The Need for Inclusive Growth: The IMF Economic Outlook for the MENA Region

May 4th, 2011
Overview

Global outlook

Oil exporters: Outlook and policy challenges

Oil importers: Outlook and policy challenges

Lebanon: Risks ahead
Global growth: A multi-speed world

WEO Real GDP Growth Projections
(Percent change from a year earlier)

Upside risks:
• Buoyant EM activity
• Strong corporate balance sheets

Downside risks:
• Sovereign/financial risks
• Oil supply concerns

Source: IMF, World Economic Outlook.
Capital flows to emerging markets have slowed

Emerging Bond Funds
(Billions of U.S. dollars, weekly flows)

Emerging Equity Funds
(Billions of U.S. dollars, weekly flows)
Oil prices driven by uncertainty in the short-run

Global Annual Growth of Oil Demand (Percent)

Crude Oil Prices Rise Sharply (Millions of barrels per day)

Sources: International Energy Agency; IMF, World Economic Outlook; national authorities; and IMF staff calculations.
Food and non-oil commodity prices also rising

Commodity Price Developments in the World
(Price indices; 2007=100)

BUT: Commodity exporters to benefit

Aluminum: Bahrain
Copper: Mauritania
Cotton: Egypt, Pakistan
Food: Afghanistan, Egypt, Iran, Iraq, Morocco, Pakistan, Syria
Gold: Djibouti
Iron ore: Bahrain, Mauritania

Source: IMF, World Economic Outlook.
MENAP oil exporters: Opportunities for reforms

External environment
- Increased uncertainty
- Higher oil revenue

Political events
- Limited impact on output for most
- Large fiscal responses
External balances improving with the oil price

Current Account Balances
(Billions of U.S. dollars)

Sources: National authorities; and staff calculations and projections.

¹Excludes Libya in 2011.
Oil price volatility brings uncertainty

2011 Current Account Surpluses under Alternative Oil Price Scenarios
(Billions of U.S. dollars)

Sources: National authorities; and staff calculations.

¹Minimum, maximum oil prices between January 1, 2011 - March 22, 2011; and baseline forecast for 2011.
Unprecedented responsiveness across the region

Percent Change in Total Government Expenditures in U.S. dollars
(From 2010 to 2011)

Sources: National authorities; and IMF staff estimates.
Fiscal balances improve, despite higher spending

Overall and Non-oil Fiscal Balances

(Percent of GDP)

However, break-even prices also going up

Sources: National authorities; and IMF staff estimates.
¹Excludes Libya in 2011
Break-even prices going up

Break-Even Oil Prices in 2010
(U.S. dollars per barrel)

SDN
YMN

Break-Even Oil Prices in 2011
(U.S. dollars per barrel)

ALG
IRN
IRQ
KWT
OMN
QAT
SAU
UAE
BHR

Fiscal balance

Current account

2010 WEO oil price: US$ 76.2
2011 WEO oil price: US$ 107.2
Growth is progressing amidst uncertainty.

Real GDP Growth
(Annual percentage change)

Sources: National authorities; and IMF staff estimates.

1 Excludes Libya in 2011.
Non-oil growth holding up, with few exceptions

Real Non-oil GDP Growth
(Annual percentage change)

Sources: National authorities; and IMF staff estimates.
Keep an eye on inflation pressures

Consumer price index; annual percentage change

Source: National authorities; and staff calculations and projections.
Financial sector depth: similar to peers

Financial Depth Across Regions:
Banks and Stock Markets\(^1\)
(2007-08)

Financial Depth in MENA Countries
(2007-08)

Sources: World Bank Database on Financial Development and Structure, 2010; International Financial Statistics; and authors’ calculations.

\(^1\)Stock Market Turnover: Ratio of value of shares traded to market capitalization.
...but banks are falling short in key areas

Access to financial services is subpar

- Businesses receive less bank financing
- Loan concentration is high
- Population has low access to deposits

Banking sectors are less competitive, due to:

- Weak credit information environment
- Stringent entry restrictions
- Lack of non-bank financing alternatives

Measurable quality gap

Growth impact of banking depth is weaker than in other regions
MENAP oil exporters: Opportunities for reforms

External environment
- Increased uncertainty
- Higher oil revenue

Political events
- Limited impact on output for most
- Large fiscal responses

Short-term challenge
- Inflation

Medium-term challenges
- Diversification and employment
- Strengthen resource management
- Financial sector development
MENAP oil importers: Navigating change

Before the protests
• Mostly growing at steady pace
• Persistently high unemployment

Unrest and commodity price shocks
• Output disruptions in some countries
• Higher import costs

Policy space is tight
• Pressure to spend on social protection
• Higher risk premia and rising inflation

With change comes challenges, but also opportunities for more inclusive growth
Surge in commodity prices increases cost of imports

Impact of Higher Fuel and Food Costs
(Percent of GDP)

- Impact of higher prices in 2011¹
- Total fuel and food imports, 2010
- Current account deficit, 2011

Sources: National Authorities; and IMF staff estimates.

¹Direct impact -- holding policies and quantities constant -- of price increases of 32 percent for fuel and 24 percent for food, as implied by WEO projection for 2011 compared to 2010.
Spillovers from regional instability:
Lower tourism and FDI, higher borrowing costs

<table>
<thead>
<tr>
<th>Country</th>
<th>Sovereign Spreads (Basis points)</th>
<th>Tourism Receipts (Percent of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lebanon</td>
<td>400</td>
<td>24.4</td>
</tr>
<tr>
<td>Jordan</td>
<td>300</td>
<td>12.1</td>
</tr>
<tr>
<td>Morocco</td>
<td>250</td>
<td>7.3</td>
</tr>
<tr>
<td>Syria</td>
<td>200</td>
<td>5.8</td>
</tr>
<tr>
<td>Tunisia</td>
<td>150</td>
<td>5.4</td>
</tr>
<tr>
<td>Egypt</td>
<td>100</td>
<td>5.3</td>
</tr>
<tr>
<td>Bahrain</td>
<td>50</td>
<td>5.0</td>
</tr>
<tr>
<td>Oman</td>
<td></td>
<td>1.8</td>
</tr>
</tbody>
</table>

Sources: IMF, *World Economic Outlook*; and World Travel and Tourism Council.

**Tourism Receipts**
- *by 41 percent in Jan-Feb 2011*
- Jan/Feb: Tourist arrivals down 36 percent, tourist nights down 16 percent y/y.

**Sovereign Spreads**
- Tunisia protests escalate

Sources: Bloomberg; and Markit.
Higher government spending

New Fiscal Costs
(Percent of GDP)

Impact of higher fuel and food prices, holding all else constant
Additional fiscal measures
Overall fiscal deficit, 2011

Sources: National authorities; and IMF staff calculations.
Net impact on growth mostly limited

Real GDP Growth
(Annual percentage change)

Sources: National authorities; and IMF staff estimates.
Keep an eye on inflation pressures

Source: National authorities; and IMF staff calculations and projections.
Short-term policy challenge: Ensuring social cohesion while maintaining macroeconomic stability

- Respond to domestic pressures
- Create jobs
- Manage impact of higher food and fuel prices
- Restore confidence
- Macroeconomic Stability
- Social Cohesion
Policy challenge: Unemployment

Unemployment Rates by Region

Sources: International Labor Organization; national authorities; IMF, World Economic Outlook; and IMF staff estimates.

1MENA6 countries are Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia.

2Total and youth unemployment rates for Morocco reflect data from Urban Labor Force Survey.

3Or most recent earlier year for which data are available.
Creating jobs

Quick wins with long-run benefits

Comprehensive job strategy

Bring forward labor-intensive infrastructure projects

Provide tax incentives/credit guarantees to viable SMEs

Scale up promising or introduce new well-designed training programs

Foster high and inclusive growth: business climate, equal opportunities, trade

Enhance skill formation

Protect the worker and not the job
Heavy reliance on untargeted subsidies

Price subsidies are poorly targeted...

... and costly.

Distribution of Subsidies Across Income Groups

MENAP Oil Importers: Subsidies and Deficits in 2010
(Percent of GDP)

Cross country¹--Fuel (2010)
Jordan--Fuel (2005)
Lebanon--Bread (2008)
Egypt--Baladi bread (2008/09)


¹Average across 21 countries.
Social Protection Instruments

Social Safety Net

Social Insurance

Price Subsidies

Other Social Policies

Source: IMF staff illustration.
Enhancing social protection

**Short Term**

- Immediate reaction to commodity price shock
  - Targeted measures (existing or new)
  - Stop-gap: tax cuts and subsidies

**Medium Term**

- Preparation of subsidy reform
  - Build ownership
  - Improve targeting
  - Compensate losers
  - Implement automatic pricing mechanisms

- Cost-effective social protection framework
  - Strengthen targeted income transfers
  - Phase-out price subsidies
  - Use fiscal space for other priority spending
Opportunity to develop a medium-term policy agenda for shared prosperity

- Stable macroeconomic environment
- Job creation
- Social protection for all
- Transparency, accountability, good governance
- Access to economic opportunities

Socially-Inclusive Growth
Lebanon: Risks of Continued Stalemate

- Growth projected at 2.5 percent, inflation at 6.5 percent (average) in 2011
- Political impasse and regional turmoil weighing on commercial activity, tourism, and real estate—the main drivers of the Lebanese economy
Lebanon: Challenges Ahead

- **Fiscal**
  - Fiscal deficit projected to rise over 10% of GDP

- **Monetary**
  - Could inflows slow down?

- **Banks**
  - Sector vulnerable to AML-CFT issues?
For an online version of the full report, please visit:

www.imf.org/beirut

or

Break-even prices going up

Break-Even Oil Prices in 2011
(U.S. dollars per barrel)

WEO oil price: US$107.2