0	32.9	34.0	32.9	32.2	38.5	39.0	41.3	47.3	42.8
Tajikistan	22.3	26.9	26.9	25.7	25.2	26.8	28.4	32.1	32.9	30.7
Memorandum										
MENA	**32.9**	**30.8**	**25.8**	**24.4**	**25.4**	**34.7**	**37.0**	**37.7**	**36.7**	**34.6**
MENA oil importers	**22.4**	**21.0**	**20.9**	**20.4**	**22.3**	**30.2**	**33.0**	**30.3**	**29.5**	**29.9**
Arab Countries in Transition (excl. Libya)	**23.5**	**21.8**	**21.6**	**21.2**	**23.5**	**32.1**	**35.0**	**31.9**	**31.3**	**31.7**
GCC	**42.6**	**41.6**	**31.6**	**28.2**	**28.4**	**33.7**	**37.8**	**40.0**	**37.3**	**34.6**
Non-GCC oil exporters	**29.3**	**24.8**	**22.3**	**22.5**	**23.9**	**38.8**	**38.7**	**40.0**	**40.8**	**37.7**
Arab World	**36.4**	**34.5**	**28.1**	**26.2**	**27.5**	**39.0**	**42.0**	**42.7**	**41.3**	**38.8**
West Bank and Gaza[7,8]	20.0	21.6	21.7	22.7	22.6	37.7	34.1	33.2	32.3	31.8

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

	Non-Oil Fiscal Balance (Percent of non-oil GDP)					Non-Oil Revenue (Percent of non-oil GDP)				
	Average			Projections		Average			Projections	
	2009–13	2014	2015	2016	2017	2009–13	2014	2015	2016	2017
MENAP oil exporters	**–43.1**	**–42.7**	**–35.9**	**–30.5**	**–29.1**	**12.2**	**12.7**	**12.9**	**13.4**	**13.0**
Algeria	–41.8	–38.0	–38.3	–30.3	–28.1	19.3	18.7	19.6	19.1	20.0
Bahrain[1]	–32.8	–35.5	–33.3	–30.6	–29.8	3.7	4.1	4.6	5.4	5.9
Iran, I.R. of[1,2]	–13.2	–8.1	–8.6	–8.1	–7.4	10.2	10.5	10.7	11.1	11.8
Iraq	–72.2	–59.2	–49.6	–52.4	–49.6	6.5	4.1	4.4	5.7	6.0
Kuwait[1]	–78.2	–81.5	–72.3	–65.6	–62.6	31.1	38.7	31.9	29.3	28.5
Libya	...	...	...	...	...	...	...	...	...	...
Oman[1]	–66.5	–73.8	–61.9	–47.7	–46.6	14.2	13.0	12.4	13.3	14.2
Qatar	–50.3	–51.5	–49.9	–41.7	–39.3	14.4	15.5	14.3	15.6	15.3
Saudi Arabia[1]	–58.4	–62.9	–48.1	–36.7	–35.9	7.4	8.2	9.8	11.6	9.8
United Arab Emirates[3]	–31.0	–30.0	–21.4	–20.0	–20.1	17.8	19.3	18.6	17.6	16.3
Yemen[4]	–27.4	–19.0	–14.5	–13.7	–13.1	11.7	12.2	10.2	9.9	12.3
CCA Oil Exporters	**–20.4**	**–18.2**	**–19.4**	**–19.0**	**–16.8**	**17.2**	**17.1**	**14.3**	**14.9**	**15.6**
Azerbaijan[1]	–45.3	–36.0	–34.9	–38.7	–33.5	19.2	19.9	20.8	23.5	24.0
Kazakhstan	–12.2	–12.9	–15.9	–14.3	–13.0	16.9	16.7	12.0	12.3	13.2
Turkmenistan[5]	–9.9	–11.2	–8.2	–6.8	–6.4	14.5	13.8	14.0	12.4	12.1
Uzbekistan	...	...	...	...	...	...	...	...	...	...
Memorandum										
GCC	**–53.9**	–56.8	–45.5	–36.9	–35.9	**12.8**	**14.2**	**14.1**	**14.8**	**13.6**
Non-GCC oil exporters	**–31.0**	–25.8	–24.0	–22.9	–21.1	**11.5**	**11.0**	**11.4**	**11.7**	**12.4**

	Fiscal Breakeven Oil Price[6] (U.S. dollars per barrel)					External Breakeven Oil Prices[7] (U.S. dollars per barrel)				
	2009–13	2014	2015	2016	2017	2009–13	2014	2015	2016	2017
MENAP Oil Exporters										
Algeria	101.0	135.3	111.2	90.6	86.6	69.4	94.8	84.9	76.9	81.6
Bahrain	109.1	122.5	106.3	93.8	92.3	64.2	75.5	65.7	65.3	69.9
Iran, I.R. of	87.2	100.0	60.1	55.3	60.7	58.1	56.4	36.1	31.3	37.7
Iraq	100.7	113.2	64.7	58.3	54.0	81.9	100.0	56.0	47.4	48.4
Kuwait	43.2	55.8	48.3	47.8	47.7	32.0	43.5	45.5	40.1	41.6
Libya	91.7	206.0	196.9	216.5	163.9	66.4	184.9	179.9	207.8	153.0
Oman	75.8	94.0	99.3	77.5	79.4	66.8	84.2	86.1	78.4	81.3
Qatar	62.9	57.8	58.3	62.1	63.4	51.8	54.8	40.6	46.1	51.3
Saudi Arabia	77.6	105.7	92.9	79.7	77.7	54.8	72.2	68.8	57.2	58.7
United Arab Emirates	74.4	79.0	60.1	58.6	60.0	60.6	59.8	41.9	40.9	42.0
Yemen[4]	183.0	160.0	305.0	364.0	125.0	150.0	120.0	...	...	...
CCA Oil Exporters										
Azerbaijan	72.4	89.6	71.9	70.0	62.5	49.6	55.8	51.0	42.1	45.1
Kazakhstan	65.4	65.5	88.1	82.7	71.1	82.9	105.7	84.5	86.7	82.7
Turkmenistan	81.6	81.3	50.4	47.0	52.0	96.1	89.7	50.9	56.3	65.6
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] Yemen is a net oil importer in 2015, 2016, and 2017.
[5] State government.
[6] The oil price at which the fiscal balance is zero.
[7] The oil price at which the current account balance is zero.

Table 6. Current Account Balance

	(Billions of U.S. Dollars)					(Percent of GDP)				
	Average			Projections		Average			Projections	
	2009–13	2014	2015	2016	2017	2009–13	2014	2015	2016	2017
MENAP	**274.8**	**176.3**	**–125.4**	**–121.6**	**–69.1**	**8.6**	**5.1**	**–4.0**	**–4.6**	**–2.6**
Oil exporters	**310.7**	**215.6**	**–83.5**	**–96.8**	**–43.2**	**13.1**	**8.3**	**–3.8**	**–4.4**	**–1.8**
Algeria	9.1	–9.4	–27.5	–25.3	–24.5	4.8	–4.4	–16.5	–15.1	–13.7
Bahrain	1.8	1.5	–1.0	–1.5	–1.3	6.0	4.6	–3.1	–4.7	–3.8
Iran, I.R. of	27.9	15.9	8.2	17.2	14.6	6.1	3.8	2.1	4.2	3.3
Iraq	7.3	–1.7	–11.8	–16.9	–6.2	3.2	–0.8	–7.2	–10.8	–3.6
Kuwait	56.0	54.2	6.0	3.9	10.4	37.4	33.3	5.2	3.6	8.4
Libya	12.0	–12.3	–16.7	–18.7	–19.0	17.2	–27.8	–42.1	–47.4	–36.9
Oman	5.2	4.7	–11.2	–12.7	–11.6	7.5	5.7	–17.5	–21.3	–17.6
Qatar	41.0	49.4	13.8	–2.9	0.1	23.8	23.5	8.2	–1.8	0.0
Saudi Arabia	109.3	73.8	–53.5	–42.3	–17.7	16.4	9.8	–8.3	–6.6	–2.6
United Arab Emirates	42.5	40.3	12.3	4.2	13.0	11.8	10.0	3.3	1.1	3.2
Yemen	–1.3	–0.7	–2.1	–1.9	–1.1	–4.3	–1.7	–5.5	–6.1	–2.8
Oil importers	**–35.9**	**–39.3**	**–41.9**	**–24.9**	**–25.9**	**–4.6**	**–4.4**	**–4.5**	**–4.8**	**–4.7**
Afghanistan, Rep. of	1.4	0.5	0.9	0.8	0.2	8.2	2.4	4.7	4.5	1.1
Djibouti	–0.2	–0.4	–0.5	–0.3	–0.3	–13.3	–25.6	–30.7	–17.2	–14.4
Egypt	–6.9	–2.4	–12.2	. . .	. . .	–2.8	–0.8	–3.7	–5.8	–5.2
Jordan	–2.9	–2.4	–3.4	–3.6	–3.7	–9.6	–6.8	–9.0	–9.0	–8.9
Lebanon	–8.3	–14.0	–10.7	–10.6	–11.0	–19.6	–28.1	–21.0	–20.4	–20.6
Mauritania	–1.1	–1.8	–1.3	–1.0	–1.2	–21.5	–33.3	–27.0	–21.9	–24.9
Morocco	–6.8	–6.2	–1.9	–1.3	–1.5	–6.8	–5.7	–1.9	–1.2	–1.4
Pakistan	–4.0	–3.1	–2.6	. . .	. . .	–2.2	–1.3	–1.0	–0.9	–1.5
Somalia	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Sudan	–3.7	–5.0	–6.4	–5.5	–5.5	–6.0	–7.0	–7.8	–5.9	–4.9
Syrian Arab Republic	. . .	. . .	. . .	. . .	. . .	–2.9	. . .	. . .	. . .	. . .
Tunisia	–2.9	–4.3	–3.8	–3.4	–2.9	–6.4	–9.1	–8.8	–8.0	–6.9
CCA	**12.8**	**9.2**	**–11.3**	**–12.5**	**–9.3**	**3.5**	**2.0**	**–3.0**	**–4.1**	**–2.8**
Oil and gas exporters	**15.6**	**13.4**	**–8.3**	**–9.2**	**–5.8**	**4.8**	**3.3**	**–2.4**	**–3.5**	**–2.0**
Azerbaijan	13.6	10.4	–0.2	0.3	1.2	22.8	13.9	–0.4	0.7	3.1
Kazakhstan	1.9	6.0	–4.4	–2.8	0.0	0.7	2.6	–2.4	–2.2	0.0
Turkmenistan	–1.5	–3.5	–3.7	–6.8	–7.1	–6.1	–7.5	–10.3	–18.5	–18.0
Uzbekistan	1.7	0.5	0.1	0.1	0.2	3.8	0.7	0.1	0.1	0.2
Oil and gas importers	**–2.8**	**–4.2**	**–3.1**	**–3.2**	**–3.5**	**–7.8**	**–9.4**	**–7.9**	**–8.5**	**–8.8**
Armenia	–1.1	–0.9	–0.3	–0.3	–0.3	–11.6	–7.6	–2.7	–2.5	–3.0
Georgia	–1.4	–1.8	–1.6	–1.7	–1.9	–10.2	–10.6	–11.7	–12.1	–12.0
Kyrgyz Republic	0.0	–1.3	–0.7	–0.9	–0.9	–0.3	–17.8	–10.4	–15.0	–14.9
Tajikistan	–0.2	–0.3	–0.5	–0.3	–0.3	–3.4	–2.8	–6.0	–5.0	–5.0
Memorandum										
MENA	**277.5**	**178.9**	**–123.7**	**–122.5**	**–69.3**	**9.4**	**5.6**	**–4.4**	**–5.0**	**–2.8**
MENA oil importers	**–33.2**	**–36.6**	**–40.2**	**–25.7**	**–26.1**	**–6.0**	**–5.9**	**–6.2**	**–6.7**	**–6.3**
Arab Countries in Transition (excl. Libya)	**–20.7**	**–16.1**	**–23.4**	**–10.2**	**–9.2**	**–4.5**	**–3.0**	**–4.3**	**–5.4**	**–4.7**
GCC	**255.7**	**223.9**	**–33.6**	**–51.2**	**–7.0**	**17.7**	**13.6**	**–2.4**	**–3.7**	**–0.5**
Non-GCC oil exporters	**55.0**	**–8.3**	**–49.8**	**–45.6**	**–36.1**	**5.8**	**–0.9**	**–6.2**	**–5.6**	**–4.1**
Arab World	**249.6**	**163.1**	**–131.9**	**–139.7**	**–83.9**	**9.9**	**5.8**	**–5.4**	**–6.5**	**–3.8**
West Bank and Gaza[1]	–1.6	–0.9	–1.7	–1.8	–1.6	–15.8	–7.4	–13.5	–13.4	–11.4

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			Projections		Average			Projections	
	2009–13	2014	2015	2016	2017	2009–13	2014	2015	2016	2017
MENAP	**11.7**	**14.0**	**12.9**	**11.5**	**10.8**	**28.4**	**28.1**	**33.4**	**35.6**	**36.7**
Oil exporters	**13.7**	**16.6**	**14.9**	**13.1**	**12.2**	**25.6**	**24.7**	**32.1**	**35.1**	**35.2**
Algeria	34.2	33.4	29.2	22.9	20.8	2.6	1.7	1.8	2.5	4.4
Bahrain	2.4	3.2	2.4	2.4	2.3	157.7	154.1	173.0	183.6	190.4
Iran, I.R. of	11.8	18.5	19.8	20.6	22.3	3.5	1.2	1.6	2.0	2.8
Iraq	10.1	12.3	9.8	7.5	7.1	42.0	25.9	40.6	45.5	43.6
Kuwait	7.0	7.4	6.7	6.4	6.5	26.8	24.2	37.2	41.3	39.2
Libya	…	…	…	…	…	…	…	…	…	…
Oman	5.1	5.4	5.9	5.4	5.0	13.2	10.6	23.0	29.7	32.2
Qatar	6.9	8.7	7.3	8.1	7.9	83.0	79.2	106.0	130.7	135.4
Saudi Arabia[2]	30.4	35.6	33.9	28.7	25.1	15.2	12.5	15.2	17.2	17.5
United Arab Emirates	1.9	3.3	3.7	3.5	3.7	44.5	48.3	60.1	60.1	55.9
Yemen	5.3	5.9	2.2	1.1	1.2	19.0	14.3	15.5	18.3	15.3
Oil importers	**5.2**	**5.2**	**5.8**	**5.8**	**5.9**	**36.5**	**37.6**	**36.4**	**36.7**	**40.5**
Afghanistan, Rep. of	6.2	9.8	9.0	8.8	8.4	9.0	6.4	6.2	6.8	6.9
Djibouti	3.7	4.4	4.2	4.1	4.6	54.7	56.5	47.5	40.6	39.6
Egypt	4.1	2.5	3.3	2.8	3.4	14.5	15.3	14.4	14.1	23.6
Jordan[3]	6.6	8.5	9.0	8.8	8.6	60.3	64.0	65.8	67.4	66.7
Lebanon[4]	11.7	14.9	14.2	12.9	11.8	165.9	170.0	174.7	176.6	177.5
Mauritania	1.8	2.7	3.7	3.3	3.3	85.5	89.0	102.4	108.6	113.0
Morocco	5.6	6.1	6.5	7.0	7.5	26.6	30.9	32.9	33.0	32.2
Pakistan	2.8	2.2	3.4	4.2	4.5	30.5	26.7	24.0	25.0	25.1
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	1.7	1.7	1.2	1.0	1.0	65.0	65.8	61.4	55.7	49.2
Syrian Arab Republic	…	…	…	…	…	15.2	…	…	…	…
Tunisia	4.1	4.1	4.3	4.5	4.5	51.1	56.0	61.5	70.0	74.5
CCA	**6.6**	**8.9**	**8.1**	**8.3**	**8.4**	**48.0**	**45.5**	**58.9**	**77.2**	**72.9**
Oil and gas exporters	**7.4**	**10.4**	**9.4**	**9.7**	**9.9**	**46.1**	**43.6**	**56.7**	**76.1**	**71.5**
Azerbaijan[3,5]	6.8	9.6	4.2	3.0	3.4	7.8	8.6	12.8	26.5	23.0
Kazakhstan	5.8	7.7	7.9	8.5	8.4	73.0	69.2	90.8	134.6	120.4
Turkmenistan[3]	…	…	…	…	…	11.1	17.4	23.2	23.2	23.4
Uzbekistan[3]	13.8	19.5	18.4	19.0	19.1	13.7	12.2	15.3	19.2	19.5
Oil and gas importers	**3.6**	**3.7**	**3.5**	**3.7**	**3.6**	**65.1**	**63.4**	**78.5**	**85.4**	**83.4**
Armenia	4.6	4.0	5.0	5.0	4.9	68.5	71.3	84.5	86.4	86.0
Georgia	3.7	3.6	3.2	3.3	3.4	64.4	64.9	84.9	84.6	80.5
Kyrgyz Republic[3]	4.4	4.8	3.6	3.8	3.4	81.3	75.6	88.6	106.5	102.0
Tajikistan	1.2	1.8	2.2	2.8	2.8	48.0	41.0	50.1	66.6	68.7
Memorandum										
MENA	**12.1**	**14.6**	**13.3**	**11.8**	**11.1**	**28.4**	**28.3**	**34.5**	**36.9**	**38.1**
MENA oil importers	**5.6**	**5.8**	**6.3**	**6.0**	**6.1**	**39.6**	**42.9**	**42.5**	**42.5**	**48.6**
Arab Countries in Transition (excl. Libya)	**4.9**	**4.5**	**4.9**	**4.8**	**5.1**	**23.9**	**25.2**	**25.1**	**25.9**	**32.3**
GCC	**12.5**	**15.4**	**13.8**	**12.0**	**10.9**	**34.4**	**33.7**	**43.7**	**48.2**	**47.9**
Non-GCC oil exporters	**16.8**	**20.6**	**18.6**	**16.5**	**16.4**	**11.5**	**8.1**	**10.8**	**11.6**	**12.3**
Arab World	**12.1**	**14.3**	**12.8**	**11.1**	**10.1**	**33.2**	**32.4**	**39.8**	**42.8**	**44.2**
West Bank and Gaza[6]	1.5	1.1	…	…	…	11.2	8.6	8.4	7.9	7.6

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.
[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. Consumer Price Inflation and Depository Corporations (Banking System) Credit to Private Sector

	Consumer Price Inflation[1] (Year average; percent)					Credit to Private Sector (Annual change; percent)				
	Average			Projections		Average			Projections	
	2009–13	2014	2015	2016	2017	2009–13	2014	2015	2016	2017
MENAP	**8.6**	**6.9**	**5.9**	**5.6**	**6.1**	**11.3**	**11.0**	**9.0**	**6.7**	**5.1**
Oil exporters	**8.0**	**5.8**	**5.5**	**4.7**	**4.2**	**12.3**	**11.8**	**8.7**	**4.9**	**3.0**
Algeria	5.3	2.9	4.8	5.9	4.8	14.3	14.7	15.2	1.6	2.5
Bahrain	2.1	2.7	1.8	3.6	3.0	6.7	–5.9	7.6	3.1	3.8
Iran, I.R. of	22.0	15.6	11.9	7.4	7.2	21.8	15.0	3.7	2.0	0.3
Iraq	2.8	2.2	1.4	2.0	2.0	34.5	4.5	6.2	3.0	6.0
Kuwait	4.0	2.9	3.2	3.4	3.8	4.1	5.2	7.6	4.0	4.3
Libya	5.9	2.8	14.1	14.2	12.5	11.9	7.1	2.5	–4.4	–1.0
Oman	3.0	1.0	0.1	1.1	3.1	9.9	14.9	13.9	9.9	10.1
Qatar	–0.1	3.4	1.8	3.0	3.1	12.9	20.3	19.7	12.0	9.1
Saudi Arabia	3.6	2.7	2.2	4.0	2.0	9.0	11.8	9.2	6.0	5.3
United Arab Emirates	1.0	2.3	4.1	3.6	3.1	–0.3	11.5	8.4	5.3	6.5
Yemen	11.0	8.2	39.4	5.0	18.0	5.0	2.6	–22.3	9.3	–99.9
Oil importers	**9.7**	**9.4**	**6.6**	**7.4**	**9.8**	**8.2**	**8.8**	**10.2**	**11.7**	**10.3**
Afghanistan, Rep. of	4.2	4.7	–1.5	4.5	6.0	6.0	–6.6	5.9	8.6	9.6
Djibouti	3.4	2.9	2.1	3.0	3.5	13.7	8.6	7.0	14.0	16.0
Egypt	9.9	10.1	10.4	14.0	17.3	6.2	7.4	16.7	14.1	9.3
Jordan	3.5	2.9	–0.9	–0.5	2.3	6.4	3.7	4.8	10.2	8.5
Lebanon	4.3	1.9	–3.7	–0.7	2.0	14.6	9.3	5.9	2.0	3.0
Mauritania	4.6	3.8	0.5	1.3	4.2	10.8	11.2	9.7	0.8	4.4
Morocco	1.2	0.4	1.5	1.3	1.3	7.2	2.5	1.9	4.7	6.0
Pakistan	12.3	8.6	4.5	2.9	5.2	3.1	12.5	5.9	11.5	13.0
Somalia	...	...	...	...	...	...	...	...	...	...
Sudan	22.9	36.9	16.9	13.5	16.1	20.4	17.6	20.8	23.2	18.9
Syrian Arab Republic	3.6	...	...	...	...	17.3	–29.5	–30.7	–83.8	–296.1
Tunisia[2]	4.3	4.9	4.9	3.7	3.9	11.8	9.4	6.2	8.2	7.0
CCA	**6.8**	**5.9**	**6.2**	**9.9**	**8.3**	**20.5**	**12.2**	**7.9**	**5.5**	**10.9**
Oil and gas exporters	**6.9**	**6.1**	**6.4**	**10.8**	**8.7**	**20.7**	**10.6**	**7.4**	**5.2**	**11.1**
Azerbaijan	3.7	1.4	4.0	10.2	8.5	19.7	26.7	14.0	–2.1	6.6
Kazakhstan	6.7	6.7	6.5	13.1	9.3	9.6	0.4	–1.1	0.3	6.1
Turkmenistan	3.8	6.0	6.4	5.5	5.0	64.8	20.9	21.0	30.0	30.0
Uzbekistan	12.1	9.1	8.5	8.4	9.6	36.1	25.3	23.3	14.2	17.4
Oil and gas importers	**5.6**	**4.6**	**4.8**	**2.4**	**4.9**	**18.7**	**27.5**	**12.8**	**7.9**	**9.3**
Armenia	5.4	3.0	3.7	–0.5	2.5	23.1	20.5	–3.6	3.4	6.6
Georgia	3.2	3.1	4.0	2.6	3.6	12.4	23.3	22.1	11.4	8.1
Kyrgyz Republic	8.1	7.5	6.5	1.1	7.4	17.3	43.6	17.2	7.7	16.0
Tajikistan	7.2	6.1	5.8	6.3	7.3	24.8	31.5	12.7	7.2	9.6
Memorandum										
MENA	**8.2**	**6.8**	**6.1**	**6.0**	**6.2**	**11.9**	**11.0**	**9.3**	**6.3**	**4.4**
MENA oil importers	**8.7**	**9.9**	**8.0**	**9.9**	**12.3**	**10.2**	**7.8**	**12.1**	**11.8**	**9.3**
Arab Countries in Transition (excl. Libya)	**7.8**	**7.6**	**9.2**	**9.9**	**12.8**	**7.1**	**6.0**	**8.9**	**11.1**	**1.0**
GCC	**2.7**	**2.6**	**2.5**	**3.6**	**2.6**	**6.5**	**11.8**	**10.4**	**6.5**	**6.2**
Non-GCC oil exporters	**13.7**	**9.5**	**9.1**	**6.1**	**6.1**	**20.6**	**11.6**	**5.7**	**2.1**	**–2.5**
Arab World	**4.9**	**4.8**	**4.8**	**5.6**	**5.9**	**9.9**	**10.4**	**10.1**	**7.0**	**5.0**
West Bank and Gaza[3]	2.8	1.7	1.4	1.1	1.2	18.6	31.2	19.7	14.2	12.8

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

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

[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-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15
MENAP									
Oil exporters									
Algeria	21.5	16.0	17.0	1.9	2.0	.	10.6	9.2	.
Bahrain[1]	18.5	18.3	.	1.1	1.4	.	5.6	4.6	.
Iran, I.R. of[2]	.	.	.	.	.	.	15.4	.	.
Iraq	.	.	.	.	.	.	.	.	.
Kuwait	18.9	16.9	17.5	1.0	1.1	1.1	3.6	2.9	2.4
Libya	.	.	.	0.6	.	.	21.0	.	.
Oman	16.2	15.4	16.2	1.8	1.7	1.6	2.0	1.9	1.8
Qatar	16.0	16.3	15.6	2.1	2.1	2.0	1.9	1.7	1.6
Saudi Arabia	17.9	17.9	18.1	2.0	2.0	2.0	1.3	1.1	1.2
United Arab Emirates[3]	19.3	18.1	18.3	1.6	1.7	1.5	6.7	5.6	5.2
Yemen[4]	26.4	.	.	1.5	.	.	21.7	.	.
Oil importers									
Afghanistan, Rep. of	26.2	26.5	28.3	0.6	0.9	0.4	4.9	7.8	12.3
Djibouti	9.6	10.7	12.5	1.2	0.7	0.6	14.5	18.0	22.1
Egypt[5,6]	13.7	13.9	.	1.0	1.3	.	9.3	8.5	.
Jordan	18.4	18.4	.	1.2	1.4	.	7.0	5.6	.
Lebanon[5,7]	11.2	11.2	11.2	1.0	1.1	1.2	4.0	4.0	4.2
Mauritania[8]	32.4	28.1	.	2.0	1.9	.	20.4	23.9	.
Morocco	13.3	13.8	.	1.0	0.9	.	5.8	6.8	7.2
Pakistan	15.1	17.1	17.3	1.6	2.2	2.5	13.3	12.3	11.4
Sudan	16.6	.	0.2	3.7	.	4.0	8.4	7.1	5.1
Syrian Arab Republic	.	.	.	.	.	.	.	.	.
Tunisia	8.2	9.4	.	0.3	0.9	.	16.5	15.7	.
CCA									
Armenia	16.7	14.5	16.2	1.9	1.0	–0.5	4.5	6.8	7.8
Azerbaijan	18.1	19.2	.	1.5	1.7	.	4.5	4.4	.
Georgia[9]	25.2	25.5	26.0	2.6	2.6	2.3	3.1	3.1	2.7
Kazakhstan	18.8	16.8	15.9	1.6	1.5	1.0	31.3	23.5	8.0
Kyrgyz Republic	25.0	21.8	21.3	2.8	2.6	1.7	5.5	4.5	7.1
Tajikistan[10]	20.2	12.0	8.3	0.7	–4.4	–0.6	16.0	25.1	29.9
Turkmenistan	13.7	15.7	.	3.1	3.2	.	0.0	0.0	.
Uzbekistan	24.3	23.8	23.6	2.0	2.0	2.0	0.4	0.4	0.4
Memorandum:									
West Bank and Gaza[11]	20.7	18.0	16.1	1.9	1.7	1.5	2.9	2.5	1.3

Source: National authorities; and IMF staff estimates.
[1] Conventional retail banks only; excludes Islamic Wholesale and Retail banks along with Conventional Wholesale banks.
[2] December data refer to March data of the following year.
[3] National banks only.
[4] Data refer to all banks except the Housing Bank and CAC Bank.
[5] After tax.
[6] Provisioning to NPLs surpassed 100 percent as of Dec. 2009 and data refer to end of fiscal year.
[7] CAR according to Basel II in 2010 and Basel III from 2011 onwards.
[8] Provisioning to NPLs stood at 89 percent in June 2011.
[9] Cumulative and annualized.
[10] CAR: Tier 1 capital as percent of risk-weighted assets. ROA: the quick turnaround in profitability in H1 2013 reflects sizeable under-provisioning for nonperforming assets in some large banks. NPLs: loans overdue by 30 days or more.
[11] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.