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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 Jihad Azour (Director of MCD). The project was directed by Daniela Gressani (Deputy Director in MCD), Allison Holland (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 Sangyup Choi, Alexei Kireyev, Maxym Kryshko, Inutu Lukonga, Boaz Nandwa, Magali Pinat, Juan Treviño, and Bruno Versailles.

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Assumptions and Conventions

A number of assumptions have been adopted for the projections presented in the *Regional Economic Outlook: Middle East and Central Asia*. It has been assumed that established policies of national authorities will be maintained, that the price of oil[1] will average US$50.28 a barrel in 2017 and US$50.17 a barrel in 2018, and that the six-month London interbank offered rate (LIBOR) on U.S.-dollar deposits will average 1.4 percent in 2017 and 1.9 percent in 2018. 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 2017 and 2018 data in the figures and tables are projections. These projections are based on statistical information available through early September 2017.

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 UK Brent, Dubai Fateh, and West Texas Intermediate crude oil.

Country Groupings

The October 2017 *Regional Economic Outlook (REO): Middle East and Central Asia*, 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, and prospects and policy issues for the medium term. 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 **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, Somalia, 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.

What's New: Somalia data are included in MENAP group aggregates.

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[1]Somalia is included in all regional aggregates starting with publication of the *Regional Economic Outlook* in October 2017. For Sudan, data for 2012 onward exclude South Sudan. Syria is excluded from most aggregates due to limited data availability.

World Developments and Outlook: A Strengthening Global Economy

The global developments shaping the world economic outlook are reflected in the projections for the Middle East and Central Asia region through their impact on commodity prices, export demand, remittances, exchange rates, and financial conditions.

The global upswing in economic activity remains on track, confirming the findings in the April 2017 *World Economic Outlook*. Global growth has been marginally revised up to 3.6 percent for 2017 and 3.7 percent for 2018. Overall, this forecast reflects a steady improvement over the 2016 growth rate of 3.2 percent (see table). At the country level, although the forecast for the *United States* has been revised downward relative to the April 2017 *World Economic Outlook*, the outlook for key trading partners continues to improve. Projected growth in the euro area has been revised upward by 0.4 percentage point in 2017 and 0.3 percentage point in 2018 on the back of strong private consumption and investment, while growth in China has been revised upward by 0.2 percentage point in 2017, reflecting stronger growth in the first half of the year, and 0.3 percentage point in 2018, reflecting an expectation that the authorities will maintain an expansionary policy mix. The growth outlook for Russia has also been revised upward relative to April, by 0.4 and 0.2 percentage point in 2017 and 2018, respectively, helped by stabilizing oil prices, easing financial conditions, and improved confidence. Nevertheless, over the medium term, the global growth momentum is expected to soften as output gaps close and demographic factors restrain potential growth.

Real GDP Growth, 2016–22

	2016	2017	2018	2019–22
World	3.2	3.6	3.7	3.7
Euro Area	1.8	2.1	1.9	1.6
United States	1.5	2.2	2.3	1.8
China	6.7	6.8	6.5	6.1
Russia	–0.2	1.8	1.6	1.5
MENAP	5.0	2.6	3.5	3.7
MENAP oil exporters	5.6	1.7	3.0	2.8
of which: non-oil GDP growth	1.1	2.6	2.5	3.4
MENAP oil importers	3.6	4.3	4.4	5.3
CCA	2.5	3.6	3.7	4.3
CCA oil and gas exporters	2.4	3.5	3.7	4.3
of which: non-oil GDP growth	1.7	2.4	3.0	4.0
CCA oil and gas importers	3.3	3.9	3.8	4.4

Sources: National authorities; and IMF staff calculations.

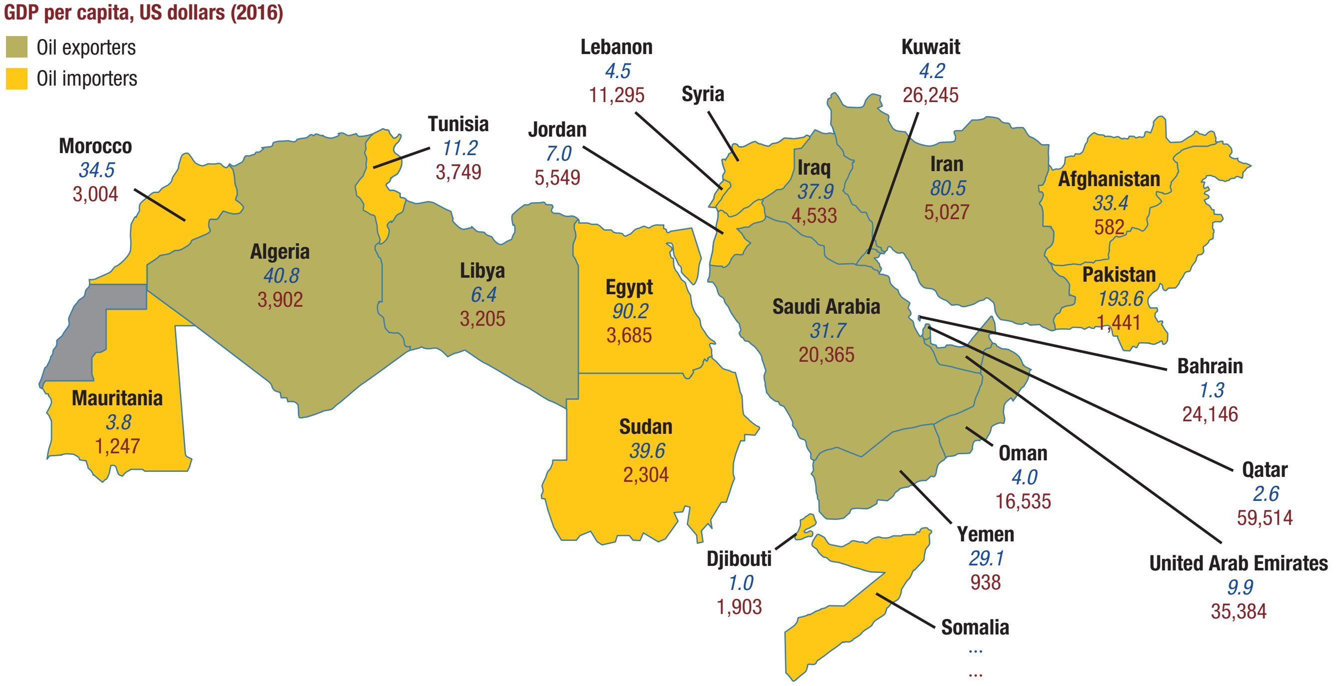
Global trade growth moderated in the second quarter after expanding vigorously in the first quarter, but the momentum remains positive reflecting the expected recovery in global demand and especially capital spending. Consequently, global trade growth is projected to rebound to about 4 percent in 2017 and remain about 1 percentage point higher than GDP growth into the medium term. Oil is currently trading between $50–$60 a barrel and is expected to hover around these levels into the medium term. Non–fuel commodities are projected to strengthen in 2017 and 2018 relative to their 2016 averages. Looking ahead, commodity prices are expected to rise slightly, by approximately 1 percent a year between 2019 and 2022. While the improved global growth and trade outlook represents an important window of opportunity, and some countries will benefit from higher non–fuel commodity prices, the sustained low oil price environment will continue to weigh on prospects for the MENAP and CCA regions.

Market sentiment has continued to be strong and volatility low, even as expectations of US fiscal easing have dimmed. Capital flows to emerging market economies have remained resilient in recent months, continuing their recovery after the sharp decline in late 2015 and early 2016 as investor optimism about the global economic outlook improved and financial conditions eased. With expectations of a more gradual pace of monetary policy normalization, US long-term interest rates have declined by around 20 basis points and the dollar has depreciated, which should ease some fiscal vulnerabilities for countries across the MENAP and CCA regions.

Short-term risks to the global outlook are broadly balanced between, on the positive side, a stronger-than-expected recovery and, on the negative side, the risk of policy missteps given an environment of high policy uncertainty and geopolitical tensions. Medium-term risks remain tilted to the downside, including a possible shift toward inward-looking policies in advanced economies, a more rapid tightening of global financial conditions (including due to faster-than-anticipated normalization of monetary policy in the United States, which would also be associated with a US dollar appreciation), and noneconomic factors, including geopolitical tensions, domestic political discord, risks from weak governance and corruption, extreme weather events, and terrorism and security concerns. These risks are interconnected and can be mutually reinforcing. Countries in the MENAP and CCA regions are particularly exposed to risks to the outlook for key trading partners, prospects for global trade, tightening of global financial conditions and a stronger US dollar, and any increase in regional security and political tensions.

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

MENAP Region Highlights

Despite the strengthening global recovery, MENAP's economic outlook remains relatively subdued owing to the adjustment to low oil prices and regional conflicts. For MENAP oil-exporting countries, spillovers from the low oil price environment and fiscal adjustment continue to weigh on non-oil growth, while overall growth is also held down by the Organization of the Petroleum Exporting Countries (OPEC)-led agreement to reduce oil production. For oil importers, growth is projected to increase, supported by the strengthening domestic demand and a cyclical recovery of the global economy. However, at 2.6 percent in 2017—unchanged relative to the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*—MENAP growth will be about half of the 2016 outturn, largely because of developments among oil exporters. Growth is anticipated to accelerate gradually over the medium term in most MENAP economies, but in many cases, it will remain below what is needed to effectively tackle the unemployment challenges facing the region. Structural reforms need to be accelerated to take advantage of the window of opportunity provided by the strengthening global economy and to secure higher, more inclusive, and resilient growth.

Oil Exporters: Need to Push ahead with Fiscal Consolidation and Diversification

Oil prices have remained soft, despite the extension of the production cuts led by OPEC. Oil exporters are continuing to adjust to these low oil prices, which have dampened growth and contributed to large fiscal and external deficits. Overall growth in the Gulf Cooperation Council (GCC) region is expected to bottom out in 2017 at 0.5 percent, as the OPEC-led deal reduces oil output. In contrast, non-oil growth is expected to recover to about 2.6 percent in 2017 and 2.4 percent in 2018 as fiscal consolidation generally slows. Both oil and non-oil growth for GCC countries have been revised down since the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*. Algeria's growth is expected to slow to 1.5 percent in 2017 and bottom out at 0.8 percent in 2018, as a consequence of envisaged spending cuts, before recovering over the medium term. In Iran, growth is projected to drop to about 3.5 percent this year, as the post-sanctions boost to oil output wears off. The outlook for Iraq, Libya, and Yemen continues to be dominated by security conditions and oil-producing capacity.

The reality of lower oil prices has made it more urgent for oil exporters to move away from a focus on redistributing oil receipts through public sector spending and energy subsidies. To this end, MENAP oil exporters have outlined ambitious diversification strategies, but medium-term growth prospects remain below historical averages amid ongoing fiscal consolidation. These subdued growth prospects further highlight the need to speed up implementation of structural reforms.

Oil exporters should continue pursuing deficit-reduction plans to maintain fiscal sustainability and, where relevant, to support exchange rate pegs. Lower oil prices have contributed to large fiscal deficits across MENAP oil exporters. Deficits jumped from 1.1 percent of GDP in 2014 to 10.6 percent of GDP in 2016, but are expected to ease to 5.2 percent of GDP this year on the back of a modest recovery in oil prices and significant deficit reduction efforts. Nevertheless progress is uneven across countries. Some countries will need to identify additional fiscal consolidation measures, while protecting social and growth-oriented expenditures. All countries would benefit from further improving their fiscal institutions and frameworks.

Growth risks for MENAP oil exporters remain tilted to the downside. Considerable uncertainty surrounds the oil price outlook, but, on balance, risks from oil price volatility appear tilted more to the downside. Downside risks from regional conflicts and geopolitical developments also remain. Other, more global, risks could also affect the region including faster-than-expected normalization of monetary policy in the United States, and the pursuit of inward-looking policies by advanced economies. In contrast, global upside risks—including a stronger and more durable global recovery—could contribute to higher growth in the region.

Oil Importers: Securing Resilience and Inclusive Growth

Economic activity in MENAP oil importers is projected to expand by 4.3 percent in 2017, well above the 3.6 percent outturn for 2016. This projected expansion—which is mildly stronger than the 4 percent growth forecast in the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*—is expected to be broad-based, with growth forecast to accelerate in most oil importers, supported by domestic demand and exports. In the medium term, growth in MENAP oil importers is projected to continue improving gradually, with growth reaching 4.4 percent in 2018 and averaging 5.3 percent during 2019–22. However, this pace of growth will be insufficient to generate enough jobs to absorb those who are currently unemployed, as well as the millions of job seekers who will enter the labor market over the period.

The average fiscal deficit in MENAP oil-importing countries is expected to narrow slightly from 6.8 percent of GDP in 2016 to 6.6 percent in 2017, and further to 5.6 percent in 2018. Nevertheless, significant vulnerabilities persist given the legacies of weak domestic revenue mobilization and high current expenditures (subsidies and wages) that, for most countries, have pushed public debt to more than 50 percent of GDP. This trend has been exacerbated by the impact of valuation changes owing to currency depreciation, rising interest payments, and lackluster growth. Sustained fiscal consolidation and reforms are required to address debt vulnerabilities. Debt levels are expected to fall by 2022 in most countries given anticipated consolidation, which should include carefully targeting current expenditures to protect social spending and improving the efficiency of public investment to mitigate the contractionary effect on growth.

Despite the anticipated pickup in growth, bold structural reforms should be accelerated to enhance private sector activity and foster a more dynamic, competitive, and inclusive economy. Improving the business environment, including by improving the quality of infrastructure, will be critical. The recently established Compact with Africa presents an opportunity to address these impediments. Labor market and education reforms, improving productivity, and enhancing access to finance will also help.

The balance of risks remains tilted to the downside. These risks include regional conflicts and security risks, the risk of social tension and reform fatigue, and the ongoing vulnerability of agricultural activity to weather and price developments. Risks to the global environment that are also relevant include the risk of more rapid tightening of global financial conditions and the pursuit of inward-looking policies by advanced economies. On the upside, a stronger-than-expected pickup in activity in the euro area and other trading partners would lift regional growth.

MENAP Region: Selected Economic Indicators, 2000–18
(Percent of GDP, unless otherwise indicated)

	Average 2000–13	2014	2015	2016	Projections 2017	Projections 2018
MENAP[1]						
Real GDP (annual growth)	4.9	2.8	2.7	5.0	2.6	3.5
Current Account Balance	8.9	5.5	–3.7	–4.1	–1.9	–1.6
Overall Fiscal Balance	2.4	–3.1	–8.6	–9.3	–5.7	–4.6
Inflation (year average; percent)	6.9	7.0	5.8	5.7	7.9	6.9
MENAP Oil Exporters						
Real GDP (annual growth)	5.1	2.6	2.1	5.6	1.7	3.0
of which non-oil growth	6.9	3.9	0.6	1.1	2.6	2.5
Current Account Balance	12.9	8.8	–3.5	–3.6	–0.4	–0.2
Overall Fiscal Balance	6.2	–1.1	–9.3	–10.6	–5.2	–4.1
Inflation (year average; percent)	7.5	5.8	5.4	4.7	4.4	6.1
***Of which:* Gulf Cooperation Council (GCC)**						
Real GDP (annual growth)	5.0	3.3	3.8	2.2	0.5	2.2
of which non-oil growth	7.0	5.4	3.8	1.8	2.6	2.4
Current Account Balance	16.6	14.4	–2.4	–3.4	0.2	0.0
Overall Fiscal Balance	10.0	2.1	–9.2	–11.9	–6.3	–5.0
Inflation (year average; percent)	2.8	2.6	2.5	2.9	0.8	4.2
***Of which:* Non-GCC oil exporters**						
Real GDP (annual growth)	5.2	1.7	0.1	9.5	3.1	3.8
of which non-oil growth	6.7	2.0	–3.4	0.3	2.6	2.6
Current Account Balance	7.5	–1.0	–5.3	–3.9	–1.6	–0.6
Overall Fiscal Balance	2.3	–4.8	–9.3	–9.1	–4.1	–3.2
Inflation (year average; percent)	13.5	9.6	8.8	6.7	8.3	8.3
MENAP Oil Importers[1]						
Real GDP (annual growth)	4.5	3.2	3.9	3.6	4.3	4.4
Current Account Balance	–2.4	–4.2	–4.4	–5.3	–5.3	–4.8
Overall Fiscal Balance	–5.5	–7.3	–7.3	–6.8	–6.6	–5.6
Inflation (year average; percent)	6.0	9.4	6.7	7.7	15.0	8.3
MENA[1]						
Real GDP (annual growth)	4.9	2.6	2.6	5.1	2.2	3.2
Current Account Balance	9.6	6.0	–4.0	–4.4	–1.7	–1.3
Overall Fiscal Balance	3.2	–2.9	–9.1	–10.0	–5.7	–4.5
Inflation (year average; percent)	6.8	6.8	6.0	6.0	8.4	7.1
Arab World						
Real GDP (annual growth)	5.3	2.5	3.4	3.3	2.0	3.1
Current Account Balance	10.6	6.4	–5.0	–5.9	–2.8	–2.3
Overall Fiscal Balance	3.6	–3.3	–10.7	–11.8	–6.6	–5.1
Inflation (year average; percent)	4.1	4.8	4.7	5.3	7.8	6.4

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

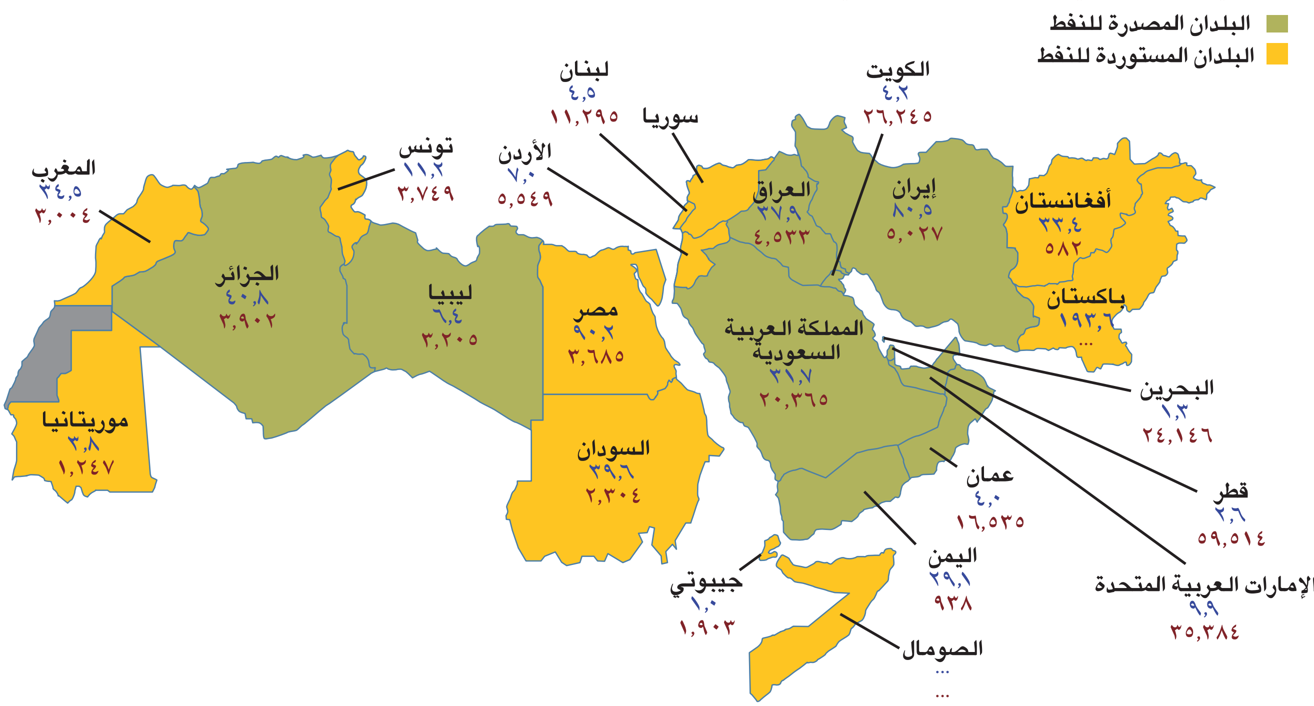
[1]2011–18 data exclude Syrian Arab Republic.
Note: Data refer to the fiscal year for the following countries: Afghanistan (March 21/March 20) until 2011, and December 21/December 20 thereafter, Iran (March 21/March 20), and Egypt and Pakistan (July/June). MENAP oil exporters: Algeria, Bahrain, Iran, 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. Non-GCC oil exporters: Algeria, Iran, Iraq, Libya, and Yemen. MENAP oil importers: Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Somalia, Sudan, Syria, and Tunisia. Arab World: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان

منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان

تعداد السكان بالملايين (٢٠١٦)

إجمالي الناتج المحلي للفرد بالدولار الأمريكي (٢٠١٦)



المصادر: قاعدة بيانات آفاق الاقتصاد الإقليمي لصندوق النقد الدولي؛ وبرنامج Microsoft Map Land.

ملحوظة: أسماء البلدان وحدودها المبينة على هذه الخريطة لا تعكس بالضرورة الموقف الرسمي لصندوق النقد الدولي. وتشير المنطقة المظللة باللون الرمادي في الخريطة إلى منطقة متنازع عليها.

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

رغم زيادة التعافي العالمي، فلا تزال آفاق الاقتصاد ضعيفة نسبيا في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان (MENAP) نظرا لإجراءات التكيف مع أسعار النفط المنخفضة وتأثير الصراعات الإقليمية الدائرة. ففي البلدان المصدرة للنفط في المنطقة، لا تزال تداعيات أسعار النفط المنخفضة وإجراءات الضبط المالي تشكل عبئا على النمو غير النفطي، بينما يظل النمو الكلي مكبوحا أيضا على أثر اتفاق خفض الإنتاج النفطي الذي تقوده منظمة أوبك. وفي البلدان المستوردة للنفط، تشير التوقعات إلى ارتفاع النمو مدعوما بزيادة الطلب المحلي والتعافي الدوري في الاقتصاد العالمي. غير أن معدل النمو في المنطقة يُتوقع أن يبلغ ٢,٦٪ في عام ٢٠١٧ — دون تغيير عما ورد في عدد مايو ٢٠١٧ من تقرير مستجدات آفاق الاقتصاد الإقليمي لمنطقة الشرق الأوسط وآسيا الوسطى — أي حوالي نصف المعدل المحقق في عام ٢٠١٦، مما يرجع في الأساس إلى التطورات التي تشهدها البلدان المصدرة للنفط. ومن المتوقع أن يتسارع النمو بالتدريج على المدى المتوسط في معظم اقتصادات المنطقة، ولكنه سيظل في كثير من الحالات دون المستوى الذي يحقق معالجة فعالة لتحديات البطالة فيها. وينبغي التعجيل بتنفيذ الإصلاحات الهيكلية لاغتنام الفرصة التي يتيحها تحسن الاقتصاد العالمي ولضمان الوصول إلى نمو أعلى وأكثر احتوائية وصلابة.

البلدان المصدرة للنفط: ضرورة المضي في إجراءات الضبط المالي وتنويع الاقتصاد

استمر ضعف أسعار النفط رغم تمديد العمل بقرار خفض الإنتاج الذي اتخذته منظمة البلدان المصدرة للنفط (أوبك). وتواصل البلدان المصدرة للنفط التكيف مع هذه الأسعار المنخفضة التي أضعفت النمو وساهمت في حدوث عجز كبير في المالية العامة والحساب الخارجي. ومن المتوقع في عام ٢٠١٧ أن يصل النمو الكلي في منطقة مجلس التعاون الخليجي إلى أدنى مستوياته مسجلاً ٠,٥٪، مع تخفيض الإنتاج النفطي طبقا للاتفاق الذي تقوده منظمة أوبك. وفي المقابل، يُتوقع أن يتعافى النمو غير النفطي ليصل إلى حوالي ٢,٦٪ في ٢٠١٧ و ٢,٤٪ في ٢٠١٨ نتيجة لتباطؤ وتيرة الضبط المالي بوجه عام. وقد تم تخفيض توقعات النمو النفطي وغير النفطي في دول مجلس التعاون الخليجي مقارنة بتوقعات عدد مايو ٢٠١٧ من تقرير مستجدات آفاق الاقتصاد الإقليمي لمنطقة الشرق الأوسط وآسيا الوسطى. ففي الجزائر، يُتوقع أن يتباطأ النمو إلى ١,٥٪ في ٢٠١٧ ثم يبلغ أدنى مستوياته مسجلاً ٠,٨٪ في عام ٢٠١٨ بسبب تخفيضات الإنفاق المتوخاة، قبل أن يتعافى مجددا على المدى المتوسط. وفي إيران، من المتوقع أن يهبط النمو إلى حوالي ٣,٥٪ هذا العام مع انحسار الدفعة التي تلقاها الإنتاج النفطي بعد رفع العقوبات. ومن ناحية أخرى، لا تزال الأوضاع الأمنية وطاقة إنتاج النفط تسيطر على الآفاق في العراق وليبيا واليمن.

وإزاء انخفاض أسعار النفط، اشتدت حاجة البلدان المصدرة للنفط في المنطقة للحد من تركيزها على إعادة توزيع الإيرادات النفطية من خلال الإنفاق على القطاع العام ودعم الطاقة. ولتحقيق هذا الهدف، وضعت هذه البلدان استراتيجيات طموحة لتنويع النشاط الاقتصادي ولكن آفاق النمو متوسطة الأجل لا تزال دون المتوسطات التاريخية نظرا لإجراءات الضبط المالي الجارية. وهذه الآفاق الضعيفة للنمو تلقي مزيدا من الضوء على ضرورة التعجيل بتنفيذ الإصلاحات الهيكلية أيضا.

وينبغي أن تواصل البلدان المصدرة للنفط تنفيذ خطط لخفض العجز حتى تحافظ على استمرارية ماليتها العامة، ودعم نظم أسعار الصرف المربوطة بعملة أخرى، حيثما كان ذلك ملائما. وقد ساهم تراجع أسعار النفط في حدوث عجز كبير في المالية العامة عبر البلدان المصدرة للنفط في المنطقة، حيث سجل ارتفاعا حادا من ١,١٪ من إجمالي الناتج المحلي في عام ٢٠١٤ إلى ١٠,٦٪ من إجمالي الناتج المحلي في عام ٢٠١٦، ولكنه من المتوقع أن يتراجع إلى ٥,٢٪ من إجمالي الناتج المحلي هذا العام بفضل التحسن المحدود في أسعار النفط والجهود الكبيرة المبذولة لتخفيض العجز. ومع ذلك، فقد كان التقدم متفاوتا بين البلدان، وسيحتاج بعضها إلى تحديد إجراءات إضافية للضبط المالي، مع حماية الإنفاق الاجتماعي والموجه إلى النمو. وسيكون من المفيد لكل البلدان أن تحقق تقدما أكبر في تحسين ما لديها من مؤسسات وأطر للمالية العامة.

ولا تزال الكفة السلبية هي الأرجح في ميزان المخاطر التي يتعرض لها النمو في البلدان المصدرة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان. فهناك عدم يقين كبير يحيط بآفاق أسعار النفط، ولكن المخاطر الناشئة عن تقلب هذه الأسعار تبدو أكثر ترجيحا للجانب السلبي بوجه عام. ولا تزال مخاطر التطورات السلبية الناشئة عن الصراعات الإقليمية والتطورات الجغرافية–السياسية قائمة أيضا. وهناك مخاطر أخرى أكثر عالمية قد تؤثر بدورها على المنطقة، مثل عودة السياسة النقدية العادية بأسرع من المتوقع في الولايات المتحدة الأمريكية، وتطبيق سياسات انغلاقية في الاقتصادات المتقدمة. وفي المقابل، هناك احتمالات بتجاوز التوقعات العالمية — بما في ذلك حدوث تعاف عالمي أقوى وأكثر استمرارية — وهو ما يمكن أن يساهم في تحقيق نمو أعلى في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان.

البلدان المستوردة للنفط: ضمان صلابة الاقتصاد والنمو الاحتوائي

من المتوقع لعام ٢٠١٧ تحقيق ارتفاع بمعدل ٤,٣٪ في النشاط الاقتصادي في البلدان المستوردة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان، وهو أعلى بكثير من معدل النمو الاقتصادي الذي بلغ ٣,٦٪ في عام ٢٠١٦. ويزيد هذا التحسن المتوقع بدرجة طفيفة عن النمو البالغ ٤٪ الذي توقعه عدد مايو ٢٠١٧ من تقرير مستجدات آفاق الاقتصاد الإقليمي لمنطقة الشرق الأوسط وآسيا الوسطى، ومن المنتظر أن يشمل نطاقا واسعا من البلدان حيث تشير التنبؤات إلى تسارع معدل النمو في معظم البلدان المستوردة للنفط بدعم من الطلب المحلي والصادرات. وعلى المدى المتوسط، يُتوقع استمرار تحسن معدلات النمو بالتدريج في البلدان المستوردة للنفط، حيث تصل إلى ٤,٤٪ في عام ٢٠١٨ و٥,٣٪ في المتوسط للفترة ٢٠١٩–٢٠٢٢. إلا أن معدلات النمو تلك لن تكفي لتوفير فرص العمل المطلوبة لاحتواء أعداد العاطلين الحاليين وملايين الباحثين عن وظائف الذين سيدخلون سوق العمل في الفترة المذكورة.

ومن المتوقع أن تشهد البلدان المستوردة للنفط في المنطقة تراجعا طفيفا في متوسط عجز المالية العامة من ٦,٨٪ من إجمالي الناتج المحلي في عام ٢٠١٦ إلى ٦,٦٪ من إجمالي الناتج المحلي في عام ٢٠١٧، ثم إلى ٥,٦٪ من إجمالي الناتج المحلي في عام ٢٠١٨. غير أن كثيرا من مواطن الضعف لا تزال قائمة بسبب الآثار التي خلَّفها ضعف تعبئة الإيرادات المحلية وارتفاع المصروفات الجارية (الدعم والأجور) والتي أدت في معظم البلدان إلى تجاوز الدين العام ٥٠٪ من إجمالي الناتج المحلي. وقد تفاقم هذا الاتجاه بسبب تغيرات التقييم الناجمة عن انخفاض قيم العملات وتصاعُد أسعار الفائدة وضعف النمو. ويتعين مواصلة الضبط المالي وإجراء الإصلاحات اللازمة لمعالجة مواطن الانكشاف لمخاطر الديون. ومن المتوقع لمعظم البلدان أن تنخفض مستويات الدين في عام ٢٠٢٢ نتيجة للضبط المالي المرتقب، والذي يُتوقع أن يشمل توجيه المصروفات الجارية توجيها دقيقا لحماية الإنفاق الاجتماعي وتحسين كفاءة الاستثمارات العامة بغية تخفيف الأثر الانكماشي على النمو.

وبالرغم من تحسن النمو المتوقع، ينبغي التعجيل بتنفيذ إصلاحات هيكلية جريئة لتشجيع نشاط القطاع الخاص والعمل على إقامة اقتصاد أكثر ديناميكية وتنافسية واحتواءً للجميع. وسيكون من الضروري تحسين بيئة الأعمال، وهو ما يشمل تحسين جودة البنية التحتية. ويتيح «الميثاق العالمي مع إفريقيا» الصادر مؤخرا فرصة للتغلب على هذه المعوقات. ومما سيساعد في هذا الصدد أيضا تنفيذ الإصلاحات اللازمة في سوق العمل وقطاع التعليم، وزيادة الإنتاجية، وتعزيز فرص الحصول على التمويل.

ولا تزال كفة التطورات السلبية هي الأرجح في ميزان المخاطر التي تشمل الصراعات والمخاطر الأمنية الإقليمية، وخطر القلاقل الاجتماعية والإرهاق الناتج عن الإصلاح، واستمرار تعرض النشاط الزراعي لمخاطر التطورات الجوية والسعرية. ومن المخاطر التي تهدد البيئة العالمية وتؤثر على المنطقة خطر تشديد الأوضاع المالية العالمية بسرعة أكبر واتباع سياسات انغلاقية في الاقتصادات المتقدمة. وبالنسبة لاحتمالات تجاوز التوقعات، قد يكون تحسن النشاط الاقتصادي أقوى من المتوقع في منطقة اليورو وبلدان أخرى من الشركاء التجاريين، مما يمكن أن يحقق ارتفاعا في النمو الإقليمي.

منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان: مؤشرات اقتصادية مختارة، ٢٠٠٠–٢٠١٨

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

	المتوسط ٢٠٠٠–٢٠١٣	٢٠١٤	٢٠١٥	٢٠١٦	توقعات ٢٠١٧	توقعات ٢٠١٨
منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان [1]						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٤,٩	٢,٨	٢,٧	٥,٠	٢,٦	٣,٥
رصيد الحساب الجاري	٨,٩	٥,٥	٣,٧–	٤,١–	١,٩–	١,٦–
رصيد المالية العامة الكلي	٢,٤	٣,١–	٨,٦–	٩,٣–	٥,٧–	٤,٦–
التضخم (متوسط سنوي، ٪)	٦,٩	٧,٠	٥,٨	٥,٧	٧,٩	٦,٩
البلدان المصدرة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٥,١	٢,٦	٢,١	٥,٦	١,٧	٣,٠
منه: النمو غير النفطي	٦,٩	٣,٩	٠,٦	١,١	٢,٦	٢,٥
رصيد الحساب الجاري	١٢,٩	٨,٨	٣,٥–	٣,٦–	٠,٤–	٠,٢–
رصيد المالية العامة الكلي	٦,٢	١,١–	٩,٣–	١٠,٦–	٥,٢–	٤,١–
التضخم (متوسط سنوي، ٪)	٧,٥	٥,٨	٥,٤	٤,٧	٤,٤	٦,١
منها: مجلس التعاون الخليجي						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٥,٠	٣,٣	٣,٨	٢,٢	٠,٥	٢,٢
منه: النمو غير النفطي	٧,٠	٥,٤	٣,٨	١,٨	٢,٦	٢,٤
رصيد الحساب الجاري	١٦,٦	١٤,٤	٢,٤–	٣,٤–	٠,٢	٠,٠
رصيد المالية العامة الكلي	١٠,٠	٢,١	٩,٢–	١١,٩–	٦,٣–	٥,٠–
التضخم (متوسط سنوي، ٪)	٢,٨	٢,٦	٢,٥	٢,٩	٠,٨	٤,٢
منها: البلدان المصدرة للنفط غير الأعضاء في مجلس التعاون الخليجي						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٥,٢	١,٧	٠,١	٩,٥	٣,١	٣,٨
منه: النمو غير النفطي	٦,٧	٢,٠	٣,٤–	٠,٣	٢,٦	٢,٦
رصيد الحساب الجاري	٧,٥	١,٠–	٥,٣–	٣,٩–	١,٦–	٠,٦–
رصيد المالية العامة الكلي	٢,٣	٤,٨–	٩,٣–	٩,١–	٤,١–	٣,٢–
التضخم (متوسط سنوي، ٪)	١٣,٥	٩,٦	٨,٨	٦,٧	٨,٣	٨,٣
البلدان المستوردة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان [1]						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٤,٥	٣,٢	٣,٩	٣,٦	٤,٣	٤,٤
رصيد الحساب الجاري	٢,٤–	٤,٢–	٤,٤–	٥,٣–	٥,٣–	٤,٨–
رصيد المالية العامة الكلي	٥,٥–	٧,٣–	٧,٣–	٦,٨–	٦,٦–	٥,٦–
التضخم (متوسط سنوي، ٪)	٦,٠	٩,٤	٦,٧	٧,٧	١٥,٠	٨,٣
منطقة الشرق الأوسط وشمال إفريقيا [1]						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٤,٩	٢,٦	٢,٦	٥,١	٢,٢	٣,٢
رصيد الحساب الجاري	٩,٦	٦,٠	٤,٠–	٤,٤–	١,٧–	١,٣–
رصيد المالية العامة الكلي	٣,٢	٢,٩–	٩,١–	١٠,٠–	٥,٧–	٤,٥–
التضخم (متوسط سنوي، ٪)	٦,٨	٦,٨	٦,٠	٦,٠	٨,٤	٧,١
العالم العربي						
إجمالي الناتج المحلي الحقيقي (النمو السنوي)	٥,٣	٢,٥	٣,٤	٣,٣	٢,٠	٣,١
رصيد الحساب الجاري	١٠,٦	٦,٤	٥,٠–	٥,٩–	٢,٨–	٢,٣–
رصيد المالية العامة الكلي	٣,٦	٣,٣–	١٠,٧–	١١,٨–	٦,٦–	٥,١–
التضخم (متوسط سنوي، ٪)	٤,١	٤,٨	٤,٧	٥,٣	٧,٨	٦,٤

المصادر: السلطات الوطنية وحسابات وتوقعات خبراء صندوق النقد الدولي.

[1] بيانات الفترة ٢٠١١–٢٠١٨ لا تتضمن الجمهورية العربية السورية.

ملحوظة: تشير البيانات إلى السنوات المالية لكل من البلدان التالية: أفغانستان (٢١ مارس / ٢٠ مارس) حتى ٢٠١١ و٢١ ديسمبر / ٢٠ ديسمبر في السنوات اللاحقة، وإيران (٢١ مارس / ٢٠ مارس)، ومصر وباكستان (يوليو / يونيو).

البلدان المصدرة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان: الجزائر والبحرين وإيران والعراق والكويت وليبيا وعمان وقطر والسعودية والإمارات العربية المتحدة واليمن.

بلدان مجلس التعاون الخليجي: البحرين والكويت وعمان وقطر والسعودية والإمارات العربية المتحدة.

البلدان المصدرة للنفط غير الأعضاء في مجلس التعاون الخليجي: الجزائر وإيران والعراق وليبيا واليمن.

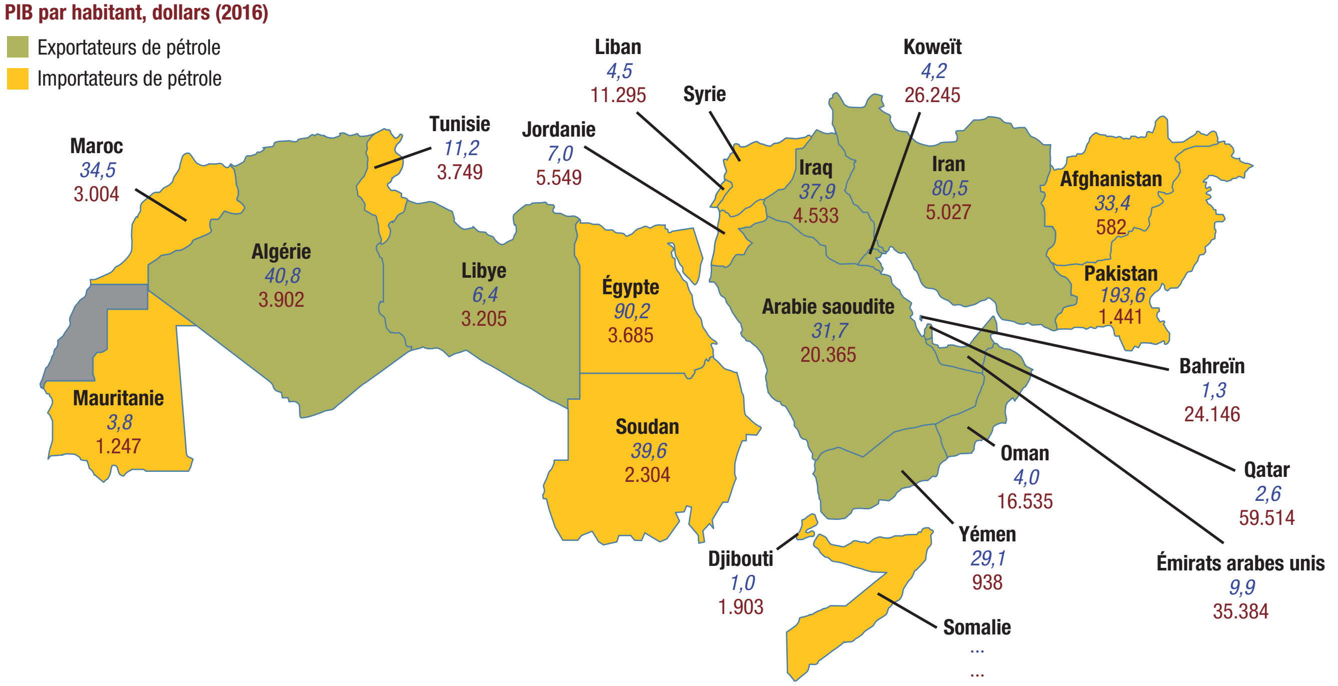
البلدان المستوردة للنفط في منطقة الشرق الأوسط وشمال إفريقيا وأفغانستان وباكستان: أفغانستان وجيبوتي ومصر والأردن ولبنان وموريتانيا والمغرب وباكستان والصومال والسودان وسوريا وتونس.

العالم العربي: الجزائر والبحرين وجيبوتي ومصر والعراق والأردن والكويت ولبنان وليبيا وموريتانيا والمغرب وعمان وقطر والسعودية والصومال والسودان وسوريا وتونس والإمارات العربية المتحدة واليمن.

Moyen-Orient, Afrique du Nord, Afghanistan et Pakistan

Moyen-Orient, Afrique du Nord, Afghanistan et Pakistan

Population, millions d'habitants (2016)
PIB par habitant, dollars (2016)



Sources : FMI, base de données des *Perspectives économiques régionales;* Microsoft Map Land.
Note : Les noms des pays et les frontières ne traduisent pas nécessairement la position officielle du FMI.
L'appartenance du territoire indiqué en gris fait l'objet d'un différend.

Région MOANAP : Principaux points

Malgré le renforcement de la reprise mondiale, les perspectives économiques de la région MOANAP restent relativement timides en raison de l'adaptation au faible niveau des prix du pétrole et des conflits régionaux. Dans les pays exportateurs de pétrole, la faiblesse des cours et l'ajustement budgétaire continuent de peser sur la croissance non pétrolière, tandis que la croissance globale subit aussi les effets de l'accord de réduction de la production de brut impulsé par l'OPEP. S'agissant des pays importateurs de pétrole, la croissance devrait s'accélérer grâce au renforcement de la demande intérieure et à un redressement conjoncturel de l'économie mondiale. Cependant, à 2,6 % en 2017 — niveau inchangé par rapport à la *Mise à jour des Perspectives économiques régionales du Moyen-Orient et de l'Asie centrale* de mai 2017 —, la croissance de la région MOANAP sera inférieure de moitié environ à celle enregistrée en 2016, principalement en raison du comportement des pays exportateurs de pétrole. Elle devrait progressivement gagner en vigueur à moyen terme dans la plupart des pays de la région, mais dans bien des cas elle restera inférieure au niveau nécessaire pour faire reculer efficacement le chômage. Les réformes structurelles doivent s'intensifier pour profiter de la conjoncture favorable offerte par le renforcement de la reprise mondiale et pour assurer une croissance plus forte, plus inclusive et durable.

Exportateurs de pétrole : poursuivre le rééquilibrage budgétaire et la diversification de l'économie

Les cours du pétrole restent faibles malgré la généralisation des baisses de production décidées sous l'impulsion de l'Organisation des pays exportateurs de pétrole (OPEP). Les exportateurs continuent de s'adapter à la faiblesse des cours, laquelle a freiné la croissance et contribué au creusement des déficits budgétaires et extérieurs. La croissance globale au sein des pays du Conseil de Coopération du Golfe (CCG) devrait descendre à 0,5 % en 2017, du fait de la réduction de la production de brut résultant de l'accord impulsé par l'OPEP. En revanche, la croissance hors pétrole devrait remonter à environ 2,6 % en 2017 et 2,4 % en 2018 en raison d'un ralentissement général de l'assainissement budgétaire. La croissance pétrolière et non pétrolière des pays du CCG a été revue à la baisse depuis la *Mise à jour des Perspectives économiques régionales du Moyen-Orient et de l'Asie centrale* de mai 2017. En Algérie, la croissance devrait ralentir à 1,5 % en 2017, puis descendre à 0,8 % en 2018, sous l'effet de la compression projetée des dépenses publiques, avant de se redresser à moyen terme. En Iran, la croissance devrait marquer un repli à 3,5 % cette année, car l'impulsion donnée à la production pétrolière après la levée des sanctions perd de son intensité. La situation sécuritaire et les contraintes de capacité de production de pétrole continuent de peser sur les perspectives de croissance de l'Iraq, de la Libye et du Yémen.

Face à la réalité du repli des cours du brut, il est d'autant plus urgent que les pays exportateurs cessent de privilégier la redistribution des recettes pétrolières par le biais de la dépense publique et des subventions énergétiques. Les pays exportateurs de pétrole de la région MOANAP ont ainsi défini des stratégies ambitieuses de diversification, encore que les perspectives à moyen terme restent inférieures aux moyennes historiques sur fond de rééquilibrage budgétaire. Ces perspectives timides montrent combien il est nécessaire d'accélérer l'exécution des réformes structurelles.

Les pays exportateurs de pétrole doivent poursuivre la mise en œuvre de leurs plans de réduction du déficit budgétaire pour pouvoir préserver la viabilité des finances publiques et, dans certains cas, soutenir le régime de change. Le tassement des cours du pétrole a provoqué un important creusement des déficits budgétaires dans l'ensemble des pays exportateurs de la région MOANAP, de 1,1 % du PIB en 2014 à 10,6 % du PIB en 2016. Ce chiffre devrait toutefois descendre à 5,2 % du PIB cette année grâce à un modeste redressement des cours et à un travail considérable de réduction des déficits. Cela étant, les progrès sont inégaux entre pays. Certains devront engager d'autres mesures de rééquilibrage budgétaire tout en protégeant les dépenses sociales et les crédits propices à la croissance. En tout état de cause, tous gagneraient à renforcer davantage leurs institutions et dispositifs budgétaires.

Les risques qui pèsent sur la croissance des pays exportateurs de pétrole de la région MOANAP restent de nature baissière. L'évolution des cours est certes sujette à de grandes incertitudes, mais, globalement, les risques relatifs à sa volatilité semblent plutôt être baissiers. À cela s'ajoute la persistance des risques liés aux conflits régionaux et aux phénomènes géopolitiques. Des facteurs de dimension mondiale pourraient également agir sur la région, dont une normalisation plus rapide que prévu de la politique monétaire américaine ainsi que les politiques de repli sur soi d'économies avancées. En revanche, des risques mondiaux de nature haussière — dont la probabilité d'une reprise mondiale plus forte et plus durable — pourraient contribuer à impulser la croissance dans la région.

Importateurs de pétrole : assurer la résilience et une croissance inclusive

Les pays importateurs de pétrole de la région MOANAP devraient afficher un taux de croissance de 4,3 % en 2017, soit un niveau nettement supérieur aux 3,6 % enregistrés en 2016. Cette expansion projetée — légèrement plus forte que la prévision de 4 % de la *Mise à jour des Perspectives économiques régionales du Moyen-Orient et de l'Asie centrale* de mai 2017 —devrait être généralisée et la plupart de ces pays devraient connaître une accélération alimentée par la demande intérieure et par les exportations. À moyen terme, la croissance des pays importateurs de pétrole de la région MOANAP devrait continuer de s'améliorer progressivement pour atteindre 4,4 % en 2018, puis une moyenne de 5,3 % en 2019–22. Ces taux ne suffiront cependant pas à créer des emplois à une échelle capable de combattre le chômage actuel ou d'absorber les millions de jeunes qui arriveront sur le marché du travail dans les prochaines années.

Le déficit budgétaire moyen des pays importateurs de pétrole de la région MOANAP devrait diminuer légèrement de 6,8 % du PIB en 2016 à 6,6 % en 2017, puis à 5,6 % en 2018. Des vulnérabilités subsistent toutefois en raison des effets persistants d'une faible mobilisation de recettes et d'un niveau élevé de dépenses courantes (subventions et salaires) qui, dans la plupart des pays, ont poussé la dette publique au-delà de 50 % du PIB. Cette tendance est d'ailleurs exacerbée par l'effet des variations des valorisations consécutives à la dépréciation des monnaies, de la montée des paiements d'intérêt et du caractère atone de la croissance. Un travail soutenu de rééquilibrage budgétaire et de réforme s'impose pour corriger les vulnérabilités liées à la dette. Les niveaux d'endettement devraient diminuer d'ici 2022 dans la plupart des pays compte tenu des rééquilibrages projetés, lesquels devraient passer par un ciblage précis des dépenses courantes pour protéger les dépenses sociales et accroître l'efficience de l'investissement public afin d'atténuer les effets de contraction sur la croissance.

Malgré le rebond prévu de croissance, il convient d'accélérer de manière résolue l'exécution de réformes structurelles ambitieuses de manière à renforcer l'activité du secteur privé et de promouvoir une économie plus dynamique, plus compétitive et plus inclusive. Il sera essentiel d'améliorer le climat des affaires, notamment en rehaussant la qualité des infrastructures. Le Pacte pour l'Afrique récemment mis en place offre la possibilité de s'attaquer à ces obstacles. Les réformes du marché du travail et de l'éducation, l'amélioration de la productivité, et un meilleur accès à la finance auront également un rôle à jouer.

Les risques qui pèsent sur la croissance restent de nature baissière. Ces risques concernent notamment les conflits régionaux et la situation sécuritaire, les tensions sociales et le sentiment de saturation face aux réformes, ainsi que la vulnérabilité de l'activité agricole aux aléas climatiques et à l'évolution des prix. Parmi les facteurs liés à l'environnement mondial pouvant intervenir dans la région figurent l'éventualité d'un durcissement plus rapide des conditions financières mondiales et les politiques de repli sur soi d'économies avancées. En revanche, la probabilité d'une reprise plus forte de l'activité dans la zone euro et dans d'autres pays partenaires commerciaux contribuerait à impulser la croissance dans la région.

Région MOANAP : principaux indicateurs économiques, 2000–18
(pourcentage du PIB, sauf indication contraire)

	Moyenne 2000-13	2014	2015	2016	Projections 2017	Projections 2018
MOANAP[1]						
PIB réel (croissance annuelle)	4,9	2,8	2,7	5,0	2,6	3,5
Solde des transactions courantes	8,9	5,5	-3,7	-4,1	-1,9	-1,6
Solde budgétaire global	2,4	-3,1	-8,6	-9,3	-5,7	-4,6
Inflation (progression annuelle, %)	6,9	7,0	5,8	5,7	7,9	6,9
Exportateurs de pétrole de la région MOANAP						
PIB réel (croissance annuelle)	5,1	2,6	2,1	5,6	1,7	3,0
dont croissance hors pétrole	6,9	3,9	0,6	1,1	2,6	2,5
Solde des transactions courantes	12,9	8,8	-3,5	-3,6	-0,4	-0,2
Solde budgétaire global	6,2	-1,1	-9,3	-10,6	-5,2	-4,1
Inflation (moyenne annuelle, %)	7,5	5,8	5,4	4,7	4,4	6,1
***Dont :* Conseil de coopération du Golfe (CCG)**						
PIB réel (croissance annuelle)	5,0	3,3	3,8	2,2	0,5	2,2
dont croissance hors pétrole	7,0	5,4	3,8	1,8	2,6	2,4
Solde des transactions courantes	16,6	14,4	-2,4	-3,4	0,2	0,0
Solde budgétaire global	10,0	2,1	-9,2	-11,9	-6,3	-5,0
Inflation (moyenne annuelle, %)	2,8	2,6	2,5	2,9	0,8	4,2
***Dont :* exportateurs de pétrole non membres du CCG**						
PIB réel (croissance annuelle)	5,2	1,7	0,1	9,5	3,1	3,8
dont croissance hors pétrole	6,7	2,0	-3,4	0,3	2,6	2,6
Solde des transactions courantes	7,5	-1,0	-5,3	-3,9	-1,6	-0,6
Solde budgétaire global	2,3	-4,8	-9,3	-9,1	-4,1	-3,2
Inflation (moyenne annuelle, %)	13,5	9,6	8,8	6,7	8,3	8,3
Importateurs de pétrole de la région MOANAP						
PIB réel (croissance annuelle)	4,5	3,2	3,9	3,6	4,3	4,4
Solde des transactions courantes	-2,4	-4,2	-4,4	-5,3	-5,3	-4,8
Solde budgétaire global	-5,5	-7,3	-7,3	-6,8	-6,6	-5,6
Inflation (moyenne annuelle, %)	6,0	9,4	6,7	7,7	15,0	8,3
MOAN[1]						
PIB réel (croissance annuelle)	4,9	2,6	2,6	5,1	2,2	3,2
Solde des transactions courantes	9,6	6,0	-4,0	-4,4	-1,7	-1,3
Solde budgétaire global	3,2	-2,9	-9,1	-10,0	-5,7	-4,5
Inflation (moyenne annuelle, %)	6,8	6,8	6,0	6,0	8,4	7,1
Monde arabe						
PIB réel (croissance annuelle)	5,3	2,5	3,4	3,3	2,0	3,1
Solde des transactions courantes	10,6	6,4	-5,0	-5,9	-2,8	-2,3
Solde budgétaire global	3,6	-3,3	-10,7	-11,8	-6,6	-5,1
Inflation (moyenne annuelle, %)	4,1	4,8	4,7	5,3	7,8	6,4

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

[1]Les données relatives à la période 2011–18 excluent la République arabe syrienne.

Notes : 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 exportateurs de pétrole non membres du CCG : Algérie, Iran, Iraq, Libye et Yémen. Pays importateurs de pétrole de la région MOANAP : Afghanistan, Djibouti, Égypte, Jordanie, Liban, Maroc, Mauritanie, Pakistan, Somalie, Soudan, Syrie et Tunisie. Monde arabe : Algérie, Arabie saoudite, Bahreïn, Djibouti, Égypte, Émirats arabes unis, Iraq, Jordanie, Koweït, Liban, Libye, Maroc, Mauritanie, Oman, Qatar, Somalie, Soudan, Syrie, Tunisie et Yémen.

1. MENAP Oil Exporters: Need to Push ahead with Fiscal Consolidation and Diversification

Oil exporters in the Middle East and North Africa, Afghanistan, and Pakistan region (MENAP) are continuing to adjust to lower oil prices, which have dampened growth and contributed to large fiscal and external deficits. Oil prices have softened recently, despite the extension of the production cuts led by the Organization of the Petroleum Exporting Countries (OPEC) and the strengthening global recovery. Non-oil growth is generally recovering, but the muted medium-term growth prospects highlight the need for countries to push ahead with diversification and private sector development. Most countries have outlined ambitious diversification strategies and are developing detailed reform plans, but implementation should be accelerated, particularly to exploit the stronger global growth momentum. Oil exporters should continue pursuing deficit-reduction plans to maintain fiscal sustainability and, where relevant, to support exchange rate pegs. Some countries will need to identify additional fiscal consolidation measures, while protecting social and growth-oriented expenditures. Financial stability risks appear low, although pockets of vulnerabilities remain. The outlook for countries in conflict remains highly uncertain, with growth dependent on security conditions.

Oil Prices Projected to Remain around Current Levels

Oil prices are trading between $50–$60 a barrel, an increase from last year's average of $43 a barrel (Figure 1.1). In May 2017, OPEC and several non-OPEC producers extended their agreement to reduce oil production until the first quarter of 2018. However, despite the extended agreement, the oil price outlook has been revised downward since the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update* (Figure 1.2; see also the Special Feature on Commodity Markets in the October 2017 *World Economic Outlook*), with the IMF's medium-term oil price assumption, based on the futures market, remaining broadly around current levels.

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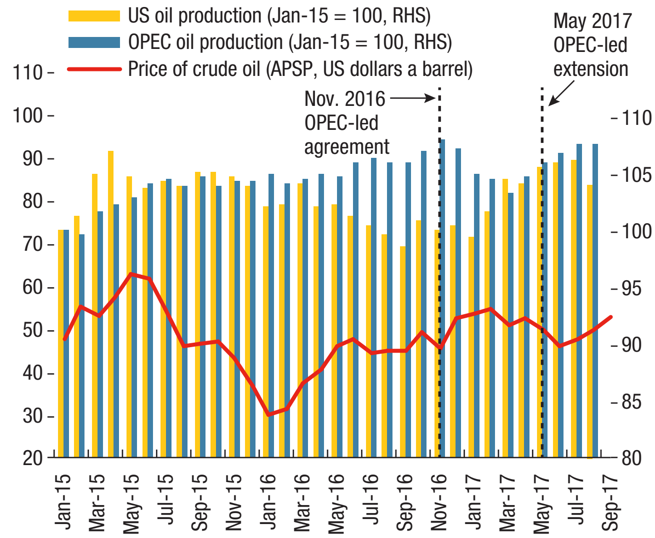
Figure 1.1. Oil Prices and Production
(APSP[1], US dollars a barrel and production index)

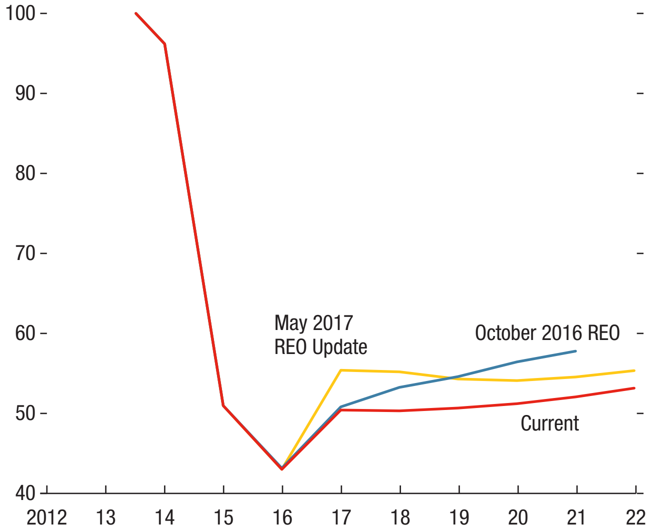


Sources: U.S. Energy Information Administration; and International Energy Agency.
Note: RHS = right scale.
[1]APSP = average petroleum spot price—average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

Growth Prospects Are Muted

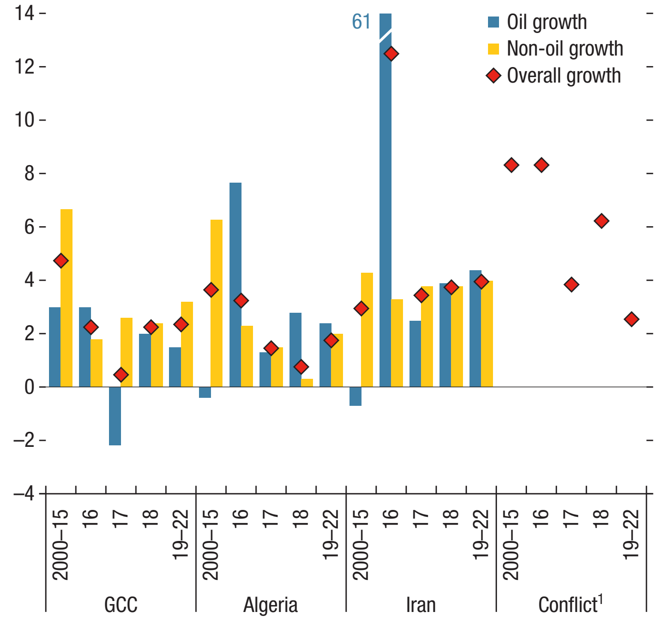
Fiscal consolidation, oil production, and regional conflicts have been the key determinants of growth in MENAP oil-exporting countries. Spillovers from the low oil price environment continue to weigh on non-oil growth, which is expected to remain below historical averages (Figure 1.3). Among Gulf Cooperation Council (GCC) members, overall growth is projected to bottom out at about 0.5 percent in 2017 as the OPEC-led deal reduces oil output. In contrast,

Figure 1.2. Oil Price Assumptions
(APSP[1], US dollars a barrel)



Source: IMF staff calculations.
Note: REO = *Regional Economic Outlook: Middle East and Central Asia.*
[1]APSP = average petroleum spot price—average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

Figure 1.3. Real GDP Growth
(Percent, weighted by GDP PPP)



Sources: National authorities; and IMF staff calculations.
Note: GCC = Gulf Cooperation Council; PPP = purchasing power parity.
[1]Conflict countries include Iraq, Libya, and Yemen.

non-oil growth is expected to recover to about 2.6 percent in 2017–18 as fiscal consolidation, which has weighed significantly on growth over the past couple of years (Figure 1.4), generally slows.[1] Nevertheless, the projections for both oil and non-oil growth are slightly weaker than the projections in the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*.

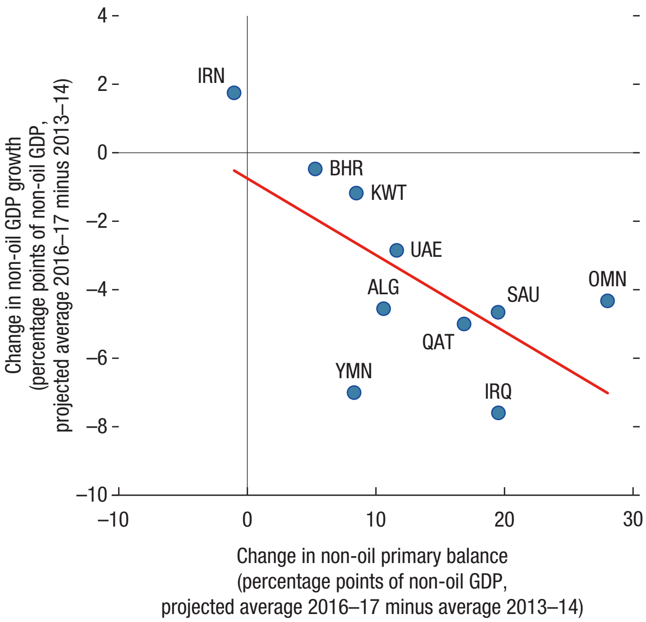
Low oil prices are also expected to dampen medium-term growth—GCC non-oil growth is projected to be modest at 3.4 percent in 2022, about half of the 6.7 percent of 2000–15. GCC countries with larger buffers, such as Kuwait and the United Arab Emirates, are adjusting their fiscal positions gradually. This is allowing them to keep non-oil growth broadly steady. The diplomatic rift between Qatar and several other countries is expected to have a limited impact on growth in the region at this stage (Box 1.1), although a protracted rift could weaken medium-term growth prospects, not only for Qatar but also for other GCC countries.

Among non-GCC oil exporters, Algeria's growth is expected to bottom out at 0.8 percent next year as a consequence of envisaged spending cuts, and to recover to 2.4 percent by 2022. Iran has revised its 2016 GDP growth from 6.5 percent to 12.5 percent as a result of methodological changes in its measurement and an upward revision of non-oil growth. This year, however, Iran's growth is projected to drop to 3.5 percent, as the post-sanctions boost to oil output wears off.

The outlook for MENAP oil exporters in conflict continues to be dominated by security conditions and oil production capacity. Libya's oil output increased to 1 million barrels a day (mbd) in the middle of 2017, significantly up from some 0.4 mbd last year. In Iraq, oil production increased considerably in 2016, and has stayed flat this year to date. Progress in the fight against ISIS will help the non-oil economy resume its growth, although a tighter 2017 budget to compensate for previous

[1]Non-oil primary balances improved by 11.5 percent between 2014 and 2016, but are expected to improve only by 5.3 percent between 2016 and 2018.

Figure 1.4. Fiscal Consolidation Has Dampened Growth



Source: IMF staff calculations.
Note: The removal of subsidies may not be fully captured in the non-oil primary balance for Bahrain. Country abbreviations are International Organization for Standardization (ISO) country codes.

fiscal slippages has led to a downward revision to Iraq's projected 2017 non-oil growth relative to the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*. Yemen's economy is expected to contract again this year. Over the medium term, growth among MENAP oil exporters in conflict is projected to slow, as the considerable recent increase in oil production limits the scope for further gains.

Gradual Fiscal Consolidation Should Continue

Lower oil prices have contributed to large fiscal deficits across MENAP oil exporters. Deficits jumped from 1.1 percent of GDP in 2014 to 10.6 percent of GDP in 2016, but are expected to ease to 5.2 percent of GDP this year on the back of a modest recovery in oil prices and significant deficit-reduction efforts. Five-year cumulative budget deficits are projected to be $320 billion over 2018–22.

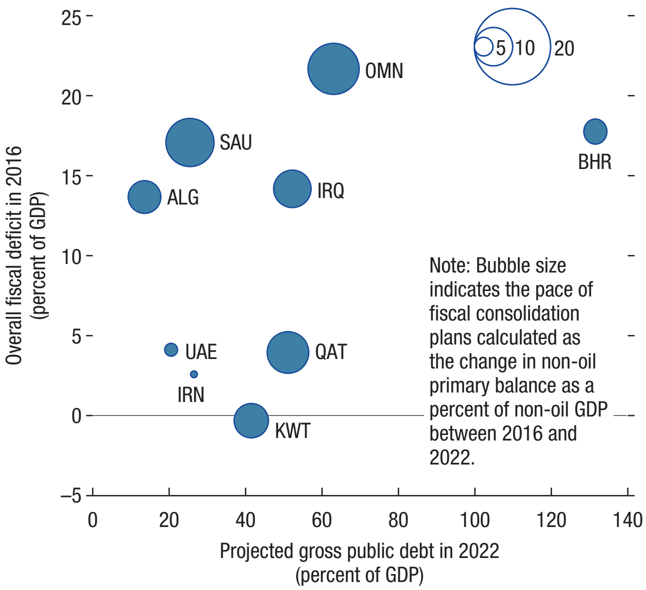
Nevertheless, progress is uneven across MENAP oil exporters (Figure 1.4) and, three years after the initial oil price drop, fiscal positions and prospects have diverged. About half of MENAP oil exporters (Iran, Kuwait, Qatar, United Arab Emirates) had fiscal deficits of less than 5 percent of GDP in 2016, while the other half had deficits well above 10 percent of GDP (Figure 1.5). The countries with low deficits typically have substantial buffers (Kuwait, Qatar, United Arab Emirates), or are less dependent on oil revenues (Iran), and are planning a gradual fiscal adjustment to the lower oil price environment. Algeria and Saudi Arabia have announced ambitious consolidation plans, although they could adjust more gradually in the short term so as to limit the adverse impact on growth. Other countries, however, should do more to put debt on a downward path (Bahrain, Oman). Iraq's ambitious fiscal plans, underpinned by an IMF Stand-By Arrangement, target a balanced budget and debt reduction over the medium-term. None of the MENAP oil exporters—even countries with projected medium-term surpluses—are accumulating sufficient resources to protect the economic well-being of future generations once hydrocarbon resources are exhausted.

Fiscal consolidation plans in the GCC region include measures ranging from further reductions in non-wage recurrent spending, reductions in public wage bills as a share of GDP, additional cuts to capital expenditures, and higher non-oil revenues, particularly the introduction of value-added taxes (projected to start being introduced in January 2018) and excise taxes (Figure 1.6).[2] Policymakers also need to take advantage of low oil prices to finalize energy price reforms.[3] In non-GCC countries, Iraq's planned

[2]In general, growth-friendly fiscal consolidation should include higher non-oil revenues, which at present remain very low across the region (IMF 2016a), targeted cuts to current expenditures, continued reform of energy subsidies while protecting vulnerable segments of the population, and greater public investment efficiency. Country circumstances will in general determine the optimal mix of such measures. See Sommer and others 2016 for more detail.

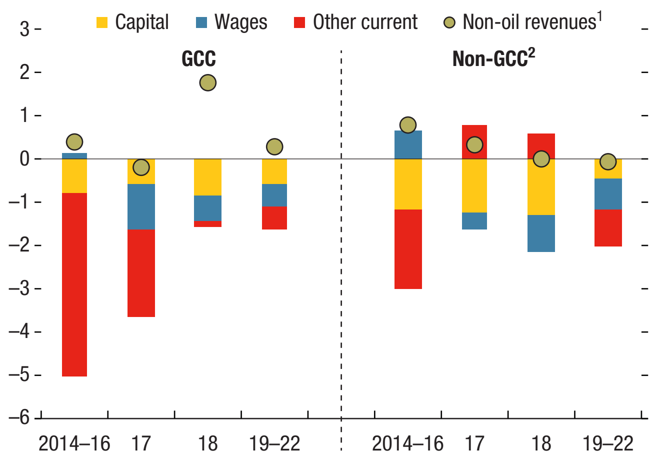
[3]MENAP oil exporters have significantly reduced energy subsidies in recent years, reflecting both lower global oil prices and new local fuel price frameworks. In the GCC region, pre-tax energy subsidies are estimated to have declined from $116 billion in 2014

Figure 1.5. Diverging Fiscal Positions



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

Figure 1.6. Change in Expenditure and Non-oil Revenue
(Percent of non-oil GDP, change from prior year, simple average across countries)



Source: IMF staff calculations.
[1]Gulf Cooperation Council (GCC) non-oil revenue series excludes Kuwait because of discontinuities in its series related to United Nations compensation payments.
[2]Includes Algeria, Iran, and Iraq.

consolidation is primarily based on further cuts to public investment and wage restraint. In Algeria, most of the adjustment also focuses on spending, particularly public investment. In Iran, fiscal efforts include broadening of the revenue base to reduce dependence on oil receipts. This would also create fiscal space for rising spending pressures related to aging, potential bank recapitalization costs, and interest payments arising from the securitization of arrears.

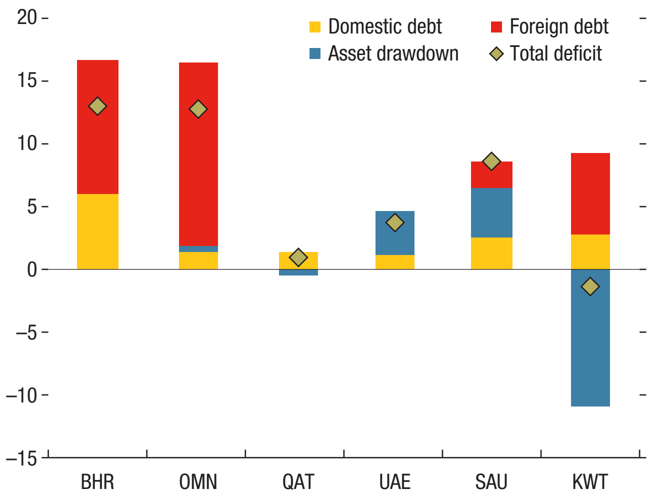
Fiscal consolidation is supported by continued improvements in fiscal frameworks and institutions. In this regard, substantial progress has been made in establishing medium-term budgetary frameworks in Algeria, Kuwait, Qatar, and Saudi Arabia, as well as in the United Arab Emirates at both the federal and emirate levels. Macro-fiscal units are now operational in Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Iraq has made progress in identifying and addressing arrears and state guarantees. Technical assistance from the IMF is helping countries in these areas. A new model for public wage bill management—emphasizing good diagnostics, complementarities with other reforms, and supportive institutions—is needed to boost inclusive growth and fiscal sustainability across the region (Tamirisa and others, forthcoming). More broadly, strengthening public financial management, including improving transparency and accountability, would support the fiscal consolidation efforts and could generate additional fiscal space. Saudi Arabia has started publishing quarterly fiscal reports, significantly increasing fiscal transparency.

to $47 billion in 2016 (IMF 2017). Compensation mechanisms are being introduced in Oman (for regular fuel) and Saudi Arabia (for energy) along with further changes to pricing frameworks.

Debt Issuance Remains the Main Source of Deficit Financing

MENAP oil-exporting countries continue to issue debt to meet their budget financing needs. Countries with market access have tapped significant amounts from international markets—in the first half of 2017, GCC countries issued some $30 billion, as conditions in international financial markets remain favorable (Figure 1.7).

Figure 1.7. Projected Financing Needs in the GCC,[1] 2017
(Percent of GDP)



Source: IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]Borrowing beyond the amount of the fiscal deficit implies maturing medium- and long-term debt that needs to be refinanced; the refinancing of Treasury bills is excluded. Negative values imply authorities are building buffers.

While issuing internationally avoids crowding out credit to the private sector, especially given limited capacity of domestic financial markets, issuing domestically can help support gradual financial market development (for example, Saudi Arabia). Greater reliance on domestic financing would also reduce the consequences of a deterioration in international market conditions. In some instances, countries have tapped international markets to rebuild buffers.

In general, borrowing and investment decisions should be made as part of a comprehensive asset-liability management strategy that takes into account macro-financial developments and risks.[4] To help support that approach, debt management offices have been established in Kuwait, Oman, and Saudi Arabia and strengthened in Abu Dhabi and Dubai. Risks can be reduced by issuing longer maturity debt (for example, Oman issued a 30-year bond in March 2017), although there are trade-offs with respect to cost. Outside of the GCC region, domestic debt issuance (including some monetization of the deficit) has been the preferred financing strategy because external financing options are more limited (Iran, Iraq, Libya, Yemen).

[4]See Chapter 5 of the October 2016 *Regional Economic Outlook: Middle East and Central Asia*.

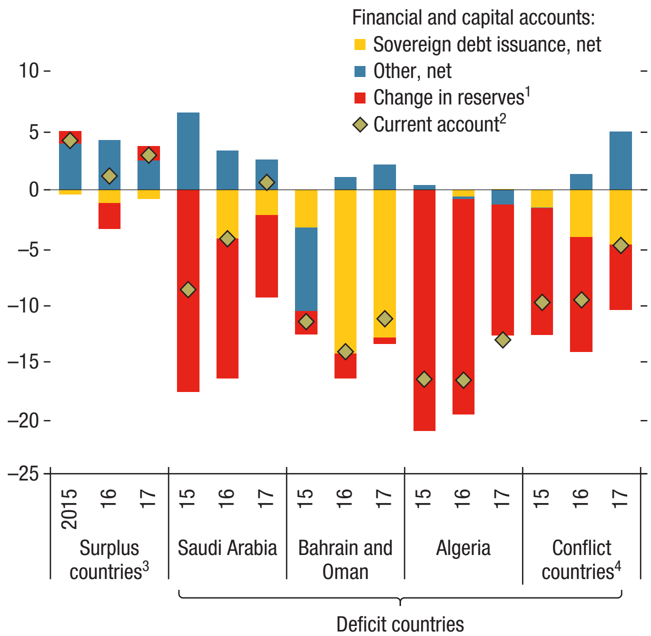
Private Capital Could Help Close External Gaps

Reflecting lower oil prices, the current account balance for MENAP oil exporters swung from a surplus of $228 billion in 2014 (8.8 percent of GDP) to a deficit of $77 billion in 2016 (3.6 percent of GDP) (Figure 1.8). The aggregate current account balance is projected to return to a small surplus in 2019. However, countries with persistent deficits, low financial buffers, and limited exchange rate flexibility face external financing challenges. These developments underscore the importance of continued fiscal consolidation to help support fixed exchange rate regimes and structural reforms to attract foreign private capital. In this context, improvements have been made with respect to easing access for foreign investors to capital markets (such as in Saudi Arabia). However, adoption of new foreign investment laws has been delayed in some countries (Oman, United Arab Emirates). Other reforms to increase competitiveness and boost diversification would also contribute to narrowing the external deficits (see section below on structural reforms). Depending on cyclical conditions, tighter monetary policy can also support external adjustment in countries without exchange rate pegs by attracting additional portfolio flows.

Continued Financial Sector Resilience

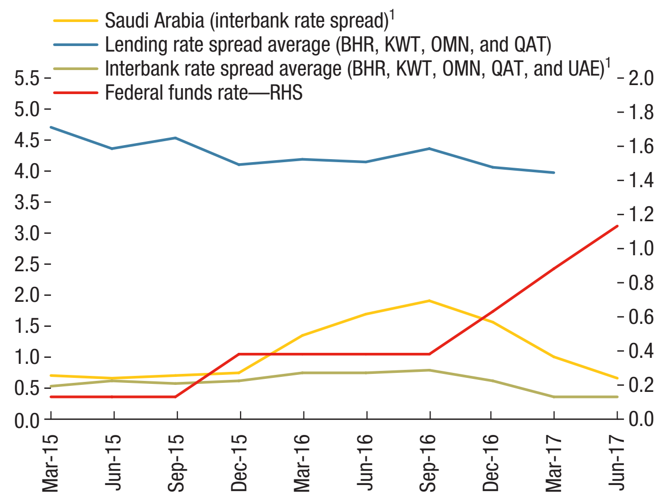
Financial sectors have so far remained broadly resilient in the face of lower hydrocarbon prices. Banks in the GCC region and Algeria remain well capitalized, with capital adequacy ratios generally well above the regulatory minimums, and profitable. However, there are some pressures, with bank profitability continuing to weaken

Figure 1.8. Current Account Financing
(Percent of GDP)



Sources: Country authorities; and IMF staff calculations.
[1]Net (+ = increase).
[2]Differences between the current account and sum of financing items are due to valuation effects and errors and omissions.
[3]Countries with current account for 2014–17 on average in surplus; includes Iran, Kuwait, Qatar, and United Arab Emirates.
[4]Iraq, Libya, and Yemen.

Figure 1.9. Interbank and Lending Rates versus US Federal Funds Rate
(Annualized rates, spreads vis-à-vis the US federal funds rate)



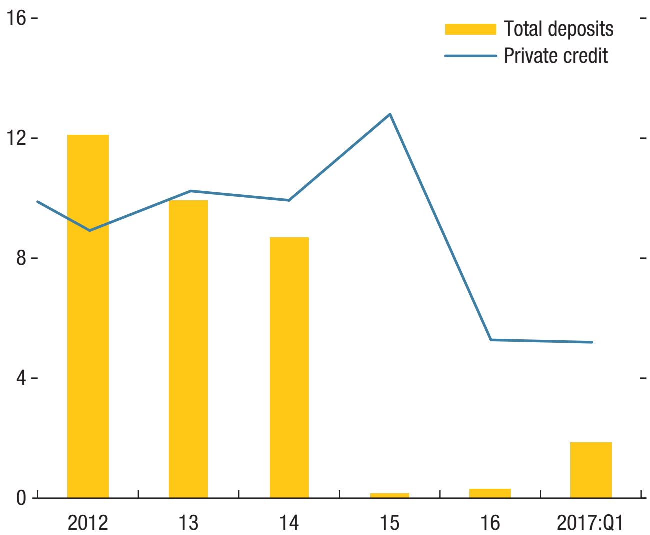
Sources: Haver Analytics; and IMF, *International Financial Statistics*.
Note: RHS = right scale. Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]The interbank series correspond to three-month rates, excluding Oman, where the overnight rate was used.

in some countries, including because of higher impairment costs (United Arab Emirates) and compressed interest rate margins amid intensified competition for deposits (Oman). While the share of nonperforming loans has barely changed in most GCC countries, it has edged up in Algeria, and the risk of deteriorating asset quality remains, with some increase in special mention loans (Oman) and rescheduled loans (United Arab Emirates). Banking systems remain weak in Iraq and Iran. Iraq is focusing on developing a strategy to address challenges faced by state-owned banks; in Iran, bank reform is underway and will require recapitalization and restructuring.

Most GCC central banks have hiked domestic policy rates in tandem with the US Federal Reserve, leading to an increase in interbank and lending rates. However, the modest increase in oil prices and associated easing of government cash constraints, have helped lessen liquidity pressures in some countries—notably Saudi Arabia and the United Arab Emirates—and interbank (and lending) rate spreads have narrowed, limiting the full pass-through of higher policy rates (Figure 1.9). The modest improvement in liquidity can also be seen in improving deposit growth (Figure 1.10). Nevertheless, non-resident deposits and wholesale funding remain an important funding source for banks—especially in the United Arab Emirates and Qatar (Box 1.1), exposing them to changes in global liquidity conditions. Following last year's broad-based deceleration, private sector credit growth has stabilized in the GCC region and Algeria (Figure 1.10). However, it remains substantially slower compared with the pre-oil shock period.

Policymakers continue to make progress in enhancing their liquidity and prudential policy frameworks. Examples include reintroducing refinancing instruments (Algeria), imposing liquidity requirements (Bahrain), introducing an interbank benchmark rate (Oman), deepening domestic capital markets (Saudi Arabia),

Figure 1.10. Credit and Deposit Growth in GCC and Algeria
(Percent change, year over year, simple averages)



Sources: Haver Analytics; and IMF staff calculations.

enhancing macroprudential frameworks (Bahrain, Qatar, Saudi Arabia), introducing a new corporate governance framework for Islamic banks (Kuwait), working to develop liquidity provision tools for Islamic banks (Oman), and drafting new central bank and banking laws (Iran, United Arab Emirates).

Low oil prices, combined with the ongoing cycle of US interest rate increases, will continue to put pressure on bank asset quality, affecting banks' ability to supply credit to the private sector and contributing to weaker growth. As such, deepening domestic capital markets should be a priority reform area to ensure adequate funding for development of the non-oil sector. Policymakers should consider how best to leverage the opportunities presented by rapid technological innovations in the financial sector, including to enhance access to finance, while managing the associated risks (Chapter 5).

Pushing ahead with Structural Reforms

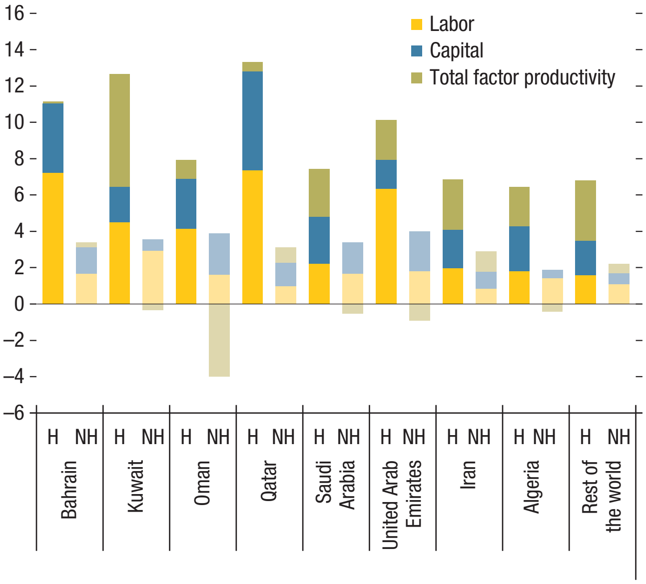
The reality of lower oil prices has made it more urgent for oil exporters to move away from a focus on redistributing oil receipts through public sector spending and energy subsidies. To this end, MENAP oil exporters have outlined ambitious diversification strategies, but medium-term growth prospects remain below historical averages amid ongoing fiscal consolidation. This further highlights the need to speed up implementation of structural reforms, including to leverage the window of opportunity represented by the cyclical upturn in global growth.[5]

Apart from concerns about fiscal sustainability and growth performance, the existing development model has provided disappointing productivity gains—the key long-term driver of living standards.[6] A recent IMF (2016b) study finds that, relative to other countries, productivity in the GCC region tends to contribute little to growth, while labor contributes significantly more (Figure 1.11). This finding reflects policies that favor the employment of low-wage foreign workers in the private sector, accompanied by high wages for nationals working in the public sector. The study also finds that, globally, there is a positive association between capital and productivity contributions to growth during high-growth periods, suggesting productivity gains increase business profitability and promote private investment, and vice versa. Interestingly, while the composition of growth in Algeria and Iran conforms closely to the typical global pattern, the productivity-investment link is largely absent in the GCC region.

These findings underscore the importance of labor market and education reforms in fostering diversification and private sector development. For instance, Saudi Arabia is reforming training and education systems, better targeting wage subsidies, increasing labor fees on expatriate

[5]Chapter 4 discusses in more detail the growth implications of successful diversification strategies that boost trade.
[6]See Adler and others 2017, and Mitra and others 2016.

Figure 1.11. Growth Accounting
(Average contributions to growth)



Source: IMF 2016b.
Note: H = high-growth period; NH = non-high-growth period.
Growth episodes cover 1970–2014. A high-growth episode denotes growth greater than 4 percent per year for at least five consecutive years; otherwise, the period is considered a non-high-growth episode.

workers (to reduce the wage gap between Saudis and expatriates), and refining the employment quota system (Nitaqat) by introducing programs that require all employees in certain sectors to be nationals. Nevertheless, across the GCC region, attracting skilled expatriate workers will remain key to maintaining competitiveness, and labor market reforms should aim to increase productivity and incentives for nationals to work in the private sector. To this end, Bahrain, Qatar, and the United Arab Emirates have made welcome reforms to their visa systems, allowing greater internal mobility of expatriate workers. A new draft law in Qatar would grant some expatriate workers permanent residency. Countries where the visa system still limits the mobility of expatriates would benefit from similar reforms. Iran and Oman are taking steps to better align their education and training system with the needs of employers, including the introduction of entrepreneurship courses in school curricula (Iran). However, the anticipated modernization of labor laws in Oman is still pending. Increasing formality and labor market participation, especially among women, would benefit productivity and growth across the region. Overall, improvements to labor market functioning and education systems will likely entail fiscal costs, which enhances the case for growth-friendly fiscal consolidation as described in the fiscal section (footnote 2).

Policymakers are also taking steps to improve the business environment more generally to encourage private investment and job creation. Such growth-enhancing reforms have taken on more urgency given the needed fiscal consolidation. In Algeria, the government started fleshing out a broad strategy to reshape the country's economic model toward private sector–led growth. In Iran, the Sixth National Development Plan aims to develop the private sector and reduce oil dependency. The GCC countries have already launched ambitious national development strategies, and authorities are now proceeding to the implementation phase. One of the key tasks in this respect will be to embed these strategies into sound medium-term macroeconomic frameworks. In Saudi Arabia, policymakers are formulating specific policies to implement Vision 2030, with a monitoring system built around key performance indicators. Oman and the United Arab Emirates have similarly introduced key performance indicators, while Qatar's second national development strategy also emphasizes robust monitoring and evaluation. The role of the private sector is being further expanded through privatization programs (in 16 sectors in Saudi Arabia, including the potential sale of parts of ARAMCO, and in Oman), and the development of public-private partnerships (Algeria, Oman, Qatar, Saudi Arabia, United Arab Emirates). Saudi Arabia recently launched the "Removing Obstacles to the Private Sector Program" to improve the business environment. A number of important reforms have been implemented under this program, including measures to develop capital markets, expedite customs clearance, update competition law, and institute a commercial mortgage law. Other measures close to completion include insolvency and competition laws. In other countries, progress includes setting up one-stop windows for business registration and licensing (Kuwait, Oman, Qatar), expediting customs processes (Bahrain, Oman), protecting minority investors (Saudi Arabia, United Arab Emirates), undertaking initiatives to foster the development of small and medium enterprises (Algeria, Oman), and enhancing access to finance (Bahrain, Oman, United Arab Emirates).

Going forward, further efforts to improve governance and transparency, strengthen accountability, and increase government efficiency would also help bolster private sector confidence (World Bank 2017). Improving governance and addressing corruption risks remain important challenges especially in the countries affected by conflicts (see Box 2.1 of the October 2016 *Regional Economic Outlook: Middle East and Central Asia)*.

Downside Risks Cloud Prospects

Growth risks for MENAP oil exporters remain tilted to the downside. Considerable uncertainty surrounds the oil price outlook, but, on balance, risks from oil price volatility appear more on the downside given the substantial fiscal and current account deficits. Downside risks from regional conflicts and geopolitical developments, including the diplomatic rift between Qatar and other countries, also remain. There are also other, more global, risks that could affect the region, such as a possible shift toward inward-looking policies in advanced economies. This shift could affect global growth, impacting MENAP oil exporters, especially if these policies drive oil prices lower. A faster-than-anticipated normalization of monetary policy in the United States could lead to a more rapid tightening of global financial conditions and a sharp US dollar appreciation, increasing the cost and reducing the availability of international financing, especially for lower-rated countries, and strengthening the case for fiscal consolidation. In contrast, global upside risks—including a stronger and more durable global recovery—would contribute to higher growth in the region.

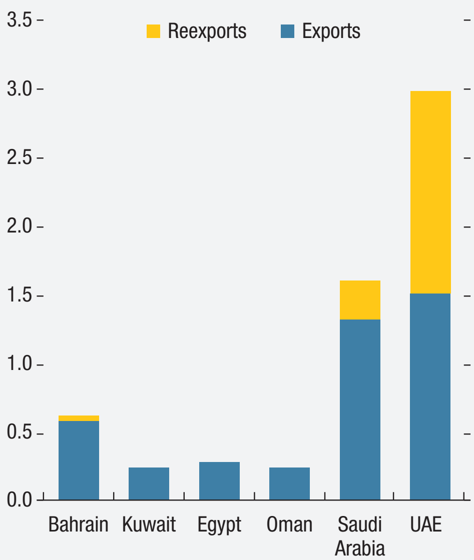
Box 1.1. Economic Implications of the Diplomatic Rift with Qatar

After the initial shock of the June 5 measures, the Qatari economy and financial markets are adjusting to the impact of the diplomatic rift.

A number of countries, including Bahrain, Egypt, Saudi Arabia, and the United Arab Emirates, severed diplomatic and economic ties with Qatar on June 5, 2017. These four countries also closed their airspace to Qatar Airways flights, and Qatar's land border with Saudi Arabia has been closed. Some banks in the region also curtailed transactions with clients linked to Qatar.

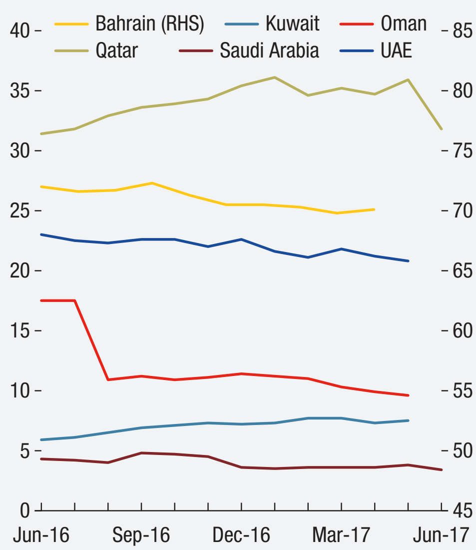
The economic impact of the standoff has been felt in Qatar through disruptions in trade and financial flows. About one-sixth of the country's imports are produced in countries imposing trade restrictions, and a significant portion of other imports transit through Saudi Arabia and the United Arab Emirates (Figure 1.1.1). Some trade has been re-routed through Kuwait and Oman, and alternative food supply sources have been established, allaying fears of potential shortages. The initial concern that trade disruptions could affect the implementation of key infrastructure projects has been mitigated by the availability of an inventory of construction materials and of alternative, and competitive, sources of imports. In addition, Qatar is accelerating efforts to further diversify sources of imports and external financing, and to enhance domestic food processing.

Figure 1.1.1. Exports and Reexports to Qatar, 2016[1]
(Billions of US dollars)



Sources: UN Comtrade; and IMF staff calculations.
Note: UAE = United Arab Emirates.
[1]Kuwait and Saudi Arabia data are for 2015.

Figure 1.1.2. GCC Banks' Reliance on Foreign Funding
(Foreign liabilities to total liabilities, percent)



Source: National authorities.
Note: GCC = Gulf Cooperation Council; RHS = right scale; UAE = United Arab Emirates.

This box was prepared by Olumuyiwa Adedeji, Mohammed El Qorchi, Stéphane Roudet, and Sohaib Shahid. Research assistance was provided by Brian Hiland.

Box 1.1 *(continued)*

Some financial pressures have emerged. The downgrade of Qatar's sovereign credit rating and outlook has raised interbank interest rates, and private sector deposits (both resident and non-resident) have declined. Liabilities to foreign banks have also fallen (Figure 1.1.2). The impact on banks' balance sheets has thus far been mitigated by liquidity injections by the Qatar Central Bank and increased public sector deposits. Banks are proactively focusing on securing additional long-term funding for their operations.

The economic impact in the rest of the region, including in the Gulf Cooperation Council (GCC) countries, appears to have been muted thus far. Qatar's exports to these countries have been broadly maintained, including large volumes of gas supplied to Oman and the United Arab Emirates. Reactions in GCC financial markets have also been benign, with initial spillovers rapidly dissipating. Over the longer term, a protracted rift could slow progress toward greater GCC integration and cause a broader erosion of confidence, reducing investment and growth and increasing funding costs in Qatar and possibly the rest of the GCC.

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MENAP Oil Exporters: Selected Economic Indicators

	Average 2011–13	2014	2015	2016	Projections 2017	Projections 2018
Real GDP Growth	**5.1**	**2.6**	**2.1**	**5.6**	**1.7**	**3.0**
(Annual change, percent)						
Algeria	3.7	3.8	3.7	3.3	1.5	0.8
Bahrain	5.1	4.4	2.9	3.0	2.5	1.7
Iran	3.3	3.2	–1.6	12.5	3.5	3.8
Iraq	. . .	0.7	4.8	11.0	–0.4	2.9
Kuwait	5.1	0.6	2.1	2.5	–2.1	4.1
Libya	4.3	–53.0	–10.3	–3.0	55.1	31.2
Oman	3.8	2.5	4.2	3.0	0.0	3.7
Qatar	11.7	4.0	3.6	2.2	2.5	3.1
Saudi Arabia	4.2	3.7	4.1	1.7	0.1	1.1
United Arab Emirates	4.9	3.3	3.8	3.0	1.3	3.4
Yemen[1]	3.1	–0.2	–28.1	–9.8	–2.0	8.5
Consumer Price Inflation	**7.5**	**5.8**	**5.4**	**4.7**	**4.4**	**6.1**
(Year average, percent)						
Algeria	3.8	2.9	4.8	6.4	5.5	4.4
Bahrain	1.7	2.7	1.8	2.8	0.9	3.5
Iran	18.2	15.6	11.9	9.0	10.5	10.1
Iraq	15.3	2.2	1.4	0.4	2.0	2.0
Kuwait	3.2	3.1	3.7	3.5	2.5	2.7
Libya	5.1	2.4	9.8	27.1	32.8	32.1
Oman	2.7	1.0	0.1	1.1	3.2	3.2
Qatar	4.4	3.4	1.8	2.7	0.9	4.8
Saudi Arabia	2.2	2.7	2.2	3.5	–0.2	5.0
United Arab Emirates	4.2	2.3	4.1	1.8	2.1	2.9
Yemen[1]	11.5	8.2	39.4	5.0	20.0	29.5
General Gov. Overall Fiscal Balance	**6.2**	**–1.1**	**–9.3**	**–10.6**	**–5.2**	**–4.1**
(Percent of GDP)						
Algeria	3.7	–8.0	–15.7	–13.7	–3.5	–1.2
Bahrain[2]	–0.9	–1.6	–18.4	–17.8	–13.2	–11.9
Iran[3]	1.6	–1.1	–1.8	–2.6	–2.2	–2.2
Iraq	. . .	–5.4	–12.3	–14.1	–5.1	–4.7
Kuwait[2]	28.8	22.3	5.8	0.3	1.5	1.5
Libya	11.7	–73.8	–126.6	–102.7	–43.0	–23.3
Oman[2]	8.6	–1.1	–15.7	–21.6	–13.0	–11.4
Qatar	10.3	15.3	5.6	–3.9	–1.0	0.5
Saudi Arabia	8.0	–3.4	–15.8	–17.2	–8.6	–7.2
United Arab Emirates[4]	7.7	1.9	–3.4	–4.1	–3.7	–2.2
Yemen[1]	–3.0	–4.1	–10.6	–13.5	–9.9	–6.6
Current Account Balance	**12.9**	**8.8**	**–3.5**	**–3.6**	**–0.4**	**–0.2**
(Percent of GDP)						
Algeria	12.5	–4.4	–16.5	–16.5	–13.0	–10.8
Bahrain	6.4	4.6	–2.4	–4.7	–4.6	–4.2
Iran	5.0	3.2	2.4	4.1	5.1	5.9
Iraq	. . .	2.6	–6.5	–8.7	–6.3	–6.7
Kuwait	33.3	33.4	3.5	–4.5	–0.6	–1.4
Libya	23.7	–78.4	–52.6	–22.4	1.8	9.8
Oman	8.7	5.8	–15.5	–18.6	–14.3	–13.2
Qatar	20.8	24.0	8.4	–4.9	2.3	1.0
Saudi Arabia	16.8	9.8	–8.7	–4.3	0.6	0.4
United Arab Emirates	10.3	13.3	4.7	2.4	2.1	2.1
Yemen[1]	0.0	–1.7	–5.5	–5.6	–2.3	–2.4

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

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

[1]2018 projection is based on hypothetical assumption that conflict ends in early 2018.

[2]Central government.

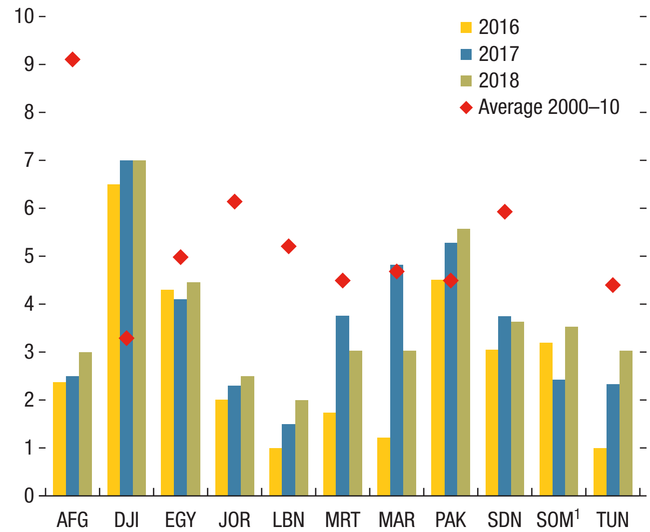
[3]Central government and National Development Fund excluding Targeted Subsidy Organization.

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

2. MENAP Oil Importers: Securing Resilience and Inclusive Growth

Growth in oil importers in the Middle East, North Africa, Afghanistan, and Pakistan region (MENAP) is projected to increase to 4.3 percent in 2017, supported by strengthening domestic demand and a cyclical recovery of the global economy. This positive momentum is expected to persist into the medium term, lifting growth further to 4.4 percent in 2018 and 5.3 percent during 2019–22. However, even at this pace, growth will remain below what is needed to effectively tackle the unemployment challenge facing the region. The balance of risks to the regional outlook remains tilted to the downside. To leverage the global upswing and secure resilience, policy priorities continue to include growth-friendly fiscal consolidation and stronger monetary policy frameworks in countries transitioning to more flexible exchange rates. Structural reforms need to accelerate to improve the business environment, create jobs, fully take advantage of the global growth momentum, and boost inclusive growth.

Figure 2.1. Real GDP Growth Recovers but Remains below Historical Average
(Percent change)



Sources: National authorities; and IMF staff calculations and projections.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]Somalia's data begin in 2013.

Gradual Recovery Underway

Economic activity in MENAP oil importers is projected to expand by 4.3 percent in 2017, well above the 3.6 percent outturn for 2016 and stronger than anticipated in the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*. This expansion is expected to be broad-based, with growth forecast to accelerate in most oil importers (Figure 2.1), supported by domestic demand and exports (Figure 2.2).[1]

Economic activity in key trading partners strengthened during the first half of this year leading to higher remittances; an uptick in exports (Morocco, Pakistan); an increase in foreign direct investment (Egypt, Morocco); and, while still significantly below the 2010 highs, a pickup in tourist arrivals (Egypt, Jordan, Morocco, Tunisia; Figure 2.3). Egypt's investment and exports rose due to resolution of foreign exchange shortages and currency depreciation following the floating of the pound. In parallel, international fuel and food prices continue to remain subdued, bolstering domestic private consumption.

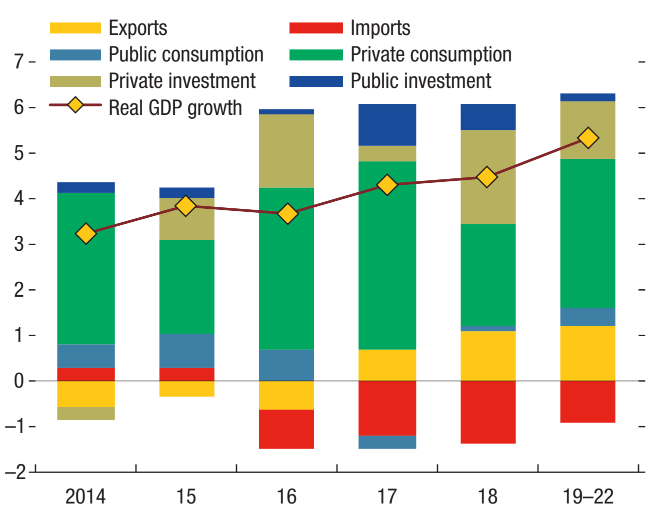
Growth is also being supported by a number of idiosyncratic factors. Stronger mining and an increase in exports are projected to nudge Jordan's growth up to 2.3 percent this year. In Morocco, favorable weather conditions for agriculture, a rebound in services and manufacturing, expanded mining capacity, and higher prices of phosphates will help accelerate growth to 4.8 percent. Large mining and infrastructure investments in Mauritania are expected to push growth to 3.8 percent, while increased port infrastructure

Prepared by Boaz Nandwa. Research assistance was provided by Gohar Abajyan and Sebastian Herrador.

[1]Growth is reported on a fiscal year basis for Afghanistan (December 21 to December 20), and Egypt and Pakistan (July to June). Syria is excluded from the analysis for lack of sufficient data.

Figure 2.2. Projected Growth Supported by Domestic Demand and Higher Exports

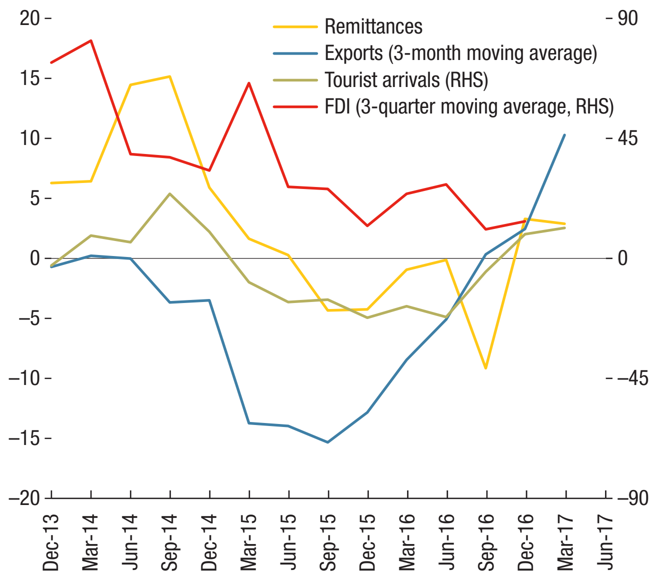
(Percent change and percentage point contribution to growth, 2014–22[1])



Sources: National authorities; and IMF staff calculations and projections.
[1]MENAP aggregate excludes Sudan. Private investment includes inventories and statistical discrepancy.

Figure 2.3. A Rebound in the External Sector

(Percent change, year over year)



Sources: National authorities; and IMF staff calculations.
Note: FDI = foreign direct investment; RHS = right scale.

projects and transshipment activity in Djibouti are expected to lift growth to 7.0 percent. Growth in Tunisia will pick up gradually to 2.3 percent amid stronger growth in Europe, its key export market, supportive structural reforms, and an uptick in tourism following an improvement in security. After restrained activity in 2016, Sudan's growth will edge up to 3.7 percent this year reflecting a gradual increase in private and public consumption. The recent lifting of economic sanctions by US is envisaged to boost private investment and trade. In Pakistan, the increase in growth to 5.3 percent is underpinned by rising investment related to the China-Pakistan Economic Corridor infrastructure project (Box 2.1) and strengthening credit growth.

In Egypt, growth remained broadly unchanged at 4.3 percent in FY2017, but significantly stronger than projected in the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*, reflecting policies to address macroeconomic imbalances in the context of the authorities' program supported by an IMF arrangement. High-frequency indicators suggest a pickup in momentum. Afghanistan's near-term growth prospects have weakened relative to May and are expected to remain lethargic, undermined by heightened security challenges. Similarly, Lebanon will post a sluggish pace of growth this year, also weaker than anticipated in May, reflecting the impact of the protracted conflict in Syria on the traditional drivers of tourism, real estate, and construction. Growth in Somalia will weaken to 2.4 percent this year, down from 3.2 percent in 2016, as severe drought weighs on the agricultural sector (Box 2.2).

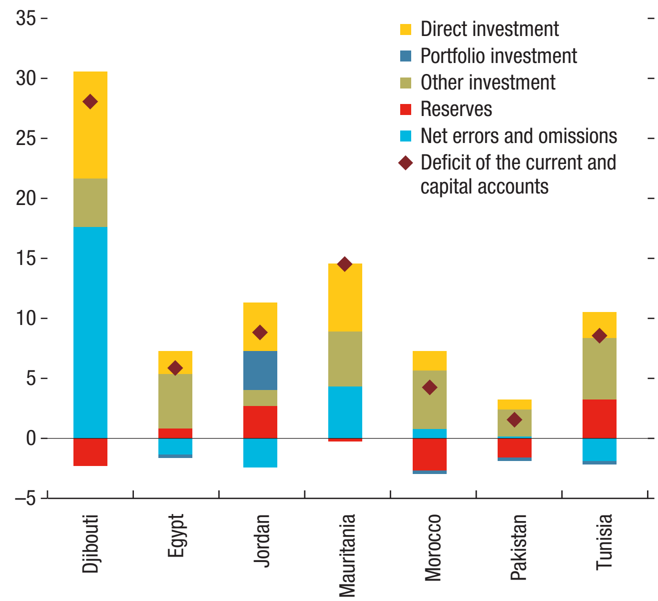
In the medium term, growth in MENAP oil importers is projected to continue improving gradually, reaching 4.4 percent in 2018 and averaging 5.3 percent during 2019–22. Favorable country-specific factors are expected to boost growth in Djibouti, Egypt, Morocco, Pakistan, and Tunisia. However, growth is envisaged to remain largely subdued in Jordan, Lebanon, Mauritania, Somalia, and Sudan. Overall, this pace of growth will be insufficient to generate enough jobs to absorb those who are currently unemployed, as well as the millions of job seekers who will enter the labor market over the period.[2] Continued high unemployment could hinder efforts to build the consensus required to advance fundamental reforms needed to boost growth and increase its inclusiveness.

Receding External Sector Vulnerabilities

External sector performance was weak in 2016, with the current account deficit of MENAP oil importers widening by about 1 percentage point of GDP to 5.3 percent. At the country level, Djibouti and Mauritania continued to post elevated current account deficits of above 10 percent of GDP (Figure 2.4). This reflected the impact of large infrastructure projects on imports in Djibouti and Mauritania, as well as spillovers from ongoing security pressures from Syria on trade in Lebanon (Rother and others 2016).

External balances are gradually improving. Although the current account deficit is projected to remain stable at 5.3 percent of GDP this year—reflecting somewhat higher oil prices and continued imports of capital goods (Djibouti, Mauritania, Pakistan), it is expected to narrow to 4.8 percent of GDP in 2018, supported by positive spillovers from the stronger global economy, including tourist arrivals and remittances. A pickup in commodity prices—iron ore (Mauritania), gold (Mauritania, Sudan), phosphates (Jordan, Morocco), and cotton (Pakistan)—will also improve the terms of trade for these countries. Foreign reserves have been reinforced in some countries by, in part, international bond issuance in the first half of 2017 (Egypt), capital inflows (Djibouti, Egypt, Morocco, Tunisia), an uptick in exports and remittances, and disbursements from IMF program arrangements.[3] This trend is also

Figure 2.4. External Positions Vary across the Region
(2016, Percent of GDP)[1]



Sources: National authorities; and IMF staff calculations.
[1]Stacked bars represent net flows (+ = inflow).

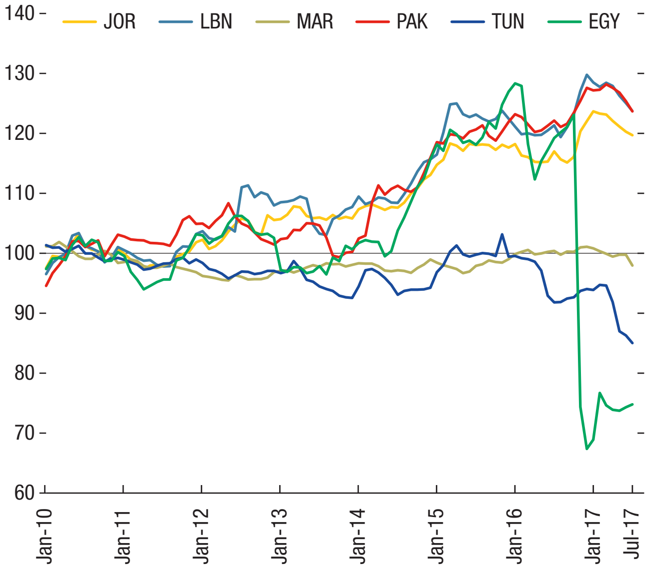
contributing to the stabilization of currencies in some countries.

Other country-specific factors are also supportive of an improved external sector outlook. In Egypt, the floating of the exchange rate, lifting of foreign currency restrictions, and implementation of the industrial licensing and investment laws are expected to attract more foreign direct investment and promote exports. Jordan's exports will benefit from higher mining output coupled with the improved price of phosphates and re-opening of the border with Iraq, while Afghanistan's exports are receiving a boost from the start of direct flights to India and completion of the railway line to Chabahar Port. However, the appreciation of real effective exchange rates could pose challenges in some countries, pointing to the need for a well-calibrated policy mix to avoid a buildup of external vulnerabilities (Figure 2.5).

[2]Historically, a substantial decrease in unemployment has been associated with growth of at least 5.5 percent (for example, October 2013 *Regional Economic Outlook: Middle East and Central Asia*).

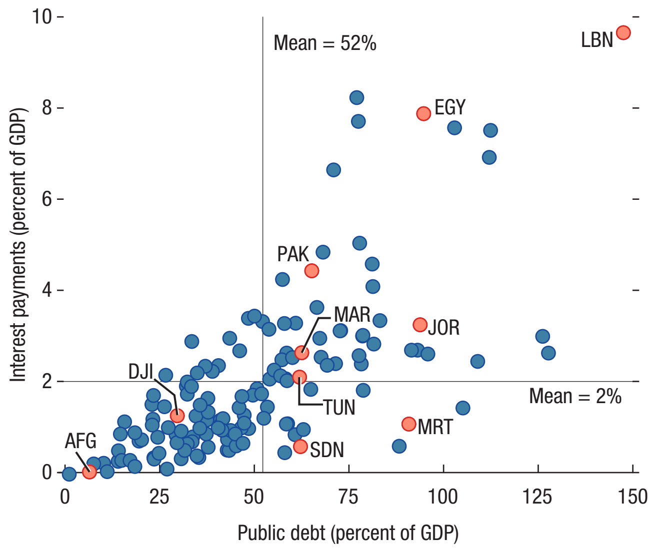
[3]The IMF's total financial commitment to MENAP oil-importing countries (Afghanistan, Egypt, Jordan, Morocco, Tunisia) at the end of August 2017 was SDR 13.7 billion; SDR 3.4 billion has been drawn, including SDR 1.2 billion over the first half of 2017. Morocco has not drawn on its Precautionary and Liquidity Line.

Figure 2.5. Diverse Trends in Real Effective Exchange Rate
(Index, 2010 average = 100)



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

Figure 2.6. Elevated Public Debt Highlights the Need for Further Fiscal Consolidation



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Note: Averages over 2015–17. Sample of 153 emerging market and developing economies (EMDEs). Country abbreviations are International Organization for Standardization (ISO) country codes. Orange dots denote MENAP oil importer countries. Blue dots denote other EMDEs.

Rebuilding Fiscal Space

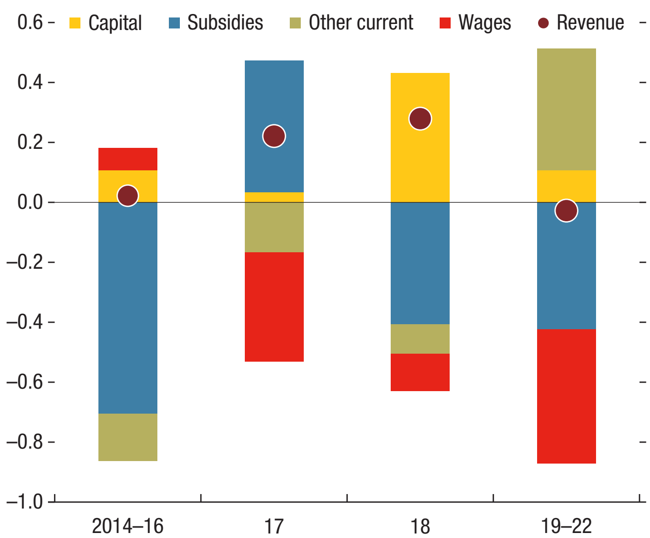
The average fiscal deficit in MENAP oil-importing countries is expected to edge down from 6.8 percent of GDP in 2016 to 6.6 percent in 2017, and dip further to 5.6 percent in 2018. This projected fiscal consolidation will help narrow the current account deficit, mitigate exchange rate pressures, and help build buffers. This improvement reflects further measures to contain costly energy subsidies that are planned or in progress (Egypt, Tunisia), and to limit nonpriority current expenditures (Morocco, Tunisia). It also reflects efforts to strengthen public financial management at the local level as part of fiscal decentralization, reduce special tax regimes in free zones (Djibouti), remove exemptions from the general sales tax and customs duties, pursue initiatives to tackle tax evasion and broaden the tax base (Egypt, Jordan, Sudan, Tunisia), and wage restraint (Djibouti, Egypt).

Nevertheless, significant vulnerabilities persist given the legacies of weak domestic revenue mobilization and high current expenditures (subsidies and wages) that, for most countries, have pushed public debt to more than 50 percent of GDP (Figure 2.6). This trend has been exacerbated by the impact of valuation changes owing to currency depreciation, rising interest payments, and lackluster growth. Other factors that could heighten debt vulnerabilities include the buildup of arrears (Somalia, Sudan), state guarantees (Pakistan), and large infrastructure projects funded by external borrowing (Djibouti, Mauritania, Pakistan; Box 2.1). At the end of 2016, average gross public debt stood at about 80 percent of GDP, with Lebanon's debt close to 149 percent of GDP, despite a modest primary surplus in 2016.

Sustained fiscal consolidation and reforms are required to address debt vulnerabilities. Debt levels are expected to fall by 2022 in most countries given anticipated consolidation, which should include carefully targeting current expenditures to protect social spending and improving the efficiency of public investment to mitigate the

Figure 2.7. Fiscal Consolidation Composition Supportive of Medium-Term Growth

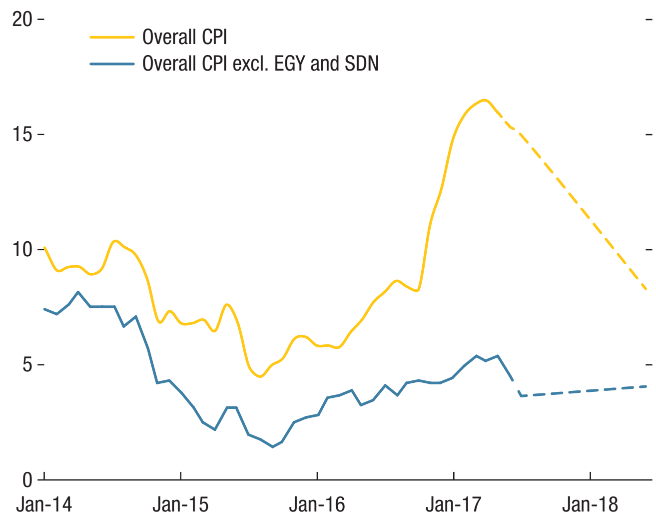
(Percent of GDP, change from prior year, simple average across countries)



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

Figure 2.8. Inflation Reflecting One-off Factors

(Consumer prices; period average, annual percentage change)



Sources: Haver Analytics; National authorities; and IMF staff calculations and projections.
Note: CPI = consumer price inflation. Overall CPI excludes Djibouti, Mauritania, and Syria due to lack of recent data. EGY = Egypt; SDN = Sudan.

contractionary effect on growth (Figure 2.7). To reduce borrowing pressures, boosting domestic revenue mobilization is imperative. Strengthening public financial management, including to improve transparency and accountability, would support this effort and could generate additional fiscal space. The anticipated increase in public investment (Mauritania, Morocco, Pakistan, Tunisia), in part facilitated by continued reduction in current expenditures, will help support the envisaged firming of medium-term growth. To strengthen the safety net and support structural reforms, countries are also recalibrating and improving the targeting of their social assistance (Egypt, Jordan, Morocco), while curbing nonpriority current spending (Morocco, Tunisia). A new model for public wage bill management is needed that emphasizes good diagnostics, complementarities with other reforms to boost inclusive growth and fiscal sustainability, and supportive institutions (Tamirisa and others, forthcoming).

Strengthening Monetary Policy Framework to Support More Flexible Exchange Rates

Overall, inflation in MENAP oil importers is expected to increase from 7.7 percent in 2016 to a peak of 15.0 percent in 2017, before receding to 8.3 percent in 2018 (Figure 2.8). This year's inflationary spike is largely driven by one-off factors in Egypt and Sudan. Pass-through of a large exchange rate depreciation in Egypt coupled with reducing fuel subsidies, introduction of a value-added tax (VAT), and an increase in the price of utilities has pushed Egypt's overall inflation close to 30 percent. In Sudan, steep depreciation of the parallel exchange rate and monetization of the fiscal deficit are expected to push up overall inflation to above 25 percent.

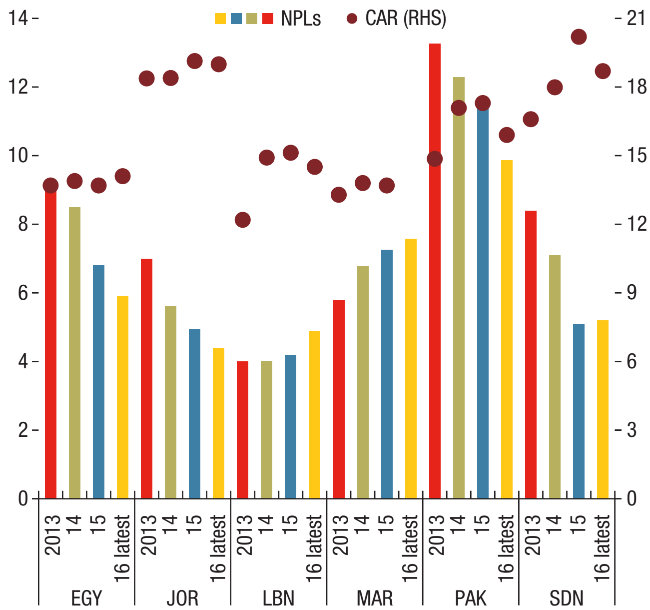
Inflation has also increased in Afghanistan and Somalia reflecting higher imported food prices and drought, respectively. In Tunisia, the reapplication of the fuel price adjustment mechanism and a slight depreciation of the dinar are expected to nudge up prices. In contrast, inflation remains broadly benign in some countries as a result of the lagged effects of some nominal effective exchange rate appreciation (Lebanon), easing international food prices (Morocco, Pakistan), and receding one-off effects of price liberalization (Jordan). Inflation is forecast to return to moderate levels during 2018–22, reflecting anticipated monetary policy responses in some countries, dissipating effects from previous currency depreciations, and easing of domestic supply-side constraints on account of structural reforms and infrastructure investment.

MENAP oil importers will need to strengthen and modernize their monetary policy frameworks to bolster transmission mechanisms, improve the communication and transparency of policy intentions, and enhance analytical tools. For countries that have recently made the transition to a floating exchange rate regime (Egypt, Tunisia), the adoption of a full-fledged inflation-targeting regime over time would be desirable (Cabral, Carneiro, and Mollick 2016). In this context, strengthening of central bank independence will be critical to establish credibility and help anchor inflation expectations. Policymakers in some countries will also need to pay attention to challenges posed by financial dollarization.

Steady Financial Sector amid Recovery in Credit Growth

The financial sector remains broadly sound. As of the end of 2016, banks were generally well capitalized, liquid, and relatively profitable. However, although nonperforming loans continue to decline from high levels in Pakistan and Sudan, they are trending up in Morocco (Figure 2.9). Banking sector regulatory reforms are progressing, with several countries strengthening their resolution frameworks, including by introducing deposit insurance (Pakistan). More constrained correspondent banking relationships continue to weigh on remittances, affecting deposits and credit expansion (Djibouti, Somalia, Sudan).

Figure 2.9. Stable Financial Sector Indicators
(Percent)



Sources: National authorities; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. CAR = capital adequacy ratio; NPLs = nonperforming loans; RHS = right scale.

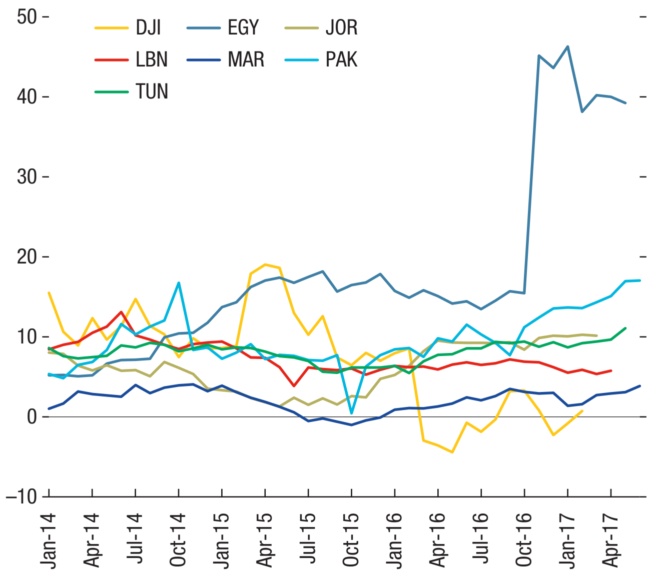
Since the beginning of 2017, private sector credit growth rates in Morocco and Pakistan have risen because of accommodative monetary policy, but have edged lower in Jordan following monetary policy tightening (Figure 2.10). This continued credit expansion should be accompanied by continued monitoring of financial system soundness, robust supervision of individual institutions, and the implementation of appropriately targeted macroprudential policies. Across the region, policymakers need to be mindful of both the opportunities and challenges related to the rapid expansion of technological innovations in the financial sector (Chapter 5).

Sustained Structural Reforms to Support Job Creation and Foster Inclusive Growth

MENAP oil importers need to seize the anticipated pickup in growth to accelerate bold

Figure 2.10. Private Credit Growth Expansion Supportive of Growth

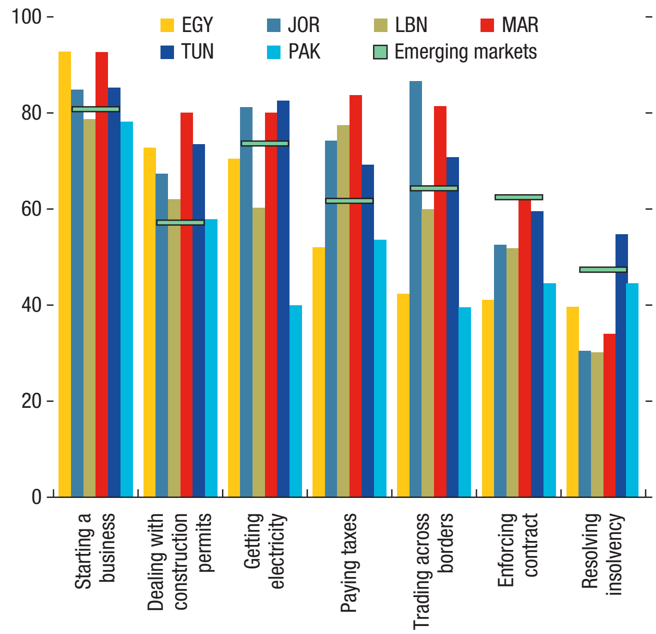
(Percent change, year over year)



Sources: National authorities; and IMF staff calculations.
Note: Egypt's credit growth expressed in local currency was boosted, in part, by a large exchange rate depreciation in late 2016. Country abbreviations are International Organization for Standardization (ISO) country codes.

Figure 2.11. Stepped-Up Effort Needed to Enhance Business Climate

(Distance to frontier score: the higher the better)



Sources: World Bank, Doing Business database, 2017; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

structural reforms to enhance private sector activity and foster a more dynamic, competitive, and inclusive economy. Implementing a critical mass of reforms is imperative to signal governments' commitment to reform and help further boost confidence and economic resilience (Dabla-Norris, Ho, and Kyobe 2016; Mitra and others 2016):

- Improving the business environment will be critical to boost private sector–led investment and growth, while enabling the MENAP region to benefit further from the ongoing global recovery (Figure 2.11). Enhanced governance and transparency, strengthened accountability, and improved government efficiency would bolster private sector confidence (World Bank 2017). Some countries are making progress in resolving constraints to the expansion of the private sector. Egypt made strides in improving its business climate in 2017 by enacting industrial and investment laws that streamlined business registration and operations.

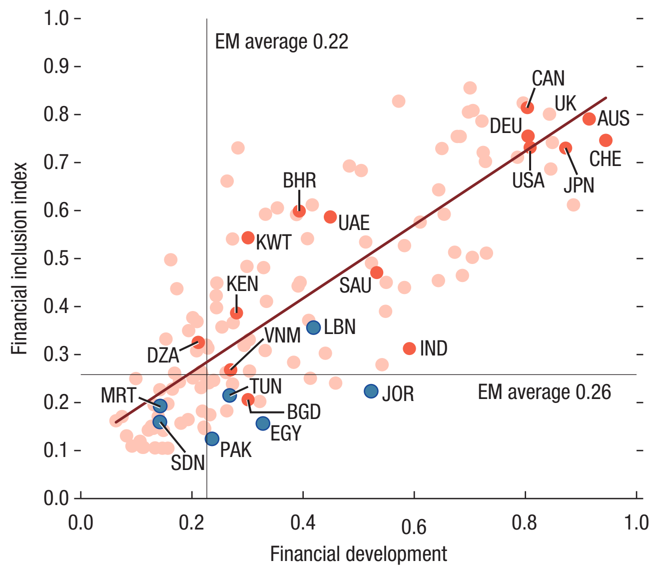
- In most MENAP oil importers, insufficient and low-quality infrastructure (especially in the energy and transportation sectors) remains a binding constraint to private sector–led growth (Sethi 2015; Estache and others 2013). The recently established Compact with Africa presents an opportunity to identify and address these impediments by promoting private investment in Africa with a specific focus on increasing infrastructure development (Box 2.3). Reducing infrastructure gaps would allow new productive sectors to develop, generate jobs, and foster integration into global value chains (Chapter 4; Cheng and others 2015). Improved global and intraregional integration would encourage further development of these supply chains and broaden export opportunities, allowing countries to leverage their comparative advantages in labor-intensive manufacturing sectors (IMF, forthcoming). Innovative public-private partnerships could be pursued to fund infrastructure projects, although policymakers should remain cognizant of the attendant fiscal risks.

- Persistently high unemployment, notably youth unemployment, and low labor force participation—especially by women—call for more labor market flexibility, less reliance on government jobs, and improvements in educational systems to reduce skill mismatches in the private sector (OECD 2016). Efforts targeted at removing the persistent gender gaps in education could simultaneously generate more equitable growth and make available a new source of higher-skilled labor. Overall, improving productivity and unleashing the region's labor potential will reinforce the resilience and inclusiveness of growth (Mitra and others 2016).

- Agriculture absorbs more than 80 percent of the labor force in Afghanistan and more than 40 percent in Morocco and Pakistan. Reforms to raise agricultural productivity, and therefore rural incomes, could play a major role in alleviating poverty and inequality (Bustos, Garber, and Ponticelli 2016; Farole and Pathikonda 2016). Increased access to irrigation, training on better farming methods, use of high-yield crop varieties, and improved market access would boost productivity. Encouraging diversification through labor-intensive agribusiness activities (such as food processing) and by fostering greater value-added agricultural production could create job opportunities and enhance inclusive growth.

- Continued focus on expanding access to finance—especially for small and medium enterprises—would help broaden financial inclusion and lower the cost of borrowing (Demirgüç-Kunt and Singer 2017; Naceur and others 2017; Figure 2.12; Chapter 5).

Figure 2.12. The Region Lags in Financial Inclusion and Financial Development



Sources: National authorities; Sahay and others 2015; World Bank World Development Indicators; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes. MENAP oil importers are denoted by the blue dots.
EM = emerging market.

More broadly, developing domestic capital markets in the region would improve access to finance and catalyze entrepreneurship. Regular issuance of government debt to establish a yield curve would help diversify financing channels for businesses and facilitate bank liquidity management.

Risks Tilted to the Downside

The balance of risks to the outlook remains tilted to the downside, largely owing to risks and vulnerabilities stemming from the region itself:

- Regional conflicts and security risks could become more protracted or escalate, leading to further human loss, destruction of infrastructure, outward migration, disruption of regional trade routes and cross-border investments, and shrinking tourism, including in neighboring countries.

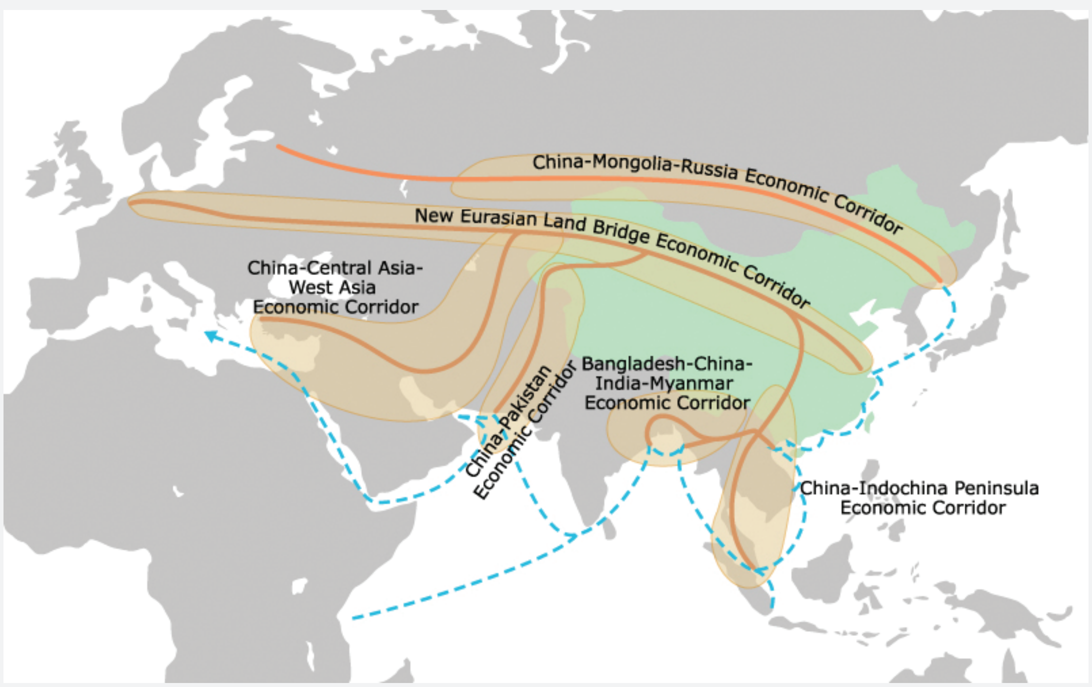
- The risk of social tensions and reform fatigue may increase if growth remains subdued and unemployment high, undermining the impetus for much-needed fiscal and structural reforms.
- Agricultural activity remains vulnerable to weather and price developments (Morocco, Pakistan, Somalia). Furthermore, a decline in commodity prices would lower government revenues and export receipts and widen current account deficits in Mauritania (iron ore, gold, copper), Morocco (phosphates, wheat, vegetables), Pakistan (cotton), and Sudan (oil, gold).
- As for the risks from the global environment, a more rapid tightening of global financial conditions (including due to faster-than-anticipated normalization of monetary policy in the United States), could push up financing costs (including domestic financing costs), increase fiscal pressures, and reduce private investment. Furthermore, such US monetary policy normalization could lead to a stronger US dollar, which would amplify debt vulnerabilities in countries with a significant share of debt in foreign currency (Pakistan, Tunisia). There is also the risk that advanced economies could pursue inward-looking policies, hurting export prospects for the broader MENAP region. On the upside, a stronger-than-expected pickup in activity in the euro area and other trading partners would help lift regional growth.

Box 2.1. The Belt and Road Initiative and Central and Southwest Asia and the Middle East

China's huge Belt and Road Initiative (BRI) offers Central and Southwest Asia and the Middle East new opportunities to address infrastructure needs, strengthen economic and financial connectivity, and support diversification and job growth. To capitalize on these opportunities, projects should be well designed and managed and future costs should be fully recognized. Open and competitive business climates will help countries maximize gains and spread benefits.

China launched the BRI in 2013, with the aim of strengthening its connections with Europe and Africa by way of Central and Southwest Asia and the Middle East (Figure 2.1.1). The number of countries now engaged in the BRI stands at nearly 70 and may reach 100 or more. Focus areas are infrastructure development and trade facilitation, financial connectivity and integration, policy coordination, joint research, and people-to-people exchange. There are six BRI corridors—the New Eurasian Land Bridge, the China-Mongolia-Russia Corridor, the China-Central Asia-West Asia Corridor, the China-Pakistan Corridor, the China-Indochina Peninsula Corridor, and the Bangladesh-China-India-Myanmar Corridor—plus the Twenty-First Century Maritime Silk Road Economic Belt. Cumulative investment in the corridors could reach $1 trillion over 10 years. Financing will be provided—largely on market terms—through the Asian Infrastructure Investment Bank, China Development Bank, Export-Import Bank of China, and Silk Road Fund. Complementary investments from other official and private sources, in China as well as other countries, may also emerge.

Figure 2.1.1. The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe, and Africa



Source: Hong Kong Trade Development Council.

This box was prepared by Mark Horton.

Box 2.1 *(continued)*

For Central and Southwest Asia and the Middle East, infrastructure, industrial, and utility projects under the BRI, together with financial connectivity efforts and people-to-people exchanges, could help close infrastructure gaps, increase regional economic and financial integration, and support diversification and employment. Countries involved from the Caucasus and Central Asia (CCA) and the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) include Afghanistan, Armenia, Azerbaijan, Djibouti, Georgia, Iran, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

Major BRI projects include the following:

- Investments in Pakistan in the energy sector and rail, road, and port infrastructure totaling $55 billion over the next decade.
- Railway, highway, and port projects across Kazakhstan to Europe via Russia, and to Iran and Turkey via Kazakhstan and Turkmenistan.
- A railway to Uzbekistan via the Kyrgyz Republic, a railway to Afghanistan via Uzbekistan, and a railway from an upgraded port in Djibouti to Ethiopia and South Sudan.
- Oil and gas pipelines connecting China with Central Asia and Azerbaijan, and with Europe via the Black Sea and Turkey.
- Power, natural resources and mining, manufacturing, and agriculture and agro-processing projects across the region.

Positive effects are likely from construction, increased energy supply, improved connectivity, technology transfer, and greater trade. BRI projects should help diversify and boost exports and employment, while utility projects should reduce or eliminate energy shortages. Financial connectivity, trade integration, and research and exchange programs promise potential benefits through inclusion in global supply chains, catalyzing greater private investment, and growth of production, exports, value added, and employment (see Chapter 4). This is particularly encouraging given high transportation costs, relatively low openness, and sizable infrastructure gaps across the region.

Notwithstanding these potential benefits, the BRI comes with challenges, including project implementation and management across multiple jurisdictions and in some cases in complex geographic, political economy, or ecological settings. BRI projects are likely to exert pressure on fiscal, debt, and external positions across the region, especially in those MENAP and CCA economies with limited room for larger budget deficits or higher public debt. The projects may also crowd out spending in other development areas. Financial flows may also put pressure on exchange rates. In addition, while potentially supporting future tax revenues and export receipts, BRI projects will create future budgetary claims for operational and maintenance costs, as well as balance of payments obligations for loan repayments, interest payments, profit repatriation, and fuel imports. Where BRI projects benefit from tax exemptions, gains to national budgets will be lower.

Accordingly, stronger medium-term fiscal and budgetary frameworks, together with enhanced capacity to assess and manage project costs, financial terms, and risks (including from tax incentives), will be critical. BRI projects should be well designed and commercially viable, with execution that is effective and closely monitored. Transactions should be as concessional as possible in low-income countries, transparent, and target spillovers to local employment and inputs (equipment, materials, machinery). Joint projects with international financial institutions would be welcome because they would take advantage of established project assessment and monitoring mechanisms and may benefit from additional concessional financing.

Box 2.1 *(continued)*

Finally, to facilitate spillovers to local economies, business climates across the region need to be open and competitive. Such an environment will enable entrepreneurs in noncommodity sectors (services, logistics, manufacturing) to benefit from better physical and financial infrastructure, lower costs, and easier access to global and key bilateral markets. Local transport and utility enterprises and banks should be sufficiently strong to participate, and utility and transport tariffs should enable cost recovery. It will be important for the economies of BRI countries and their trading partners to be open to support integration and exports under the initiative.

The IMF's mandate to support multilateral cooperation, strengthen global and economic stability, and promote sustainable, inclusive growth fits well with BRI priorities. The IMF engages its member countries through provision of policy advice, technical assistance, and training in areas that will help countries better assess and manage investment projects, including those under the BRI. The Infrastructure Policy Support Initiative, a new IMF endeavor, aims to support member countries through such tools as public investment management assessments, public-private partnership fiscal risk assessments, debt-investment-growth assessments, debt-sustainability assessments, and guidance on medium-term debt-management strategies.

Box 2.2. Somalia: Rebuilding after Decades-Long Civil War

The end of the civil war in Somalia provides an important opportunity to rebuild the country's economy. International partners, including the IMF, are providing technical assistance that is yielding tangible results. The staff-monitored program (SMP) with the IMF will facilitate future financial support by establishing a track record of policy and reform implementation, supported by IMF policy advice.

Somalia's decades-long civil war caused extensive damage to the country's economic and social infrastructure, resulting in very weak institutions and widespread poverty. The country's per capita GDP during 2014–16 was only $426, far below regional peers (Table 2.2.1). However, the end of the civil war in the late 2000s, and national elections in February 2017—only the second since 1991—present an opportunity for Somalia to turn the corner.

Table 2.2.1. Selected Economic and Social Indicators, 2014–16
(Average)

	Somalia	LIC[1]
	2014–16 (average)	
Population, Total (million)	13.9	642.0
GDP per Capita (current US$)	426.0	632.3
Net ODA Received (% of GNI)	22.2	8.7
Life Expectancy at Birth, Total (years)	55.5	61.5
Labor Force Participation Rate, Rotal (% of total population ages 15+)[2]	54.3	76.2
Labor Force Participation Rate, Female (% of female population ages 15+)[2]	33.2	70.0
Labor Force Participation Rate, Male (% of male population ages 15+)[2]	75.9	82.6
Time Required to Register Property (days)	188.0	78.8

Sources: World Bank, World Development Indicators: and IMF staff calculations.
Note: GNI = gross national income; ODA = official development assistance.
[1]Low-income countries.
[2]International Labour Organization modeled estimate.

Somalia has already achieved some important milestones in rebuilding its economy, which is currently sustained by donor grants, remittances, and foreign direct investment (mostly from the Somali diaspora). Somalia's partners have been providing significant peacekeeping, institution building, and humanitarian support. Since the recognition of the Federal Government of Somalia by the international community in 2012, Somalia has received intensive technical assistance. Somalia is one of the largest beneficiaries of IMF technical assistance, which is delivered through a multi donor trust fund and closely coordinated with other partners. This technical assistance has yielded tangible results in the areas of economic management and macroeconomic and financial data reporting. Significant progress has also been achieved in rebuilding the institutional capacity to prepare and monitor an annual budget and implement national currency reform, and in strengthening central bank governance.

The IMF is also providing policy advice to the government as it designs its economic policies and reforms. Since resuming its engagement in Somalia in 2013, the IMF has concluded two Article IV consultations. To help support economic reconstruction efforts and establish a track record of policy and reform implementation, the Somali government entered into a 12-month SMP with the IMF in May 2016 that has now been completed. A new SMP covering May 2017–April 2018 has been approved by IMF management. Although arrears mean Somalia cannot currently benefit from IMF financial support, continued successful completion of this SMP and subsequent ones will help strengthen institutions and economic policies, paving the way for eventual future debt relief.

This box was prepared by Lukas Pender Kohler, Sebastien Walker, and Issouf Samake. In this *Regional Economic Outlook*, the IMF is publishing Somalia's macroeconomic data for the first time since the early 1990s.

Box 2.2 *(continued)*

Despite these advances, Somalia still faces significant challenges. The security situation remains fragile, aggravated by high youth unemployment and a drought that is severely affecting economic activity and endangering humanitarian conditions. The government's fiscal position is weak, partly because of still-poor fiscal management, a weak tax collection system, and a heavy external debt burden, with no capacity to repay. Both the central bank and the financial sector are nascent, and widespread counterfeiting has diminished confidence in the national currency. Going forward, further sustained and broad-based reform efforts to reconstitute Somalia's institutions—and economic, financial, and social data to help guide policymaking—will be critical.

Box 2.3. The G20 Compact with Africa Initiative: Boosting Private Investment

The Group of 20 (G20) Compact with Africa aims to help countries seize their potential for sustained and inclusive growth by promoting investment and improving infrastructure in Africa. The IMF is supporting the initiative by increasing support for capacity development, providing policy advice, and incorporating related reforms in the design of IMF-supported programs with participating countries.

The G20 Compact with Africa aims to promote private investment in Africa through compacts (or agreements) between interested African governments, international organizations, and development partners, with a specific focus on increasing infrastructure development.[1] The initiative was launched under the German presidency by G20 finance ministers and central bank governors in March 2017. Compacts for each country identify the actions that participants in the initiative will undertake to boost private investment flows, namely, the following:

- Participating African countries will identify reforms to create a more enabling environment for private investment, improve domestic revenue and finance mobilization, and create space to scale up critically needed public investment in infrastructure while ensuring debt sustainability.
- The G20 and other partner countries will promote the initiative and encourage their business sectors to invest in participating African countries, including through regular investor roundtables and high-level events (such as the recent Investing in a Common Future conference in Berlin), and will support the provision of related technical assistance.
- International organizations will provide technical assistance, policy advice, and financial support to help ensure sound macroeconomic, business, and financing frameworks for the initiative.
- The G20, other partner countries, and international organizations will coordinate more closely, including on technical assistance; provide greater support for early-stage project preparation for infrastructure; and increase investment by the private arms of multilateral and bilateral development institutions.

The African countries that are participating—Côte d'Ivoire, Ethiopia, Ghana, Morocco, Rwanda, Senegal, and Tunisia—are in the process of completing their compacts. Others that have expressed interest or may consider joining include Algeria and Egypt. This initiative could make an important contribution to addressing the challenge of boosting growth and creating high-quality jobs for the young populations of these African countries, in particular by helping to maintain macroeconomic stability, improve the business climate, and strengthen financial markets.

The IMF has supported the launch and implementation of the initiative, including in the context of active programs with several participating countries. The IMF's policy dialog and program content will incorporate the reforms that underpin the compacts while protecting macroeconomic resilience and public debt sustainability. The IMF is also stepping up capacity-development efforts in its areas of expertise to support implementation of the compact, including through the Africa Regional Technical Assistance Centers and the Middle East Technical Assistance Center.

To ensure the sustainability and success of the initiative, a G20 investment finance group will help carry forward and oversee the Compact with Africa work program over the medium term. The program will be monitored through in-country dialogue and biannual reports to the G20.

This box was prepared by Gaëlle Pierre.
[1]See the initiative's website at https://www.compactwithafrica.org/.

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MENAP Oil Importers: Selected Economic Indicators

	Average 2000–13	2014	2015	2016	Projections 2017	2018
Real GDP Growth	**4.5**	**3.2**	**3.9**	**3.6**	**4.3**	**4.4**
(Annual change, percent)						
Afghanistan	. . .	2.7	1.3	2.4	2.5	3.0
Djibouti	3.8	6.0	6.5	6.5	7.0	7.0
Egypt	4.4	2.9	4.4	4.3	4.1	4.5
Jordan	5.4	3.1	2.4	2.0	2.3	2.5
Lebanon	4.5	2.0	0.8	1.0	1.5	2.0
Mauritania	4.7	5.6	0.9	1.7	3.8	3.0
Morocco	4.6	2.7	4.5	1.2	4.8	3.0
Pakistan	4.3	4.1	4.1	4.5	5.3	5.6
Somalia	2.0	3.6	3.6	3.2	2.4	3.5
Sudan[1]	4.7	1.6	4.9	3.0	3.7	3.6
Syria[2]	4.3	. . .	. . .	. . .	. . .	. . .
Tunisia	3.8	2.3	1.1	1.0	2.3	3.0
West Bank and Gaza[3]	4.1	–0.2	3.4	4.1	3.1	3.0
Consumer Price Inflation	**6.0**	**9.4**	**6.7**	**7.7**	**15.0**	**8.3**
(Year average, percent)						
Afghanistan	. . .	4.7	–0.7	4.4	6.0	6.0
Djibouti	3.6	2.9	2.1	2.7	3.0	3.0
Egypt	3.8	10.1	10.4	13.8	29.9	13.0
Jordan	4.0	2.9	–0.9	–0.8	3.3	1.5
Lebanon	3.2	1.9	–3.7	–0.8	3.1	2.5
Mauritania	6.0	3.8	0.5	1.5	2.1	3.7
Morocco	1.7	0.4	1.5	1.6	0.9	1.6
Pakistan	8.8	8.6	4.5	2.9	4.1	4.8
Somalia	. . .	. . .	. . .	. . .	. . .	. . .
Sudan[1]	13.6	36.9	16.9	17.8	26.9	19.0
Syria[2]	4.9	. . .	. . .	. . .	. . .	. . .
Tunisia	3.3	4.9	4.9	3.7	4.5	4.4
West Bank and Gaza[3]	3.6	1.7	1.4	-0.2	0.5	1.6
General Gov. Overall Fiscal Balance	**–5.5**	**–7.3**	**–7.3**	**–6.8**	**–6.6**	**–5.6**
(Percent of GDP)						
Afghanistan[4]	. . .	–1.7	–1.4	0.1	0.4	0.2
Djibouti	–2.1	–9.6	–21.7	–18.2	–1.6	–0.7
Egypt	–7.8	–11.8	–11.4	–10.9	–9.5	–7.3
Jordan[5]	–5.2	–10.3	–5.3	–3.2	–2.5	–0.4
Lebanon[4]	–11.6	–6.3	–7.6	–9.3	–9.9	–10.3
Mauritania[4,6]	–2.4	–4.5	–3.4	–0.3	–0.6	–1.8
Morocco[4]	–4.1	–4.8	–4.2	–4.1	–3.5	–3.0
Pakistan[7]	–4.7	–4.9	–5.3	–4.4	–5.7	–5.4
Somalia	. . .	. . .	. . .	. . .	. . .	. . .
Sudan[1]	–1.3	–1.4	–1.9	–1.8	–2.4	–2.6
Syria[2]	. . .	. . .	. . .	. . .	. . .	. . .
Tunisia[8]	–3.2	–3.7	–5.3	–5.9	–5.9	–5.3
West Bank and Gaza[3]	–22.8	–12.5	–11.4	–8.0	–8.4	–7.8

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.

[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 transfers to the electricity company NEPCO until the end of 2014. In 2015 transfers were stopped.

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

[7]Includes grants.

[8]Includes bank recapitalization costs and arrears payments.

(continues)

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

	Average 2000–13	2014	2015	2016	Projections 2017	Projections 2018
Current Account Balance	**–2.4**	**–4.2**	**–4.4**	**–5.3**	**–5.3**	**–4.8**
(Percent of GDP)						
Afghanistan	. . .	5.7	3.0	7.1	4.7	1.6
Djibouti	–8.0	–25.1	–31.8	–30.4	–21.0	–18.2
Egypt	–0.5	–0.8	–3.6	–6.0	–5.9	–3.8
Jordan	–6.1	–7.3	–9.1	–9.3	–8.4	–8.3
Lebanon	–15.6	–26.4	–18.7	–18.6	–18.0	–16.8
Mauritania	–13.4	–27.3	–19.7	–14.9	–14.2	–9.6
Morocco	–3.3	–5.9	–2.1	–4.4	–4.0	–2.9
Pakistan	–1.3	–1.3	–1.0	–1.7	–4.0	–4.9
Somalia	–4.8	–6.3	–7.2	–10.1	–11.1	–10.7
Sudan[1]	–5.5	–7.1	–8.0	–5.6	–1.9	–2.0
Syria[2]	–0.4	. . .	. . .	. . .	. . .	. . .
Tunisia	–4.1	–9.1	–8.9	–9.0	–8.7	–8.4
West Bank and Gaza[3]	–17.4	–16.9	–16.3	–9.9	–13.1	–13.2

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.

[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 transfers to the electricity company NEPCO until the end of 2014. In 2015 transfers were stopped.

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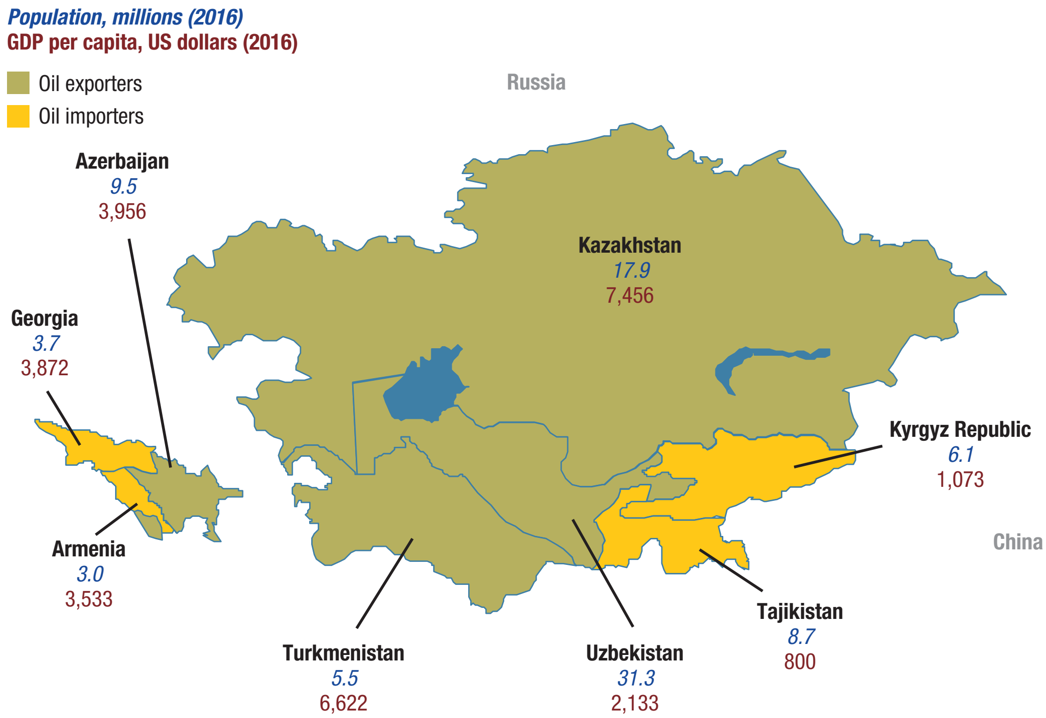
[8]Includes bank recapitalization costs and arrears payments.

Caucasus and Central Asia

Caucasus and Central Asia



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

CCA Region Highlights

Improved Yet Subdued Economic Outlook

Growth in the Caucasus and Central Asia (CCA) started to pick up during the second half of 2016, and is projected to accelerate from 2.5 percent last year to 3.6 percent in 2017 and 3.7 percent in 2018. A stronger outlook for oil production in Kazakhstan in 2017, the largest economy in the region, means these projections are 0.4 percentage point stronger in 2017, and similarly weaker in 2018, relative to the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*. Strengthening economic conditions in the region's main trading partners and some firming of commodity prices, combined with continued implementation of structural reforms, are anticipated to support the recovery.

However, medium-term growth is forecast to remain below historical norms—CCA growth is projected to average 4.3 percent in 2019–22, less than half the rate during 2000–10. Reforms promoting diversification away from remittances and commodities should therefore be accelerated to secure strong, sustainable, and inclusive growth. To capitalize on opportunities for integration into the strengthening global economy—including through China's Belt and Road Initiative—institutional frameworks should be enhanced to facilitate productive investment and foster private sector development.

While short-term risks to the outlook are balanced, medium-term risks remain tilted to the downside. These largely reflect global risks such as the possibility of inward-looking policies in advanced economies that could affect trade and commodity prices and a more rapid tightening of global financial conditions.

Comprehensive Set of Policies Needed for Stability and Growth

The legacy of adverse external shocks since mid-2014 has left the region more vulnerable and with fewer buffers to manage future unexpected developments. While important steps have been taken, efforts that promote financial sector resilience should continue, as in some countries vulnerabilities have raised concerns about the capacity of banking systems to support economic activity. Actions should focus on enabling an accurate assessment of banks' health, developing effective bank resolution frameworks, enhancing prudential regulation and supervision, and resolving governance issues.

Fiscal balances in many CCA countries deteriorated in recent years as policymakers accommodated lower budget revenues in the context of falling commodity prices and remittances—the average fiscal deficit is forecast at 3.4 percent of GDP this year. Fiscal consolidation efforts should continue to ensure that buffers are rebuilt, public expenditures channeled efficiently, and tax collections improved. Social safety nets need to be protected.

Since the exchange rate no longer serves as an anchor for domestic prices in most CCA countries and exchange rate depreciation pushed inflation into double digits in some economies, policymakers should redouble efforts toward developing strong and credible monetary policy frameworks. Priorities include establishing clear monetary policy objectives, enhancing central bank independence and communication, and improving the transmission mechanism for monetary policy and the analytical toolkit of central banks.

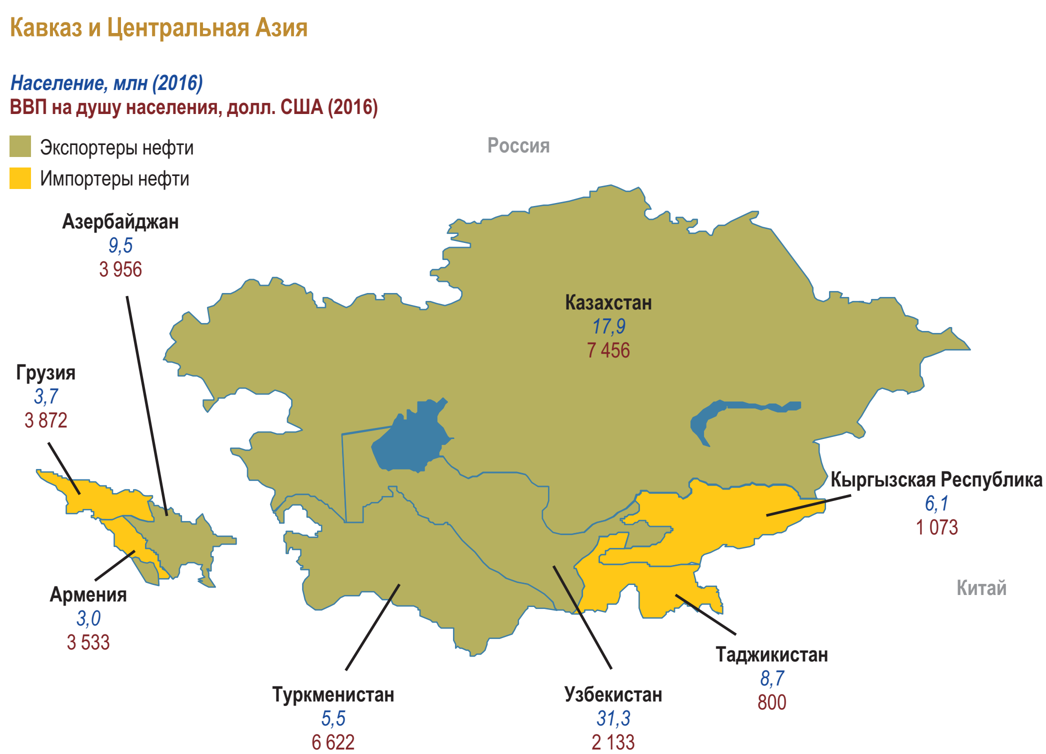
As noted above, there remains a strong need to implement structural reforms to promote strong, sustainable, and inclusive growth through economic diversification and private sector development. Some previously announced reforms have started to be implemented. However, accelerating the pace of reform implementation, including measures to enhance the business environment, restructure and privatize state-owned enterprises, and improve governance, is critical.

CCA Region: Selected Economic Indicators, 2000–18
(Percent of GDP, unless otherwise indicated)

	Average 2000–13	2014	2015	2016	Projections 2017	Projections 2018
CCA						
Real GDP (annual growth)	8.3	5.3	3.1	2.5	3.6	3.7
Current Account Balance	0.8	2.3	–3.6	–6.4	–4.9	–4.2
Overall Fiscal Balance	3.1	2.3	–3.5	–2.2	–3.4	–1.0
Inflation (year average, percent)	9.2	5.9	6.4	10.5	8.9	7.8
CCA Oil and Gas Exporters						
Real GDP (annual growth)	8.6	5.3	3.1	2.4	3.5	3.7
of which non-oil growth	8.7	6.7	3.1	1.7	2.4	3.0
Current Account Balance	2.1	3.6	–3.0	–6.2	–4.4	–3.6
Overall Fiscal Balance	4.0	2.7	–3.5	–1.7	–3.3	–0.7
Inflation (year average, percent)	9.5	6.1	6.6	11.6	9.3	8.2
CCA Oil and Gas Importers						
Real GDP (annual growth)	6.4	4.7	3.8	3.3	3.9	3.8
Current Account Balance	–7.7	–9.2	–8.9	–7.9	–8.6	–8.2
Overall Fiscal Balance	–3.3	–1.3	–3.1	–6.1	–4.2	–3.7
Inflation (year average, percent)	7.4	4.6	4.8	1.9	5.3	4.7

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.

Кавказ и Центральная Азия



Источники: база данных «Перспективы развития региональной экономики» МВФ и Microsoft Map Land.
Примечание. Названия и границы стран на этой карте не обязательно отражают официальную позицию МВФ.

Основные положения по региону КЦА

Улучшившиеся, но пока еще пониженные перспективы

Оживление экономического роста в регионе Кавказа и Центральной Азии (КЦА) началось во второй половине 2016 года; прогнозируется, что темпы роста ускорятся с 2,5 процента в прошлом году до 3,6 процента в 2017 году и 3,7 процента в 2018 году. Улучшившиеся экономические условия в странах, являющихся основными торговыми партнерами региона, и некоторое укрепление цен на биржевые товары в сочетании с продолжающейся реализацией структурных реформ, как ожидается, будут оказывать поддержку восстановлению. Тем не менее, темпы роста в среднесрочной перспективе, как предполагается, будут оставаться ниже исторических норм — темпы роста КЦА в 2019–2022 годах прогнозируются на уровне 4,3 процента, что больше чем в два раза ниже темпов роста в 2000–2010 годах. Таким образом, необходимо ускорить проведение реформ, направленных на диверсификацию экономики со снижением зависимости от денежных переводов и биржевых товаров, для обеспечения уверенного, устойчивого и всеобъемлющего роста. Для того, чтобы использовать возможности для интеграции в мировую экономику (в том числе с помощью инициативы Китая «Один пояс — один путь»), необходимо укрепить институциональные основы в целях содействия производительным инвестициям и стимулирования развития частного сектора.

В то время как краткосрочные риски для перспектив развития являются сбалансированными, в среднесрочном плане по-прежнему преобладают риски замедления темпов роста. В основном они связаны с такими глобальными рисками, как вероятность проведения политики замкнутости в странах с развитой экономикой, что может оказать влияние на торговлю и цены на биржевые товары, а также быстрое ужесточение мировых финансовых условий.

Для стабильности и роста необходим комплексный набор мер экономической политики

Последствия негативных внешних шоков, произошедших с середины 2014 года, сделали регион более уязвимым с меньшим объемом буферных резервов для преодоления непредвиденных ситуаций в будущем. Несмотря на то, что были предприняты важные шаги, следует продолжать усилия, направленные на повышение устойчивости финансового сектора, поскольку в некоторых странах факторы уязвимости вызывают обеспокоенность в отношении способности банковских систем оказывать поддержку экономической деятельности. Усилия следует сосредоточить на обеспечении точной оценки состояния здоровья банков, разработке действенных механизмов окончательного урегулирования банков, укреплении пруденциального регулирования и надзора, а также решении проблем в области управления.

За последние годы во многих странах КЦА произошло ухудшение бюджетного сальдо ввиду сокращения бюджетных доходов, имеющихся в распоряжении политического руководства на цели расходования, в результате снижения цен на биржевые товары и денежных переводов: в этом году средний дефицит бюджета прогнозируется на уровне 3,4 процента ВВП. Важно продолжить усилия по консолидации бюджета для обеспечения восстановления буферных резервов, повышения эффективности государственных расходов и улучшения собираемости налогов. Необходимо защитить системы социальной помощи.

Поскольку обменный курс больше не служит якорем для внутренних цен в большинстве стран КЦА, а снижение обменного курса привело к повышению темпов инфляции до двузначных значений в некоторых странах, директивным органам следует удвоить усилия по разработке прочных и заслуживающих доверия основ денежно-кредитной политики. В число приоритетов входят установление четких целей денежно-кредитной политики, укрепление независимости и связи с общественностью центральных банков, совершенствование механизма передачи воздействия денежно-кредитной политики и аналитического инструментария центральных банков.

Как было указано выше, сохраняется острая необходимость в проведении структурных реформ для содействия прочному, устойчивому и всеобъемлющему росту посредством диверсификации экономики и развития частного сектора. Началось проведение некоторых ранее объявленных реформ. Однако критически важно ускорить темпы реализации реформ, в том числе мер для улучшения делового климата, реструктуризации и приватизации государственных предприятий и совершенствования управления.

Регион КЦА: отдельные экономические показатели, 2000–2018 годы

(В процентах ВВП, если не указано иное)

	Среднее 2000–2013	2014	2015	2016	Прогнозы 2017	2018
КЦА						
Реальный ВВП (годовой рост)	8,3	5,3	3,1	2,5	3,6	3,7
Сальдо счета текущих операций	0,8	2,3	–3,6	–6,4	–4,9	–4,2
Общее сальдо бюджета	3,1	2,3	–3,5	–2,2	–3,4	–1,0
Инфляция (в среднем за год, в процентах)	9,2	5,9	6,4	10,5	8,9	7,8
Страны — экспортеры нефти и газа КЦА						
Реальный ВВП (годовой рост)	8,6	5,3	3,1	2,4	3,5	3,7
в т.ч. рост без учета нефтяного сектора	8,7	6,7	3,1	1,7	2,4	3,0
Сальдо счета текущих операций	2,1	3,6	–3,0	–6,2	–4,4	–3,6
Общее сальдо бюджета	4,0	2,7	–3,5	–1,7	–3,3	–0,7
Инфляция (в среднем за год, в процентах)	9,5	6,1	6,6	11,6	9,3	8,2
Страны — импортеры нефти и газа КЦА						
Реальный ВВП (годовой рост)	6,4	4,7	3,8	3,3	3,9	3,8
Сальдо счета текущих операций	–7,7	–9,2	–8,9	–7,9	–8,6	–8,2
Общее сальдо бюджета	–3,3	–1,3	–3,1	–6,1	–4,2	–3,7
Инфляция (в среднем за год, в процентах)	7,4	4,6	4,8	1,9	5,3	4,7

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.

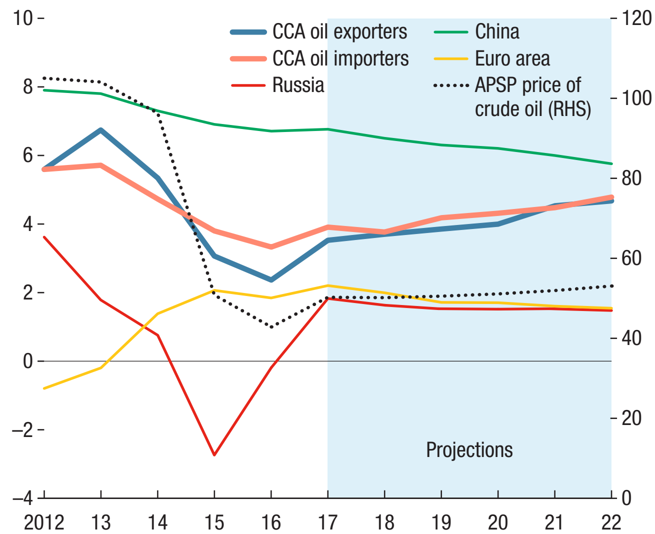
3. Caucasus and Central Asia: No Room for Complacency

Growth in the Caucasus and Central Asia (CCA) started to pick up during the second half of 2016, and is projected to accelerate further in 2017 and beyond. Improved economic conditions in the region's main trading partners and some firming of commodity prices, combined with continued implementation of structural reforms, are anticipated to support the recovery. However, medium-term growth is forecast to remain below historical norms. Reforms promoting diversification away from remittances and commodities should therefore be accelerated to secure strong, sustainable, and inclusive growth. To capitalize on opportunities for integration into the global economy—including through China's Belt and Road Initiative—institutional frameworks should be strengthened to facilitate productive investment and foster private sector development. Fiscal consolidation should continue to ensure that buffers are rebuilt, public expenditure channeled efficiently, tax collection improved, and social safety nets protected. Monetary policy frameworks should be strengthened further, including by establishing clear objectives, safeguarding central bank independence, and enhancing communication. Deep-rooted weaknesses in highly dollarized banking sectors—which are not in a position to support growth in some countries—should be addressed promptly.

Outlook Supported by Improving External Conditions

Economic activity in the CCA region bottomed out in 2016, as countries grappled with spillovers from the adverse external environment that emerged in mid-2014 (Figure 3.1). Regional growth declined to 2.5 percent last year, almost 3 percentage points below growth in 2014 when oil prices started to drop. Given some firming in the prices of key commodities—which nonetheless remain well below levels before 2014—and improved economic conditions in the region's main trading partners (Russia, China, and the euro area), growth in the CCA is projected to increase to 3.6 percent this year, and pick up to 3.7 percent in 2018. This baseline outlook is predicated on countries continuing to implement structural reforms, and, in some cases, promptly resolving financial sector weaknesses. Relative to the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update*, the outlook is 0.4 percentage point stronger in 2017 and similarly weaker in 2018, largely reflecting developments in Kazakhstan, the largest economy in the region. Because external conditions are expected to remain relatively subdued in 2019 and beyond, and structural reforms are likely to proceed gradually, growth in the CCA is anticipated to average 4.3 percent in 2019–22, well below the 8.1 percent average in 2000–14.

Figure 3.1. Growth Expected to Recover Gradually
(Real GDP growth, percent, and US dollars a barrel)



Sources: National authorities; and IMF staff calculations.
Note: APSP = average petroleum spot price—average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices; CCA = Caucasus and Central Asia; RHS = right scale.

Prepared by Sangyup Choi and Juan Treviño (lead author). Research assistance was provided by James Aylward, Jorge de León, and Sebastián Herrador.

In oil-exporting countries, growth is projected to pick up from a post-1998 low of 2.4 percent last year to 3.5 percent in 2017 and 3.7 percent in 2018. Oil exporters have shown signs of improvement since the second half of 2016, supported by some increase in oil prices and a gradual strengthening of external demand. In Kazakhstan, the construction, transportation, and agriculture sectors strengthened during the latter part of 2016, and growth is expected to further improve with advances in the operation of the Kashagan oil field and the continuation of structural reforms. In Azerbaijan, last year's economic contraction extended into the first quarter of 2017, albeit at a slower pace, due in part to lower oil production in the context of the agreement led by the Organization of the Petroleum Exporting Countries, exacerbated by ongoing financial vulnerabilities. Although the economy is projected to resume growing in 2018, this will be a gradual recovery, with activity limited by the implementation of much-needed fiscal consolidation. In Turkmenistan, growth was supported by strong agriculture and services activities last year, and is projected to remain stable in the short term, owing to rising exports of natural gas to China, expansionary credit policies, and industrial policies to promote exports and substitute imports. Growth among CCA oil exporters is anticipated to pick up slowly over the medium term given the relatively subdued external conditions, underscoring the need to reduce dependence on hydrocarbons.

In oil importers, last year's growth was 3.3 percent, some 0.5 percentage point below the 2015 outturn. This largely reflected the persistence of earlier adverse external shocks resulting in reduced remittances and commodity exports, but also weak domestic demand, especially in Armenia and Georgia. The slowdown in those countries was partially offset by strong growth in Tajikistan due to fiscal expansion that supported industrial and construction activities, and in the Kyrgyz Republic as a result of higher gold production and stronger industrial and services activities, especially during the second half of the year. As remittances pick up with the recovery in Russia and external demand improves, growth in oil importers is projected to strengthen to almost 4 percent this year and next. In Georgia, the projected acceleration in growth this year and next is expected to be stronger than anticipated in the May 2017 *Regional Economic Outlook: Middle East and Central Asia Update,* supported by solid domestic and external demand. In Armenia, economic activity is anticipated to pick up in 2017, reflecting higher projected copper prices and stronger remittances. Conversely, growth is expected to moderate in the Kyrgyz Republic as gold production stabilizes, and in Tajikistan, where the financial sector remains in significant distress and the outlook has deteriorated relative to May. Over the medium term, economic activity in oil importers is expected to remain on a path to recovery, assuming growth dividends from structural reforms gradually materialize.

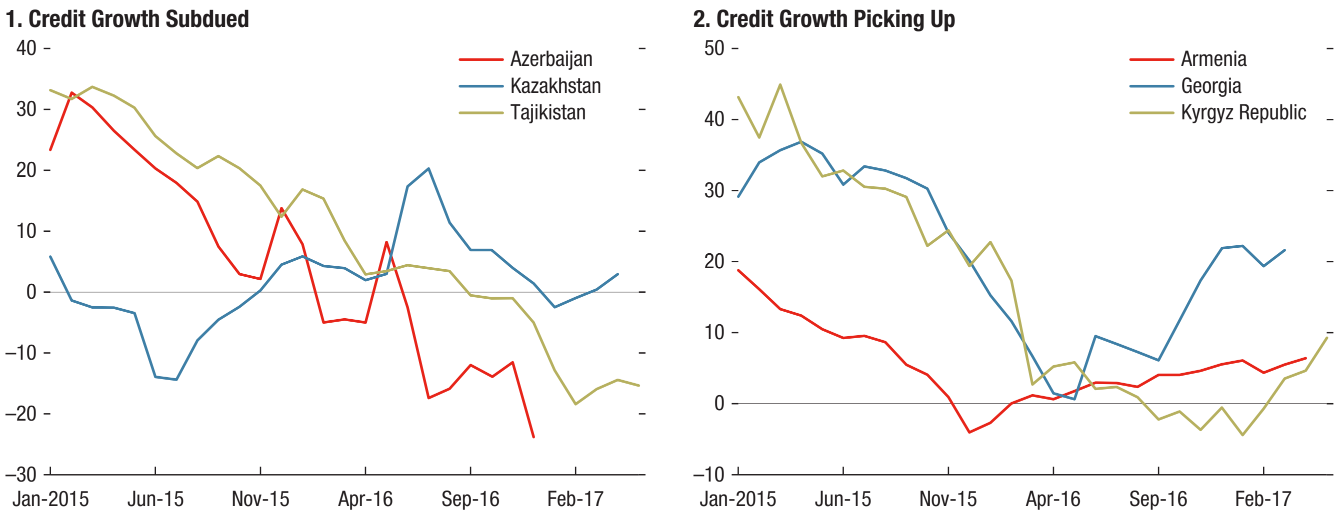
Financial Sector Weaknesses Restrain Growth

Financial sector vulnerabilities remain high in several CCA countries. In Azerbaijan, the largest state-owned bank is in the process of a voluntary debt restructuring worth some 9 percent of GDP, while several small banks are attempting to raise fresh capital. In Kazakhstan, the two largest banks have merged, and the authorities have provided support to the financial sector equivalent to about 4 percent of GDP this year. In Tajikistan, the authorities intervened in two major banks, providing support totaling some 6 percent of GDP. In these countries, the deterioration in asset quality and bank profitability, and the large share of underperforming loans, have adversely affected lending (Figure 3.2, panel 1).[1]

The financial systems of other CCA countries have proved somewhat more resilient, and credit growth has gained momentum (Figure 3.2, panel 2). In Armenia, for example, after the merger of three

[1]Underperforming loans comprise officially reported nonperforming loans (NPLs), adjustments made to make the NPL data more consistent with international definitions, plus estimates of restructured and exchanged loans.

Figure 3.2. Credit Growth Has Shown Diverging Trends across the Region
(Credit growth, percent, year over year)

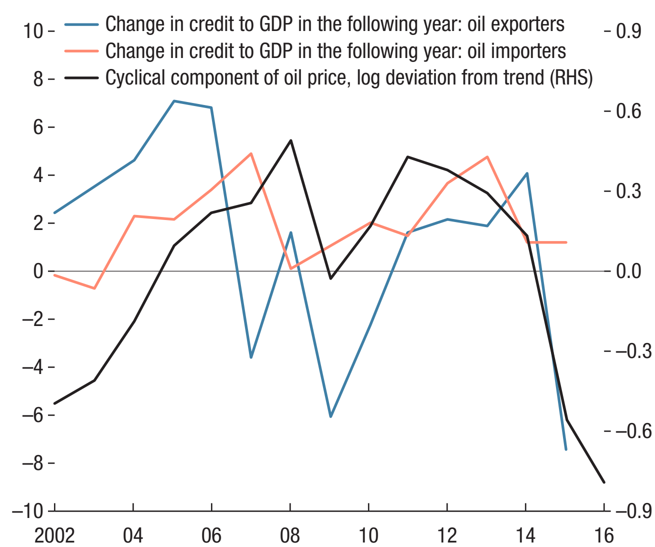


Sources: National authorities; and IMF staff calculations.
Note: These values are not adjusted for exchange rate effects.

banks in 2016 and injections of capital to meet new regulations, financial soundness indicators have improved, with better profitability and lower levels of nonperforming loans (NPLs). In Georgia, where the two largest banks acquired some smaller banks, NPLs have increased only marginally, and banks continue to report adequate capital and liquidity. In the Kyrgyz Republic, dollarization has declined, and capitalization of banks is adequate, although NPLs remain high. In Turkmenistan, credit growth has remained strong in support of the authorities' development efforts, although this rapid credit growth creates the risk of lower credit quality in the future.

While important steps have been taken, efforts that promote financial sector resilience should continue as, in some cases, vulnerabilities have raised concerns about the capacity of banking systems to support economic activity. Actions should focus on enabling an accurate assessment of banks' health, developing effective bank resolution frameworks, enhancing prudential regulation and supervision, and resolving governance issues (Box 3.1). Oil prices, which are anticipated to remain subdued, have historically been closely tied to the region's credit cycle (Figure 3.3) and

Figure 3.3. Credit Cycle Highly Correlated with Oil Prices
(Simple averages, percent of GDP)



Sources: IMF, *International Financial Statistics*; national authorities; and IMF staff calculations.
Note: RHS = right scale.

could therefore prove to be a persistent drag on economic activity in coming years. This underscores the need for resilient financial sectors that can effectively channel savings to productive investments, promoting much-needed economic diversification.

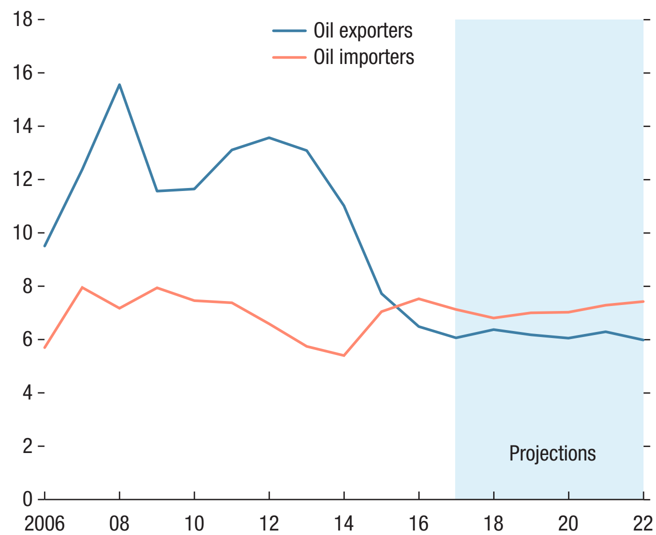
Fiscal Consolidation Efforts Should Continue

Fiscal balances in many CCA countries deteriorated in recent years as policymakers accommodated lower budget revenues in the context of falling commodity prices and remittances. With the notable exceptions of Azerbaijan and Kazakhstan, overall fiscal balances worsened in 2016 relative to 2015. However, overall balances are projected to improve in many countries this year and next, reflecting a combination of higher revenues in some, and lower public expenditures in others, helped by the continued unwinding of previous public investment booms (Figure 3.4).[2] With few exceptions, fiscal balances are anticipated to continue this trend gradually over the medium term. This partly reflects the expectation that previous fiscal stimulus will dissipate and revenues will improve with economic activity, but it is also predicated on the assumption that countries proactively identify and address—or at least contain—fiscal risks in the context of a new growth paradigm less reliant on commodity revenues.

Among oil exporters, overall fiscal deficits are anticipated to widen by some 1.6 percentage points of GDP on average this year relative to 2016, but this reflects, for the most part, one-time fiscal transfers to the financial sectors in Azerbaijan and Kazakhstan. Over the medium term, oil exporters' fiscal deficits are projected to decline further to 0.4 percent of GDP on average.[3] This reflects a gradual pickup in both oil and non-oil revenues, and large cuts in public investment. Deficit financing has relied on a combination of asset drawdowns (Kazakhstan, Turkmenistan) and foreign debt issuance (Azerbaijan, Kazakhstan).

Figure 3.4. Projected Fiscal Consolidation from Reduced Public Investment

(Weighted average, percent of GDP for oil importers, percent of non-oil GDP for oil exporters)



Sources: National authorities; and IMF staff calculations.
Note: Country-specific weights correspond to purchasing-power-parity-adjusted GDP.

For oil importers, higher deficits arising from fiscal accommodation—and financial sector support in Tajikistan—were mostly financed through foreign debt issuance and other foreign financing (except for Tajikistan, which issued debt domestically). Overall deficits for this group are projected to decline to 4.2 percent in 2017 and 3.7 percent in 2018, backed by revenue mobilization and strengthened expenditure management in Armenia, and implementation of wage bill reform in the Kyrgyz Republic. Fiscal deficits for these countries are projected to gradually decline to 1.9 percent of GDP on average by 2022, supported by revenue mobilization efforts

[2]These booms resulted in substantial increases in the share of public investment to GDP in some CCA countries. Fiscal accounts do not necessarily reflect them since many projects were implemented through state-owned enterprises.

[3]Non-oil fiscal deficits are projected to increase to 17.6 percent of non-oil GDP this year from 13.9 percent in 2016, but decline to 10.9 percent of non-oil GDP in 2022.

in Armenia (the 2016 tax code is expected to raise revenues by about 2 percentage points of GDP over the medium term) and improved tax administration and expenditure restraint in Tajikistan.

Fiscal consolidation efforts continue, but more might be needed to reduce debt and bring buffers back to preshock levels. Moreover, the pace and composition of fiscal consolidation should be carefully calibrated so as to not undermine medium-term growth. This calls for strengthening the efficiency of public spending by carefully selecting projects with the highest impact on productivity and potential growth, as well as by streamlining public sector wage bills—including in some countries by limiting staff numbers and bonusesand implementing civil service reforms (Tamirisa and others, forthcoming)—while ensuring preservation of critical social expenditure that protects the poor and vulnerable. These actions should be coupled with additional efforts to mobilize revenues, including through reducing tax exemptions and strengthening collections (Box 3.2). As countries adjust to the new reality of low commodity prices and move toward more flexible exchange rate regimes (see below), anchoring fiscal consolidation in strong and credible multiyear frameworks will become instrumental for maintaining macroeconomic stability and, ultimately, achieving strong, sustainable, and inclusive growth. To this end, it is essential that CCA countries promote transparency and accountability in the use of public funds.

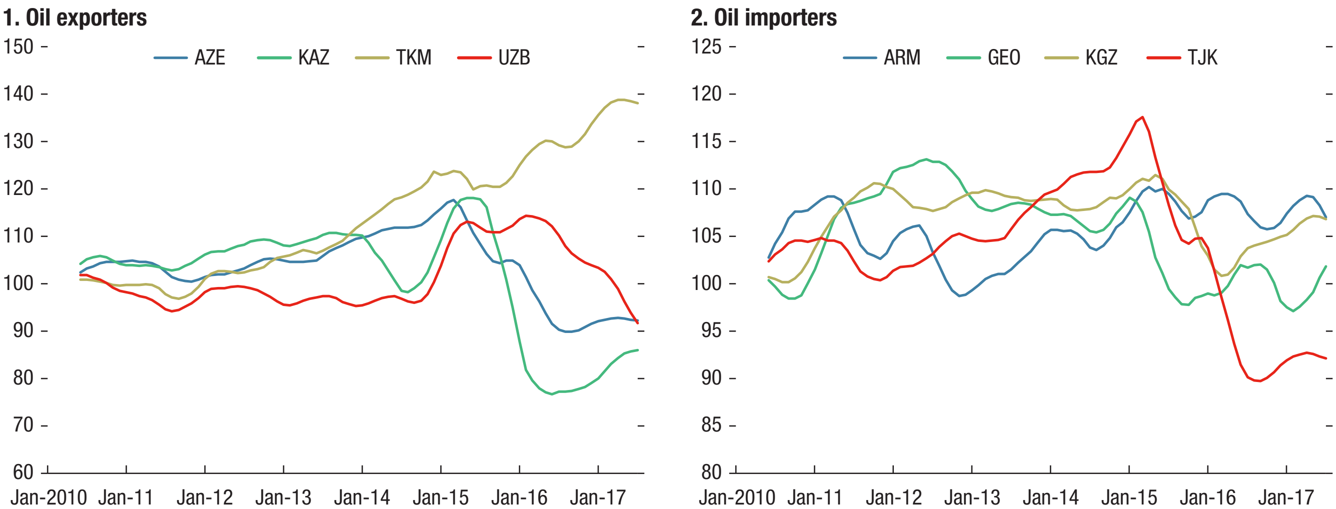
External Balances Projected to Improve Gradually

The current account deficit in the region reached 6.4 percent of GDP in 2016, some 2.8 percentage points more than in 2015. Within this overall trend, current account balances deteriorated in almost all oil exporters, reflecting lower oil prices. In contrast, the current account balance improved in most oil importers. In Armenia, the current account deficit marginally improved to 2.3 percent of GDP, partly due to a new copper mine and a rebound in exports to Russia. In the Kyrgyz Republic, the current account deficit narrowed by about 6 percentage points of GDP, benefiting from strong exports of gold, low fuel import prices, and a pickup in remittances. In Tajikistan, where the current account deficit narrowed by some 2 percentage points of GDP, exports somewhat recovered, while imports contracted only moderately despite a substantial decline in remittances.

Exchange rate movements have facilitated adjustment to the adverse external environment in many CCA countries (Figure 3.5), as discussed in Chapter 3 of the October 2016 *Regional Economic Outlook: Middle East and Central Asia*. Among oil exporters, Azerbaijan and Kazakhstan have allowed their currencies to move more freely, while Uzbekistan recently announced the unification of the official and parallel exchange rates—with the som losing about half of its value against the US dollar at the official exchange rate—and liberalized some transactions in foreign currency to allow for fuller use of market mechanisms to determine the exchange rate. All three currencies have depreciated in real effective terms relative to the period before the oil price drop. In contrast, the Turkmen manat has significantly appreciated in real effective terms over the past several years, despite a step devaluation in 2015. Among oil importers, currency adjustment has also played a role as shock absorber. In real effective terms, exchange rates have, on average, moved laterally since 2015 in Armenia, following a clear trend toward appreciation in 2013–15, and in Georgia, where the real effective exchange rate has remained below preshock levels. Similarly, the significant depreciation of Tajikistan's somoni over the past few years has brought the real effective exchange rate below historical averages. Conversely, the depreciation in the Kyrgyz Republic in 2015–16 has been largely reversed.

The current account balances of most CCA countries are projected to improve gradually in 2017 and beyond. These projections reflect a gradual improvement in external conditions,

Figure 3.5. Real Effective Exchange Rates Show Diverging Trends
(Six-month moving average, 2010 = 100)



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

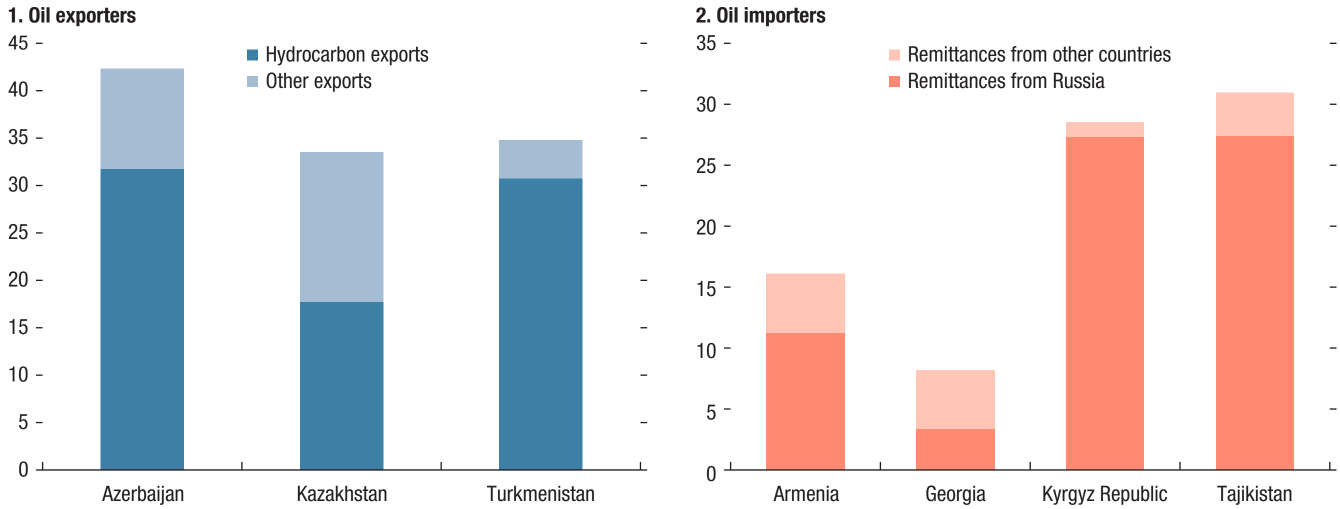
but also several country-specific factors. In Kazakhstan, oil exports are projected to increase as the Kashagan oil field becomes fully operational, although a return to current account surplus is not expected in the near future. In Turkmenistan, external deficits are projected to remain sizable over the medium term—amid significant public investment projects, low hydrocarbon prices, and a large import content of domestic spending—despite growing hydrocarbon exports and export-promotion and import-substitution policies. In oil importers, current account deficits will increase in 2017 and decline gradually throughout 2022. This gradual improvement reflects a pickup in imports that partially offsets the continued recovery in remittances observed since mid-2016. The high reliance on commodity exports and remittances again underscores the need for continued diversification across the region (Figure 3.6).

Monetary Policy Frameworks Should Be Enhanced Further

After peaking at double digits during 2016, CCA regional inflation is projected to moderate to 8.9 percent in 2017 (Figure 3.7), driven by Kazakhstan, where price pressures are easing, including from some exchange rate appreciation. In most other countries, inflation is anticipated to pick up this year, but remain subdued, especially among oil importers. In Georgia, for example, inflation is projected to accelerate from excise tax increases, the lagged effects of exchange rate depreciation, and higher commodity prices, before converging in 2018 to the central bank's target of 3 percent. In Armenia, where inflation has been persistently low, higher food prices are projected to exert some upward pressures, but inflation will remain in line with the official medium-term target range of 4±1.5 percent. Among oil exporters, higher import prices, combined with rapid growth in public sector wages and expansionary credit policies, have put upward pressure on inflation in Turkmenistan. In Uzbekistan, inflation is projected to accelerate into double digits given recent high money growth and rapid depreciation of the som. Regional inflation is projected to decline gradually to 5.9 percent by 2022.

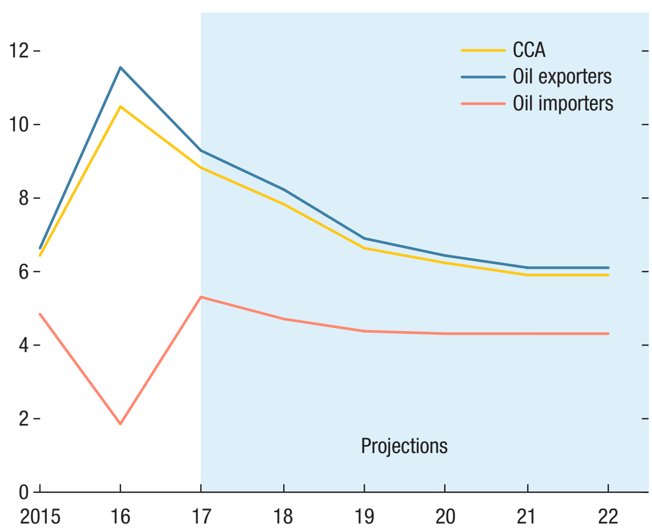
With inflation prospects generally subdued as exchange rates stabilize, and with the expected

Figure 3.6. High External Dependence
(Percent of GDP, 2014–16 average)



Sources: National authorities; and IMF staff calculations.

Figure 3.7. Inflationary Pressures Subsiding
(Weighted averages, CPI, percent change, year over year)

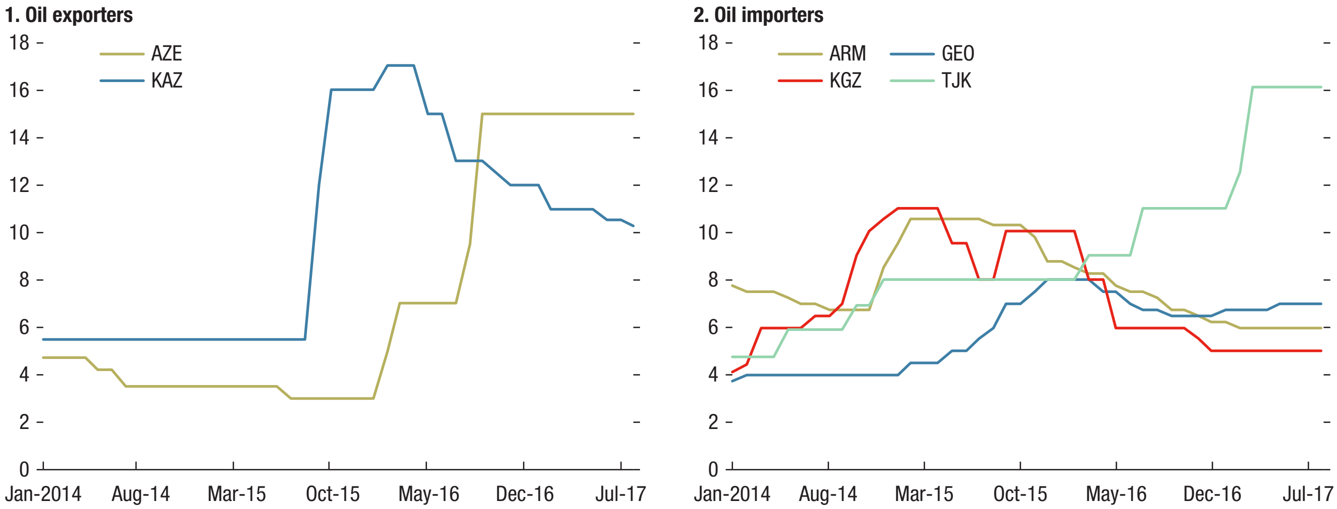


Sources: National authorities; and IMF staff calculations.
Note: Country-specific weights correspond to purchasing-power-parity-adjusted GDP. CCA = Caucasus and Central Asia, CPI = consumer price index.

pickup in economic activity being slow relative to historical standards, restrictive monetary policies have started to unwind in many countries (Figure 3.8). Exceptions include Azerbaijan, Georgia, and Tajikistan, where central banks have increased their policy rates in response to rising inflation. In 2017, the National Bank of Tajikistan raised its policy rate twice to reach 16 percent, significantly increased sales of National Bank of Tajikistan bills, and raised reserve requirements. In Azerbaijan, the central bank sharply raised its policy rate in late 2016 from 7 percent to 15 percent, where it has remained. At the other end of the spectrum, rapid policy rate cuts have taken place in Kazakhstan among oil exporters, and in Armenia and the Kyrgyz Republic among oil importers. These actions, however, have in some cases had a limited impact on bank lending and deposit rates, indicating weaknesses in the monetary transmission mechanism.

Since the exchange rate no longer serves as an anchor for domestic prices in most CCA countries, policymakers should redouble efforts toward developing strong and credible monetary policy frameworks. Priorities include establishing clear monetary policy objectives, enhancing central bank communication, and improving the transmission mechanism for monetary policy and the analytical toolkit for central banks. Moreover, the exchange rate should continue to act as a shock absorber. Given the exposure to external shocks and widespread dollarization, foreign exchange

Figure 3.8. Diverging Monetary Policy Actions
(Monetary policy rates)



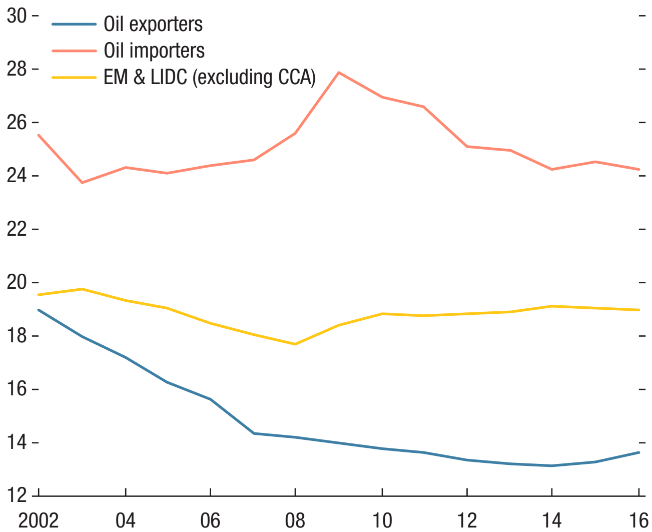
Sources: IMF, *International Financial Statistics*; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

reserve buffers should be maintained, with direct market interventions limited to dealing with disorderly conditions. The pace of monetary easing should be consistent with inflation developments, not only to avoid undermining the price stability mandate, but also to support financial development and contribute to dedollarization efforts. Policies toward improving liquidity management and developing a local currency yield curve should continue. For example, the Central Bank of Armenia continues to improve liquidity forecasting and management and to enhance its instruments and analytical toolkit. The National Bank of Georgia now publishes its forecast for the policy rate path in its monetary policy report. In the Kyrgyz Republic, efforts to gradually narrow the corridor around the policy rate and make it more symmetric are ongoing, with the goal of gradually making the transition to an inflation-targeting framework.

Structural Reforms Needed for Strong, Sustainable, and Inclusive Growth

Despite the nascent recovery, implementation of structural reforms to promote strong, sustainable, and inclusive growth through economic diversification and private sector job creation is urgently needed. Although the region had been catching up quickly to the living standards in other emerging markets (see Chapter 3 of the October 2016 *Regional Economic Outlook: Middle East and Central Asia*), the growth slowdown over the past couple of years, combined with the subdued outlook, suggests that further significant income and employment gains could be elusive. For example, the decline in youth unemployment in oil exporters since 2002 has stalled recently—with youth unemployment even picking up in some countries—while the reductions secured by oil importers following the global financial crisis have also come to a halt (Figure 3.9). These developments highlight the urgency of following through on structural reforms, not least because external conditions are projected to remain relatively subdued in coming years.

Figure 3.9. Persistent Labor Market Deficiencies
(Average, percent of youth unemployment rate)



Source: International Labour Organization estimates.
Note: CCA = Caucasus and Central Asia; EM = emerging market economy; LIDC = low-income developing country.

Some previously announced reforms have started to be implemented. In Kazakhstan, the authorities have launched the *100 Concrete Steps* and *3rd Modernization Initiative*. These comprehensive initiatives, which aim to address gaps in public administration, the business environment, competitiveness, and commodity dependence, require strong commitment from stakeholders, as they need consensus for their implementation. A key element is the planned reduction of the role of the state through privatizations, the first wave of which is expected in 2018. In Armenia, a new entity, the *Center for Strategic Initiatives*, was established in January 2017 to foster public-private partnerships and attract foreign direct investment. Reforms in the energy sector and the tax system have proceeded successfully in that country, and others are underway, seeking to tackle corruption, improve competition and the business climate, and attract foreign direct investment. Given the limited fiscal space across the region and the projected reduction in public investment, it is also crucial for the CCA to proceed with the reform and privatization of state-owned enterprises. For example, Georgia is planning to introduce a public-private partnership law, and strengthen monitoring of contingent liabilities arising from these partnerships and from state-owned enterprises. In Tajikistan, structural fiscal reforms should aim to improve service delivery, enhance the business climate, and reduce fiscal risks. In Turkmenistan, the new seven-year development plan is creating an opportunity to broaden and deepen market-oriented reforms. Uzbekistan has announced a comprehensive economic and social reform package, including a reform of the foreign exchange system. These reforms, if implemented appropriately, hold the promise of significantly improving the business climate, with positive implications for the Uzbek economy and the rest of the CCA region.

Accelerating the implementation of structural reforms in support of private sector development is critical to achieving the greater diversification needed to boost growth by attracting productive investments and creating jobs. Reforms that further strengthen governance, transparency and accountability, and property rights are also necessary for CCA countries to benefit fully from the opportunities created by China's Belt and Road Initiative (Box 2.1, Chapter 2), and from the strengthening global economy more broadly (Chapter 4).

Risks Balanced in the Short Term, but Tilted to the Downside over the Medium Term

Continued strengthening of the global economy, trade, and some commodity prices, as well as several upside risks at the regional level, imply a balanced risk outlook for the CCA region. For example, in Georgia, growth could surprise on the upside given the possibility of stronger-than-expected returns from trade integration—including through deeper economic ties with China. In the Kyrgyz Republic, upside risks include deeper economic ties with China, whose Belt and Road Initiative provides the region with a gateway into the global economy; projects financed by the Russian-Kyrgyz

Development Fund; and a greater-than-expected impact from the country's membership in the Eurasian Economic Union. Among oil exporters, despite vulnerability to lower commodity prices, Kazakhstan's upside risks include benefits from structural reforms, enhanced regional cooperation, deeper economic relations with Uzbekistan, and a stronger recovery in Russia.

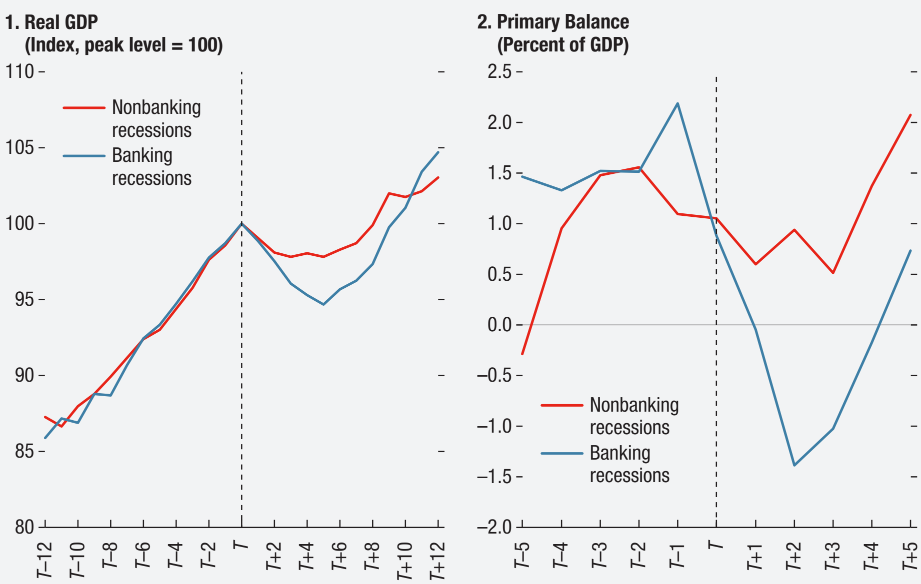
The downside risks are salient mostly over the medium term, stemming from the possibility of inward-looking policies in advanced economies that would adversely affect global trade and commodity prices. Also, monetary policy normalization in advanced economies, notably in the United States, could trigger a rapid tightening in global financial conditions. This tightening would lead to exchange rate volatility and depreciation, which could further increase public debt across the CCA and exacerbate the region's financial sector vulnerabilities. Internally, the fact that economic activity in the region is expected to pick up could delay the implementation of structural reforms, increasing the risk that the window of opportunity provided by the strengthening global economy and the various integration initiatives will be missed. This could be exacerbated by not committing to resolve financial sector vulnerabilities promptly, especially where banks are not in a position to support growth, much less the needed diversification. Ultimately mediocre economic performance could result, which would harm the living standards of the population.

Box 3.1. Addressing Financial Sector Vulnerabilities in the Caucasus and Central Asia to Support Growth

Recent external shocks have exposed continued financial vulnerabilities in Caucasus and Central Asia (CCA) countries. Despite some progress, fully addressing these vulnerabilities will require a stronger commitment to enhance regulation and supervision, improve bank resolution frameworks, and strengthen governance. This will limit short-term fiscal risks and enhance long-term growth.

Sound financial sectors provide many benefits—channeling savings to productive investments, reducing economic volatility and uncertainty, and cushioning the impact of adverse external shocks. But effective regulation and supervision are needed to mitigate the risk that banking sector vulnerabilities amplify the depth of downturns (Figure 3.1.1, panel 1), and generate strong fiscal pressures (Figure 3.1.1, panel 2). In extreme cases, these vulnerabilities can trigger crises with severe and long-lasting consequences and a loss of confidence in financial intermediaries.

Figure 3.1.1. Implications of Banking Recessions in Emerging Markets



Source: IMF 2015.
Note: A "banking recession" is defined as a recession preceded by rapid banking sector expansion. *T* (years) corresponds to the onset of a recession episode.

Recent external shocks have exposed ongoing shortcomings in regulation and supervision, loan loss recognition, and governance across the CCA. Some countries, notably Armenia, Georgia, and the Kyrgyz Republic, have already acted to strengthen regulation and supervision, significantly increasing the resilience of their financial sectors. However, progress has been slower in Azerbaijan, Kazakhstan, and Tajikistan, where policy responses have focused on helping financial sectors remain operational, and comprehensive programs for enhancing financial stability have only recently been announced.

This box was prepared by Juan Treviño. Research assistance was provided by Jorge de León Miranda.

Box 3.1 *(continued)*

While financial stability risks vary across the CCA, they could trigger potentially disruptive macroeconomic and social effects in some countries. Policymakers should focus immediate attention on those policies that are most critical or can be achieved quickly. Key priorities include the following:

- *Assessing banking sector health:* Although not a pressing issue in all CCA countries, uncertainty about the magnitude of problems on banks' balance sheets emerging from imperfect assessment of the health of banks is hindering an appropriate policy response. Reporting of nonperforming loans (NPLs), including off-balance-sheet items, should be brought in line with international best practice, and independent asset quality reviews should be undertaken to more accurately assess the viability of banks. This need is especially acute in Azerbaijan and Kazakhstan, where NPL measurements do not include assets transferred to special purpose vehicles, and where asset quality reviews have not yet been implemented. Performing these reviews would enable formulation of a strategy to proactively address NPLs, and assess provisioning and capitalization needs. This would, in turn, facilitate the timely intervention of banks if shareholders and managers fail to achieve a turn-around (for example, if they are unable to raise capital), limiting potential fiscal costs and supporting a speedier recovery in financial intermediation and, consequently, growth.

- *Improving bank resolution frameworks:* Although Armenia, Georgia, and Tajikistan have been working on improving their resolution frameworks following the lessons from the global financial crisis, all CCA countries need to do more to develop effective resolution frameworks. These frameworks should ensure that state support is provided only for viable banks and under strict conditions—such as time-bound recapitalizations with close oversight and corrective actions that avoid forbearance, and with clear restructuring plans where management is replaced and shareholder participation reduced or eliminated if necessary. Effective frameworks are especially urgent in Azerbaijan, Kazakhstan, and Tajikistan where fiscal pressures arising from discretionary support to financial institutions have increased significantly. For insolvent institutions, liquidation options should provide for orderly closure while protecting retail customers through deposit insurance programs. The resolution authority should have political and operational independence, sound governance structures and adequate resources, and should follow transparent processes. It should be subject to rigorous evaluation and accountability and be protected against liability for actions and omissions taken in good faith.

- *Enhancing prudential regulation and supervision:* CCA countries should continue strengthening regulatory and supervisory frameworks so that financial institutions remain resilient during periods of stress. Strengthening consolidated supervision and macroprudential frameworks is essential, and steps toward reducing dollarization risks must continue. For instance, the experience of countries such as Georgia and Armenia shows that the risk of large exchange rate depreciations can be mitigated by stricter rules on banks' open positions in foreign currency, more restrictive liquidity requirements on foreign currency, and higher risk weights and stricter limits on foreign-currency-denominated loans.

- *Strengthening corporate governance:* In many CCA countries, weak governance and opaque bank ownership—exacerbated by weak management, political interference, and corruption—have facilitated related-party lending, excessive risk taking, and discretionary support from regulators. Failure to address governance problems can lead to credit misallocation, which threatens economic diversification and, ultimately, growth. A strong governance structure should emphasize transparency and include clear responsibility at the executive and board levels, limit public sector influence in the administration and operation of the bank, and establish independent risk management, compliance, and internal control units. These actions would facilitate the development of a well-functioning financial system and promote confidence in the economy.

Box 3.2. Setting the Course for Growth-Friendly Fiscal Policy in the Caucasus and Central Asia

Growth-friendly fiscal consolidation is needed in the Caucasus and Central Asia (CCA). Options include enhancing tax revenue and improving the fairness of the tax system, curtailing public sector wage bills, reforming subsidies, improving the targeting of social safety nets, and supporting more efficient public investment. Well-designed fiscal rules and other steps to strengthen public financial management would also help.

Faced with large and persistent external shocks in 2014–15, most CCA countries allowed fiscal deficits to increase. This helped contain the impact of the shocks on output and job creation, but led in some instances to a rapid increase in public debt. At the same time, sizable risks built up in the banking sector, and support provided to the financial sector added significantly to deficits and debt in some countries (see Box 3.1).

Fiscal policymakers now face the challenge of restoring sound public finances and rebuilding buffers over the medium term in a growth-friendly way, including by maintaining scope for productive public investment. Meeting this challenge requires not only setting and achieving appropriately ambitious medium-term deficit targets, but also proactively identifying and addressing fiscal risks. With commodity prices unlikely to revert to preshock levels, thereby limiting future remittance flows, fiscal consolidation needs to be framed in the context of a transition to a new inclusive growth model based on greater diversification and job creation. Therefore, it is imperative that structural reforms be pursued in parallel.

Key considerations for fiscal policymakers include the following:

- *Enhancing revenue:* Tax revenue could provide a key lever for designing a growth-friendly consolidation package and improving its fairness. Broadening both the direct and indirect tax bases, and reducing widespread tax exemptions, would provide additional revenues and improve the distribution of the tax burden—an important concern affecting the investment climate in some countries. Although many CCA countries (including Armenia, Georgia, Kazakhstan, the Kyrgyz Republic, and Tajikistan) are already pursuing policies to increase tax revenues, more ambitious fiscal targets and corresponding fiscal reforms are needed. Finally, improving revenue administration to ensure better enforcement of tax collection, including by taxing higher-net-worth individuals more effectively, would improve the fairness of the tax system.
- *Strengthening expenditure policy:* Consolidation efforts should focus on creating space for growth-enhancing investment, and on implementing fairer and more targeted social safety nets by curtailing government wage bills, inefficient and regressive subsidies, and poorly targeted social benefits. Most countries (except Tajikistan and Uzbekistan) are already planning some curtailment of current expenditures, with Georgia and the Kyrgyz Republic planning sizable cuts in the public sector wage bill. Although several CCA countries have already undertaken subsidy reform, energy subsidies remain large, especially in the Kyrgyz Republic, Turkmenistan, and Uzbekistan. Further reform would create additional space for better-targeted social spending. Finally, before any large increases are considered, reforms to boost the efficiency and productivity of public investment should be implemented.
- *Anchoring fiscal consolidation:* Experiences in other regions suggest that well-designed fiscal rules can play a valuable role in supporting fiscal consolidation. However, fiscal rules need to be tailored to countries' political economy settings to ensure they are not circumvented, for example by shifting spending to public sector units outside the government perimeter. Further improvements in public financial management, including medium-term budgeting, would also help anchor fiscal consolidation plans.

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CCA: Selected Economic Indicators

	Average 2000–13	2014	2015	2016	Projections 2017	2018
Real GDP Growth	**8.3**	**5.3**	**3.1**	**2.5**	**3.6**	**3.7**
(Annual change, percent)						
Armenia	7.6	3.6	3.3	0.2	3.5	2.9
Azerbaijan	11.3	2.7	0.6	–3.1	–1.0	1.3
Georgia	5.9	4.6	2.9	2.7	4.0	4.2
Kazakhstan	8.0	4.3	1.2	1.1	3.3	2.8
Kyrgyz Republic	4.5	4.0	3.5	3.8	3.5	3.8
Tajikistan	7.9	6.7	6.0	6.9	4.5	4.0
Turkmenistan	11.3	10.3	6.5	6.2	6.5	6.3
Uzbekistan	7.0	8.1	8.0	7.8	6.0	6.0
Consumer Price Inflation	**9.2**	**5.9**	**6.4**	**10.5**	**8.9**	**7.8**
(Year average, percent)						
Armenia	4.2	3.0	3.7	–1.4	1.9	3.5
Azerbaijan	6.4	1.4	4.0	12.4	12.0	8.0
Georgia	5.5	3.1	4.0	2.1	6.0	3.0
Kazakhstan	8.5	6.7	6.7	14.6	7.3	6.5
Kyrgyz Republic	8.7	7.5	6.5	0.4	3.8	5.1
Tajikistan	13.9	6.1	5.8	5.9	8.9	8.0
Turkmenistan	5.5	6.0	7.4	3.6	6.0	6.2
Uzbekistan	14.9	9.1	8.5	8.0	13.0	12.7
General Gov. Overall Fiscal Balance	**3.1**	**2.3**	**–3.5**	**–2.2**	**–3.4**	**–1.0**
(Percent of GDP)						
Armenia[1]	–3.2	–1.9	–4.8	–5.6	–3.3	–2.7
Azerbaijan[1]	7.5	2.7	–4.8	–1.1	–0.3	0.7
Georgia	–2.9	–2.9	–3.8	–4.1	–3.8	–3.8
Kazakhstan	3.2	2.4	–6.3	–4.1	–6.6	–2.0
Kyrgyz Republic	–4.5	1.0	–1.2	–4.5	–3.0	–2.4
Tajikistan	–2.7	0.0	–1.9	–10.6	–6.5	–5.4
Turkmenistan[2]	4.3	0.9	–0.7	–1.3	–1.1	–0.1
Uzbekistan	3.4	4.3	2.8	2.7	0.3	0.7
Current Account Balance	**0.8**	**2.3**	**–3.6**	**–6.4**	**–4.9**	**–4.2**
(Percent of GDP)						
Armenia	–8.9	–7.6	–2.6	–2.3	–3.6	–3.2
Azerbaijan	8.8	13.3	–0.4	–3.6	1.9	2.5
Georgia	–11.0	–10.7	–12.0	–13.3	–11.9	–10.7
Kazakhstan	–0.9	2.8	–2.8	–6.4	–5.3	–3.8
Kyrgyz Republic	–1.3	–16.0	–16.0	–9.7	–11.6	–12.0
Tajikistan	–4.5	–2.8	–6.0	–3.8	–6.3	–6.2
Turkmenistan	–7.7	–6.4	–14.0	–21.0	–15.4	–14.3
Uzbekistan	4.9	1.7	0.7	0.7	0.9	0.3

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

[1]Central government.

[2]State government.

4. Leveraging Trade to Boost Growth in the MENAP and CCA Regions

For economies in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) and the Caucasus and Central Asia (CCA) regions, the strengthening global recovery provides an important opportunity to boost exports and growth. Illustrative calculations suggest that achieving greater trade openness, coupled with increased global value chain (GVC) participation, export diversification, or product quality could raise the level of income by some 5–10 percent within the following five to ten years. Oil importers are better placed than other countries in the region to take advantage of the improved outlook for global trade, given their better integration into GVCs and more diversified export bases. However, oil importers could still improve the quality of their exports. In contrast, oil exporters should focus on economic diversification to produce and export a broader range of goods and services. Most countries would benefit from deepening access to export markets through trade agreements and by leveraging new integration opportunities, such as China's Belt and Road Initiative (see Box 2.1 in Chapter 2) and the Compact with Africa (see Box 2.3 in Chapter 2). Structural reforms to foster investment and job creation, as well as targeted fiscal policies to mitigate adjustment costs, may be needed to relieve any negative consequences of increased openness and to ensure the resulting boost to growth is as inclusive as possible.

Trade Helps Boost Growth

A large body of evidence has confirmed the substantial and robust positive effect of trade on growth and income. Following a seminal paper by Frankel and Romer (1999), many studies have focused on the channels through which trade affects economic growth.[1] Findings indicate that countries tend to grow faster when they have a more diversified export structure (Lederman and Maloney 2003), upgrade the quality of their exports (Henn, Papageorgiou, and Spatafora 2015), and are well integrated into GVCs (Didier and Pinat 2017).

Further empirical work tailored to key MENAP and CCA policy issues confirms these findings (Annex 4.1). This analysis, which covered 131 countries, 20 of which were from the MENAP or CCA regions, shows that investment in infrastructure, foreign direct investment (FDI), and overall openness to trade (as measured by the sum of exports and imports relative to GDP) all help increase growth in real per capita terms. These results are intuitive given that access to good-quality infrastructure helps reduce production costs and improve access to markets. Similarly, FDI can help expand the production capacity of the economy through technology and knowledge transfer, while trade openness boosts potential demand for a country's own production and tends to increase productivity through competitive pressures. In addition, the analysis suggests that export diversification, the quality of exports, and participation in GVCs, in particular the share of domestic value added in exports, all appear to be important for growth. This is as expected given that a broader range of products of higher quality and value added should translate into greater demand for exports, higher prices, and larger profits for exporters. There is an interesting negative relationship between growth and the initial level of per capita GDP, suggesting that countries' level of per capita GDP should converge over time. The positive impact of labor force education on growth found in advanced and emerging market economies (Chang, Kaltani, and Loayza 2009) becomes ambiguous once the sample of countries is expanded to include low-income countries with very low levels of completed postsecondary education.

Prepared by Alexei Kireyev (lead author), Maxym Kryshko, Boaz Nandwa, and Magali Pinat, with research assistance by James Aylward and Samira Kalla.

[1]See Singh 2010 for a literature review.

The impact of trade openness on inclusiveness is less clear. For instance, some empirical analysis suggests that increasing trade openness has no significant impact on inequality (Box 4.1). However, by increasing growth, trade has been shown to lead to higher incomes, which help reduce poverty (IMF, World Bank, and WTO 2017) and narrow wage gaps within the country (Council of Economic Advisers 2015). In the same vein, trade has expanded access to capital and technology, and by raising productivity and growth, trade has led to rising living standards, including in emerging market and developing economies (Chapter 3 of the April 2017 *World Economic Outlook*). Trade can also help reduce inequality by lowering prices for food and beverages consumed mainly by the poor (Faijgelbaum and Khandelwal 2016). At the same time, more openness to trade may be associated with adjustment costs that hurt some communities or groups of workers. Overall, Helpman (2016) finds that, although trade has adversely affected certain workers, it has had a modest impact on wage inequality. This finding points to an important role for domestic policies, both to mitigate adjustment costs and to ensure that the benefits are fully realized and equitably shared.

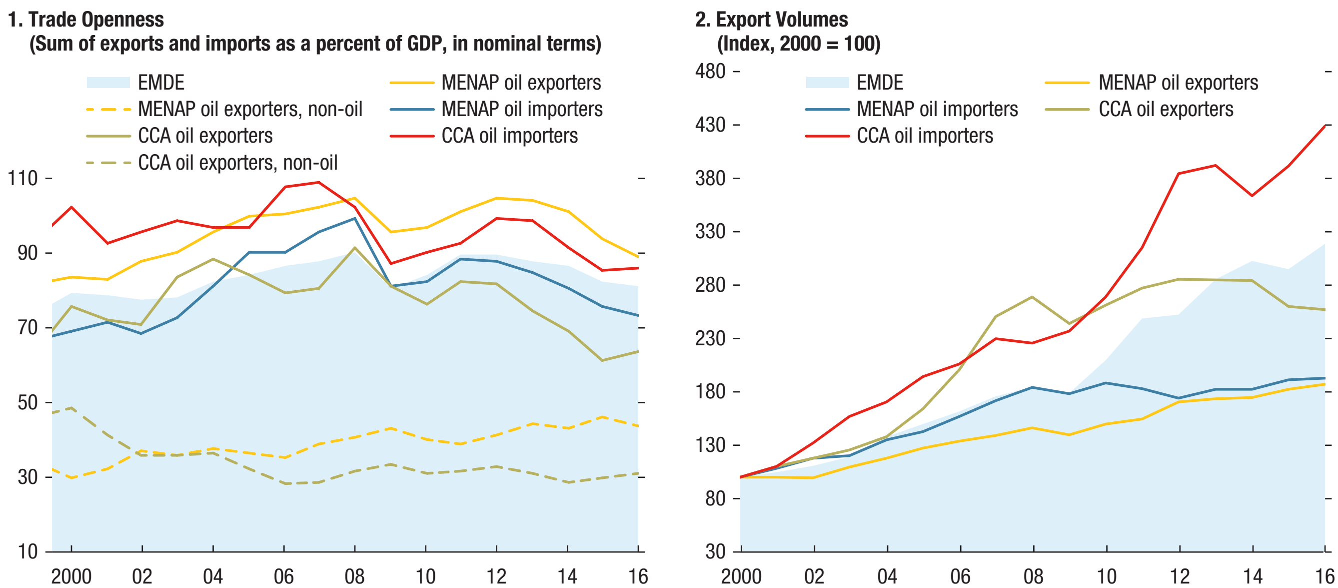
Trade Openness Has Declined in Recent Years

In recent years, trade openness has declined significantly across the MENAP and CCA regions. This decline has been consistent with international trends, including the overall weakness in international economic activity, particularly in investment; the waning pace of trade liberalization; the decline in commodity prices including for oil; and slower growth of GVCs (Chapter 2 of the October 2016 *World Economic Outlook*). The decline in oil importers has been relatively faster in the MENAP than in the CCA region, reflecting regional conflicts and geopolitical tensions (Figure 4.1). For both MENAP and CCA oil exporters, this relative weakness in trade openness can largely be explained by stagnant or declining oil and gas exports and lower prices in recent years. Excluding oil, trade openness has increased slightly in MENAP oil exporters, whereas trade openness in CCA oil exporters has been broadly stable in recent years—a sign that export diversification has made some progress. For MENAP oil importers, slower export growth than in the average emerging market and developing economy explains the trend. In CCA oil importers, export growth has been relatively fast, but import compression, driven by a decline in remittances, has driven the overall decline in openness in recent years.

Exports of services have increased in the region in the past decade, but remain too low, particularly in oil-exporting countries (Figure 4.2). Services represented, on average, 44 percent of total exports in MENAP and CCA oil importers in 2015 but less than 15 percent in oil exporters. In the region, exports of services are currently dominated by tourism, especially in MENAP oil importers, where it represents 51 percent of the total services exported. A number of countries around the world, including many in the MENAP and the CCA regions, have restrictive policies in services (Borchert, Gootiiz, and Mattoo 2014). Across sectors, professional and transportation services are among the most protected. In trade in services, numerous restrictions still apply to entry, ownership, and operations, and market access is often unpredictable because the allocation of new licenses remains opaque and highly discretionary. Technological innovations in trade, such as e-commerce, could help businesses reach international markets by increasing their connections with buyers and sellers at a minimum cost. Taking advantage of these innovations would facilitate the insertion of countries into GVCs in both goods and services, and would contribute to the emergence of regional value networks.

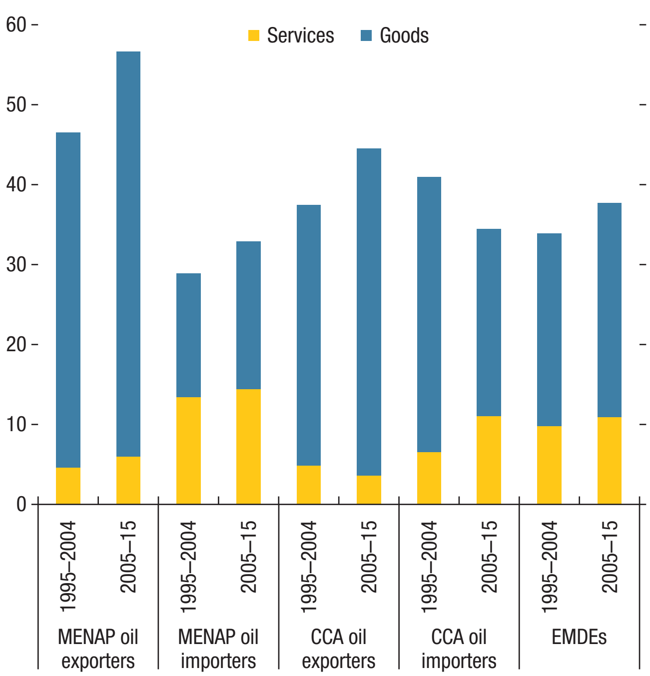
The MENAP and CCA regions appear to be relatively weakly integrated into the global trade network, both in export flows and the number of trading partners. MENAP oil exporters, by controlling a significant share of the global oil market, are substantially more important in global

Figure 4.1. Trade Openness and Real Exports



Sources: IMF, October 2017 *World Economic Outlook*; and IMF staff calculations.
Note: Afghanistan uses 2002 as its base year due to data issues. CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan.

Figure 4.2. Share of Goods and Services in Total Exports
(Percent of GDP)

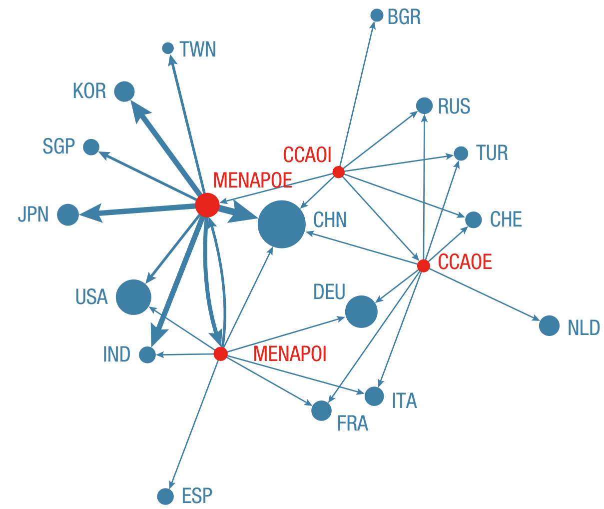


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EMDEs = emerging market and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan.

trade relative to other subregions (Figure 4.3). Their trade flows are dominated by oil exports, mainly to Asian countries and the United States. CCA oil exporters export mainly to major European countries. Whereas MENAP oil importers direct their exports primarily to large European markets and the United States, CCA oil importers export mainly to Russia and nearby European countries, such as Bulgaria, as an entry point to European Union markets. By implication, export links between MENAP and CCA countries are fairly weak. In addition, China has emerged as a major trading partner in recent years, with virtually every MENAP and CCA country exporting to China.

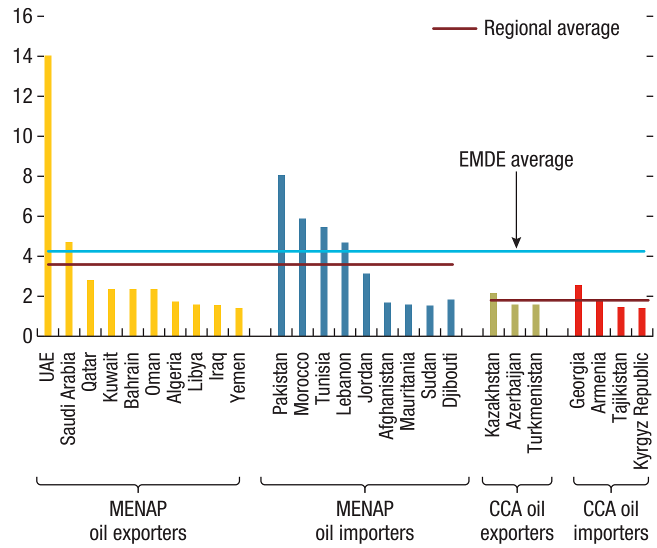
In number of export partners and value per export partner, the MENAP region seems more integrated into global trade than the CCA region. On average, MENAP countries export to about 70 percent of potential trading partners (that is, countries that import products that are exported by MENAP countries), lagging only North America and Europe, while CCA countries export only to 50 percent of potential markets,

Figure 4.3. MENAP and CCA Main Trade Partners, 2015



Sources: IMF, *Direction of Trade Statistics*; and IMF staff estimates.
Note: The nodes are proportional to the country total nominal exports, and the arrows are scaled by nominal export flows between countries. Only the main export partners of the MENAP and CCA regions are presented.
CCAOE = Caucasus and Central Asia oil exporters; CCAOI = Caucasus and Central Asia oil importers; EMDE = emerging market and developing economies; MENAPOE = Middle East, North Africa, Afghanistan, and Pakistan oil exporters; MENAPOI = Middle East, North Africa, Afghanistan, and Pakistan oil importers. Country abbreviations are International Organization for Standardization (ISO) country codes.

Figure 4.4. MENAP and CCA Export Penetration Index, 2015
(Higher the better)



Sources: WITS database; and IMF staff calculations.
Note: This indicator measures the extent to which a country's exports reach already proven markets. Shown are 2015 data or the latest available. Iran is omitted for lack of data. CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; UAE = United Arab Emirates.

suggesting there is room to expand the number of export markets. With a few exceptions, trade penetration, measured as export value per trading partner, is relatively weak in both MENAP and CCA countries (Figure 4.4). This finding indicates there is scope to enhance the quality and improve the domestic value-added component of exports, which should be reflected in a higher value of exports and broadened opportunities for trade and engagement in GVCs.

Export Diversification and Product Quality Remain Generally Low

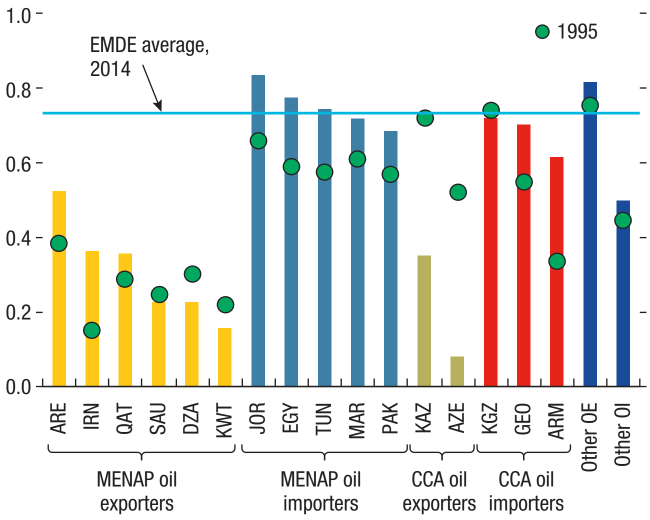
Export diversification in both MENAP and CCA countries underperforms relative to emerging market and developing economies (Figure 4.5, panel 1 and 2). Oil exporters are the least diversified in the region, and therefore likely to be subject to higher output volatility relative to more diversified economies. Levels of diversification among oil importers approach the emerging market and developing economy average, with MENAP countries faring better. This outcome likely reflects better geographical access to European markets and more robust inflows of FDI from the euro area and Gulf Cooperation Council countries. In CCA oil importers, although the rate of diversification was relatively high in 1995–98 following the move to more market-based economies, progress stalled in recent years, in part because FDI slowed (Tajikistan).

In line with region-level findings on export penetration, with a few exceptions, most MENAP and CCA countries are producing lower-quality exports than other emerging market and developing economies (Figure 4.5, panel 3 and 4).[2] Only in Jordan and Tunisia does the quality

[2]Export quality is estimated based on the unit value of exports adjusted for distance, production cost, and common trade determinants.

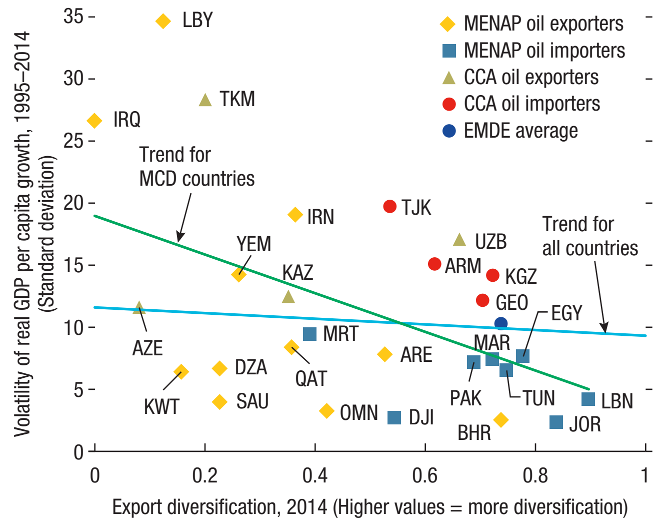
Figure 4.5. Export Diversification and Quality

1. Export Diversity Index, 2014[1]
(0 to 1; higher is more diverse)



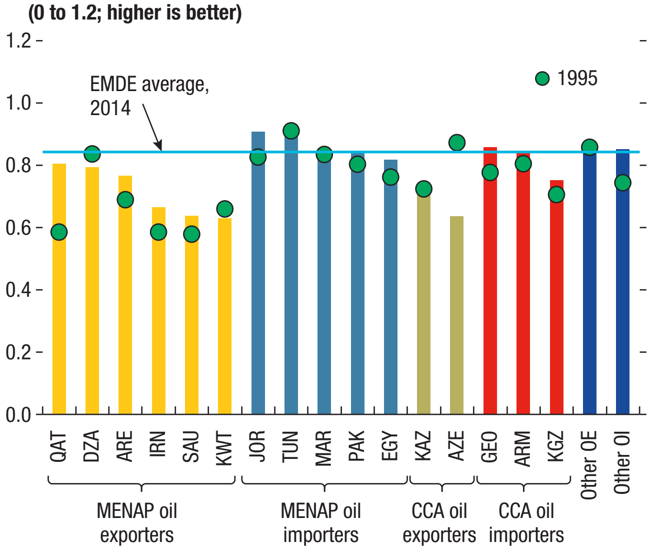
Sources: IMF Diversification database; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan. Other oil importers (OIs) include Bangladesh, Cambodia, and Vietnam. Other oil exporters (OEs) include Malaysia, Mexico, and Indonesia. Country abbreviations are International Organization for Standardization (ISO) country codes. Diversity index was rebased to be from 0 to 1 and is equal to a Theil index of export concentration.
[1]2014 is latest available year for the diversity index.

2. Export Diversification and Output Volatility



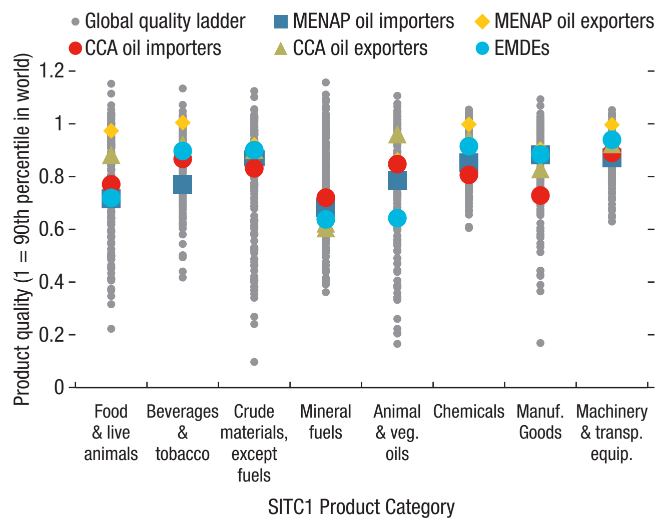
Sources: IMF, *World Economic Outlook* 2017; Henn, Papageorgiou, and Spatafora 2015; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MCD = Middle East and Central Asia; MENAP = Middle East, North Africa, Afghanistan, and Pakistan. Diversity index was rebased to be from 0 to 1 and is equal to a Theil index of export concentration. Country abbreviations are International Organization for Standardization (ISO) country codes.

3. Export Quality Index, 2014[1]
(0 to 1.2; higher is better)



Sources: Henn, Papageorgiou, and Spatafora 2015; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan. Other oil importers include Bangladesh, Cambodia, and Vietnam. Other oil exporters include Malaysia, Mexico, and Indonesia. Country abbreviations are International Organization for Standardization (ISO) country codes.
[1]2014 is latest available year for the quality index.

4. MCD Regions: Export Quality Ladders, 2014
(0 to 1.2; higher is better)



Sources: Henn, Papageorgiou, and Spatafora 2015; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MCD = MENAP = Middle East, North Africa, Afghanistan, and Pakistan. Excluded are the SITC1 categories “Miscellaneous manufactured articles” and “Other,” representing a nonessential share of country exports.

of exports exceed the emerging market and developing economy average. Some oil importers have improved their export quality in recent years, mostly in apparel production (Egypt, Jordan, Pakistan) and manufacturing (Armenia, Georgia, Jordan, Morocco, Tunisia). Meanwhile, the quality of oil exports from both regions (captured in the minerals fuels category) remains relatively low, with quality deteriorating in Algeria and Azerbaijan. An alternative measurement of export diversity and the sophistication of exports is the so-called economic complexity index, which identifies the total number of goods exported by a country depending on the capabilities used in their production (Hausmann and others 2011).[3] Export complexity among oil exporters in the region is low compared with that of oil importers. Although still below the emerging market and developing economy average, complexity among oil importers is higher for MENAP than for CCA oil importers, given MENAP oil importers' supply chain links with manufacturing firms in the euro area.

The Potential of Global Value Chains Could Be Better Exploited

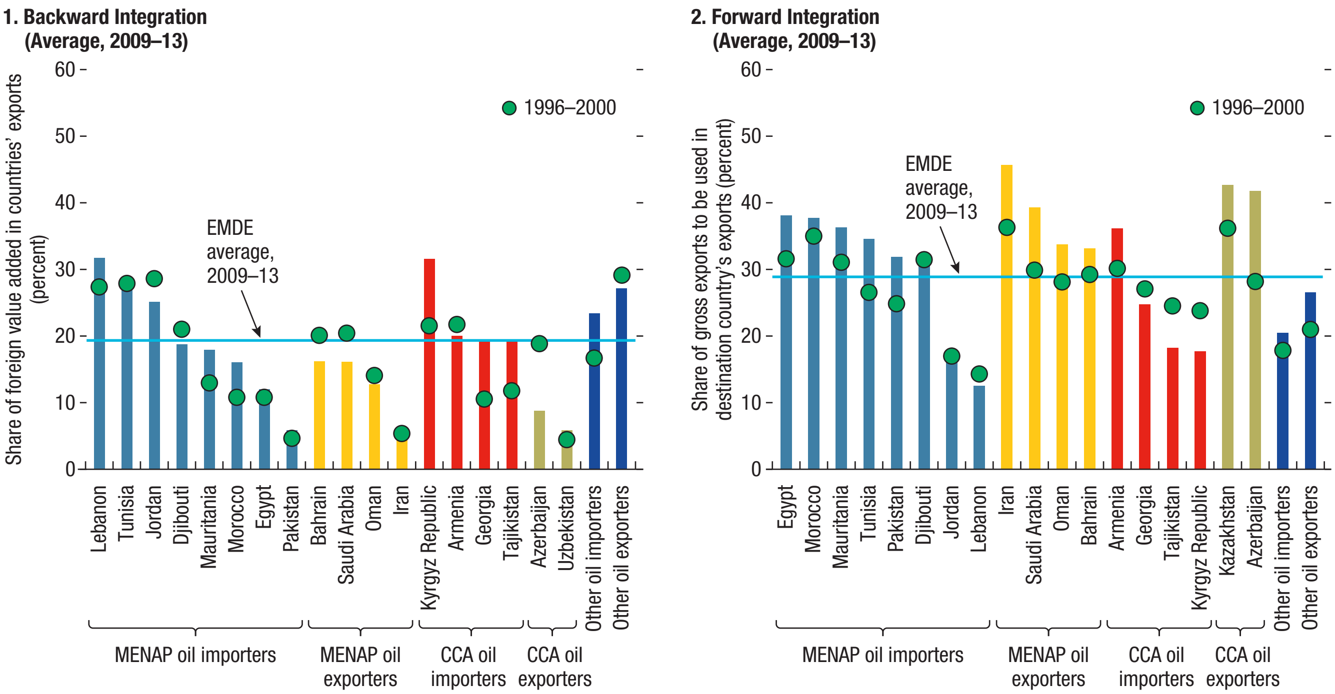
Both regions' level of integration in GVCs[4] does not currently allow their full potential to be exploited. Oil importers are generally better integrated into GVCs than oil exporters. For example, the share of foreign value added imported and used in the production of exports (backward integration) is relatively high in Jordan, Lebanon, and Tunisia (in MENAP) and in the Kyrgyz Republic (in CCA) compared with emerging market and developing economies (Figure 4.6). The share of value added to be used in a destination country's production (forward integration) in Egypt, Mauritania, and Morocco (in MENAP) and in Armenia (in CCA) is above the emerging market and developing economy average. This reflects levels of export diversification and quality that are comparable to those of other emerging market and developing economies. In oil exporters in both regions, backward integration is particularly low, suggesting that those countries import mainly finished products for consumption and investment. In contrast, these countries' forward integration is relatively high, but only as a result of their high exports of mainly crude oil, which is then processed into refined products by their trading partners.

The participation of individual MENAP and CCA countries in GVCs has shifted substantially over time. Most MENAP oil importers managed to improve both their backward and forward GVC participation, in part because of diversification efforts (for instance, light manufacturing in Jordan, Morocco, and Tunisia). CCA oil importers have made progress mainly in backward integration, partly because of their strengthening position as a hub for the transport of Chinese products to Russia and the rest of the CCA. In parallel, their forward integration has fallen, consistent with the slowing in export diversification. Additional progress in GVC integration, particularly for oil importers in both regions, may be possible in the context of the Belt and Road Initiative, aimed at connecting China to Europe and Africa (see Box 2.1 in Chapter 2). The Belt and Road Initiative is likely to increase backward integration further, while foreign investment triggered by the Compact with Africa (see Box 2.3 in Chapter 2) may support further progress in forward integration for MENAP oil importers. Most oil exporters in both the MENAP and CCA regions reduced their backward integration in GVCs but improved their forward integration, reflecting ongoing efforts to increase oil processing and refining activities and, consequently, increase their value added.

[3]The economic complexity index provides an alternative measurement of the sophistication and diversity of an export basket of a country by assigning a higher weight to products requiring higher underlying production capabilities, for instance, machinery, electrical components, and chemicals, among others.

[4]Measures of GVC are based on the Koopman, Wang, and Wei 2014 definition. More details on the calculation are available in Aslam, Novta, and Rodrigues-Bastos 2017.

Figure 4.6. Participation in Global Value Chains[1]



Sources: Eora MRIO; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan. Other oil importers include Bangladesh, Cambodia, and Vietnam. Other oil exporters include Malaysia, Mexico, and Indonesia.
[1]Due to concerns about the quality of Eora MRIO data, countries are displayed only after being validated with intermediate product exports data from UN Comtrade.

The Trade Environment Needs Upgrading

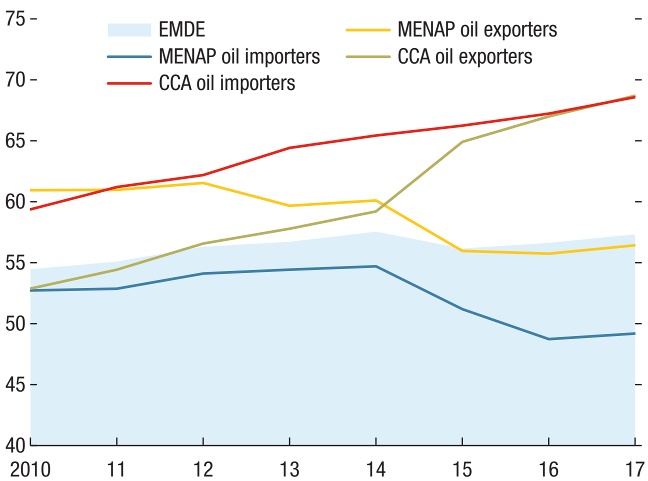
The trade environment has been negatively affected by geopolitical tensions and conflicts (October 2016 *World Economic Outlook*). Conflicts and tensions have weighed on trade through the disruption of economic activity and infrastructure and the death or displacement of people active in the labor force in Afghanistan, Iraq, Libya, Somalia, Syria, and Yemen. Similarly, neighboring countries have suffered from conflict spillovers to cross-border trade, a decline in tourism, and inflows of refugees (Jordan, Lebanon, Pakistan; Rother and others 2016). For instance, conflict in Syria disrupted Iraq's main trading link to the Mediterranean, while the conflict in Iraq affected Jordan's export route to Iran. In addition, elevated uncertainty in some countries caused by rising insecurity has weakened FDI inflows, sapping export diversification and GVC opportunities. The recent diplomatic rift between Qatar and other countries in the MENAP region is also affecting trade and financial flows (see Box 1.1 in Chapter 1).

The low levels of trade integration in the MENAP and CCA regions also reflect more general problems related to the business climate. Although procedures for trading across borders in all subregions have been comparable to or even better than the average for emerging market and developing economies, the trading environment[5] appears to have deteriorated in MENAP countries in the past few years, even while it continued to improve in CCA countries (Figure 4.7). This situation points to the need for structural reforms to improve efficiency and reduce costs associated

[5]Measured by the distance to the best performer in the World Bank's *Doing Business* records of the time and cost associated with the logistical process of exporting and importing goods.

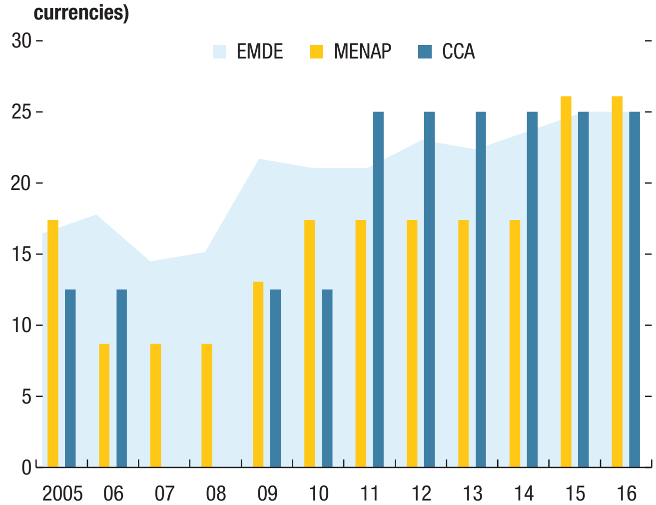
Figure 4.7. Trade Environment

1. Overall Trading across Borders
(Distance from frontier; the higher the better)



Source: *Doing Business 2017*, World Bank.
Note: CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan.

2. MENAP and CCA Foreign Exchange Restrictions
(Share of countries in a region that have restrictions and/or multiple currencies)



Source: IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan.

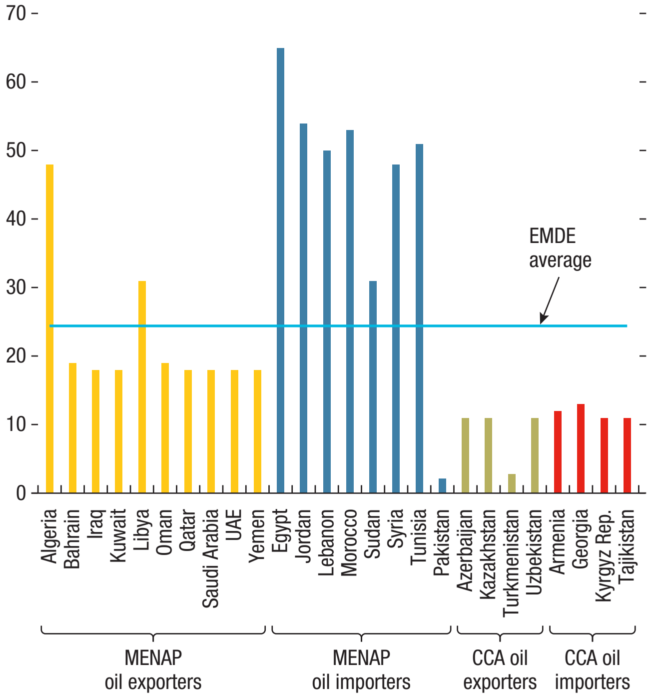
with compliance procedures and domestic transportation.

Foreign exchange restrictions in some MENAP and CCA countries further hinder expansion of trade (Figure 4.7). Empirical evidence (Wei and Zhang 2007) suggests that the collateral damage to trade from the imposition of exchange controls may be significant. A one standard deviation increase in controls on trade payments or foreign exchange transactions reduces trade by the same amount as tariff increases of 11 to 14 percentage points.

Historical experience in both advanced and emerging market and developing economies suggests that exchange rate movements have sizable effects on export and import volumes. Some studies have found that a 10 percent real effective depreciation of an economy's currency is associated with a rise in real net exports of, on average, 1.5 percent of GDP, with substantial cross-country variation. However, increased participation in GVCs has reduced the relevance of exchange rate movements for trade flows, pointing to the need to improve the overall trade environment to boost trade (October 2015 *World Economic Outlook*).

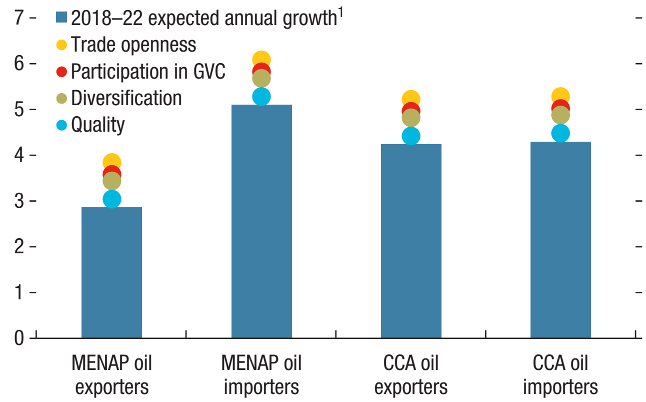
MENAP and CCA countries could better leverage trade agreements to gain broader access to export markets. Only MENAP oil importers stand out for their active use of bilateral and regional trade agreements; the number of trade agreements signed by most other countries in both regions is substantially lower than the emerging market and developing economy average (Figure 4.8). Trade liberalization agreements that are broad in scope and deep in substance can bring substantial benefits for growth (Box 4.2). For example, based on World Trade Organization (WTO) rules, MENAP's least-developed countries (Afghanistan, Djibouti, Mauritania, Yemen) already enjoy duty-free and quota-free access for all or almost all of their export markets, which is important for their growth. Also, MENAP and CCA countries should consider moving aggressively to implement the Trade Facilitation Agreement that came into force in early 2017. The WTO estimates that implementation of the agreement would cut

Figure 4.8. Trade Agreements by Country, 2015
(Sum of each country's bilateral agreements)



Sources: de Sousa 2015; and IMF staff calculations.
Note: Iran is omitted for lack of data. CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; UAE = United Arab Emirates.

Figure 4.9. Estimated Contributions of Trade Measures to Growth
(Percent)



Source: IMF staff calculations.
Note: CCA = Caucasus and Central Asia; GVC = global value chain; MENAP = Middle East, North Africa, Afghanistan, and Pakistan. The growth increase is conditional on an increase in the given trade measure equal to the best historical period-over-period improvement observed in the region in the last 20 years. For trade openness: 7.7 percentage points (pps); for global value chain: 4 pps; for diversification: 2.4 pps; for quality: 1.5 pps.
[1]2018–22 expected annual growth is used as a proxy for long-term growth.

customs-related costs of merchandise trade by 14 percent, particularly for developing economies, and could lead to a $1 trillion annual increase in global trade.

Many MENAP and CCA countries have taken steps in this direction. For example, at the multilateral level, eight MENAP countries (Algeria, Iran, Iraq, Libya, Lebanon, Somalia, Sudan, Syria) and two CCA countries (Azerbaijan, Uzbekistan) have been negotiating accession to the WTO, most since the 1990s, although progress has been slow. Bilaterally, several MENAP countries (Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia) and Georgia (in CCA) have concluded association agreements with the European Union, and Georgia signed a free trade agreement with China, which reduced or removed tariffs in bilateral trade. Some CCA countries (Armenia, Azerbaijan) and Iraq (in MENAP) have signed cooperation and partnership agreements with the European Union. Finally, Morocco and Tunisia have joined the Compact with Africa, the recent Group of Twenty initiative aimed at increasing private investment, improving infrastructure, and tackling unemployment in Africa, which could further enhance market access (see Box 2.3 in Chapter 2).

Conclusion and Policy Options

Improvements in trade openness, diversification, export quality, and participation in GVCs could all help increase growth in the MENAP and CCA regions. A simple simulation based on the econometric analysis in Annex 4.1 suggests that a sustained increase in trade openness, equal to the best historical period-over-period improvement observed in the region, could add 1 percentage point to the average growth rate over the following five-year period (Figure 4.9). If greater trade openness is supported by enhanced diversification, improved export quality, or more active participation in GVCs, the impact would be even higher. This indicates that implementing reforms that boost trade could raise the level of income by 5–10 percent within the following five to ten years.

The rebound in the world economy presents an important opportunity for MENAP and CCA countries to exploit trade as an engine of growth. To take full advantage of this opportunity, countries need to increase their trade openness, participation in global value chains, export diversification, and product quality. In that context, oil importers seem generally better placed to take advantage of improved global growth momentum, but scope remains to improve export quality, including by reversing the CCA oil importers' decline in forward integration in GVCs. In contrast, oil exporters need to work on both increasing export diversification and improving export quality.

Further trade liberalization and structural reforms could support an increase in trade openness and further integration into GVCs. Basing this integration on diversifying into sectors with substantial job-creating potential and upgrading export quality by improving access to finance, education, and technologies would help make the process more inclusive. In parallel, fiscal policies aimed at mitigating the transitional costs of more openness to trade could also play an important supportive role. The associated increase in overall growth would help create the necessary fiscal space to absorb the potential loss of budget revenue due to lower trade taxes and any needed increase in public investment in infrastructure. Broader structural reforms to improve the business and investment environment would support these efforts to increase exports and growth.

Box 4.1. The Trade and Inclusiveness Nexus

Empirical analysis based on data for 106 countries, including 11 from the Middle East, North Africa, Afghanistan, and Pakistan and the Caucasus and Central Asia regions, over 1980–2013 suggests that inclusiveness, as measured by the Gini inequality index, does not seem to be directly affected by trade openness. In line with the results of other studies (Beaton, Cebotari, and Komaromi 2017; Dabla-Norris and others 2015; Jaumotte, Lall, and Papageorgiou 2013), other variables, such as financial deepening, education, and employment shares, seem more important (Table 4.1.1).

Public policies play a significant role in managing potential adverse side effects of trade for certain groups of workers and some communities. For them, greater openness may be associated with substantial transitional costs. The empirical results offer some insight into the potential effectiveness of fiscal redistribution policies in offsetting the impact of these costs, suggesting they can be especially effective in addressing job losses in the industrial sector (that is, the impact of industrial employment on the net Gini is insignificant).

More generally, domestic policies to mitigate these trade-related adjustments may include (1) active labor market policies—such as job search assistance, training programs, and carefully designed wage insurance—enabling worker mobility across firms, industries, and regions; (2) unemployment insurance, employment protection, and other "passive" labor policies helping workers adjust on their own; and (3) complementary policies in the areas of education, housing, credit, and infrastructure, facilitating mobility and "place-based" measures aimed at supporting harder-hit regions and communities (IMF, World Bank, and World Trade Organization 2017). Other reforms to the business environment that support the broader development of the private sector are also likely to be important.

Table 4.1.1. Trade Openness and Inequality

Dependent variable: market Gini and net Gini

Explanatory Variables	(1) Market Gini	(2) Net Gini
Trade Openness ($t-1$)	−0.00140	0.00605
	(0.00869)	(0.00884)
Financial Openness ($t-1$)	0.000441	0.000274
	(0.000288)	(0.000261)
Financial Deepening ($t-1$)	0.0276***	0.00851
	(0.0102)	(0.00618)
Education ($t-1$)	−0.736*	−0.725**
	(0.398)	(0.349)
Government Spending ($t-1$)	0.112	0.0921
	(0.222)	(0.166)
Agriculture Employment Share ($t-1$)	−0.124***	−0.0830**
	(0.0388)	(0.0353)
Industry Employment Share ($t-1$)	−0.199***	−0.0841
	(0.0712)	(0.0602)
Constant	55.82***	43.88***
	(3.592)	(3.019)
Observations	435	435
R-squared	0.237	0.161
Number of countries	106	106

Source: IMF staff calculations.
Note: The sample set of variables consists of nonoverlapping five-year period averages for 106 countries covering 1980 to 2013.
[1]Panel fixed effects regressions with time and country fixed effects and robust standard errors (in parentheses) clustered at the country level.
[2]Market Gini stands for Gini index of income distribution before taxes and transfers. Net Gini is measured by the Gini index of income distribution after taxes and transfers.
* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

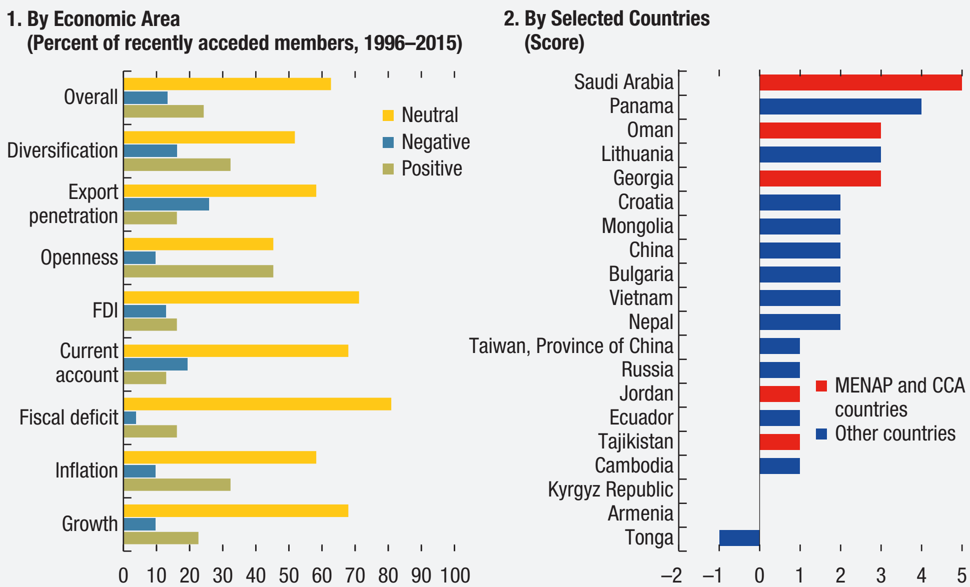
This box was prepared by Alexei Kireyev, Maxym Kryshko, Boaz Nandwa, and Magali Pinat, with research assistance by James Aylward and Samira Kalla.

Box 4.2. Leveraging Trade Agreements for Growth

Participation in trade agreements—multilateral, regional, and bilateral—can play an important role in fostering more open trade in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) and Caucasus and Central Asia (CCA) regions.

At the multilateral level, use of the institutional and legal strengths of the system led by the World Trade Organization (WTO) remains critical. Many MENAP countries (Algeria, Iran, Iraq, Libya, Lebanon, Somalia, Sudan, Syria) and some CCA countries (Azerbaijan, Turkmenistan, Uzbekistan) are not yet WTO members. Several other countries in both regions have joined the WTO just recently (Afghanistan, Kazakhstan, Tajikistan, Yemen). While Kazakhstan and Tajikistan have already started to benefit from their membership, Afghanistan and Yemen have had less chance to do so. A recent study finds that the countries that recently joined the WTO and implemented the required trade reforms outperformed the original WTO members that did not have to undergo the reform process (Kireyev 2016). In a group of WTO members that recently acceded, of which 10 are from the MENAP and CCA regions, the impact of joining the WTO was, on average, neutral in 63 percent of cases, positive in 24 percent, and negative in 13 percent, with the caveat that it may be too early to judge the overall impact in some countries (Figure 4.2.1). New WTO members achieved substantial positive results in attaining greater openness, diversification, and economic growth; controlling inflation; containing fiscal deficits; and attracting foreign direct investment.

Figure 4.2.1. The Impact of World Trade Organization Accession



Source: Kireyev 2016.
Note: FDI = foreign direct investment.

This box was prepared by Alexei Kireyev, Maxym Kryshko, Boaz Nandwa, and Magali Pinat, with research assistance by James Aylward and Samira Kalla.

Box 4.2 *(continued)*

At the regional level, the number of preferential trade agreements (PTAs) involving MENAP and CCA countries has grown in the past several years. Overall, the number of agreements notified to the WTO has risen from about 50 in 1990 to about 300 in 2017, with many involving MENAP and CCA countries. In parallel, the scope of PTAs has expanded well beyond traditional tariff reductions to include such areas as customs regulations, export taxes, countervailing measures, and technical barriers to trade (Hofmann, Osnago, and Ruta 2017). Yet the PTAs in which MENAP and CCA countries are involved remain relatively shallow, covering the basic trade areas. Except for the recently established Eurasian Economic Union, which includes among other members three CCA countries (Armenia, Kazakhstan, the Kyrgyz Republic), most other regional RTAs fall short of the "deep" agreements that are considered an effective tool for integrating countries into global value chains and attracting foreign direct investment. For example, a Deep and Comprehensive Free Trade Area has been under negotiation between Morocco, Tunisia, and the European Union for several years. Potential long-term GDP gains could be as high as 1.6 percent for Morocco and 7.4 percent for Tunisia, associated with an expansion of exports and an improvement of trade balances for the MENAP oil-importing countries, and with small but negative effects on the other countries in the region, attributable to redirection of trade to the European Union (EC 2013).

Annex 4.1. Trade Openness and Growth

The following baseline regression is used to examine the influence of trade characteristics on growth of GDP per capita:

$$\Delta y_{i,t} = \alpha_1 y_{i,t-1} + \alpha_2 Controls_{i,t} + \alpha_3 TC_{i,t} + \delta_t + \gamma_i + \epsilon_{i,t},$$

in which $\Delta y_{i,t}$ is growth of real GDP per capita at time t for country i, $y_{i,t-1}$ is the log of real GDP per capita, $Controls_{i,t}$ contains a set of control variables, $TC_{i,t}$ is a set of trade characteristics, δ_t and γ_i are time and country fixed effects, and the error term is $\epsilon_{i,t}$. The set of control variables includes measures standard in the literature such as logs of terms of trade, the level of education, a proxy for public infrastructure development, and the ratio of foreign direct investment (FDI) to GDP. Trade characteristics $TC_{i,t}$ are included sequentially. All regressions include period dummies that indicate a declining trend in global growth since 1960.[1]

The estimated coefficients of the control variables are comparable to those reported in the existing empirical literature (Table 4.1). The level of initial GDP per capita is associated with a negative and statistically significant coefficient, which suggests GDP per capita converges across countries over time. The coefficient associated with labor force education is not statistically significant, which is a common finding when a wide sample of countries is used.[2] Coefficients associated with infrastructure and inflows of FDI are positive and statistically significant, as expected. Finally, the coefficient associated with the volatility of the terms of trade is not statistically significant, which can be explained by the impact of using five-year period averages, which reduces the volatility of GDP per capita growth.

The relationship is estimated using the system generalized method of moments procedure. This procedure estimates a system of equations that combines a regression specification in levels and the same specification in differences. It deals with both unobserved country-specific effects and the endogeneity of explanatory variables.[3] As is standard in the literature, three approaches were used to test the consistency of the results—the Hansen test of over-identifying restrictions, the incremental Hansen test of overidentifying restrictions, and the test for serial correlation of the error terms. All three tests validate the estimated regression specification. For specifications in which the actual number of instruments is close to or larger than the number of countries in the sample, a restricted sample of control variables is used to reduce the number of explanatory variables.

[1]The team acknowledges Kim Beaton for sharing the databases used in Beaton, Cebotari, and Komaromi 2017. The computer codes used in this chapter were built on Beaton, Cebotari, and Komaromi 2017 and Didier and Pinat 2017.

[2]Note that this coefficient is positive and statistically significant when a smaller sample, more restricted to advanced and emerging market economies, of 82 countries is used.

[3]Limitations of using the lag of the variables as an instrument in a trade-growth context has been acknowledged in the literature, and the results should be interpreted with caution (Rodriguez and Rodrik 2000; Feyrer 2009).

Table 4.1. Trade Openness and Economic Growth

	(1)	(2)	(3)	(4)	(5)	(6)
Initial GDP per Capita	−5.014***	−4.618***	−5.061***	−5.664***	−5.741***	−5.730***
	(0.892)	(0.827)	(0.697)	(0.909)	(1.344)	(1.516)
Labor Force Education	0.357	0.104	0.429	−0.358	−0.580	−0.436
	(0.468)	(0.594)	(0.474)	(0.486)	(0.498)	(0.346)
Infrastructure	2.241***	2.087***	2.458***	2.574***	3.285***	2.908**
	(0.640)	(0.540)	(0.411)	(0.697)	(1.086)	(1.414)
Inflows of FDI/GDP	0.667**			0.761*	1.313**	1.102*
	(0.297)			(0.434)	(0.635)	(0.593)
Terms of Trade				−7.435	−0.0830	3.335
				(6.520)	(10.75)	(10.17)
Trade Openness	2.446***	1.919***	1.996***	2.796***	2.240	2.122
	(0.781)	(0.633)	(0.620)	(0.924)	(1.549)	(1.471)
Export Diversification		4.249**				
		(1.839)				
Export Quality			5.034*			
			(2.892)			
Participation in GVC				9.170**		
				(4.075)		
Backward Integration					6.642	9.771
					(7.586)	(6.924)
Forward Integration					11.72**	
					(5.356)	
Domestic Value Added						48.01*
						(24.90)
Constant	30.66***	20.39***	15.01	68.21**	35.92	19.05
	(6.340)	(7.321)	(10.13)	(30.83)	(53.80)	(49.75)
Number of Observations	1,030	1,021	1,037	641	641	641
Number of Countries	131	123	129	131	131	131
Number of Instruments	118	123	123	83	52	52
Period Dummies	yes	yes	yes	yes	yes	yes
Validation Tests						
Full Hansen Test	0.293	0.240	0.246	0.197	0.112	0.153
Incremental Hansen Test	0.805	0.632	0.398	0.365	0.105	0.108
p-value of AR(2) Statistic	0.236	0.470	0.392	0.511	0.495	0.557

Source: IMF staff calculations.

Note: The dependent variable for the regressions is growth in GDP per capita. The sample set of variables consists of nonoverlapping five-year period averages for 131 countries covering 1960 to 2013. Robust standard errors are shown in parentheses. FDI = foreign direct investment; GVC = global value chain.

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

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5. Fintech: Unlocking the Potential for the MENAP and CCA Regions

After a late start, fintech[1] is gaining momentum in some countries of the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region,[2] and there are green shoots in the Caucasus and Central Asia (CCA) region. For both regions, fintech has the ability to address the critical challenges of enhancing financial inclusion, inclusive growth, and economic diversification through innovations that help extend financial services to the large unbanked populations, and facilitate alternative funding sources for small and medium-sized enterprises (SMEs). Fintech could also make an important contribution to financial stability by harnessing technology for regulatory compliance and risk management, and can facilitate trade and remittances by providing efficient and cost-effective mechanisms for cross-border payments, while the use of electronic payments can improve the efficiency of government operations. To unlock this potential, further reforms are needed to close gaps in the regulatory, consumer protection, and cybersecurity frameworks as well as improve the business environment, information communication technology (ICT) infrastructure, and financial literacy.

The Fintech Revolution

Global investments in fintech registered rapid growth over the past five years, and projections are for continued strong growth. The value of investments in fintech increased more than tenfold between 2012 and 2015 (Figure 5.1). Although consolidation in the US fintech sector led to a decline in global investments in 2016, other regions, including the Middle East and North Africa (MENA), continued to grow, and investments in the first half of 2017 showed a strong rebound (KPMG 2017).

The fintech ecosystem is still in the developing stage in the MENAP and CCA regions, but there is strong momentum toward adoption of fintech by both incumbent banks and other companies.

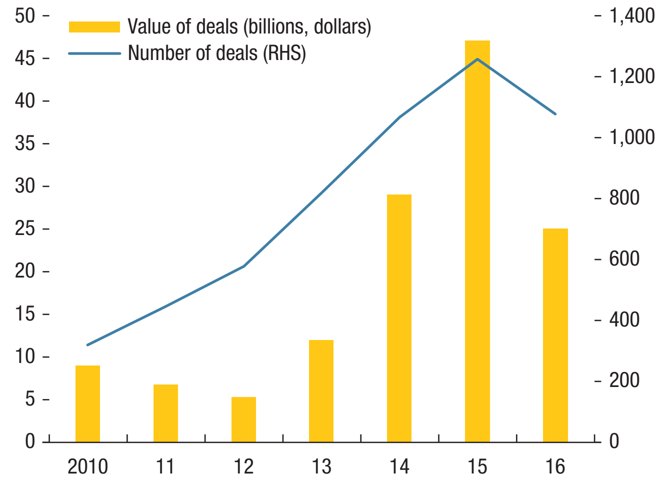
Prepared by Inutu Lukonga with research support from Sebastian Herrador. For a more detailed discussion, see Lukonga, forthcoming.

[1]Fintech, short for financial technology, is defined by the Financial Stability Board (FSB) as technologically enabled financial innovation that could result in new business models, applications, processes or products—with an associated material effect on financial markets and institutions, and the provision of financial services.

[2]The presence of fintech in Afghanistan is insignificant.

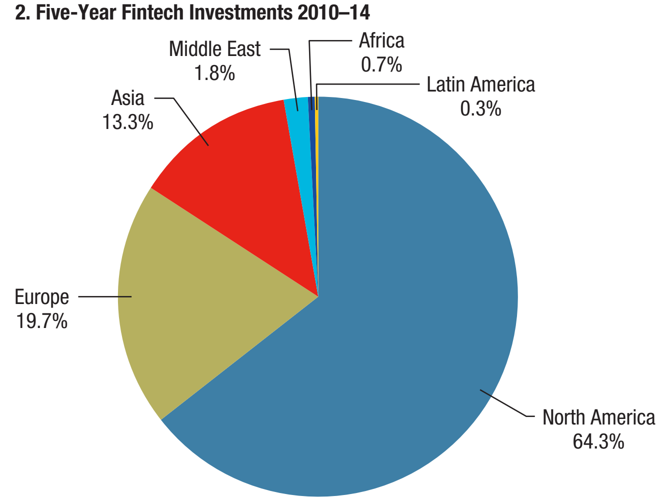
Figure 5.1. Global Trends in Fintech

1. Global Investment in Fintech Companies



Source: KPMG 2016.
Note: RHS = right scale.

2. Five-Year Fintech Investments 2010–14



Source: ITA Fintech Market Report, 2016.

The MENAP region has made comparatively greater strides than the CCA region in developing its fintech ecosystem, although investments remain concentrated in a few countries. In the MENAP region, governments are playing a leading role in fostering fintech innovation, with the entry of international fintech companies providing further impetus.[3] A recent survey covering 12 MENAP countries (WAMDA 2016) shows a sevenfold increase in fintech start-ups since 2009, with investments concentrated in Egypt, Jordan, Lebanon, and the United Arab Emirates (Figure 5.2). These start-ups have emerged alongside and in competition with banks, which are also harnessing digital technologies to move toward more customer-focused business models. In some countries (Djibouti, Egypt, Iraq, Pakistan, Somalia, Sudan), Internet penetration is more limited, but telecommunication companies have entered the marketplace and are providing mobile payment services. In the CCA region, investments in digital financial services have, thus far, been mainly undertaken by banks (ADB 2014), and Armenia and Kazakhstan seem to dominate.[4]

The payments and lending segments account for the bulk of fintech investments in the MENAP and CCA regions, in line with global trends.[5] In the MENAP region, payments and lending account for 50 percent and 30 percent of the startups, respectively (Figure 5.2). However, cash transactions still dominate, and fintech remains a relatively small channel for providing access to finance by SMEs. In the CCA region, investments in financial technology are still modest but have also focused on payment solutions (mobile wallets, cryptocurrencies).

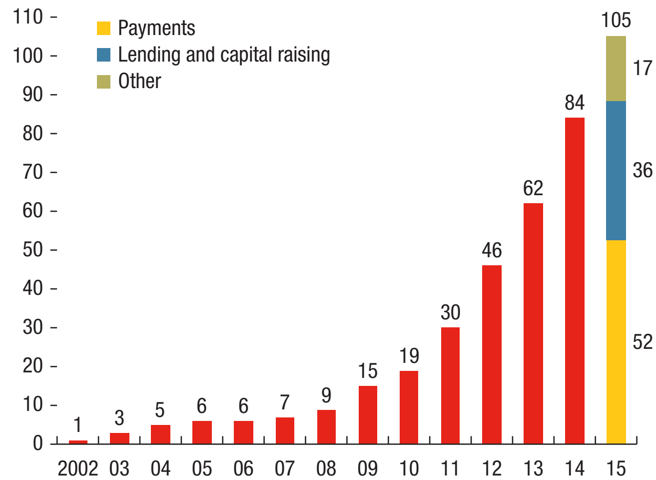
[3]Government support has included development funds, incubators and accelerators, and regulatory sandboxes. In addition, more than 20 start-ups from Australia, Europe, the United States, and elsewhere have established a presence in the MENAP region.

[4]Data on the number and value of Fintech start-ups were not available for the CCA region.

[5]Payment solutions include mobile and online payments, digital wallets, international money transfers, and blockchain-based services such as cryptocurrencies. Lending and capital-raising solutions account for 30 percent of the start-ups, including loan comparison platforms, crowdfunding, and peer-to-peer (P2P) lending.

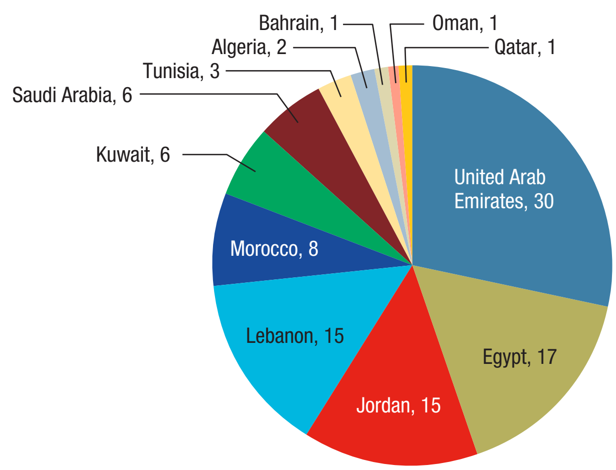
Figure 5.2. Trends and Characteristics of Fintech Investments in MENA

1. MENA-Based Fintech Start-ups (Cumulative, 2002–15)



Source: WAMDA Research Lab 2016.

2. Number of Fintech Start-ups



Source: WAMDA Research Lab 2016.

Impediments to Fintech's Growth Potential

Domestic conditions in the MENAP and CCA regions are favorable for greater adoption of innovative financial solutions. The high share of millennials[6] provides a large pool of potential consumers, and growing e-commerce creates

[6]More than 60 percent of the population in the MENA region is younger than 25, and the share of youths in the CCA region is also large.

demand for digital financial products, while the high mobile phone penetration in many countries facilitates customer reach. There is also high latent demand for alternative funding sources and cross-border payments because of the large unbanked populations, underserved SMEs, migrant workers, and refugees.[7]

However, significant structural, institutional, and policy impediments to fintech growth remain:

- *The overall business environment is weak.* At the end of 2016, only four countries (Armenia, Georgia, Kazakhstan, United Arab Emirates) were in the top quartile of the World Bank's Doing Business Index. Continued restrictions on foreign entry limit the scope for already established global fintech companies to enter the market.

- *Private equity and venture capital, which have underpinned growth of fintech in advanced economies, remain scarce.* For instance, the value of all private equity and venture capital investments in the MENA region has stagnated at about $1 billion and declined further in the face of low oil prices (Figure 5.3). The investments also remain concentrated in the United Arab Emirates, and several factors constrain growth, including restrictive regulations (BVCA 2013).

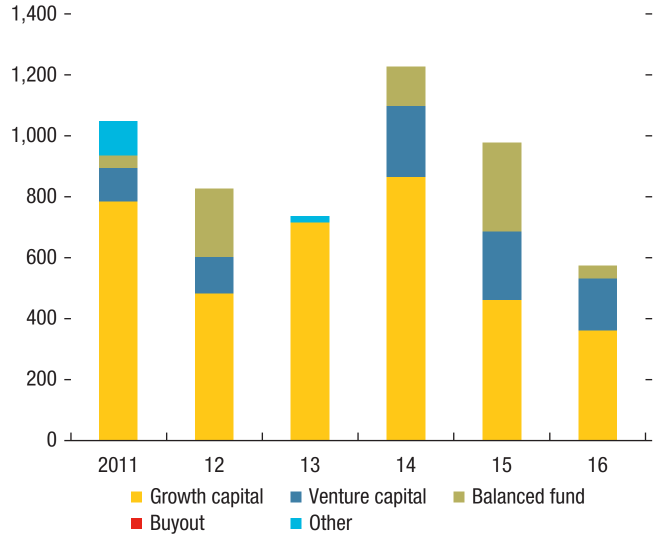
- *Regulatory gaps create legal uncertainties that hamper growth of the sector.* Although regulatory frameworks for digital financial services are being developed[8] and most countries now have laws governing issuance

[7]For instance, SME lending accounts for 8 percent of total bank lending in the MENA region, compared with 18 percent in middle-income countries globally, despite the crucial role played by SMEs in the region in providing employment and driving growth (Lukonga and others 2014). The Gulf Cooperation Council (GCC) is a major source of remittances, while Armenia, Egypt, Georgia, the Kyrgyz Republic, Jordan, Lebanon, and Tajikistan are major recipients of remittances (Lukonga and others 2016).

[8]Azerbaijan, the Kyrgyz Republic, and Tajikistan have programs with the World Bank to develop regulations related to electronic and digital payment services, enhance public awareness of the benefits of such services, and advise private firms on rolling out mobile financial services products, with a view to promoting financial inclusion of the unbanked population as well as bringing remittance flows into the formal financial system.

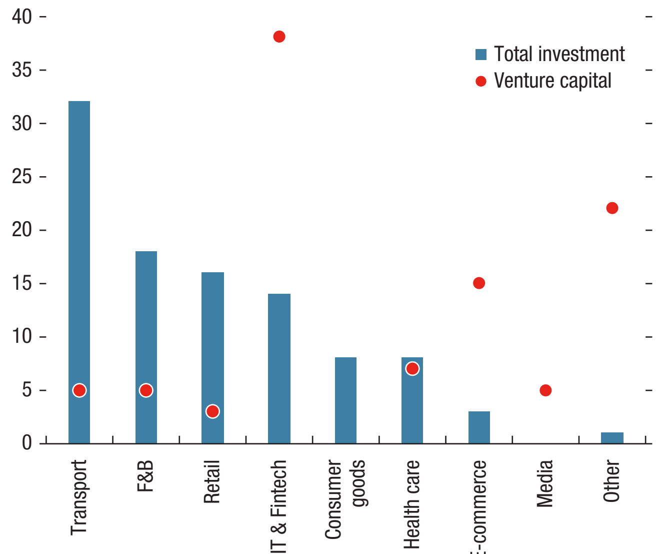
Figure 5.3. Private Equity and Venture Capital Investments

1. Total Private Equity Investment
(Millions of US dollars)



Source: Thomson Reuters Datastream, 2016.

2. Sectoral Composition of Total[1] and Venture Capital Investment
(Percent of cumulative investment, 2011–16)



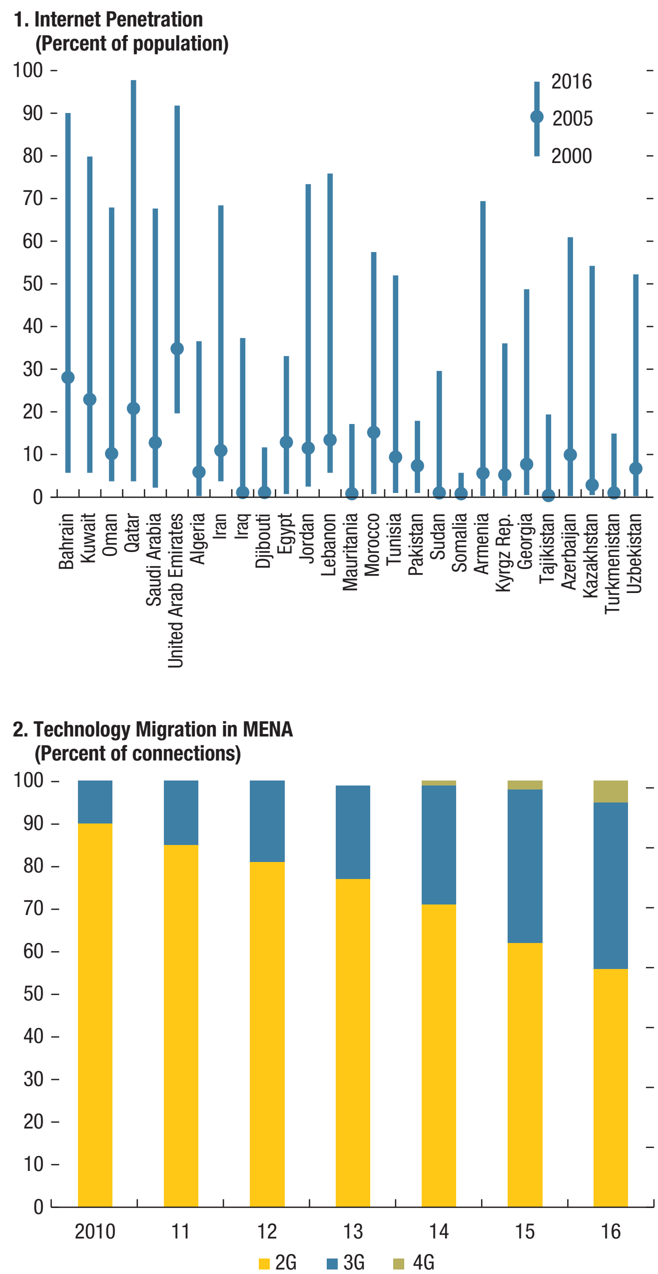
Source: Thomson Reuters Datastream, 2016.
Note: F&B = food and beverages.
[1]Total investment as the sum of private equity investment through growth capital, venture capital, balanced funds, buyout, and other.

of electronic money (e-money), less progress has been made in other regulations relevant for fintech.[9] For instance, only a few countries (Egypt, Morocco, Tunisia) have mobile money regulations. Consumer protection frameworks for financial services and data privacy laws have also not been developed in many countries (World Bank 2014). Prudential regulations have not been adapted to fintech specifics, and large capital requirements for banks represent a significant barrier to entry for fintech start-ups.

- *ICT penetration ratios have increased significantly in recent years, but the quality and cost of Internet and mobile phone services continue to be impediments to the adoption of fintech.* The Internet has reached every country, but for several countries the penetration rate is still low, and high-speed Internet is limited and costly. Azerbaijan, the Gulf Cooperation Council countries, and Lebanon have made the most advances, with high penetration ratios for both Internet and mobile phones. Some countries (Djibouti, Pakistan, Sudan, Tajikistan, Yemen) have low penetration rates for both Internet and mobile phones (Figure 5.4). Lack of interoperability of mobile payment systems also fragments the markets, while in some countries (Armenia, Georgia, Kyrgyz Republic) mobile costs are prohibitive.[10]

- *Broader institutional support is still limited.* Very few countries have established incubators and accelerators (Egypt, Lebanon, United Arab Emirates) to help scale up start-ups, or regulatory sandboxes (Abu Dhabi, Bahrain, Saudi Arabia) to allow fintech companies and traditional financial institutions to test innovations in a live environment.

Figure 5.4. Internet Penetration and Mobile Infrastructure



Sources: International World Internet Statistics 2016; and GSMA (Groupe Spécial Mobile Association) 2016.
Note: MENA = Middle East and North Africa.

[9]The United Arab Emirates is among the few countries proactively introducing fintech-related regulations, including for crowdfunding and digital currencies.

[10]More than 80 percent of the population in Armenia, Georgia, and the Kyrgyz Republic need to spend at least 10 percent of household income to afford a basic mobile phone plan (World Bank 2017a).

- *On the demand side, the "trust gap" and financial literacy constitute major constraints to fintech start-ups.* The use of fintech as a payment channel requires trust to reduce uncertainty and contain transaction costs (He and others 2017). The recent MENA survey of fintech start-ups identifies trust as one of the main obstacles, along with visibility and customer education (WAMDA 2016). The "trust gap" is also cited as a key driver for the more prevalent collaboration between fintech start-ups and banks.

Cyberattacks can lead to operational disruptions, financial loss, reputational damage, and systemic risk, and could become a binding constraint unless cybersecurity frameworks are strengthened. Although cyber risks are not unique to fintech, greater connectivity from digital solutions expands the number of entry points for cyber hackers. In addition, while there have only been a few incidents of successful cyberattacks on financial institutions in the MENAP and CCA, the number of attacks on banks in the region is reported to have increased (Symantec 2017), and the nature of cybercrime is evolving rapidly and becoming more sophisticated. Meanwhile, overall cyber risk preparedness remains weak in many countries. At the end of 2016, only seven countries in the MENAP region (Algeria, Egypt, Oman, Morocco, Qatar, Tunisia, United Arab Emirates) and four countries in the CCA region (Azerbaijan, Georgia, Kazakhstan, Uzbekistan) were reported to have cybercriminal and cybersecurity legislation in place (ITU 2017).

Fintech: A Value Proposition for MENAP and CCA

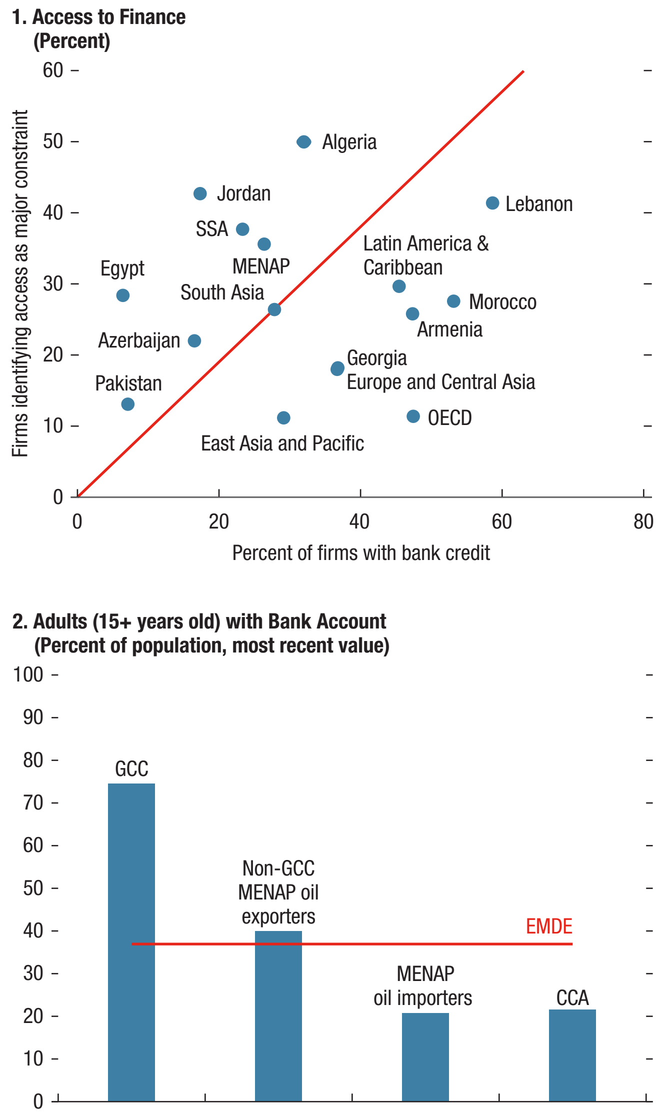
Fintech presents important benefits (Box 5.1) and could ease some of the critical challenges facing the two regions. Beyond efficiencies in the delivery of financial services and improved customer experience, fintech can contribute to the broader objectives of inclusive growth, economic diversification and financial stability through several channels:

- *Inclusive growth and economic diversification through financial inclusion:*[11] With mobile phone penetration exceeding the number of bank accounts in many countries in the MENAP and CCA regions (Figures 5.4 and 5.5), mobile payments can, with appropriate regulations, help reduce the share of unbanked populations (Box 5.2). Fintech could also provide alternative sources of funding to households and SMEs through marketplace lending platforms such as peer-to-peer (P2P) lending and online trade finance, as demonstrated by China and the United Kingdom (Box 5.2). In addition, fintech can help increase bank lending to SMEs through the application of technologies that reduce information asymmetries (such as *big data* analytics), as well as provide superior record keeping for collateral registries through distributed ledger technology (DLT). Moreover, digital payments create a data trail that enables lenders to assess the creditworthiness of even microenterprises. By improving access to finance, one of the binding constraints facing SMEs in the MENAP and CCA regions (Lukonga and others 2014), fintech could spur economic diversification and job-creating growth.
- *Cross-border trade and remittances:* Fintech and related innovative financial solutions—such as virtual currencies, blockchain-based DLT, and P2P platforms—may provide more efficient, transparent, and cost-effective mechanisms for cross-border payments than traditional banks or money transfer operators that depend on correspondent banking relationships. This could ease the challenges posed by the loss of correspondent banking relationships in some countries in the MENAP and CCA regions (Erbenova and others 2016, IMF 2017).

[11]In April 2016, the Council of Arab Central Bank Governors adopted an Arab Day of Financial Inclusion demonstrating the commitment to accelerate financial inclusion in the region.

- *Financial stability and integrity:* Fintech can contribute to financial stability by reducing banks' operating costs and facilitating the analysis of large amounts of data for risk management and for fraud detection. In addition, with ongoing geopolitical tensions increasing the criticality of anti–money laundering/combating the financing of terrorism (AML/CFT) issues, data-driven technologies could play an important role in facilitating regulatory compliance as countries shift from improving regulations for AML/CFT to the implementation stage.
- *Fiscal and monetary operations:* Digitization can facilitate efficiencies in government revenue collection and payments, while greater use of e-payments can reduce fraud and contribute to effective monetary policy transmission. Indeed, Oman is already promoting government e-payments and Kazakhstan has plans to issue government bonds using DLT and mobile phone technology.

Figure 5.5. Access to Finance in the MENAP and CCA



Source: World Bank.
Note: CCA = Caucasus and Central Asia; EMDE = emerging market and developing economies; GCC = Gulf Cooperation Council; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; OECD = Organisation for Economic Co-operation and Development; SSA = sub-Saharan Africa.

Unlocking the Potential of Fintech for the MENAP and CCA Regions

Policymakers in the MENAP and CCA regions recognize the potential fintech presents, and some countries are proactively creating an enabling environment; however, more is needed. Priorities include reforms to close gaps in the regulatory, consumer protection, and cybersecurity frameworks, improve the business environment, and tackle ICT infrastructure gaps along with measures to address the trust gap.

To support development of fintech and ensure risks are managed, changes are needed to legal frameworks and regulatory practices. Reviews of legal, regulatory, supervisory, and licensing frameworks could help ensure that existing laws provide clarity with respect to digital financial products and that evolving risks from innovative products and business models are adequately addressed. Greater use of *regulatory sandboxes* would facilitate better understanding of fintech risks and ensure that regulations are appropriately designed. Regulations also need to shift from being entity based to being activity based (He and others 2017), while the framework for collaboration needs to include telecommunication regulators.

Reforms to achieve compliance with international regulatory standards should be sustained and coupled with enhanced surveillance. Although existing regulatory standards address risks associated with fintech innovation, the evolutionary nature of fintech requires constant monitoring to identify and address emerging financial stability risks. As fintech scales up, regulators and central banks should give priority to monitoring macro-financial risks and ensuring that new technologies do not become tools for fraud, money laundering, and terrorism financing; to identifying and managing operational risks from third-party service providers; and to maintaining the soundness of financial institutions and the safe and efficient functioning of payments systems given the increasing role of nonfinancial companies. Supervisory capacity should be strengthened to remain relevant and effective.

Cyberattacks pose systemic risk and preventing them should be a top priority for regulators. Greater connectivity from digital solutions expands the number of entry points for cyber hackers, increasing the risk of successful cyberattacks. Cybersecurity frameworks are needed to comprehensively address prevention, detection, information sharing, monitoring, and recovery plans.

Improvements in ICT infrastructure are needed to enable businesses to capitalize on innovative fintech applications. In many countries, there is a need to increase the penetration of Internet and mobile telecommunication facilities, improve speed, reduce costs, and ensure interoperability of the mobile payment systems.

Broader reforms of the business environment will help support fintech. Easing restrictions on foreign investment could increase the availability of capital and facilitate a more rapid scaling up through entry of established fintech companies. A review of factors constraining private equity and venture capital and broader capital market reforms are also needed.

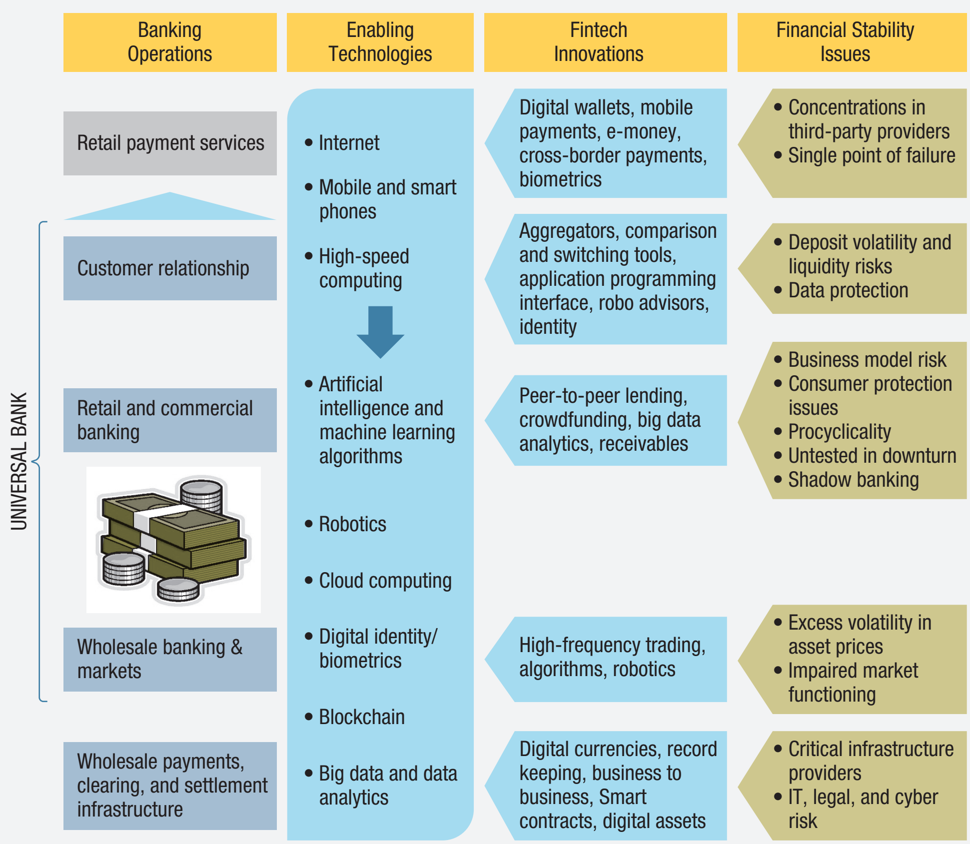
Finally, promoting financial literacy can facilitate the greater uptake and usage of digital financial services. Financial literacy programs should be underpinned by consumer protection frameworks and may require the development of new legal rules to clarify rights and obligations within the new global financial landscape (He and others 2017).

Box 5.1. Fintech: A Primer

Financial technology (fintech) is transforming the financial services landscape. Fintech is not new, but rather has gone through a continuous process of innovation and evolution spanning centuries. However, rapid technological advances and consumer preferences for digital channels have facilitated new business models and the entry of more agile nonfinancial companies (telecommunication, technology) to offer "banking-related services" to clients in core banking areas, including retail and wholesale payments, customer relations, credit provision, and equity capital raising, as well as financial market infrastructures, wealth management, and insurance (Figure 5.1.1).

Fintech presents tremendous opportunities. Customers enjoy reduced cost, real-time payments, increased choice, and greater convenience. Fintech can facilitate greater access to finance for underserved individuals and small- and medium-sized enterprises, and thereby promote higher and inclusive growth. Governments can use digital platforms to enhance efficiencies in revenue collections and government payments. Banks can leverage the technologies to achieve greater efficiencies, strengthen risk management, and enhance regulatory compliance (see Lukonga, forthcoming; FSB 2017).

Figure 5.1.1. Fintech Innovations and Financial Stability



This box was prepared by Inutu Lukonga.

Box 5.1 *(continued)*

Fintech also has financial stability implications. Credit, liquidity, concentration, and operational risks as well as macro-financial and other risks to financial stability, such as procyclicality, shadow banking, and financial integrity, also apply. Although these risks are not new, they may be accentuated given the speed of growth of Fintech, new forms of interconnectedness, and increased dependency on, and possible concentration in, third-party service providers (cloud computing, data services) that are outside the regulatory perimeter. The emergence of systemically important fintech companies, disruptions from big technology companies (like Amazon, Apple, Facebook, and Google) and increased cyber risks (see FSB 2017) are also potential risks.

Box 5.2. Fintech: International Experience

Selected country experiences with financial technology (fintech) point to the importance of balancing regulatory oversight with the flexibility to innovate and the need to manage cyber risks. Growth drivers have included enabling regulations and policies, dedicated incubators and accelerators, close engagement with industry participants (both incumbents and fintech companies), clarity of directives, availability of seed and growth capital (including openness to foreign investment), quality of Internet and mobile infrastructure, availability of local talent, market structure, and degree of financial development.

In the *United States*, fintech companies cover all financial segments, and their growth is underpinned by high-quality infrastructure and abundant talent and capital. Government support has been limited, and the regulatory uncertainty caused by the mixture of multiple federal and state regulators is cited by the industry as a dampening factor. Governance, weak internal controls, and asset quality problems plagued some of the marketplace lending firms (for example, the Lending Club). State-of-the-art technical measures for cybersecurity have been developed. Nevertheless, some successful cyberattacks have resulted in customer data breaches.

The *United Kingdom* has experienced high growth in peer-to-peer platforms, online payments, data and analytic products, capital market trading, and insurance. This growth has been underpinned by favorable government and regulatory support. In 2014, the United Kingdom's Financial Conduct Authority launched the Project Innovate program, which includes an innovation hub and regulatory sandbox. Banks are also required to direct small businesses to alternative finance providers if they are unable to fulfill their financing needs themselves. Though credit by fintechs is still small, the market share of digital first, mobile-only banks ("challenger" banks), and alternative finance providers jumped from 4 percent in 2012 to 12 percent in 2014 (Ernst and Young 2016b). Prudential oversight of peer-to-peer lending has enabled significant credit growth through lending platforms while concurrently containing credit risks. The United Kingdom has also invested significantly in cybersecurity, but the recent Wannacry cyberattack exposed vulnerabilities in several financial and nonfinancial companies, indicating that continuous defense efforts are needed.

In *China*, fintech growth is driven by fast e-commerce growth, rapid increases in online and mobile penetration, and a large number of consumers underserved by incumbent financial institutions, combined with regulatory support and easy access to capital. Underbanked (or unbanked) individuals and small and medium-sized enterprises have significantly benefited from peer-to-peer lending platforms and e-commerce companies leveraging users' merchant data. Prudential regulations and a data privacy framework have been introduced in response to recent challenges in the peer-to-peer sector, as well as data breaches, but regulations remain comparatively lax. China introduced more rigorous cybersecurity laws in the aftermath of the global Wannacry ransomware attack, which affected some bank operations (Ernst and Young 2016a).

Successful models of digital financial inclusion have emerged in *sub-Saharan Africa*, along with new regulatory and supervisory approaches. Some examples include the M-Pesa model in Kenya, which deployed mobile technology to reach 80 percent of households within four years (World Bank 2016). The Central Bank of Kenya also adopted a functional (rather than an institutional) approach to regulation in which banks and nonfinancial corporations (including mobile network operators) are permitted to provide mobile money services. West African countries have also successfully deployed technology for cross-border financial services, including remittances.

This box was prepared by Inutu Lukonga.

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Statistical Appendix

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

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

A number of assumptions have been adopted for the projections presented in the *Regional Economic Outlook: Middle East and Central Asia*. It has been assumed that established policies of national authorities will be maintained, that the price of oil[1] will average US$50.28 a barrel in 2017 and US$50.17 a barrel in 2018, and that the six-month London interbank offered rate (LIBOR) on US-dollar deposits will average 1.4 percent in 2017 and 1.9 percent in 2018. 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 2017 and 2018 data in the figures and tables are projections. These projections are based on statistical information available through early September 2017.

Data for 2011 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.

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

What's new: Somalia data are included in MENAP group aggregates.

Data in Tables 7 and 8 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.

Data for the West Bank and Gaza are included in all tables except in 3–6, 8, 10, 13, and 14.

In Tables 3, 6, 13, and 14, "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:

- Aggregates for data relating to the domestic economy (Tables 1, 3, 7–8, and 10–17), 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 aggregates for the growth rates of broad money (Table 9) are weighted by GDP converted to US dollars at market exchange rates (both GDP and exchange rates are averaged over the preceding three years) as a share of MCD or group GDP.
- Aggregates relating to the external economy in nominal terms (Tables 18–20 and 22) are sums of individual country data. Aggregates relating to the external economy as a percentage of GDP (Tables 21 and 23) are weighted by GDP in US dollars as a share of MCD or group GDP in US dollars.
- Some aggregates in Tables 2 and 6 are sums of the individual country data.

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.

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

Table 1. Real GDP Growth and Nominal GDP

	Real GDP Growth (Annual change; percent)					Nominal Gross Domestic Product (Billions of U.S. dollars)				
	Average 2009–14	2015	2016	Projections 2017	Projections 2018	Average 2009–14	2015	2016	Projections 2017	Projections 2018
MENAP	**3.5**	**2.7**	**5.0**	**2.6**	**3.5**	**3,094.4**	**3,117.3**	**3,112.7**	**2,699.8**	**2,818.4**
Oil exporters	**3.5**	**2.1**	**5.6**	**1.7**	**3.0**	**2,299.8**	**2,169.1**	**2,143.0**	**2,302.4**	**2,381.1**
Algeria	3.0	3.7	3.3	1.5	0.8	188.5	165.9	159.0	175.5	179.9
Bahrain	3.7	2.9	3.0	2.5	1.7	29.0	31.1	31.9	33.9	35.4
Iran, I.R. of	0.8	–1.6	12.5	3.5	3.8	440.9	375.4	404.4	427.7	398.4
Iraq	6.6	4.8	11.0	–0.4	2.9	187.2	179.8	171.7	192.7	202.9
Kuwait	1.7	2.1	2.5	–2.1	4.1	147.7	114.6	110.9	118.3	125.9
Libya	–5.3	–10.3	–3.0	55.1	31.2	51.3	17.8	20.5	33.3	47.5
Oman	4.3	4.2	3.0	0.0	3.7	68.6	69.8	66.3	71.9	75.3
Qatar[1]	9.4	3.6	2.2	2.5	3.1	163.7	164.6	155.8	166.3	180.9
Saudi Arabia	4.1	4.1	1.7	0.1	1.1	644.4	654.3	646.4	678.5	708.5
United Arab Emirates	2.8	3.8	3.0	1.3	3.4	343.8	357.9	348.7	378.7	400.9
Yemen	1.0	–28.1	–9.8	–2.0	8.5	34.6	37.7	27.3	25.7	25.6
Oil importers	**3.3**	**3.9**	**3.6**	**4.3**	**4.4**	**794.6**	**948.2**	**969.8**	**397.4**	**437.3**
Afghanistan, Rep. of	9.6	1.3	2.4	2.5	3.0	17.7	20.1	19.5	21.1	22.5
Djibouti	4.8	6.5	6.5	7.0	7.0	1.3	1.7	1.9	2.1	2.3
Egypt	3.3	4.4	4.3	4.1	4.5	258.1	332.1	332.3	. . .	. . .
Jordan	3.2	2.4	2.0	2.3	2.5	29.9	37.6	38.7	40.5	42.6
Lebanon	4.4	0.8	1.0	1.5	2.0	41.9	49.5	50.5	52.7	55.0
Mauritania	4.3	0.9	1.7	3.8	3.0	4.9	4.8	4.7	5.0	5.1
Morocco	3.9	4.5	1.2	4.8	3.0	100.4	101.2	103.6	110.7	118.6
Pakistan	3.0	4.1	4.5	5.3	5.6	209.8	270.6	278.9	. . .	. . .
Somalia	. . .	3.6	3.2	2.4	3.5	. . .	6.1	6.3	6.5	6.8
Sudan	1.6	4.9	3.0	3.7	3.6	64.2	81.4	91.2	119.0	145.2
Syrian Arab Republic	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Tunisia	2.1	1.1	1.0	2.3	3.0	45.4	43.2	42.1	39.9	39.3
CCA	**5.7**	**3.1**	**2.5**	**3.6**	**3.7**	**367.9**	**375.7**	**312.6**	**345.1**	**370.3**
Oil and gas exporters	**6.0**	**3.1**	**2.4**	**3.5**	**3.7**	**330.1**	**336.7**	**274.2**	**304.6**	**327.6**
Azerbaijan	3.9	0.6	–3.1	–1.0	1.3	63.2	50.8	37.6	39.2	42.8
Kazakhstan	5.2	1.2	1.1	3.3	2.8	187.0	184.4	133.7	156.2	170.3
Turkmenistan	. . .	6.5	6.2	6.5	6.3	31.7	36.0	36.2	41.7	46.5
Uzbekistan	8.2	8.0	7.8	6.0	6.0	48.2	65.4	66.8	67.5	68.0
Oil and gas importers	**3.8**	**3.8**	**3.3**	**3.9**	**3.8**	**37.7**	**39.1**	**38.4**	**40.6**	**42.7**
Armenia	1.1	3.3	0.2	3.5	2.9	10.2	10.6	10.6	11.0	11.5
Georgia	4.0	2.9	2.7	4.0	4.2	14.2	14.0	14.3	15.2	16.7
Kyrgyz Republic	3.9	3.5	3.8	3.5	3.8	6.2	6.7	6.6	7.1	7.3
Tajikistan	6.6	6.0	6.9	4.5	4.0	7.1	7.9	6.9	7.2	7.1
Memorandum										
MENA	**3.5**	**2.6**	**5.1**	**2.2**	**3.2**	**2,866.9**	**2,826.6**	**2,814.4**	**2,678.8**	**2,795.9**
MENA oil importers	**3.2**	**3.9**	**3.2**	**3.9**	**3.9**	**567.1**	**657.6**	**671.4**	**376.3**	**414.8**
Arab Countries in Transition[2]	**3.3**	**4.0**	**3.4**	**4.0**	**4.0**	**433.8**	**514.0**	**516.7**	**191.1**	**200.4**
GCC	**4.1**	**3.8**	**2.2**	**0.5**	**2.2**	**1,397.2**	**1,392.4**	**1,360.0**	**1,447.6**	**1,526.8**
Non-GCC oil exporters	**2.9**	**0.1**	**9.5**	**3.1**	**3.8**	**902.5**	**776.6**	**783.0**	**854.8**	**854.3**
Arab World	**4.1**	**3.4**	**3.3**	**2.0**	**3.1**	**2,426.0**	**2,451.2**	**2,409.9**	**2,251.1**	**2,397.5**
West Bank and Gaza[3]	6.2	3.4	4.1	3.1	3.0	10.5	12.7	13.6	14.3	15.0

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] Due to data volatility aggregate excludes Libya and Yemen.

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

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

	Average 2009–14	2015	2016	Projections 2017	Projections 2018	Average 2009–14	2015	2016	Projections 2017	Projections 2018
	Oil GDP (annual percent change)					Non-Oil GDP (annual percent change)				
MENAP oil exporters	**–0.2**	**5.1**	**19.4**	**1.0**	**6.5**	**5.3**	**0.6**	**1.1**	**2.6**	**2.5**
Algeria	–3.9	0.2	7.7	1.3	2.8	7.0	5.0	2.3	1.5	0.3
Bahrain	2.2	–0.1	–0.1	–0.3	0.0	4.2	3.6	3.7	3.1	2.1
Iran, I.R. of	–6.5	7.2	61.6	2.5	3.9	2.9	–3.1	3.3	3.7	3.7
Iraq	5.5	18.4	24.6	–1.5	3.4	8.0	–9.6	–8.1	1.5	2.0
Kuwait	1.0	1.1	2.0	–6.0	4.6	3.1	3.5	3.2	3.5	3.5
Libya	…	…	…	…	…	…	…	…	…	…
Oman	3.0	4.2	2.6	–2.8	4.0	5.7	4.2	3.4	2.5	3.5
Qatar[1]	8.5	–0.5	–1.0	0.4	1.4	10.9	8.2	5.6	4.6	4.7
Saudi Arabia	1.3	5.3	3.8	–1.9	0.9	6.7	3.2	0.2	1.7	1.3
United Arab Emirates	2.2	5.4	3.8	–2.9	3.2	3.1	3.2	2.7	3.3	3.4
Yemen	4.1	–61.0	–87.0	143.3	334.2	0.8	–25.0	–6.0	–3.0	3.0
CCA Oil Exporters	**3.0**	**–1.6**	**–1.6**	**4.7**	**3.3**	**7.0**	**3.1**	**1.7**	**2.4**	**3.0**
Azerbaijan	0.5	0.3	–0.8	–3.4	–1.0	7.7	1.1	–4.4	0.6	2.8
Kazakhstan	2.3	–2.6	–1.2	7.6	3.8	6.4	2.5	1.8	2.0	2.5
Turkmenistan	…	0.1	–4.8	4.3	7.5	…	9.8	11.5	7.4	5.8
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**2.3**	**4.2**	**3.0**	**–2.3**	**1.9**	**5.9**	**3.8**	**1.8**	**2.6**	**2.4**
Non-GCC oil exporters	**–3.1**	**6.2**	**38.2**	**4.6**	**11.6**	**4.7**	**–3.4**	**0.3**	**2.6**	**2.6**
	Crude Oil Production (Millions of barrels per day)					Natural Gas Production (Millions of barrels per day equivalent)				
MENAP Oil Exporters	**24.5**	**25.8**	**28.1**	**27.5**	**28.6**	**12.2**	**13.7**	**14.0**	**14.7**	**15.3**
Algeria	1.1	1.0	1.0	1.0	1.0	1.5	1.5	1.7	1.7	1.8
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]	3.2	2.9	3.7	3.8	3.9	3.3	3.9	4.0	4.2	4.6
Iraq	2.7	3.7	4.6	4.6	4.7	0.0	0.0	0.0	0.0	0.0
Kuwait	2.7	2.9	3.0	2.7	2.8	0.2	0.3	0.3	0.2	0.3
Libya	1.1	0.4	0.4	0.8	1.0	0.1	0.0	0.0	0.1	0.1
Oman	0.9	1.0	1.0	1.0	1.0	0.6	0.7	0.7	0.7	0.7
Qatar	0.7	0.6	0.6	0.6	0.6	3.3	3.9	3.9	4.1	4.1
Saudi Arabia	9.1	10.2	10.5	10.0	10.1	1.8	2.0	2.1	2.2	2.2
United Arab Emirates	2.6	2.9	3.0	2.9	3.0	0.9	1.0	1.0	1.0	1.1
Yemen	0.2	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.1
CCA Oil Exporters	**2.8**	**2.7**	**2.7**	**2.8**	**2.9**	**1.3**	**1.5**	**1.5**	**1.6**	**1.8**
Azerbaijan	0.9	0.8	0.8	0.8	0.8	0.3	0.3	0.3	0.3	0.4
Kazakhstan	1.7	1.6	1.6	1.7	1.8	0.0	0.0	0.0	0.0	0.0
Turkmenistan	0.2	0.3	0.2	0.2	0.3	1.1	1.2	1.2	1.3	1.4
Uzbekistan	…	…	…	…	…	…	…	…	…	…
Memorandum										
GCC	**16.2**	**17.7**	**18.3**	**17.4**	**17.8**	**7.2**	**8.3**	**8.4**	**8.7**	**8.8**
Non-GCC oil exporters	**8.3**	**8.1**	**9.8**	**10.1**	**10.8**	**5.0**	**5.5**	**5.7**	**6.0**	**6.5**

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.

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)*				
				Projections					Projections	
	Average 2009–14	2015	2016	2017	2018	Average 2009–14	2015	2016	2017	2018
MENAP	**–0.5**	**–8.6**	**–9.3**	**–5.7**	**–4.6**	**32.0**	**41.8**	**47.2**	**48.2**	**47.6**
Oil exporters	**2.7**	**–9.3**	**–10.6**	**–5.2**	**–4.1**	**15.0**	**25.6**	**31.5**	**32.1**	**33.4**
Algeria	–3.8	–15.7	–13.7	–3.5	–1.2	9.0	8.8	20.6	17.7	17.7
Bahrain[1]	–5.0	–18.4	–17.8	–13.2	–11.9	34.7	66.0	82.3	90.6	98.6
Iran, I.R. of[1,2]	–0.7	–1.8	–2.6	–2.2	–2.2	10.9	42.3	34.5	32.1	30.8
Iraq	–3.2	–12.3	–14.1	–5.1	–4.7	46.6	55.1	66.9	63.8	65.3
Kuwait[1]	29.1	5.8	0.3	1.5	1.5	8.6	11.0	18.5	27.1	33.0
Libya	–10.7	–126.6	–102.7	–43.0	–23.3	18.2	164.8	193.7	140.8	110.4
Oman[1]	3.8	–15.7	–21.6	–13.0	–11.4	5.4	15.3	33.6	44.5	50.8
Qatar	13.0	5.6	–3.9	–1.0	0.5	36.1	34.9	56.5	54.4	54.4
Saudi Arabia[1]	3.9	–15.8	–17.2	–8.6	–7.2	5.8	5.8	13.1	17.0	20.7
United Arab Emirate[3]	3.2	–3.4	–4.1	–3.7	–2.2	18.6	18.7	20.7	20.7	20.8
Yemen	–6.0	–10.6	–13.5	–9.9	–6.6	47.0	66.7	85.4	83.5	71.0
Oil importers	**–7.2**	**–7.3**	**–6.8**	**–6.6**	**–5.6**	**67.7**	**75.3**	**80.2**	**81.2**	**76.4**
Afghanistan, Rep. of	–0.6	–1.4	0.1	0.4	0.2	10.6	9.1	8.0	7.6	6.8
Djibouti	–4.5	–21.7	–18.2	–1.6	–0.7	46.9	33.7	31.9	29.0	26.9
Egypt	–9.8	–11.4	–10.9	–9.5	–7.3	75.8	88.5	96.9	101.2	88.8
Jordan[1,4]	–8.4	–5.3	–3.2	–2.5	–0.4	76.5	93.4	95.1	95.6	93.5
Lebanon[1]	–7.5	–7.6	–9.3	–9.9	–10.3	137.3	142.2	148.7	152.3	156.1
Mauritania[1,5]	–1.1	–3.4	–0.3	–0.6	–1.8	77.7	98.4	99.3	77.3	79.9
Morocco[1]	–5.0	–4.2	–4.1	–3.5	–3.0	54.9	63.7	64.7	62.8	62.4
Pakistan[6]	–6.6	–5.3	–4.4	–5.7	–5.4	61.4	63.3	67.6	68.0	68.7
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	–1.8	–1.9	–1.8	–2.4	–2.6	79.6	72.6	66.5	53.5	47.9
Syrian Arab Republic	–5.5	…	…	…	…	30.6	…	…	…	…
Tunisia	–4.2	–5.3	–5.9	–5.9	–5.3	44.8	57.2	62.9	69.2	72.2
CCA	**3.5**	**–3.5**	**–2.2**	**–3.4**	**–1.0**	**14.5**	**24.5**	**27.4**	**25.6**	**25.5**
Oil and gas exporters	**4.3**	**–3.5**	**–1.7**	**–3.3**	**–0.7**	**11.6**	**21.9**	**24.9**	**22.6**	**22.2**
Azerbaijan[1]	6.5	–4.8	–1.1	–0.3	0.7	12.9	35.0	51.1	46.4	41.1
Kazakhstan	2.9	–6.3	–4.1	–6.6	–2.0	11.7	21.9	21.0	17.4	17.7
Turkmenistan[7]	3.8	–0.7	–1.3	–1.1	–0.1	12.4	19.4	23.9	25.9	30.2
Uzbekistan	5.7	2.8	2.7	0.3	0.7	9.2	11.5	12.8	14.1	14.4
Oil and gas importers	**–3.5**	**–3.1**	**–6.1**	**–4.2**	**–3.7**	**39.2**	**45.6**	**48.6**	**50.4**	**52.5**
Armenia[1]	–3.4	–4.8	–5.6	–3.3	–2.7	36.6	46.8	53.5	55.8	58.3
Georgia[8]	–4.6	–3.8	–4.1	–3.8	–3.8	37.5	41.4	44.6	41.3	42.7
Kyrgyz Republic	–3.4	–1.2	–4.5	–3.0	–2.4	52.4	64.9	58.1	56.9	58.0
Tajikistan	–1.8	–1.9	–10.6	–6.5	–5.4	33.1	34.3	41.8	52.4	56.2
Memorandum										
MENA	**0.2**	**–9.1**	**–10.0**	**–5.7**	**–4.5**	**28.7**	**39.5**	**45.0**	**46.1**	**45.3**
MENA oil importers	**–7.7**	**–8.5**	**–8.2**	**–7.4**	**–5.8**	**72.7**	**83.8**	**89.2**	**90.6**	**82.9**
Arab Countries in Transition[9]	**–8.4**	**–9.3**	**–8.9**	**–7.8**	**–6.0**	**69.6**	**81.8**	**88.5**	**91.7**	**83.2**
GCC	**6.9**	**–9.2**	**–11.9**	**–6.3**	**–5.0**	**12.1**	**13.5**	**22.0**	**25.5**	**28.6**
Non-GCC oil exporters	**–1.9**	**–9.3**	**–9.1**	**–4.1**	**–3.2**	**18.1**	**40.3**	**42.2**	**39.4**	**38.6**
Arab World	**0.4**	**–10.7**	**–11.8**	**–6.6**	**–5.1**	**33.1**	**38.9**	**47.5**	**49.4**	**48.8**
West Bank and Gaza[10,11]	–16.8	–11.4	–8.0	–8.4	–7.8	31.5	39.2	35.2	37.5	39.5

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. Total goverment gross debts includes banking system claims only. Excludes debt raised by federal and Emirati governments in the international markets.

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

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

[6] Debt figures include IMF obligations.

[7] State government.

[8] Fiscal balance reported according to GFSM1986.

[9] Due to data volatility aggregate excludes Libya and Yemen.

[10] Excluding grants.

[11] 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	
	2009–14	2015	2016	2017	2018	2009–14	2015	2016	2017	2018
MENAP	**30.3**	**24.6**	**22.8**	**24.5**	**25.2**	**30.9**	**33.1**	**31.8**	**30.0**	**29.6**
Oil exporters	**35.6**	**27.6**	**24.8**	**27.3**	**28.0**	**32.7**	**36.3**	**34.4**	**31.9**	**31.5**
Algeria[1]	37.0	30.6	29.0	32.3	30.9	40.9	46.3	42.7	35.8	32.1
Bahrain[2]	23.7	17.3	15.6	17.9	18.9	22.0	12.6	13.1	17.3	17.5
Iran, I.R. of[2,3]	17.3	16.1	17.3	18.8	18.8	16.3	16.1	17.0	18.8	18.8
Iraq	42.8	30.3	27.4	35.9	36.4	47.7	42.6	41.5	41.0	41.1
Kuwait[2]	70.3	60.2	53.2	52.1	51.2	41.2	54.4	52.9	50.6	49.8
Libya	67.5	49.5	28.8	42.4	41.6	78.2	176.1	131.4	85.4	64.9
Oman[2]	45.0	33.6	29.1	32.1	32.5	42.7	50.8	51.1	46.3	45.8
Qatar	43.8	47.1	33.3	32.5	31.9	30.8	41.5	37.2	33.5	31.4
Saudi Arabia[2]	39.5	25.0	21.4	25.0	27.7	35.5	40.7	38.6	33.6	35.0
United Arab Emirates[4]	35.0	29.0	28.5	26.8	27.3	31.8	32.4	32.6	30.4	29.5
Yemen	23.6	12.4	10.8	10.7	16.2	31.7	23.5	24.4	20.6	24.0
Oil importers	**19.1**	**18.4**	**18.6**	**19.0**	**19.5**	**27.2**	**26.7**	**26.2**	**26.3**	**25.8**
Afghanistan, Rep. of	9.8	10.0	10.7	10.7	11.1	23.2	25.9	26.0	25.4	26.3
Djibouti	28.2	30.3	29.2	27.2	26.9	34.1	37.2	33.6	30.9	29.9
Egypt	21.9	21.0	21.0	21.5	22.2	32.8	33.4	32.1	31.1	29.5
Jordan[2]	22.3	21.7	22.5	25.0	25.0	34.1	29.1	29.0	30.4	30.7
Lebanon[2]	22.2	19.4	19.8	19.9	21.8	29.8	26.9	29.1	29.8	32.0
Mauritania[2,5]	23.0	27.5	26.0	24.4	24.6	25.2	32.7	28.3	26.8	28.2
Morocco[2,6]	27.3	26.0	25.1	25.0	25.2	32.7	30.7	30.2	29.4	28.9
Pakistan	13.5	14.3	15.3	15.5	16.1	20.4	19.8	19.9	21.3	21.7
Somalia	...	1.9	1.8	2.1	2.4	...	...	...	...	...
Sudan	14.2	10.7	9.7	9.5	8.9	16.4	12.9	11.8	12.2	11.8
Syrian Arab Republic	22.3	...	...	...	...	22.2	...	...	...	...
Tunisia	24.1	23.2	22.6	24.0	24.5	28.7	28.8	28.7	30.2	30.0
CCA	**29.5**	**23.9**	**23.8**	**24.4**	**24.5**	**26.5**	**27.7**	**26.4**	**28.3**	**25.9**
Oil and gas exporters	**30.0**	**23.5**	**23.5**	**24.2**	**24.3**	**26.0**	**27.2**	**25.4**	**27.6**	**25.1**
Azerbaijan[2,7]	40.8	33.0	33.5	36.9	35.1	35.4	38.7	35.6	38.1	35.4
Kazakhstan	24.7	16.6	18.0	19.3	19.7	21.7	22.9	22.1	25.9	21.7
Turkmenistan[6]	18.8	16.5	12.8	12.2	13.0	15.1	17.2	14.1	13.3	13.1
Uzbekistan	37.5	34.4	32.5	30.5	31.1	32.0	31.6	29.7	30.1	30.4
Oil and gas importers	**25.3**	**26.8**	**26.5**	**26.2**	**26.2**	**31.2**	**32.1**	**35.0**	**33.3**	**32.4**
Armenia[2,7]	20.9	20.9	20.8	21.8	21.9	26.4	27.5	28.5	26.4	26.3
Georgia	27.0	27.1	27.5	27.5	26.6	33.0	31.9	32.5	32.3	31.4
Kyrgyz Republic	30.5	33.5	32.5	32.3	31.6	38.6	38.7	41.7	42.7	38.9
Tajikistan	23.1	27.0	25.8	23.8	25.4	27.1	31.8	39.4	33.9	34.5
Memorandum										
MENA	**32.4**	**26.0**	**23.8**	**25.8**	**26.4**	**32.2**	**34.8**	**33.3**	**31.2**	**30.6**
MENA oil importers	**22.1**	**20.8**	**20.6**	**21.0**	**21.5**	**30.6**	**30.3**	**29.4**	**28.9**	**28.0**
Arab Countries in Transition[8]	**23.0**	**22.1**	**22.0**	**22.5**	**23.0**	**32.5**	**32.3**	**31.3**	**30.7**	**29.5**
GCC	**41.9**	**31.5**	**27.3**	**28.8**	**30.3**	**35.0**	**40.4**	**38.7**	**34.9**	**35.1**
Non-GCC oil exporters	**28.7**	**22.8**	**22.0**	**25.6**	**25.5**	**30.1**	**31.3**	**29.6**	**28.5**	**27.6**
Arab World	**36.0**	**28.1**	**25.3**	**27.4**	**28.3**	**36.0**	**38.9**	**37.1**	**34.1**	**33.5**
West Bank and Gaza[7,9]	20.3	21.7	25.5	23.7	23.7	37.1	33.1	33.5	32.1	31.5

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] Due to data volatility aggregate excluding Libya and Yemen.
[9] West Bank and Gaza is not a member of the IMF and is not included in any of the aggregates.

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

	Average			Projections		Average			Projections	
	2009–14	2015	2016	2017	2018	2009–14	2015	2016	2017	2018
	Non-Oil Fiscal Balance (*Percent of non-oil GDP*)					Non-Oil Revenue (*Percent of non-oil GDP*)				
MENAP oil exporters	**–43.0**	**–35.4**	**–30.1**	**–28.0**	**–25.5**	**11.9**	**12.8**	**14.7**	**14.4**	**15.9**
Algeria	–41.2	–36.8	–29.0	–20.4	–17.7	19.2	20.1	22.7	23.5	21.8
Bahrain[1]	–33.8	–37.1	–33.7	–30.6	–28.5	3.7	4.1	4.0	4.9	6.4
Iran, I.R. of[1,2]	–11.9	–8.6	–9.6	–11.3	–10.6	9.8	11.1	13.1	13.0	13.7
Iraq	–69.6	–46.1	–45.6	–49.9	–45.1	6.4	4.1	6.2	6.4	7.3
Kuwait[1]	–78.7	–67.6	–58.3	–55.5	–54.4	32.5	32.4	30.6	29.4	28.0
Libya	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Oman[1]	–65.3	–59.1	–50.0	–44.5	–41.7	13.5	9.9	12.0	11.6	12.9
Qatar	–51.9	–52.5	–32.4	–26.6	–22.6	15.0	15.1	19.7	21.5	22.2
Saudi Arabia[1]	–58.9	–47.1	–40.6	–35.9	–32.6	7.5	9.4	11.4	10.9	15.4
United Arab Emirates[3]	–33.2	–22.6	–17.8	–18.3	–16.1	15.5	18.8	21.2	18.6	19.5
Yemen[4]	–26.0	–14.5	–15.9	–13.6	–15.9	11.8	10.2	8.6	7.6	9.7
CCA Oil Exporters	**–18.2**	**–18.3**	**–13.9**	**–17.6**	**–12.9**	**16.3**	**12.6**	**15.8**	**15.1**	**15.3**
Azerbaijan[1]	–36.7	–30.3	–29.3	–29.5	–25.7	. . .	. . .	. . .	. . .	. . .
Kazakhstan	–12.2	–15.6	–10.1	–16.0	–10.3	16.8	12.2	16.7	16.1	16.3
Turkmenistan[5]	–9.3	–8.4	–5.3	–5.6	–4.7	13.0	14.4	11.4	10.4	11.0
Uzbekistan	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Memorandum										
GCC	**–54.8**	–45.1	–37.2	–33.5	–30.6	**12.5**	**13.9**	**15.9**	**15.1**	**17.8**
Non-GCC oil exporters	**–29.7**	–23.5	–22.0	–21.8	–19.8	**11.2**	**11.6**	**13.4**	**13.6**	**13.9**
	Fiscal Breakeven Oil Price[6] (*US dollars per barrel*)					External Breakeven Oil Prices[7] (*US dollars per barrel*)				
MENAP Oil Exporters										
Algeria	106.4	106.8	100.3	63.8	54.9	73.6	84.5	73.3	72.0	67.2
Bahrain	113.5	118.7	105.7	99.0	95.2	66.0	60.8	64.6	70.7	69.5
Iran, I.R. of	89.4	44.1	58.4	54.7	57.2	57.9	22.9	27.6	26.2	25.6
Iraq	101.6	58.5	46.7	54.1	56.2	86.1	55.0	46.3	53.8	54.6
Kuwait	45.1	47.2	43.1	46.5	47.1	33.8	45.0	46.8	49.9	50.8
Libya	110.7	199.9	244.5	102.0	78.1	91.7	98.1	74.2	46.8	36.0
Oman	78.9	101.9	88.9	83.6	76.3	69.7	85.7	65.2	74.7	75.1
Qatar	61.7	50.9	50.0	46.8	47.2	52.3	39.3	48.6	44.2	46.0
Saudi Arabia	82.3	94.0	96.6	73.1	70.0	57.7	69.7	49.8	48.2	49.4
United Arab Emirates	82.2	64.7	60.7	68.0	61.7	58.3	38.2	36.8	44.2	44.0
Yemen[4]	179.1	305.0	364.0	125.0	. . .	145.0	. . .	. . .	. . .	. . .
CCA Oil Exporters										
Azerbaijan	72.2	67.5	49.8	55.1	52.2	50.0	51.0	42.1	45.1	36.4
Kazakhstan	. . .	63.9	61.6	60.6	60.6	86.7	84.5	86.7	82.7	81.5
Turkmenistan	83.6	53.6	57.1	58.5	53.0	93.2	65.7	71.4	74.5	72.3
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 US Dollars)					(Percent of GDP)				
	Average			Projections		Average			Projections	
	2009–14	2015	2016	2017	2018	2009–14	2015	2016	2017	2018
MENAP	**258.9**	**–116.5**	**–128.2**	**–34.0**	**–29.0**	**8.0**	**–3.7**	**–4.1**	**–1.9**	**–1.6**
Oil exporters	**293.2**	**–75.2**	**–76.5**	**–9.9**	**–5.5**	**12.2**	**–3.5**	**–3.6**	**–0.4**	**–0.2**
Algeria	6.0	–27.3	–26.3	–22.9	–19.4	3.3	–16.5	–16.5	–13.0	–10.8
Bahrain	1.7	–0.8	–1.5	–1.6	–1.5	5.8	–2.4	–4.7	–4.6	–4.2
Iran, I.R. of	25.5	9.0	16.4	21.6	23.4	5.5	2.4	4.1	5.1	5.9
Iraq	4.9	–11.6	–14.9	–12.2	–13.6	1.6	–6.5	–8.7	–6.3	–6.7
Kuwait	55.7	4.0	–5.0	–0.7	–1.7	36.7	3.5	–4.5	–0.6	–1.4
Libya	5.3	–9.3	–4.6	0.6	4.7	0.2	–52.6	–22.4	1.8	9.8
Oman	5.1	–10.8	–12.3	–10.3	–9.9	7.1	–15.5	–18.6	–14.3	–13.2
Qatar	42.4	13.8	–7.7	3.9	1.8	24.1	8.4	–4.9	2.3	1.0
Saudi Arabia	103.4	–56.7	–27.5	4.3	2.8	15.2	–8.7	–4.3	0.6	0.4
United Arab Emirates	44.3	16.7	8.4	7.9	8.5	12.0	4.7	2.4	2.1	2.1
Yemen	–1.2	–2.1	–1.5	–0.6	–0.6	–3.8	–5.5	–5.6	–2.3	–2.4
Oil importers	**–34.3**	**–41.3**	**–51.7**	**–24.0**	**–23.5**	**–4.3**	**–4.4**	**–5.3**	**–5.3**	**–4.8**
Afghanistan, Rep. of	3.0	0.6	1.4	1.0	0.4	19.1	3.0	7.1	4.7	1.6
Djibouti	–0.2	–0.5	–0.6	–0.4	–0.4	–14.0	–31.8	–30.4	–21.0	–18.2
Egypt	–6.1	–12.0	–19.8	...	...	–2.5	–3.6	–6.0	–5.9	–3.8
Jordan	–2.8	–3.4	–3.6	–3.4	–3.5	–9.3	–9.1	–9.3	–8.4	–8.3
Lebanon	–8.9	–9.3	–9.4	–9.5	–9.2	–20.8	–18.7	–18.6	–18.0	–16.8
Mauritania	–0.9	–1.0	–0.7	–0.7	–0.5	–16.7	–19.7	–14.9	–14.2	–9.6
Morocco	–6.8	–2.2	–4.5	–4.4	–3.4	–6.7	–2.1	–4.4	–4.0	–2.9
Pakistan	–3.9	–2.7	–4.9	...	...	–2.0	–1.0	–1.7	–4.0	–4.9
Somalia	...	–0.4	–0.6	–0.7	–0.7	...	–7.2	–10.1	–11.1	–10.7
Sudan	–3.9	–6.5	–5.1	–2.3	–2.9	–6.2	–8.0	–5.6	–1.9	–2.0
Syrian Arab Republic	–1.6	...	...	...	...	–2.9	...	...	...	...
Tunisia	–3.1	–3.8	–3.8	–3.5	–3.3	–6.8	–8.9	–9.0	–8.7	–8.4
CCA	**11.9**	**–13.4**	**–20.0**	**–16.8**	**–15.4**	**3.2**	**–3.6**	**–6.4**	**–4.9**	**–4.2**
Oil and gas exporters	**15.3**	**–9.9**	**–17.0**	**–13.3**	**–11.9**	**4.6**	**–3.0**	**–6.2**	**–4.4**	**–3.6**
Azerbaijan	13.2	–0.2	–1.4	0.7	1.1	21.4	–0.4	–3.6	1.9	2.5
Kazakhstan	2.6	–5.1	–8.5	–8.3	–6.5	1.1	–2.8	–6.4	–5.3	–3.8
Turkmenistan	–2.1	–5.1	–7.6	–6.4	–6.7	–7.5	–14.0	–21.0	–15.4	–14.3
Uzbekistan	1.6	0.5	0.5	0.6	0.2	3.5	0.7	0.7	0.9	0.3
Oil and gas importers	**–3.4**	**–3.5**	**–3.0**	**–3.5**	**–3.5**	**–9.0**	**–8.9**	**–7.9**	**–8.6**	**–8.2**
Armenia	–1.1	–0.3	–0.2	–0.4	–0.4	–10.9	–2.6	–2.3	–3.6	–3.2
Georgia	–1.5	–1.7	–1.9	–1.8	–1.8	–10.3	–12.0	–13.3	–11.9	–10.7
Kyrgyz Republic	–0.4	–1.1	–0.6	–0.8	–0.9	–5.0	–16.0	–9.7	–11.6	–12.0
Tajikistan	–0.5	–0.5	–0.3	–0.5	–0.4	–6.7	–6.0	–3.8	–6.3	–6.2
Memorandum										
MENA	**259.9**	**–114.4**	**–124.7**	**–35.0**	**–29.4**	**8.7**	**–4.0**	**–4.4**	**–1.7**	**–1.3**
MENA oil importers	**–33.4**	**–39.2**	**–48.2**	**–25.0**	**–23.9**	**–5.9**	**–6.0**	**–7.2**	**–6.4**	**–5.0**
Arab Countries in Transition[1]	**–18.8**	**–21.5**	**–31.8**	**–11.3**	**–10.2**	**–4.3**	**–4.2**	**–6.1**	**–5.9**	**–4.3**
GCC	**252.7**	**–33.9**	**–45.6**	**3.5**	**0.0**	**17.2**	**–2.4**	**–3.4**	**0.2**	**0.0**
Non-GCC oil exporters	**40.5**	**–41.3**	**–30.9**	**–13.5**	**–5.5**	**4.3**	**–5.3**	**–3.9**	**–1.6**	**–0.6**
Arab World	**234.4**	**–123.4**	**–141.1**	**–56.6**	**–52.8**	**9.2**	**–5.0**	**–5.9**	**–2.8**	**–2.3**
West Bank and Gaza[2]	–1.7	–2.1	–1.3	–1.9	–2.0	–15.9	–16.3	–9.9	–13.1	–13.2

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

[1] Due to data volatility aggregate excludes Libya and Yemen.

[2] 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	
	2009–14	2015	2016	2017	2018	2009–14	2015	2016	2017	2018
MENAP	**12.0**	**12.8**	**11.1**	**10.2**	**9.7**	**28.8**	**34.2**	**38.8**	**40.5**	**41.5**
Oil exporters	**14.0**	**14.8**	**12.6**	**11.4**	**10.9**	**26.1**	**33.2**	**39.0**	**38.8**	**40.7**
Algeria	34.1	28.4	22.3	19.3	16.3	2.4	1.8	2.5	2.4	2.5
Bahrain	2.5	1.9	1.2	1.1	1.3	157.1	174.4	184.6	193.2	203.5
Iran, I.R. of	12.8	17.5	14.5	16.8	19.1	3.1	2.7	2.2	2.0	2.3
Iraq	10.1	9.2	6.7	6.2	6.0	39.1	36.8	39.3	38.3	40.9
Kuwait	7.1	6.4	6.8	6.8	6.8	26.2	36.5	42.7	50.5	55.8
Libya	...	...	...	...	...	...	...	...	...	...
Oman	5.1	6.7	7.5	7.0	6.6	38.2	51.7	70.4	75.5	80.7
Qatar	7.2	6.9	6.2	5.3	5.3	83.3	110.6	147.8	136.6	130.9
Saudi Arabia[2]	31.2	36.8	33.8	29.8	27.8	15.0	13.8	19.8	22.1	24.3
United Arab Emirates	2.1	3.6	3.2	2.8	2.6	44.5	62.9	66.2	61.6	58.9
Yemen	5.4	2.7	1.2	0.7	0.8	18.2	15.5	20.3	19.8	18.7
Oil importers	**5.3**	**5.8**	**5.9**	**6.2**	**5.7**	**36.5**	**36.4**	**38.4**	**44.5**	**43.3**
Afghanistan, Rep. of	8.7	10.9	11.0	10.5	9.8	8.6	6.1	6.4	6.4	6.1
Djibouti	3.7	3.2	3.6	3.8	3.6	53.5	69.3	85.3	87.4	87.8
Egypt	3.9	3.3	2.9	5.1	4.7	14.5	14.5	16.8	32.2	29.4
Jordan[3]	6.9	9.2	8.4	8.3	8.6	60.9	65.8	66.9	68.4	70.3
Lebanon[4]	12.2	14.0	15.6	14.8	13.4	165.6	175.8	183.9	185.6	184.0
Mauritania	2.1	3.9	3.7	3.6	3.4	81.9	104.0	109.2	85.4	86.0
Morocco	5.7	6.1	6.3	6.0	6.1	27.3	33.4	33.6	34.1	32.7
Pakistan	2.7	3.2	3.8	3.1	2.0	29.9	24.1	26.2	27.2	28.7
Somalia	...	...	...	...	...	...	...	...	...	...
Sudan	1.7	1.2	1.6	1.7	1.8	65.2	61.1	57.4	46.5	40.5
Syrian Arab Republic	...	...	...	...	...	15.2	...	...	...	...
Tunisia	4.1	4.1	3.4	4.1	4.3	51.9	62.7	64.3	75.2	80.9
CCA	**7.0**	**8.5**	**8.2**	**8.8**	**9.2**	**48.0**	**57.1**	**75.2**	**71.8**	**69.9**
Oil and gas exporters	**8.0**	**9.9**	**9.6**	**10.5**	**11.1**	**46.1**	**54.7**	**74.0**	**70.6**	**68.6**
Azerbaijan[3,5]	7.3	3.6	2.9	3.8	4.4	6.4	23.6	45.4	44.0	39.0
Kazakhstan	6.2	8.6	8.1	8.9	9.5	73.9	83.2	122.5	110.1	104.1
Turkmenistan[3]	...	...	...	...	...	12.4	19.4	23.9	25.9	30.2
Uzbekistan[3]	14.9	21.0	21.2	21.4	21.5	14.0	18.1	20.2	22.2	24.3
Oil and gas importers	**3.6**	**3.6**	**3.8**	**3.8**	**3.8**	**65.4**	**78.0**	**83.8**	**80.9**	**80.5**
Armenia	4.5	4.7	5.2	5.2	5.3	69.0	84.4	92.8	92.3	90.2
Georgia	3.7	3.6	3.5	3.6	3.6	64.3	86.2	89.5	86.3	83.8
Kyrgyz Republic[3]	4.4	3.7	4.0	3.9	3.8	80.4	85.2	84.4	73.1	74.7
Tajikistan	1.3	2.0	2.3	2.3	2.2	50.2	48.6	57.8	59.5	63.2
Memorandum										
MENA	**12.4**	**13.2**	**11.5**	**10.6**	**10.1**	**28.8**	**35.4**	**40.3**	**42.2**	**43.1**
MENA oil importers	**5.7**	**6.2**	**6.3**	**6.9**	**6.6**	**39.9**	**42.5**	**44.4**	**54.5**	**51.8**
Arab Countries in Transition[6]	**4.8**	**5.0**	**4.7**	**5.7**	**5.6**	**24.6**	**26.0**	**27.8**	**40.1**	**38.7**
GCC	**12.9**	**14.0**	**12.3**	**10.8**	**10.1**	**35.6**	**45.2**	**54.6**	**54.6**	**55.5**
Non-GCC oil exporters	**17.2**	**17.4**	**13.5**	**13.2**	**13.3**	**10.8**	**11.2**	**11.3**	**11.1**	**12.6**
Arab World	**12.4**	**12.9**	**11.2**	**10.1**	**9.3**	**33.7**	**40.4**	**46.8**	**49.2**	**49.4**
West Bank and Gaza[7]	1.4	0.9	...	...	...	10.8	8.4	7.7	7.3	7.0

Sources: National authorities; and IMF staff estimates and projections.
[1] Nominal GDP is converted to US 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] Due to data volatility aggregate excludes Libya and Yemen.
[7] 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	
	2009–14	2015	2016	2017	2018	2009–14	2015	2016	2017	2018
MENAP	**8.3**	**5.8**	**5.7**	**7.9**	**6.9**	**11.2**	**10.5**	**8.5**	**10.9**	**7.9**
Oil exporters	**7.7**	**5.4**	**4.7**	**4.4**	**6.1**	**12.2**	**10.7**	**7.7**	**6.8**	**6.8**
Algeria	4.9	4.8	6.4	5.5	4.4	14.4	14.8	10.4	3.3	3.4
Bahrain	2.2	1.8	2.8	0.9	3.5	4.6	7.6	1.5	1.7	1.6
Iran, I.R. of	20.9	11.9	9.0	10.5	10.1	19.4	16.7	24.7	17.5	16.9
Iraq	2.7	1.4	0.4	2.0	2.0	29.5	6.2	3.1	6.0	6.0
Kuwait	3.8	3.7	3.5	2.5	2.7	4.3	7.6	2.9	8.1	7.8
Libya	5.3	9.8	27.1	32.8	32.1	11.1	2.5	–8.0	–10.7	–5.7
Oman	2.7	0.1	1.1	3.2	3.2	10.7	13.9	10.1	8.0	7.2
Qatar	0.5	1.8	2.7	0.9	4.8	14.2	19.7	6.5	6.4	9.5
Saudi Arabia	3.5	2.2	3.5	–0.2	5.0	9.5	9.2	2.4	1.0	1.0
United Arab Emirates	1.2	4.1	1.8	2.1	2.9	3.5	8.4	5.8	8.3	7.2
Yemen	10.6	39.4	5.0	20.0	29.5	4.6	–22.3	1.3	15.0	15.0
Oil importers	**9.7**	**6.7**	**7.7**	**15.0**	**8.3**	**8.3**	**10.0**	**10.8**	**20.9**	**10.4**
Afghanistan, Rep. of	4.3	–0.7	4.4	6.0	6.0	5.1	5.3	–2.3	4.0	4.2
Djibouti	3.3	2.1	2.7	3.0	3.0	12.8	7.0	–2.3	0.2	17.2
Egypt	10.0	10.4	13.8	29.9	13.0	6.4	16.7	14.2	37.9	8.0
Jordan	3.4	–0.9	–0.8	3.3	1.5	6.0	4.8	10.1	9.1	7.8
Lebanon	3.9	–3.7	–0.8	3.1	2.5	13.7	5.9	2.0	4.4	4.4
Mauritania	4.5	0.5	1.5	2.1	3.7	10.9	9.7	8.0	6.5	7.4
Morocco	1.1	1.5	1.6	0.9	1.6	6.5	2.0	4.3	5.9	4.7
Pakistan	11.7	4.5	2.9	4.1	4.8	4.7	5.9	11.1	16.8	16.5
Somalia[2]	. . .	1.4	2.3	2.9	2.7	. . .	. . .	. . .	. . .	. . .
Sudan	25.2	16.9	17.8	26.9	19.0	19.9	17.1	15.3	13.9	13.3
Syrian Arab Republic	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Tunisia[3]	4.4	4.9	3.7	4.5	4.4	11.4	6.2	9.7	7.1	7.3
CCA	**6.7**	**6.4**	**10.5**	**8.9**	**7.8**	**16.4**	**10.9**	**3.5**	**11.5**	**14.0**
Oil and gas exporters	**6.9**	**6.6**	**11.6**	**9.3**	**8.2**	**16.0**	**10.7**	**2.8**	**11.8**	**14.1**
Azerbaijan	3.3	4.0	12.4	12.0	8.0	18.6	14.1	–24.1	7.4	12.7
Kazakhstan	6.7	6.7	14.6	7.3	6.5	9.0	4.5	1.2	2.8	7.0
Turkmenistan	. . .	7.4	3.6	6.0	6.2	. . .	21.0	16.5	21.0	20.0
Uzbekistan	11.6	8.5	8.0	13.0	12.7	34.3	23.3	28.3	34.9	28.2
Oil and gas importers	**5.4**	**4.8**	**1.9**	**5.3**	**4.7**	**20.2**	**12.8**	**9.8**	**8.5**	**13.6**
Armenia	5.0	3.7	–1.4	1.9	3.5	22.7	–3.6	14.4	16.2	19.8
Georgia	3.2	4.0	2.1	6.0	3.0	14.2	22.1	19.6	11.3	14.3
Kyrgyz Republic	8.1	6.5	0.4	3.8	5.1	21.7	17.4	–1.0	13.5	13.9
Tajikistan	7.0	5.8	5.9	8.9	8.0	26.0	12.7	–4.9	–11.2	3.0
Memorandum										
MENA	**8.0**	**6.0**	**6.0**	**8.4**	**7.1**	**11.8**	**10.9**	**8.4**	**10.4**	**7.1**
MENA oil importers	**8.9**	**8.0**	**10.3**	**21.0**	**10.3**	**9.8**	**11.7**	**11.1**	**23.0**	**7.9**
Arab Countries in Transition[4]	**7.6**	**7.8**	**10.1**	**21.5**	**9.8**	**7.1**	**11.6**	**11.4**	**26.5**	**7.2**
GCC	**2.7**	**2.5**	**2.9**	**0.8**	**4.2**	**7.8**	**10.3**	**4.2**	**4.5**	**4.5**
Non-GCC oil exporters	**13.1**	**8.8**	**6.7**	**8.3**	**8.3**	**18.5**	**11.2**	**14.0**	**10.9**	**10.9**
Arab World	**4.9**	**4.7**	**5.3**	**7.8**	**6.4**	**10.2**	**10.0**	**6.0**	**9.3**	**5.5**
West Bank and Gaza[5]	2.6	1.4	–0.2	0.5	1.6	. . .	. . .	. . .	. . .	. . .

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

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

[2] Consumer Price Inflation in Somalia is calculated using end of period observations.

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

[4] Due to data volatility aggregate excludes Libya and Yemen.

[5] 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		
	Dec-14	Dec-15	Dec-16	Dec-14	Dec-15	Dec-16	Dec-14	Dec-15	Dec-16
MENAP									
Oil exporters									
Algeria	16.0	17.0	…	2.0	…	…	9.2	…	…
Bahrain[1]	18.3	18.6	…	1.5	1.4	…	3.7	3.9	…
Iran, I.R. of[2]	…	…	…	…	…	…	…	…	…
Iraq	…	…	…	…	…	…	…	…	…
Kuwait	16.9	17.5	18.6	1.1	1.1	1.1	2.9	2.4	2.2
Libya	…	…	…	…	…	…	…	…	…
Oman	15.4	16.2	16.8	1.7	1.6	1.4	1.9	1.8	1.8
Qatar	16.3	15.6	16.1	2.1	2.0	1.7	1.7	1.6	1.3
Saudi Arabia	17.9	18.1	19.5	2.0	2.0	1.8	1.1	1.2	1.4
United Arab Emirates[3]	18.1	18.3	18.9	1.7	1.5	…	5.6	5.2	…
Yemen[4]	…	…	…	…	…	…	…	…	…
Oil importers									
Afghanistan, Rep. of	26.5	19.9	28.2	0.9	0.2	1.7	7.8	12.1	11.1
Djibouti	10.7	12.5	…	0.7	0.6	…	18.0	22.1	…
Egypt[5,6]	13.9	13.7	14.1	1.3	1.3	1.5	8.5	6.8	5.8
Jordan	18.4	19.1	19.0	1.4	1.3	1.1	5.6	5.0	4.4
Lebanon[5,7]	11.2	12.2	13.2	1.1	1.2	1.2	4.0	4.2	4.9
Mauritania[8]	28.1	23.1	23.7	1.2	0.7	…	23.0	30.0	21.5
Morocco	13.8	13.7	14.2	0.9	0.8	0.8	6.8	7.3	7.5
Pakistan	17.1	17.3	16.2	2.2	2.5	2.1	12.3	11.4	10.1
Somalia	…	…	…	…	…	…	…	…	…
Sudan	…	0.2	0.2	…	4.0	4.7	7.1	5.1	5.2
Syrian Arab Republic	…	…	…	…	…	…	…	…	…
Tunisia	9.4	…	…	0.9	…	…	15.7	…	…
CCA									
Armenia	14.5	16.2	…	1.0	–0.5	…	6.8	7.8	…
Azerbaijan	19.2	…	…	1.7	…	…	4.4	…	…
Georgia[9]	25.5	26.0	23.2	2.6	2.3	2.8	3.1	2.7	3.5
Kazakhstan	16.8	15.9	16.4	1.5	1.0	…	23.5	8.0	6.7
Kyrgyz Republic	21.8	22.4	24.7	2.6	1.5	0.5	4.5	7.1	8.8
Tajikistan[10]	12.0	8.3	26.4	–4.4	–0.6	–3.2	25.1	29.9	54.0
Turkmenistan	15.6	14.9	20.5	…	…	…	0.1	0.2	0.3
Uzbekistan	23.8	23.6	23.5	2.0	2.0	2.0	0.4	0.4	0.4
Memorandum:									
West Bank and Gaza[11]	18.0	16.1	16.0	1.7	1.5	1.5	2.5	2.3	2.2

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 non-performing 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.