Global and Regional Economic Prospects, and Policy Challenges

Arab Strategy Forum
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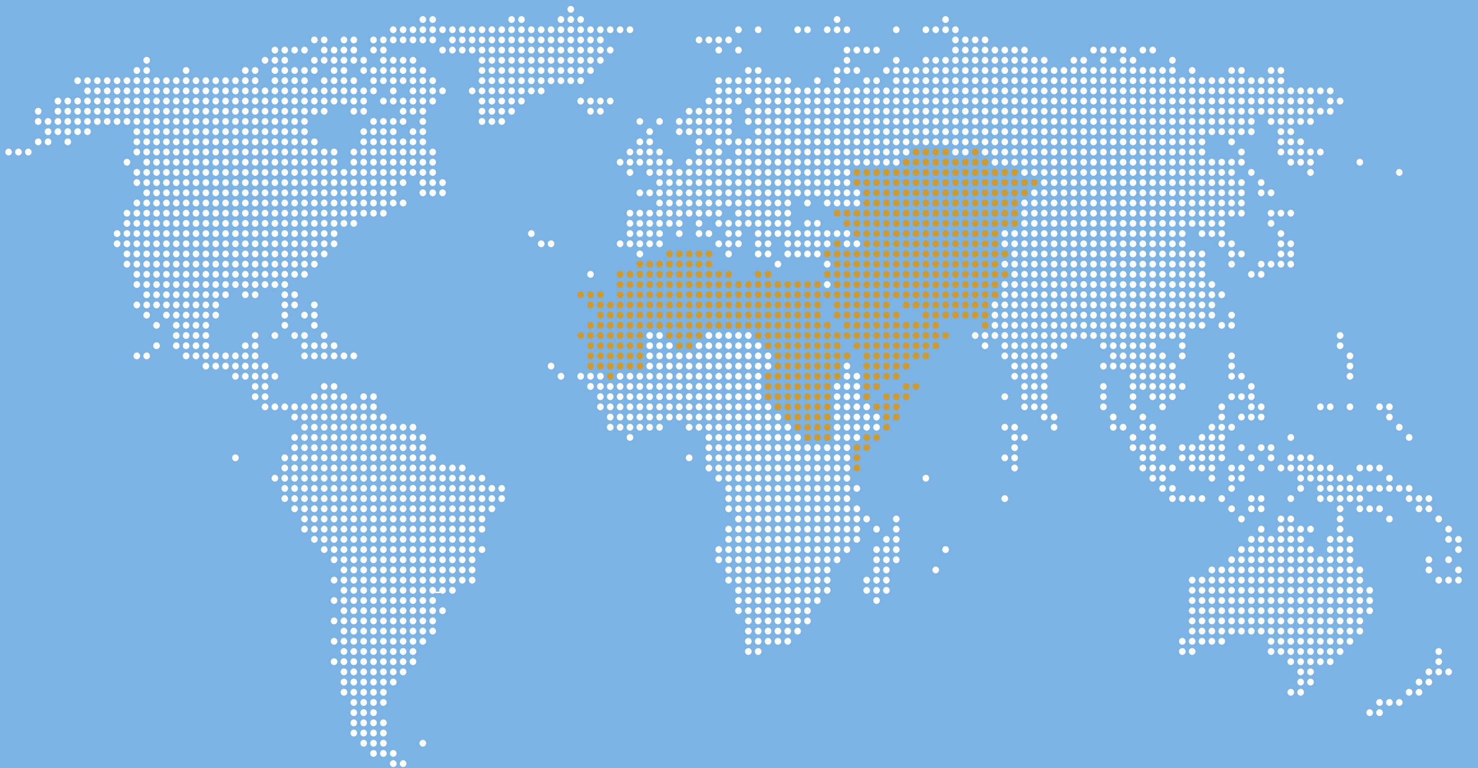

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INTERNATIONAL MONETARY FUND

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INTRODUCTION

The current global landscape is characterized by several important transitions—the expected shift in U.S. monetary policy, China's shift to a new growth model, and the move to lower global oil prices. In many ways these transitions are healthy and necessary, yet they are also raising uncertainty and are requiring policymakers to upgrade policies to navigate them successfully.

These global transitions pose significant challenges for Arab countries. Low oil prices, in particular, are taking a toll on fiscal and external balances in oil exporters, raising the need for deeper and more sustained fiscal adjustment, and making a diversified private sector all the more urgent. Oil importers have benefited from cheaper oil. The challenge now is how to channel these savings toward productive, growth-enhancing spending while continuing to rebuild policy buffers for any future adverse shocks, including possible spillovers through lower remittances from oil exporters. Across the Arab world, extensive structural reforms that promote job creation and inclusive growth remain a vital priority.

China's growth rebalancing could impact Arab countries to the extent that it translates into higher than envisaged financial market volatility and/or further declines in commodity prices. The effects could be exacerbated by geopolitical uncertainties arising from complex conflicts in Iraq, Libya, Syria, and Yemen, which are weighing heavily on confidence across the region. Last but not least, U.S. monetary normalization could affect Arab economies through increased external borrowing costs as well as possibly increased global financial market volatility.

The next section describes the outlook for the world economy, highlighting the risks surrounding the outlook and policies that could foster a strong and durable recovery. Section III focuses on the economies in the Arab region and discusses key policy challenges going forward. Section IV concludes.

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GLOBAL ECONOMIC ENVIRONMENT

A. Recent Developments and Outlook

1. Global economic growth is projected at 3.6 percent in 2016, 0.5 percentage points higher than in 2015 (Table 1), reflecting the continuation of a modest recovery in advanced economies and a rebound in emerging markets. This projection depends on a confluence of favorable factors, including major advanced economies continuing to benefit from supportive monetary conditions and lower commodity prices, and a pickup in emerging markets and developing countries as growth among distressed economies recovers.

Table 1. Real GDP Growth
(Percent change)

	Year over Year					
			Projections (from Oct. 2015)		Deviations (from Jul. 2015)	
	2013	2014	2015	2016	2015	2016
World 1/	**3.3**	**3.4**	**3.1**	**3.6**	**-0.2**	**-0.2**
Advanced Economies	1.1	1.8	2.0	2.2	-0.1	-0.2
Euro area	-0.3	0.9	1.5	1.6	0.0	-0.1
Emerging market and developing countries 2/	5.0	4.6	4.0	4.5	-0.2	-0.2
Advanced G-20	1.3	1.8	2.0	2.2	0.0	-0.2
Emerging G-20	5.6	5.2	4.5	4.7	-0.1	-0.3
G-20 3/	3.5	3.6	3.3	3.6	-0.1	-0.2
Argentina 4/	2.9	0.5	0.4	-0.7	0.3	-0.7
Australia	2.1	2.7	2.4	2.9	0.1	0.0
Brazil	2.7	0.1	-3.0	-1.0	-1.5	-1.7
Canada	2.0	2.4	1.0	1.7	-0.5	-0.4
China	7.7	7.3	6.8	6.3	0.0	0.0
France	0.7	0.2	1.2	1.5	0.0	0.0
Germany	0.4	1.6	1.5	1.6	-0.1	-0.1
India 5/	6.9	7.3	7.3	7.5	-0.2	0.0
Indonesia	5.6	5.0	4.7	5.1	0.0	0.0
Italy	-1.7	-0.4	0.8	1.3	0.1	0.1
Japan	1.6	-0.1	0.6	1.0	-0.2	-0.2
Korea	2.9	3.3	2.7	3.2	-0.2	-0.4
Mexico	1.4	2.1	2.3	2.8	-0.1	-0.2
Russia	1.3	0.6	-3.8	-0.6	-0.4	-0.8
Saudi Arabia	2.7	3.5	3.4	2.2	0.6	-0.2
South Africa	2.2	1.5	1.4	1.3	-0.6	-0.8
Turkey	4.2	2.9	3.0	2.9	0.0	-0.1
United Kingdom	1.7	3.0	2.5	2.2	0.1	0.0
United States	1.5	2.4	2.6	2.8	0.1	-0.2
European Union	0.2	1.5	1.9	1.9	0.0	-0.1

Source: IMF, *World Economic Outlook* October 2015.
1/ The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.
2/ The quarterly estimates and projections account for approximately 80 percent of the emerging market and developing countries.
3/ G-20 aggregations exclude European Union.
4/ The data for Argentina are officially reported data as revised in May 2014. On February 1, 2013, the IMF issued a declaration of censure, and in December 2013 called on Argentina to implement specified actions to address the quality of its official GDP data according to a specified timetable. On June 6, 2014, the Executive Board recognized the implementation of the specified actions it had called for by end-March 2014 and the initial steps taken by the Argentine authorities to remedy the inaccurate provision of data. The Executive Board will review this issue again as per the calendar specified in December 2013 and in line with the procedures set forth in the Fund's legal framework.
5/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year.

- In advanced economies, growth is projected to increase modestly. In the United States, growth is supported by lower energy prices (Figure 1, left panel), reduced fiscal drag, strengthened balance sheets, and an improving housing market, with strong domestic demand and a robust labor market offsetting weaker net external demand. The moderate euro area recovery is projected to continue, sustained by lower oil prices, monetary easing, and the euro depreciation. The gradual pickup in growth in Japan reflects support from higher real compensation and higher equity prices due to the Bank of Japan's additional quantitative and qualitative easing, as well as lower oil and commodity prices. Growth is expected to be solid in the United Kingdom. However, the pickup in advanced economies is tempered by lower growth in commodity exporters and advanced Asia.

- In emerging economies, growth will strengthen next year after a decline for the fifth year in a row. Growth in China is expected to moderate as excesses in real estate, credit, and investment continue to unwind. India's growth will benefit from recent policy reforms, a consequent pickup in investment, and lower commodity prices. In Brazil, weak business and consumer confidence, amid difficult political conditions and a much-needed tightening in macroeconomic policy, are expected to weaken domestic demand, with investment declining particularly rapidly. In Russia, economic distress reflects the interaction of falling oil prices and international sanctions with pre-existing structural weaknesses. Emerging-economy growth is projected to rebound in 2016, mostly reflecting a smaller recession or an improvement in the conditions of countries in economic distress and/or conflict (such as Brazil, Russia, and some countries in Latin America and the Middle East). Strong domestic demand in India should also be a positive factor in 2016.

B. Risks to the Outlook

2. Downside risks remain elevated, particularly for emerging economies. These include: negative spillovers from China's growth transition; further falls in commodity prices; adverse funding challenges related to dollar appreciation and tighter global financing conditions; and capital flow reversals. Any of these could substantially weaken the recovery, particularly in emerging and developing countries. Moreover, after repeated markdowns of potential output performance in recent years, risks of stagnation and of protracted sub-par global growth remain.

- China's rebalancing is generating large spillovers that could be disruptive abroad, notwithstanding the country's sizable buffers. Either a moderate slowdown or a harder landing over the medium term could produce sizable spillovers via slower global trade, a further weakening of commodity prices, and effects on confidence. Lower commodity prices hurt commodity exporters and help importers, but if lower prices also lead to financial stress and broader contagion among commodity exporters, this could negatively affect commodity importers.

- The normalization of monetary policy in the United States could increase financial market volatility and lead to disruptive asset price shifts (Figure 1, center panel), possibly accompanied by capital flow reversals in emerging economies (Figure 1, right panel). Long-term interest rate term premiums are historically low in some important advanced-economy bond markets, and a

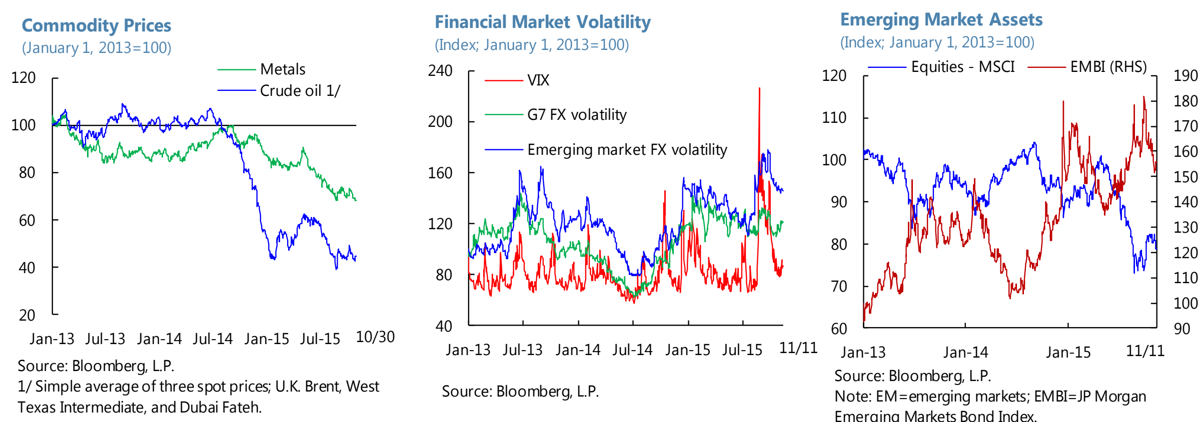
sharp decompression of those premiums could disrupt emerging-economy bond asset markets, which are already volatile due to commodity-price declines and uncertainty over China's growth prospects.

- Potential output could turn out lower than expected in both advanced and emerging economies. In particular, productive capacity could be held back by more protracted weakness in investment, reflecting crisis legacies in advanced economies and structural constraints and less favorable external conditions for investment in emerging economies.

- The risk of secular stagnation for advanced economies remains relevant in light of broadly depressed investment levels, crisis legacies, and uncertainty about future potential growth.

- Geopolitical tensions and associated spillovers need to be carefully managed. Risks, stemming from ongoing events in Russia/Ukraine, the Middle East and West Africa, and the Paris attacks, could generate spillovers through disruptions in trade and financial transactions, as well as increased fiscal costs associated with enhanced security. International migration has also become a pressing economic issue for both host and home countries, especially in light of the ongoing refugee crisis.

Figure 1. Commodity Prices, Emerging Market Assets and Financial Volatility Indicators



C. Policies to Support a Strong and Durable Recovery

3. To secure a strong and durable recovery, raising both actual and potential output through a combination of demand support and structural reforms remains a key policy objective. In many advanced economies, accommodative monetary policies remain essential given the still sizable output gaps and low inflation. With nominal policy rates still at, or close to, the zero lower bound in many economies, monetary policy must remain accommodative, including through unconventional measures, to reduce risks to activity from low inflation and prolonged weak demand. This should be accompanied by efforts to strengthen balance sheets and credit supply, and by active macroprudential measures that address financial stability risks. In the United States, the main near-term policy question is the appropriate timing and pace of monetary policy normalization, with an effective communication strategy remaining essential given the environment of higher financial

market volatility. In the euro area, a strong commitment to fully implement the ECB's asset purchase program, and adjust it if needed, will help meet the region's price stability objective. This requires measures to strengthen bank balance sheets and thereby improve monetary policy transmission and credit market conditions. In Japan, monetary authorities should stand ready for further easing, and move to a more forecast-oriented communication strategy. This would increase the transparency of its price assessments and signal its commitment to the inflation target.

4. Similarly, fiscal policy should be more supportive where conditions allow, even as credible plans to reduce public debt ratios over the longer run are put in place. Public debt levels are at historic highs; managing them in a low-growth environment will be more challenging once interest rates normalize. Fiscal consolidation should remain growth friendly and be anchored in credible medium-term plans supported by well-designed fiscal frameworks. It should also protect the most vulnerable. In the United States, the priority remains to agree on a medium-term fiscal consolidation plan to prepare for rising aging-related costs, including higher tax revenue. In the euro area, countries should adhere to their commitments under EU fiscal rules and, where feasible, encourage growth through much-needed public infrastructure investment and structural reforms. In Japan, the announced medium-term fiscal consolidation plan provides a useful anchor for guiding fiscal policy. The aim should be to put debt on a downward path, based on realistic assumptions and identifying specific revenue and expenditure measures.

5. Emerging market economies need to strike an appropriate balance between fostering growth and managing vulnerabilities. While higher foreign exchange reserves and generally stronger policy frameworks leave emerging economies better positioned to manage external shocks, they face a number of challenges and trade-offs. In many net commodity importers, the scope for policy easing has declined as a number of central banks have already reduced interest rates over the past year. In commodity exporters, it will be important to plan for fiscal adjustment. Also, where feasible, exchange rate flexibility can be exploited to mitigate shocks. In China, the challenge is to avoid a sharp growth slowdown in the transition, reduce vulnerabilities from excess leverage after the credit and investment boom, and strengthen the role of market forces in the economy, including in the foreign exchange market. The international community should support China's efforts to reform and rebalance its economy, to give market mechanisms a more decisive role, to eliminate distortions, and to strengthen governance and institutions. A successful transition will benefit global growth and reduce tail risk.

6. Other policies to bolster resilience and boost potential output at the global level include the design and implementation of structural reforms in both advanced economies and emerging markets. Also, advanced economies should strengthen regulation and supervision of rapidly expanding financial activities outside the banking system, while emerging markets should strengthen their policy frameworks. At the same time, collective efforts to enhance the global safety net and strengthen the resilience of the International Monetary System should be renewed.

THE ARAB REGION[1]

7. Among the three transitions defining the global outlook mentioned at the outset, the most important for the Arab region is the slump in oil prices. Oil prices have declined by more than half since the summer of 2014. Strong supply from members of the Organization of the Petroleum Exporting Countries (OPEC) and Russia, prospects arising from the easing of sanctions on the Islamic Republic of Iran (see Box), and relatively small short-run effects on production from reduced investments especially in the United States, support the view that oil prices are likely to remain low for several years.[2] For oil exporters in the Arab region, the slump in oil prices has led to significant export revenue losses and fiscal pressures, which are expected to persist. Oil importing Arab countries, on the other hand, have benefited from lower oil prices, as well as a reduction in vulnerabilities following the recent implementation of important economic reforms.

Box. The Lifting of Sanctions in Iran

The recent agreement with the P5+1 and the expected lifting of economic sanctions are likely to improve Iran's economic outlook significantly. After two years of recession in 2012–13 followed by a slow recovery, economic growth is projected to rise to almost 4.5 percent in 2016 and over the medium term. A recovery in oil production and exports, projected at 0.6 mbd in 2016 and rising to 1.2 mbd by 2020, is expected to drive economic growth.

On balance, Iran's recovery is expected to have economic spillovers for the rest of the world. Iran's cumulative imports are projected to surpass $500 billion over the next five years, benefiting its trading partners in the Arab region, Asia, and Europe. Iran's return to the global oil market is also likely to exert some further downward pressure on oil prices.

However, these projections are subject to a significant degree of uncertainty, depending, among other things, on the authorities' ability to preserve macroeconomic stability and implement much needed structural reforms. To unleash its growth potential, Iran needs comprehensive reforms to improve the business environment, restructure the corporate and financial sectors, promote productivity growth, and reduce unemployment.

8. The recent bouts of volatility in emerging markets as well as the anticipation of U.S. monetary policy normalization have also affected Arab countries. This is particularly the case for GCC countries, many of which are more integrated into global financial markets than other Arab countries. Nonetheless, given large policy buffers, well-capitalized banking systems, and credible exchange rate pegs, short-term effects on asset prices and economic activity in the GCC are likely to be limited, although tightening global financial conditions could raise external borrowing costs. For other Arab countries, which are much less integrated into global financial markets, weak monetary policy transmission tends to reduce adverse consequences from a U.S. policy rate liftoff, although there could be some negative effects through lower trade, FDI, and remittances, particularly those originating in GCC countries.

[1] This section draws from the note prepared for the Annual Meeting of Ministers of Finance and Central Bank Governors in Doha, Qatar, November 10, 2015, and the October 2015 edition of the International Monetary Fund's *Middle East and Central Asia Regional Economic Outlook*, available at http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/mreo1015.htm

[2] See Husain, A. and others, 2015, "Global Implications of Lower Oil Prices," IMF Staff Discussion Note 15/15, July. This document is available at http://www.imf.org/external/pubs/ft/sdn/2015/sdn1515.pdf

9. Last, but not least, regional conflicts, particularly in Syria and Yemen, but also in Libya and Iraq, continue to shape the outlook for Arab countries and the broader MENAP region (Figure 2).[3] Conflicts have brought horrendous human costs and tragic consequences to these countries and have caused refugee flows on a scale not seen since the early 1990s. The Syrian and Iraqi conflicts alone have displaced more than 12 million people, many of them fleeing to Jordan, Lebanon, Turkey, and now Europe. The number of refugees is rising rapidly and is likely to reach 16 million people by end-2015.

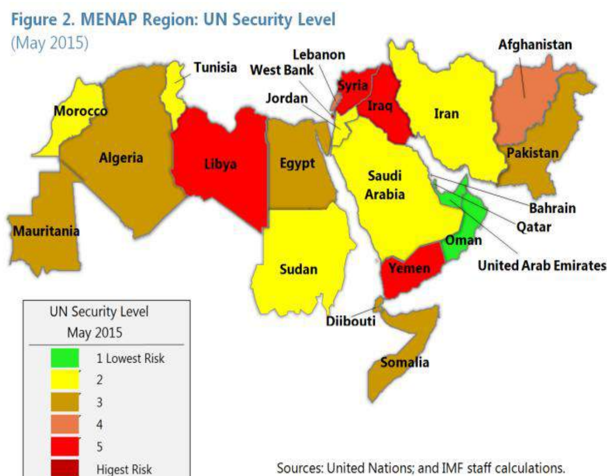


Figure 2. MENAP Region: UN Security Level (May 2015)

10. Conflicts have also caused massive damage to production, infrastructure, and trade in the region. Syria's cumulative economic losses are estimated to have reached 45 to 60 percent of GDP by end-2014, and Yemen has experienced an estimated 25 to 30 percent decline in economic activity since October 2014. In Libya, the economy contracted by one-quarter last year and by another 6 percent this year. Iraq's economy is stagnating after contracting by 2 percent in 2014. The economies of the neighboring countries, Lebanon and Jordan, have also been severely affected by spillovers from conflicts.

11. To address conflicts and spillovers from them, the international community needs to embark on a concerted effort to help refugees while intensifying its support to stabilize the affected countries, and also to provide additional financing to the countries in the region hosting large numbers of refugees.

A. Arab Oil Exporters

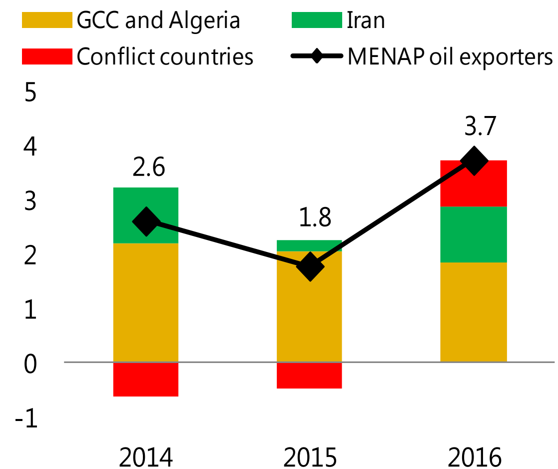
12. Depressed oil prices and intensifying regional conflicts have weakened growth prospects in Arab oil exporters (Figure 3). GCC growth is projected to decelerate to 2.7 percent in 2016, from 3.2 percent this year, mainly because of the anticipated further slowdown in government spending and non-oil economic activity. In non-GCC MENAP oil exporters, economic growth next year will depend heavily on progress in addressing ongoing conflict in Iraq, Libya, and Yemen. If there is some easing of conflict, and sanctions in Iran are lifted as planned, growth could increase to 5 percent in 2016, after remaining flat this year.

13. GCC countries have been able to cushion the impact of the oil price shock on economic growth by using their ample buffers and available financing and avoiding sharp cuts in government

[3] The MENAP region includes Afghanistan, Iran, and Pakistan, in addition to the Arab countries.

spending. However, a rapid depletion of buffers has prompted several countries to start consolidating their fiscal positions. For example, the United Arab Emirates has taken important steps toward reforming fuel and utilities pricing by increasing water and electricity tariffs and adopting a monthly price adjustment mechanism to keep domestic gasoline and diesel prices in line with international levels.

Figure 3. Real GDP Growth in MENAP Oil Exporters
(Percent)



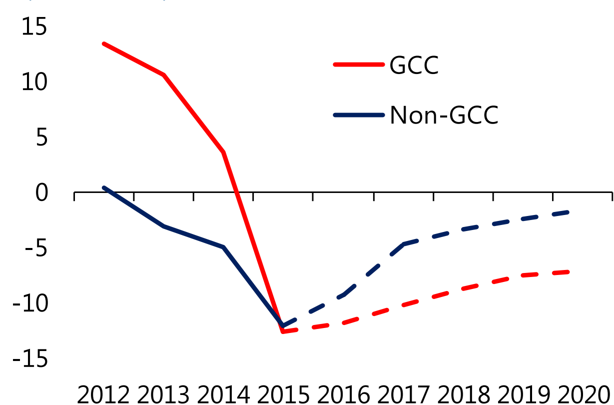
Sources: National authorities; and IMF staff calculations.

14. In spite of these adjustments, GCC average fiscal balance has deteriorated by almost 25 percentage points of GDP since 2013, reaching some 13 percent of GDP this year (Figure 4). IMF staff projections for the October 2015 *Regional Economic Outlook*, which were based on assessments of fiscal plans at that time, suggested that sizable budget deficits will persist in many countries over the medium term, with financing needs estimated at about $1 trillion over the next 5 years for all MENAP oil exporters combined. That said, most countries are in the process of finalizing fiscal adjustment plans for 2016 and formulating their medium term fiscal strategy in the coming weeks, and it is likely that the projected fiscal positions and financing needs could be revised significantly.

15. Given these rising fiscal pressures, the public sector is facing a looming employment crunch. Between 2014 and 2020, there will be 10 million new entrants into the labor force in MENAP oil exporters, of which more than 2 million will be in the GCC. Yet the reduced fiscal space will be insufficient to provide all new entrants with public sector jobs. This implies that unemployment among nationals, which is currently just short of 13 percent, will rise to 16 percent.

16. This outlook is surrounded by large uncertainties stemming primarily from the future path of oil prices and progress in the resolution of regional conflicts. Regarding oil, as discussed in Section II, risks remain to the downside given the possibility of a larger slowdown in China and other emerging markets, while production prospects in North America and Iran remain highly uncertain. If conflicts prove more persistent than expected, growth in the affected countries will be lower, with adverse spillovers to the region and beyond.

Figure 4. Fiscal Balance
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

17. Risks to financial sectors in Arab oil exporters have increased as lower oil prices are slowing deposit growth and, in some cases,

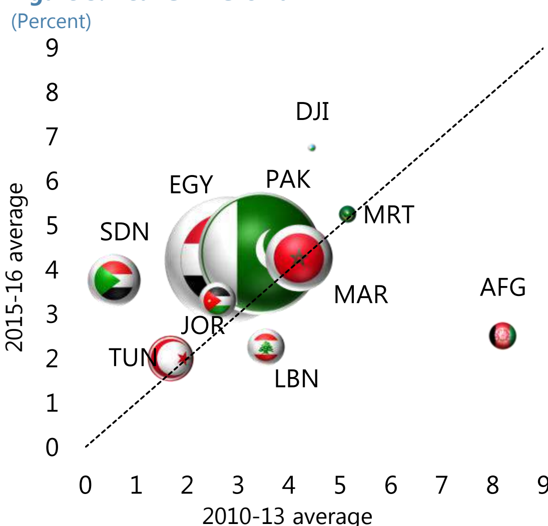
credit growth. The banking systems are generally well positioned to withstand these pressures, although pockets of weakness exist, arising from countries' dependence on oil-related deposits, exposure to governments and state-owned enterprises, weak asset quality and thin capitalization, and high concentrations of loans to single borrowers and/or sectors.

18. The large and persistent oil price decline has increased the urgency for oil exporters to adjust their fiscal policies. Adjustment of spending and revenue policies would help countries to maintain fiscal sustainability, attain intergenerational equity, and gradually rebuild space for policy maneuvering. The speed of adjustment can depend on the availability of buffers and fiscal space, while the composition of fiscal consolidation can be designed in a way that minimizes the negative impact on growth. Adjustment plans in most countries are currently insufficient to address this daunting fiscal challenge.

19. The task of fiscal consolidation is further complicated by the simultaneous need to generate jobs. The key to resolving this challenge lies in accelerating economic diversification by creating incentives for private firms to expand activities that do not depend on government spending or oil. This should be accompanied by further improvements in the business environment—enhancing incentives for nationals to work in the private sector and improving the quality of education to make workers' skills more relevant to the private sector—which is crucial for supporting private sector-led job creation.

B. Arab Oil Importers

Figure 5. Real GDP Growth
(Percent)



Sources: National authorities; and IMF staff calculations.

20. After four years of lackluster economic growth, recovery is finally starting to gain momentum in Arab oil importers (Figure 5). Regional GDP growth is expected to reach 4 percent in 2015–16, reflecting increased import demand from Europe, lower oil prices, and recent reforms, which have reduced fiscal vulnerabilities and improve confidence.

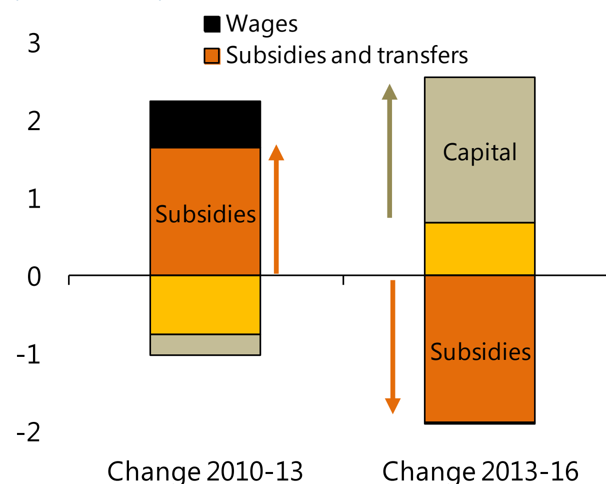
21. However, the pickup in the region's growth is not broad-based. It largely reflects an improved outlook for Egypt and Morocco. In particular, Egypt's investment conference and plans for wide-ranging structural reforms have boosted confidence, doubling growth to a projected 4.3 percent in 2016. Similarly, steadfast policy implementation has helped stabilize the economy in Morocco, where growth is projected at some 3.7 percent in 2016. On the other side of the spectrum are Lebanon, Tunisia, and Jordan, where the impact of regional conflicts continues to hold back the recovery. In particular, deteriorating security conditions in Tunisia have taken a toll on tourism, weakening economic activity. In Jordan, gains from lower oil prices and further reforms are partially offset by spillovers from Syria and Iraq via substantial fiscal costs, disrupted trade, and blows to

confidence. Economic activity in Lebanon is weighed down by the political impasse and, as in Jordan, by spillovers from the conflict in Syria.

22. Many Arab oil importers have made progress in reining in government deficits. They are set to decline to about 7 percent of GDP in 2016 after peaking at more than 10 percent in 2013. These developments reflect, for the most part, significant reforms of generalized energy subsidies—which tend to benefit the rich while crowding out growth-enhancing spending. Lower oil prices have also helped reduce budgetary spending pressures, especially for those countries that are yet to complete on-budget subsidy reforms.

23. The resulting savings are being partly channeled toward increased spending on targeted social assistance, infrastructure, health, and education (Figure 6). This helps mitigate the negative impact of fiscal consolidation on economic growth while easing production bottlenecks and boosting medium-term growth prospects. IMF staff estimates that channeling about half the $24 billion in expected savings from lower oil prices during 2015–16 into (public and private) investment is likely to add at least $2 billion per year to MENAP oil importers' GDP over the next decade—as increased investment helps improve infrastructure, boosting domestic demand in the short run while raising economic potential over the medium term. Smaller fiscal deficits have also reduced government borrowing needs, freeing up funds for banks to lend to the private sector.

Figure 6. Change in Budget Expenditure Components
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

24. Significant vulnerabilities remain, however. First, persistent supply-side bottlenecks and recent currency appreciation tend to weaken competitiveness in Arab oil importers. Despite recent reform initiatives in some countries, electricity supply disruptions still hamper production, especially in Djibouti, Egypt, and Lebanon. Second, much of the region is heavily dependent on remittances from GCC countries, which could decline if GCC growth were to slow down significantly. Third, in some countries (particularly Egypt and Sudan) external buffers, although improving, remain low, continuing to weigh on confidence. Public debt, although stabilizing, remains high in some countries (ranging from 90 to 130 percent of GDP in Egypt, Jordan, and Lebanon). This tends to impose high debt service costs on the budget and deter investors. Lackluster tax revenues and spending rigidities, large interest payments, and losses of state-owned enterprises encumber further debt reduction. Yet it remains an important priority given the increased likelihood of rising external financing costs with U.S. monetary policy normalization.

25. Against this backdrop, downside risks dominate. They include setbacks to political transitions and implementation of reforms, increased financial market volatility, greater-than-

expected tightening of financing conditions, and capital outflows sparked by the normalization of monetary policy in the United States. Also, a sharper-than-expected slowdown in China could reduce infrastructure financing, and increase risk aversion and volatility in global financial markets—raising external borrowing costs and domestic interest rates. Further declines in oil prices would support global growth, but could also reduce exports, tourism, remittances, and financing for Arab oil-importing economies, as activity in the GCC and other Arab oil-exporting countries slows down.

26. Stepping up reform momentum is imperative in this environment. Gradual fiscal consolidation would help achieve sustainable debt profiles and strengthen policy buffers for responding to any adverse future shocks. At the same time, the recently created policy space could help increase growth-enhancing spending such as public investment, which remains below the levels typical in other emerging and developing countries. Deficit reduction can have a smaller negative impact on growth if it focuses on targeted revenue measures—eliminating tax exemptions, making income taxes more progressive, and strengthening tax collection—as well as continued reprioritization of spending from general energy subsidies toward targeted social assistance, investment, education, and health care. Greater exchange rate flexibility would help enhance competitiveness. Structural reforms—especially in the areas of business, trade, and the labor and financial markets—are urgently needed to foster private sector expansion and boost job creation.

CONCLUDING REMARKS

27. The global economy is expected to expand at a modest pace in the next two years, with prospects remaining uneven across the main countries and regions. Recovery in advanced economies is anticipated to proceed gradually. Prospects in emerging market economies vary considerably, but the outlook is generally weakening. Slow demand and abundant supply are expected to keep oil prices relatively low for several years. The balance of economic risks is still tilted to the downside, especially for emerging market and developing countries. Geopolitical risks, including from the ongoing conflicts the Middle East, persist.

28. Against this backdrop, many Arab countries face significant challenges. This is especially the case for oil exporters and countries affected by conflict. In the former, maintaining fiscal sustainability is imperative. In the latter, stability is the priority. Across Arab countries, deep structural reforms are needed to reduce commodity dependence, promote private sector development, and generate jobs, achieving strong, sustained, and inclusive growth in the coming years.