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Strong Fundamentals Help Middle East, North Africa Mitigate Impact of Global Shocks

The global financial crisis has not spared the MENAP region, but strong economic fundamentals and sizeable currency reserves have helped to mitigate the impact of the shock. Speaking on the occasion of the release of the IMF's Spring 2009 Regional Economic Outlook, IMF Middle East and Central Asia Department Director Masood Ahmed said: "Given the global reach of the current economic crisis, countries in the Middle East and North Africa have also been impacted negatively. However, they are likely to fare better than countries in other regions of the world, in part because of prudent financial and economic management, but also because oil exporters in the region can draw upon their large reserves to cushion the impact of the global slowdown on their own economies and the economies of their neighboring countries with whom they have growing economic links. For the region as a whole, growth is projected to decline from 5.7 percent in 2008 to 2.6 percent in 2009."

The global crisis is affecting the MENAP region through three indirect channels. First, the sharp drop in oil prices is shrinking revenues for oil exporters but also import costs for oil importers. Second, the contraction in global demand and trade is lowering export, tourism, and remittances receipts. And third, the tightening of international credit markets and lower investor appetite for risk are reducing asset prices and slowing down investment and capital inflows.

Oil Exporters[1] Cope with Lower Oil Prices

Despite a marked decline in oil revenues, most oil exporters are maintaining government spending with the help of reserves accumulated during the boom years. Between 2004 and 2008, with high oil prices and global investor interest in the region, the Middle East's oil-exporting countries grew by about 6 percent a year, accumulated $1.3 trillion in foreign assets, and launched huge investment projects to expand capacity and improve infrastructure.

[1] MENAP oil-exporters include Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, United Arab Emirates, and Yemen.

These accumulated reserves now provide a basis for continued high public spending to sustain demand during the current downturn.

Continued high spending on the part of oil exporters is cushioning their own economies, providing positive spillovers to the region's oil importers, and contributing to global demand. However, lower oil prices and high spending will shift oil exporters' external current account position from a massive surplus of $400 billion last year into a collective deficit of nearly $10 billion in 2009 if oil prices stay at their current levels.

Overall, GDP growth of oil exporters is expected to decline sharply from 5.4 percent in 2008 to about 2.3 percent in 2009, driven mainly by cuts in oil production and in line with OPEC's agreement. Oil GDP growth is projected to decline from 2.4 percent to minus 3.5 percent while non-oil GDP growth will likely slow from 6.1 percent to 3.7 percent. The combination of slower domestic growth and lower international food and commodity prices is expected to bring down inflation from 15.6 percent in 2008 to 10 percent in 2009.

In the financial sector, exposure to slumping property and stock markets and tightening external liquidity conditions has posed challenges in some countries, but the authorities have acted swiftly to ease domestic liquidity conditions and supported their banking systems. Given the still evolving nature of the global crisis, actions to ensure the health of the financial system will remain a priority in the coming year.

Oil Importers[2]

Oil-importing countries in the region are also being affected despite the cushion provided by lower oil prices. The recession in these countries' main trading partners – Europe, the United States, and the countries of the Gulf Cooperation Council – is leading to a drop in the region's exports. Tourism and remittances are also likely to be affected, although the data so far show them to be quite resilient. Furthermore, the tightening of international credit markets and lower appetite for risk is affecting capital inflows, depressing asset prices, and reducing investment in these countries.

The net effect of these factors is to reduce real GDP growth in these countries from 6.2 percent in 2008 to 3.2 percent in 2009. This, in turn, could have a significant impact on already high levels of unemployment and on poverty. On a positive note, however, inflation is projected to fall further from 14.4 percent in 2008 to 9.7 percent in 2009.

Further Actions Will Help Counter Risks

Global conditions may well stabilize in coming months, but the risks of a prolonged global recession, a further deterioration in the balance sheet of financial institutions in some countries, and further reductions in external financing or remittances should not be

[2] MENAP emerging markets and developing countries include Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia

underestimated. To counteract these risks, most countries have been implementing appropriate policies, and further actions are likely in the period ahead.

The Regional Economic Outlook identifies four main messages about policy options going forward. First, countries where public debt levels are not a concern would do well to maintain or enhance public spending. This is the case of most oil exporters but also countries like Morocco, Syria, and Tunisia. Second, during this period of slowdown and uncertainty, there is a need to keep a close eye on banking systems and, where appropriate, to conduct "stress tests," assess recapitalization needs, or undertake actions to address troubled financial institutions. Third, as inflation pressures recede, some countries will have room for additional easing of monetary policy. Finally, with rising unemployment and declining remittances, it will be even more important to target government resources and policies on protecting the poor and vulnerable parts of the population of the affected countries.

Selected Economic Indicators in Middle East, North Africa, Afghanistan, and Pakistan (MENAP)

	2005	2006	2007	Est. 2008	Proj. 2009	Proj. 2010
			Real GDP Growth (Annual change; in percent)			
MENAP	**5.8**	**5.8**	**6.0**	**5.7**	**2.6**	**3.6**
Oil Exporters	6.0	5.5	6.0	5.4	2.3	3.8
Oil Importers	5.4	6.3	6.0	6.2	3.2	3.4
Memorandum						
GCC	6.9	5.5	5.1	6.4	1.3	4.2
Maghreb	5.2	4.8	4.0	4.4	2.7	3.9
			Central Government Fiscal Balance (In percent of GDP)			
MENAP	**6.2**	**6.3**	**5.2**	**7.1**	**-4.0**	**-1.7**
Oil Exporters	12.3	12.3	10.5	14.0	-3.2	0.0
Oil Importers	-5.4	-5.1	-4.9	-5.8	-5.5	-4.9
Memorandum						
GCC	20.6	22.4	17.6	26.5	-1.4	1.8
Maghreb	8.4	11.1	5.8	11.2	-5.7	-2.8
			Current Account Balance (In percent of GDP)			
MENAP	**15.8**	**17.0**	**14.7**	**15.2**	**-1.7**	**1.7**
Oil Exporters	21.8	23.3	20.5	21.5	-0.6	4.1
Oil Importers	-1.3	-1.8	-2.6	-5.0	-4.5	-4.8
Memorandum						
GCC	27.4	28.7	25.1	27.2	1.9	7.9
Maghreb	16.1	20.2	16.7	17.8	-0.1	1.6

Sources: Data provided by country authorities; and IMF staff estimates and projections.