Divergent Landscapes: Booming GCC, Transition Countries in Limbo

Highlights of the IMF’s MENA REO (Nov 2012, Fall issue)

The International Monetary Fund (IMF) released its Middle East and North Africa (MENA) Regional Economic Outlook (REO) and continues to project a divergent growth picture amongst the oil exporters and oil importing/ labour exporting nations. For for oil exporters, growth is expected to recover to 6.5% in 2012 on “strong, better-than-expected recovery in Libya” while for oil importers, growth is likely to remain subdued at around 2%. However, both sets of countries are now facing economic policy challenges -albeit of a different nature- and all face the urgent need of creating sustainable job creation for a bulging population of unemployed youth.

Oil GDP growth for MENA’s **oil exporters** is forecast to continue to decelerate to 1.25% in 2012 and turn negative in 2013. Meanwhile, economic diversification continues to gain speed and increased levels of government spending and accommodative monetary conditions will support non-oil GDP growth (2012: 4.8%; 2013: 4.7%). Higher oil prices have meant that oil exporters were able to use fiscal policies to provide significant stimulus – overall spending grew by some 20% in USD terms – but also remains the key cause for concern given the short-term focus on current expenditure, over-dependence on oil revenues and rising break-even oil prices. The latter figure remained close to USD 92.4 in 2011 and is expected to be USD 79 per barrel in 2012 for the UAE – though this is well below current oil prices, it is still close to a historical high (*break-even price in 2008 was USD 23!*), implying increased vulnerabilities if fiscal spending continues to rise. It is hence important to track the non-oil fiscal deficit and report this measure as opposed to total fiscal balance. The sensitivity to oil prices also mean that a 10% drop in the oil price would reduce MENAP oil exporters' current account surplus by almost USD 150bn. The IMF also recommends that "fiscal reforms should include public-sector wage bill restraint, which, together with broader structural reforms, would promote private-sector employment".

Moderate recovery is expected amongst the **oil importers/ labour exporters** in 2012 and 2013 as the turmoil-hit countries continue on the path of transition. However, governments of this region are becoming more fiscally constrained and weakened exogenous factors are worrisome – including rising international food prices and deteriorating economic and financial conditions in its larger trade partners. This has led to an estimated low growth of 2.1% for 2012 while the 2013 estimate, at 3.3%, assumes a "steady improvement in political stability in most Arab countries in transition, and continuation of the status quo in Syria and associated regional spill overs . With widening external deficits, rising debt levels and deteriorating reserves, the IMF recommends reforms for more inclusive growth, alongside "prompt policy action" as essential for "restoring macroeconomic sustainability, addressing long-running structural deficiencies to lay the foundations for inclusive growth in the medium term, and creating jobs for a young and growing population". The Arab transition countries are facing growing challenges of the 'revolution of high expectations', growing budget deficits as a result of subsidies, lower investment spending and higher unemployment. Gradually reducing the inefficient and inequitable system of subsidies while introducing a 'safety net' to assist the vulnerable segment of the population and focusing on infrastructure related investment spending in order to serve the public sector is a must.