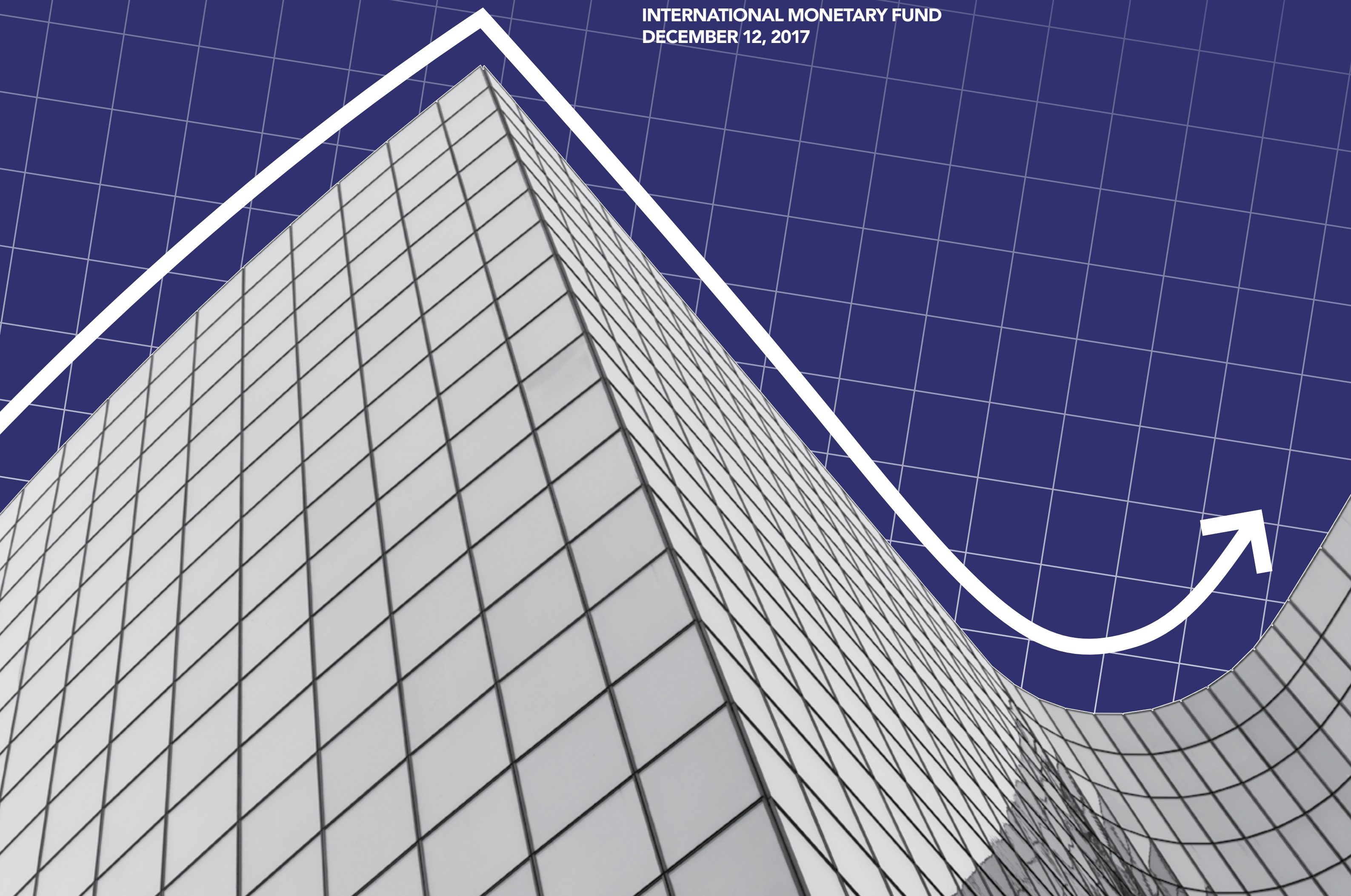
المنتدى الاستراتيجي العربي
ARAB STRATEGY FORUM

GLOBAL AND REGIONAL ECONOMIC PROSPECTS AND POLICY CHALLENGES

PREPARED BY
INTERNATIONAL MONETARY FUND
DECEMBER 12, 2017



INTRODUCTION

The global cyclical upswing that began midway through 2016 continues to gather strength; financial conditions remain buoyant and financial markets seem to expect little turbulence going forward. Despite these positive developments, growth is anticipated to moderate over the medium term in advanced economies, with potential growth held back by demographic pressures and weak productivity growth. Prospects for emerging markets over the medium term are overall more positive but there are substantial differences across economies, with the largest emerging market economies anticipated to continue growing fast, while growth prospects in smaller economies and fuel exporters are relatively weak. Short-term risks to the global outlook are broadly balanced, but medium-term risks remain tilted to the downside. Policymakers need to seize the current window of opportunity to implement the structural and fiscal reforms needed for greater resilience, productivity, investment and jobs.

Despite the strengthening global recovery, the economic outlook for Arab countries remains relatively subdued owing to the adjustment to low oil prices and regional conflicts. Lower oil prices have made it more urgent for oil exporters to accelerate reforms and increase economic diversification. Oil importers face significant vulnerabilities given the legacies of weak domestic revenue mobilization and high current expenditures that, for most countries, have pushed public debt to more than 80 percent of GDP. Deep structural transformations are needed to boost the role of the private sector, foster job creation, and benefit fully from a more integrated global economy.

The next section describes the outlook for the global economy, highlighting the risks surrounding the outlook, and policies that could foster a strong and durable recovery. The third section discusses the outlook for Arab economies and addresses the key policy challenge of how to secure higher and more inclusive growth. The final section concludes.

CONTENTS

GLOBAL ECONOMIC ENVIRONMENT [1]

A. RECENT DEVELOPMENTS AND OUTLOOK

1. Global growth has picked up momentum and is expected to reach 3.6 percent in 2017, supported by improvements in investment, trade, and industrial production against the backdrop of a general strengthening of business and consumer confidence and a benign global financial environment. The pickup in growth is broad based with stronger economic activity in the euro area, United States, Japan, emerging Europe, Russia, China and other parts of emerging Asia, and some signs of improvement for several commodity exporters in Latin America, the Commonwealth of Independent States, and sub-Saharan Africa.

REAL GPD GROWTH 2016 - 2022

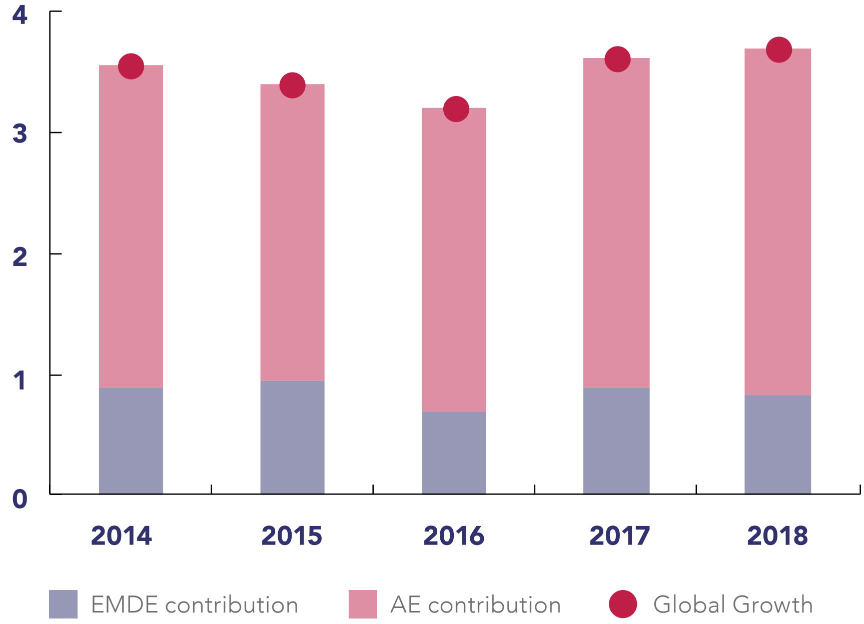
	2016	2017	2018	2019-22
World	**3.2**	**3.6**	**3.7**	**3.7**
Advanced Economies	**1.7**	**2.2**	**2.0**	**1.7**
Euro Area	1.8	2.1	1.9	1.6
United States	1.5	2.2	2.3	1.8
Emerging Markets and Developing Economies	**4.3**	**4.6**	**4.9**	**5.0**
China	6.7	6.8	6.5	6.1
Russia	-0.2	1.8	1.6	1.5
Arab World	**3.3**	**2.0**	**3.1**	**3.2**
Arab Oil Exporters	3.4	1.1	2.7	2.4
Arab Oil Importers	3.2	3.9	3.9	5.0

Sources: National authorities; and IMF staff calculations.

1 This section draws from the October 2017 edition of the International Monetary Fund's World Economic Outlook, available at www.imf.org.

2. Global growth in 2018 is projected to rise further to 3.7 percent, with emerging market and developing economies (EMDEs) remaining the engines for global growth. The advanced economy (AEs) forecast is unchanged, with higher projected growth in the euro area offsetting the lower projected US growth. The upward revisions to the growth forecast for EMDEs (4.9 percent) primarily reflect stronger projected activity in China and in emerging Europe.

CONTRIBUTIONS TO GLOBAL GROWTH (PERCENT)



Source: IMF World Economic Outlook
Note: AE = Advanced Economies; EMDE = Emerging Markets and Developing Economies.

3. The US economy is projected to growth moderately above potential, reflecting very supportive financial conditions and strong business and consumer confidence. The euro area recovery is expected to moderate because of continued adverse demographics, weak productivity, and, in some countries, public and private debt overhang. The slowdown in the United Kingdom is driven by softer growth in private consumption and a highly uncertain outcome about its future relationship with E.U. In Japan, the pace of expansion is expected to weaken because of a fading fiscal impulse, private consumption slowdown, and moderate growth in foreign demand. Most other AEs will benefit from the recovery in global trade and China's import demand.

4. Growth for EMDEs is forecast to increase strongly. This largely reflects stronger projected activity in China, as the policy mix is kept sufficiently expansionary to achieve the authorities' objective of doubling real GDP between 2010 and 2020. There is also a stronger outlook projected for the rest of Asia, emerging Europe (mainly Poland and Turkey) and for commodity exporters. However, prospects for many EMDEs in sub-Saharan Africa, the Middle East, and Latin America are lackluster, with idiosyncratic factors shaping substantially different outlooks across countries. In particular, the adjustment to lower oil prices will continue in fuel exporters.

B. RISKS TO THE OUTLOOK

5. Risks to the global outlook are broadly balanced in the short term, but tilted to the downside in the medium term. In the short run, while stronger confidence and favorable market conditions could release pent-up demand, policy uncertainty and missteps could weaken market confidence and asset valuations, and hence, tighten financial conditions. Over the medium term, risks include a sharp slowdown in China and its associated spillovers and a shift toward more inward-looking policies. In addition, an increase in global risk aversion and higher long-term interest rates (and US dollar appreciation) would expose fragilities in vulnerable economies, including by worsening public debt dynamics and imposing strains on economies with US dollar pegs or balance sheet mismatches.

6. Several noneconomic risks—including domestic political discord, geopolitical tensions, corruption and weather-related disasters—could also burden the outlook in some regions. Economic and noneconomic risks are tightly intertwined and have the potential to reinforce each other, augmenting the impact on global activity.

C. POLICIES PRIORITIES

7. Global growth is forecast to increase marginally beyond 2018, reaching 3.8 percent by 2021: EMDEs will account for most of this growth, with growth in AEs gradually declining toward potential growth of about 1.7 percent. The current cyclical pickup in global economic activity provides a window of opportunity for implementing reforms needed to boost potential output and raise standards of living broadly while building resilience against downside risks.

8. Structural reforms and growth-friendly fiscal policy measures are needed to boost productivity and labor supply, with varying priorities across countries, underpinned by sound macro financial policies. Fiscal distribution policies can help those AEs that are seeking to reduce income inequality and improve the equality of opportunity. Investment in human capital remains an effective tool to promote productivity and a more equitable distribution of income over the long term, while strengthening the ability of the workforce to adapt to structural transformation. Similarly, further product and labor market reforms, including facilitating female participation, would help raise productivity and employment and improve resilience to shocks.

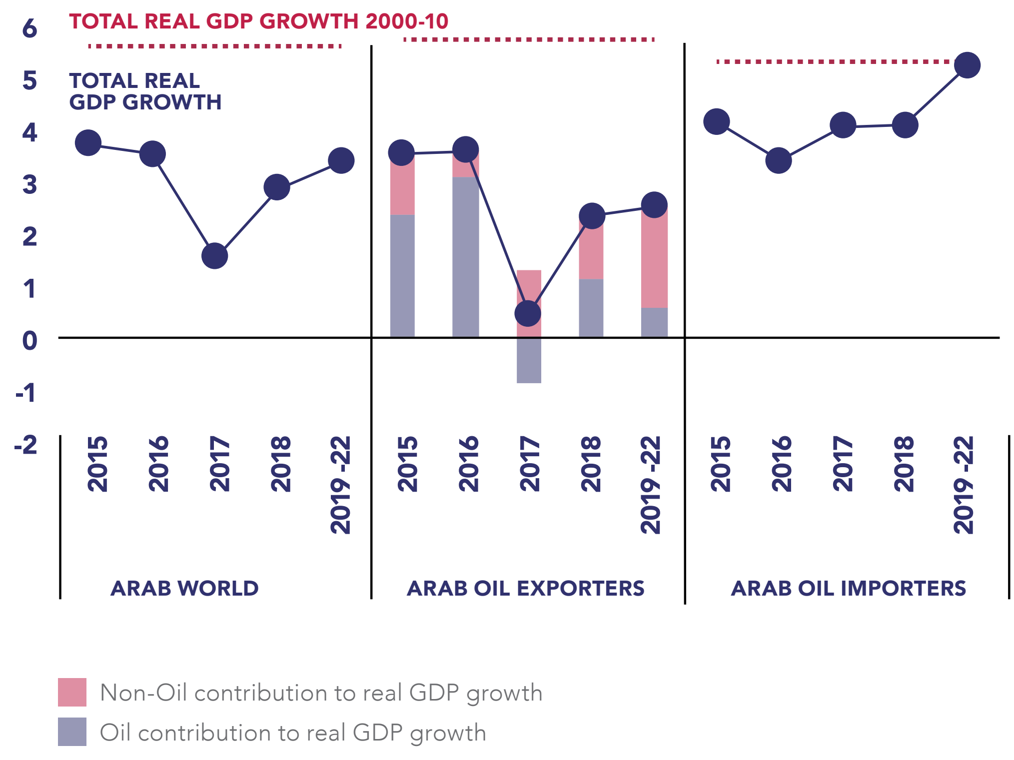
9. Cyclical conditions are diverse in EMDEs, but, within limited fiscal space, priorities for many countries include improving the quality of infrastructure and education, strengthening tax administration and mobilization, rationalizing spending, enhancing governance and the business climate, facilitating greater female labor market participation, furthering product and labor market reforms, and integrating trade.

10. Individual country actions are more effective when supported by multilateral cooperation. Preserving the global economic expansion requires policymakers to avoid protectionist measures while ensuring that gains from growth are widely shared. Active dialogue and cooperation will help improve and modernize rules while addressing stakeholders' concerns. Multilateral cooperation is also vital for addressing important longer-term challenges, including providing support to low-income countries for meeting development goals and mitigating and adapting to climate change.

THE ARAB WORLD[2]

11. Despite the strengthening global recovery, the economic outlook for Arab countries remains relatively subdued because of the adjustment to low oil prices since 2014, the continued impact of regional conflicts, as well as continued structural impediments to growth, and with important differences across oil exporters and importers. Economic growth is projected to slow in 2017 to 2.0 percent (from 3.3 percent in 2016) largely because of developments among oil exporters. In 2018, growth is expected to increase to 3.1 percent, mostly reflecting stronger domestic demand in oil importers and a rebound of oil production in oil exporters. Regional insecurity and geopolitical risks, however, continue to generate huge humanitarian and economic costs, and weigh heavily on the outlook.

REAL GDP GROWTH (PERCENT)



Sources: MCD Regional economic Outlook, and staff calculations.

Note: Arab Oil exporters aggregate includes GCC countries and Algeria, Iraq, and Yemen. Libya is excluded from aggregate due to data availability limitations.

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2 This section draws from the October 2017 edition of the International Monetary Fund's Middle East and Central Asia Regional Economic Outlook, available at www.imf.org. The analysis focuses on the Arab World comprising 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.

ARAB WORLD
SELECTED ECONOMIC INDICATORS 2000–2018
(PERCENT OF GDP, UNLESS OTHERWISE INDICATED)

	Average 2000–13	2014	2015	2016	Projections 2017	2018
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

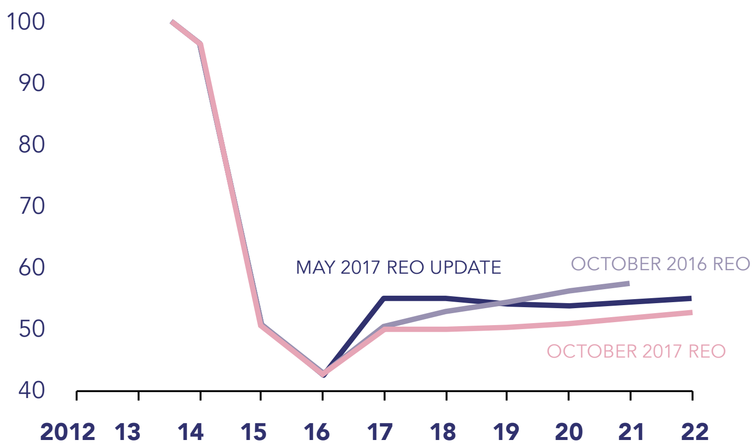
Sources: National authorities; and IMF staff calculations and projections.
2011–18 data exclude Syrian Arab Republic.

Notes: Data refer to the fiscal year for Egypt (July/June).
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.

A. ARAB OIL EXPORTERS

12. Oil prices remain very volatile, but are projected to stay broadly around current levels into the medium term. This environment will continue to weigh on non-oil growth, which is expected to remain below historical averages, both in the short and medium term. Amid reduced oil output and slowing fiscal consolidation, overall growth in the Gulf Cooperation Council (GCC) countries is projected to bottom out at about 0.5 percent in 2017, whereas GCC non-oil growth is expected to recover to about 2.6 percent in 2017–18, but to remain modest at 3.4 percent in 2022, about half the 6.7 percent posted in 2000–15. Among non-GCC oil exporters, Algeria's growth is expected to recover to 2.4 percent by 2022 after slowing down to 0.8 percent next year because of envisaged spending cuts. The outlook for those countries in conflict continues to be dampened by security conditions and oil production capacity.

OIL PRICE ASSUMPTIONS
(APSP[1],
U.S. DOLLARS
A BARREL)



Source: IMF staff calculations.

Note: REO = Regional Economic Outlook: Middle East and Central Asia

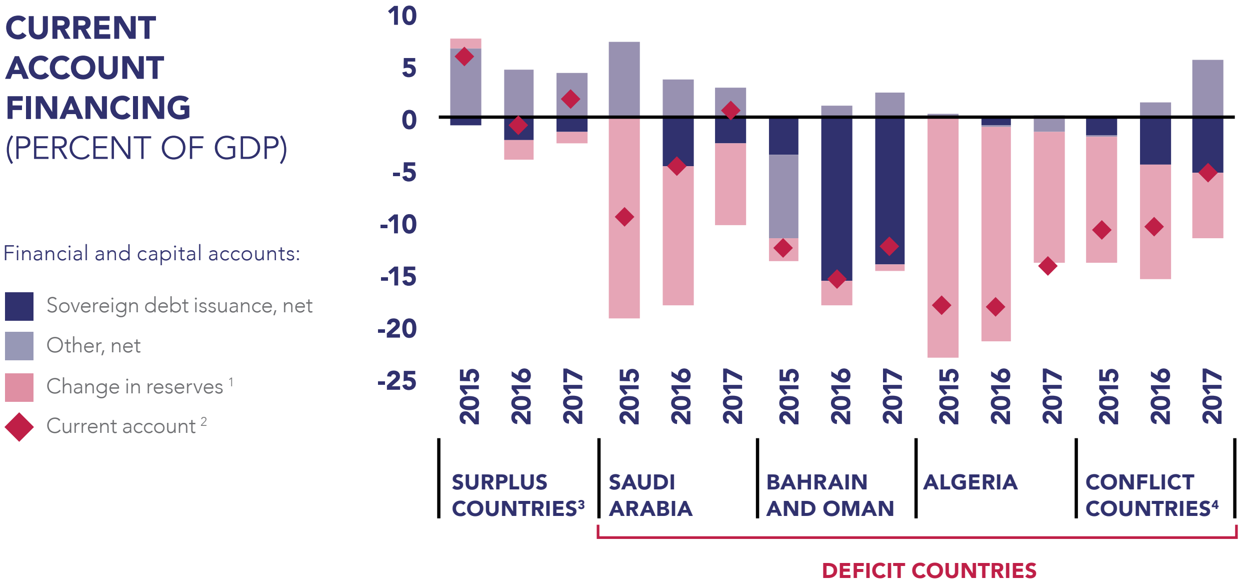
[1] APSP = Average Petroleum Spot Price; Average of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.

13. Lower oil prices have contributed to large fiscal deficits across oil exporters. Deficits are expected to ease to 6.3 percent of GDP this year on the back of a modest recovery in oil prices relative to 2016 and significant deficit-reduction efforts, after surging to 13.2 percent of GDP in 2016. The benefits of these deficit-reduction efforts (see below) will be sustained into the medium-term, with five-year cumulative budget deficits projected to drop to $301 billion over 2018–22, almost half of the level earlier projected for the period 2016–21. Progress in fiscal consolidation, however, is somewhat uneven across countries, and some countries need to do more to put debt on a downward path. Policymakers need to take advantage of low oil prices to finalize energy price reforms, including by implementing automatic pricing mechanisms, and to support fiscal consolidation with continued improvements in fiscal frameworks and institutions.

14. Lower oil prices have also caused oil exporters' current accounts to deteriorate from a surplus of $214 billion in 2014 (9.9 percent of GDP) to a deficit of $93 billion in 2016 (5.3percent of GDP). While the aggregate current account balance is projected to return to a small surplus in 2019, countries with persistent deficits, low financial buffers, and limited exchange rate flexibility face external financing challenges. Continued fiscal consolidation and structural reforms are therefore crucial to help support fixed exchange rate regimes and to attract foreign private capital. To this end, Saudi Arabia, for instance, improved access for foreign investors to capital markets. Other reforms to increase competitiveness and boost diversification would also contribute to narrowing external deficits by attracting additional portfolio flows.

15. International borrowing can help cover these external financing needs. In the first half of 2017, GCC countries have taken advantage of favorable global financial conditions and issued some $30 billion in international capital markets. Such foreign borrowing helps avoid crowing out domestic markets, especially when the latter have limited capacity, but could also undermine their development—a priority reform area to ensure adequate funding for development of the non-oil sector—and subject the sovereign to the consequences of volatile international market conditions. Countries outside the GCC region have preferred issuing domestic debt in the face of limited external financing options (Iran, Iraq, Libya, Yemen). To strengthen their debt management capacity, several countries have established (Kuwait, Oman, and Saudi Arabia) or strengthened (Abu Dhabi and Dubai) debt management offices.

CURRENT ACCOUNT FINANCING
(PERCENT OF GDP)



Sources: Country authorities; and IMF staff calculations.

[1] Net ('+' is 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 ; includes Qatar, and United Arab Emirates.
[4] Iraq, Libya and Yemen.

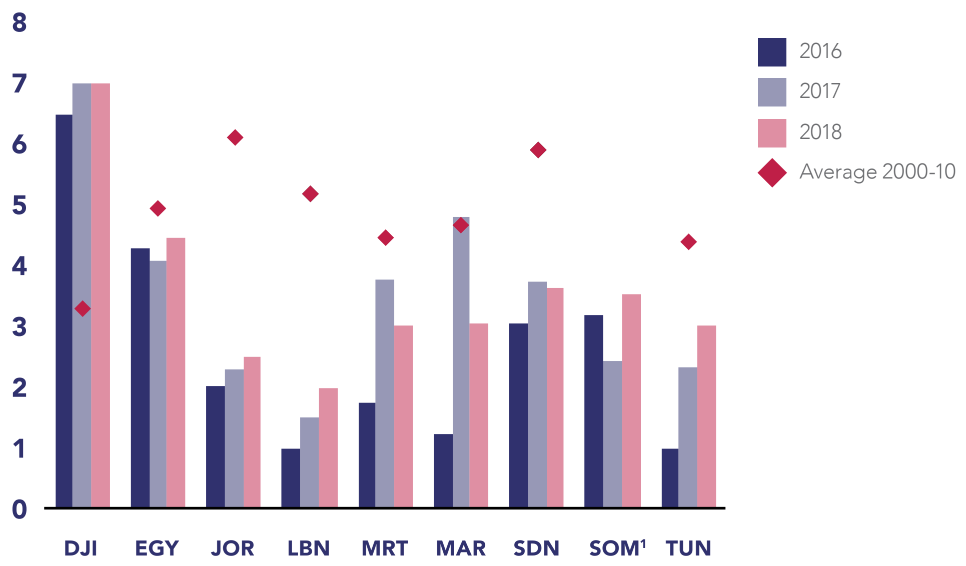
16. Banks in the GCC region and Algeria remain well capitalized and broadly profitable, but the banking system remains weak in Iraq. Following the US Federal Reserve, most GCC central banks have hiked domestic policy rates, but the full pass-through of higher policy rates has been limited by a modest improvement in liquidity owing to the small increase in oil prices relative to 2016 and associated easing of government cash constraints. Low oil prices, combined with the ongoing cycle of US interest rate increases, will continue to put pressure on bank asset quality and affect banks' ability to supply credit to the private sector, contributing to the relative weak growth outlook

17. Medium-term growth prospects remain below historical averages amid ongoing fiscal consolidation and the reality of lower oil prices. This further highlights the need to move away from a focus on redistributing oil receipts through public sector spending and to speed up the implementation of structural reforms to achieve greater economic diversification. Private sector development and further efforts to improve governance and transparency, strengthen accountability, and increase government efficiency, together with labor market and education reforms, would help bolster private sector confidence, foster diversification, and lift medium-term prospect for inclusive and sustainable growth.

B. ARAB OIL IMPORTERS

18. Economic activity is projected to expand by 3.9 percent in 2017, stronger than previously anticipated, be broad-based, and supported by stronger economic activity in key trading partners, domestic demand and exports of goods and services. Growth is also being supported by several idiosyncratic developments in mining and infrastructure investments. In the medium term, growth is projected to continue improving gradually, leveling off at 3.9 percent in 2018 and averaging 5.0 percent during 2019–22. Despite differences across countries, 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. Persistent high unemployment could hinder efforts to build the consensus required to advance fundamental reforms needed to boost growth and increase its inclusiveness.

REAL GDP GROWTH RECOVERS BUT REMAINS BELOW HISTORICAL AVERAGE (PERCENT CHANGE)



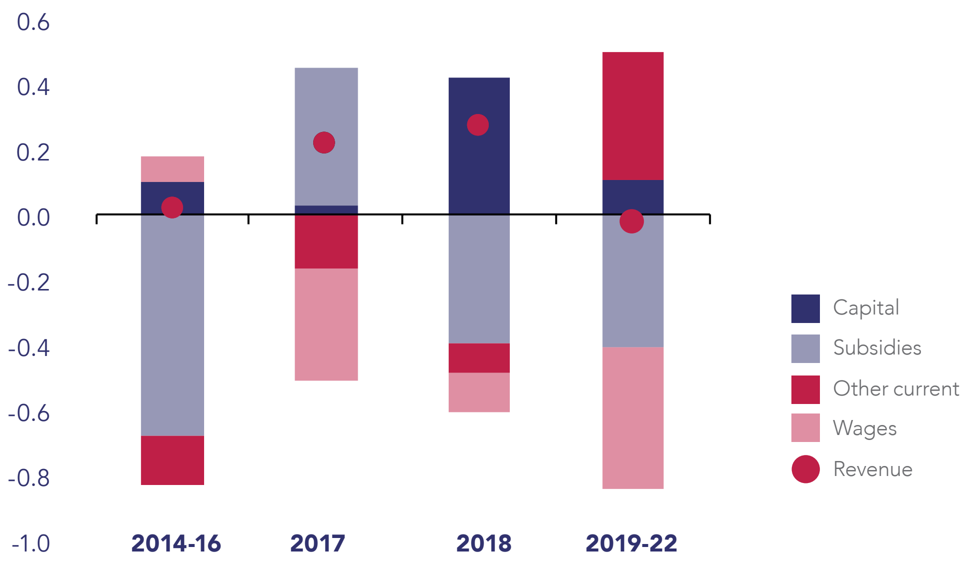
Sources: National authorities; and IMF staff calculations and projections.

Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

[1] Somalia's data begin in 2013.

19. The current account deficit is projected to reach 6.6 percent of GDP in 2017, reflecting somewhat higher oil prices and continued imports of capital goods, but is expected to narrow to 5.8 percent of GDP in 2018, supported by positive spillovers from the stronger global economy, including tourist arrivals and remittances. While a pickup in commodity prices—iron ore, gold, phosphates, and cotton—will improve the terms of trade for some countries, the appreciation of real effective exchange rates could pose challenges in some other countries, pointing to the need for a well-calibrated policy mix to avoid a buildup of external vulnerabilities.

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.

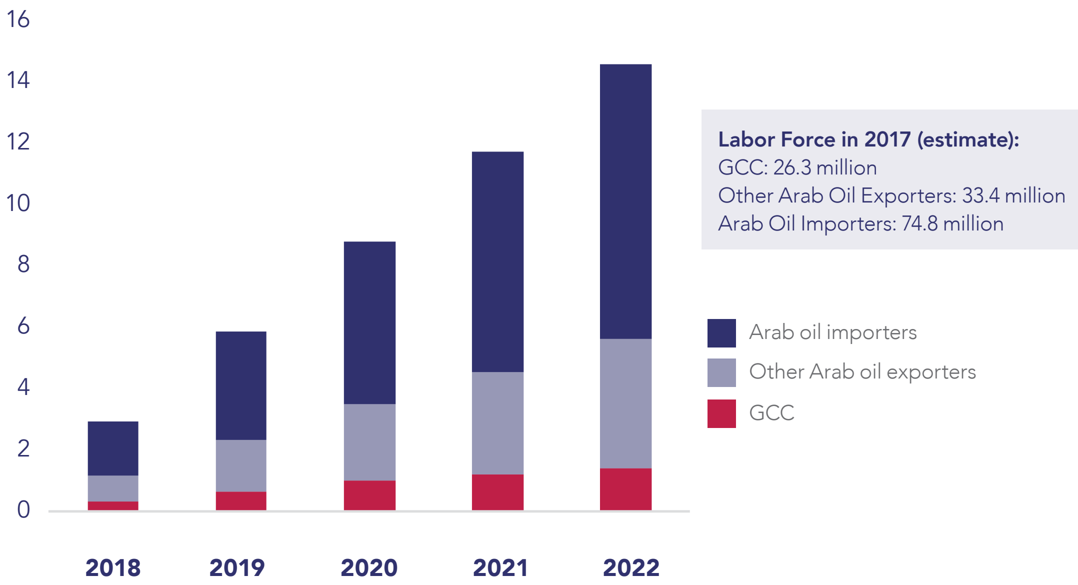
20. Oil importing countries have taken (or are taking) several steps to consolidate their fiscal accounts, both on the spending and revenue sides (see next section). As a result, the average fiscal deficit in oil-importing countries is expected to fall slightly to 7.3 percent in 2017 and dip further to 5.8 percent in 2018. However, past weak domestic revenue mobilization, high current expenditures (subsidies and wages), currency depreciation, rising interest payments, and lackluster growth have pushed public debt to over 80 percent of GDP. Sustained fiscal consolidation and reforms, which should carefully target current expenditures to protect social spending and improving the efficiency of public investment to mitigate the contractionary effect on growth, are therefore required to reduce debt levels by 2022.

21. Driven by one-off factors in Egypt and Sudan, inflation in oil importing countries is expected to increase from 10.2 percent in 2016 to a peak of 20.8 percent in 2017, and drop to 10 percent in 2018. 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 owing to structural reforms and infrastructure investment. Strengthening and modernizing monetary policy frameworks to bolster transmission mechanisms, improve the communication and transparency of policy intentions, and enhance analytical tools will be important, especially for countries that have recently made the transition to a floating exchange rate regime. According to 2016 data, banks are generally well capitalized, liquid, and relatively profitable, but 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, including with regard to the rapid expansion of technological innovations in the financial sector.

C. SECURING HIGHER AND MORE INCLUSIVE GROWTH

22. Despite the moderate growth outlook, at a little over 3 percent over the medium term, regional growth remains too low and with the benefits shared by too few. In particular, the region needs to grow faster to start reducing unemployment and absorb the millions of people expected to enter the labor force over the medium term. [3] The unemployment challenges in the region are already a major policy concern, with overall unemployment at about 11 percent, and more than double for youth at 25 percent. And with over 60 percent of the population below 30, higher growth and more jobs are urgently needed: the 2017 Arab Youth Survey reveals that 35 percent of Arab youth see unemployment as the biggest obstacle facing the region.

PROJECTED LABOR FORCE INCREASE (MILLIONS OF PEOPLE, CUMULATIVE)

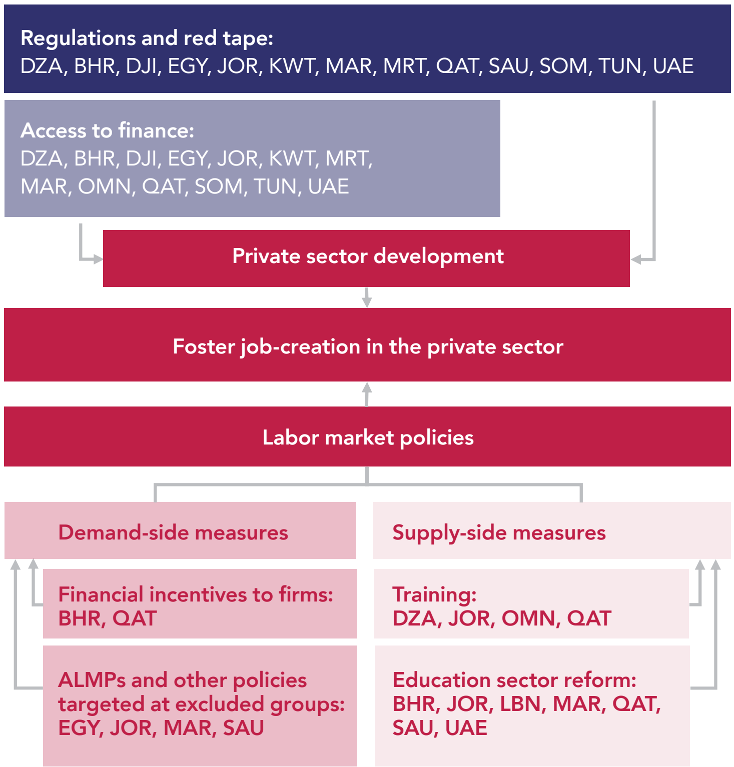


Source: ILO.

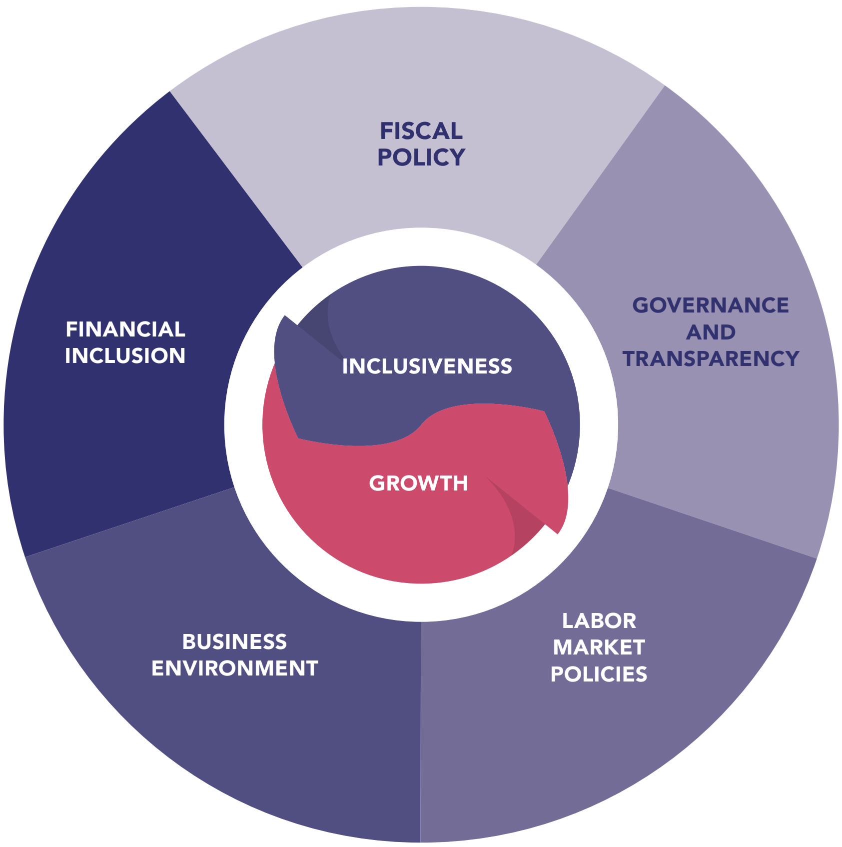
23. These challenges are well understood by policymakers with inclusive growth and job creation at the forefront of countries' national plans and development strategies. Many of these plans envisage reforms to raise the quality of and broaden access to public services, while creating space for higher social and investment spending. There is also widespread recognition that diversifying and developing the private sector, improving the business environment and governance, equipping the labor force with skills relevant to the private sector, reducing gender gaps, and improving access to finance (for SMEs particularly) are all policies that would produce a substantial growth and inclusion dividend. If these policies were to be pursued while boosting the quality of public investment and better integrating the region into global trade networks, countries in the region will capitalize on the opportunity to benefit from the rebound in global growth. Indeed, reducing infrastructure gaps, improving trade openness, diversification, and export quality, and more actively participating in global value chains would allow countries to generate jobs, including by leveraging their comparative advantages in labor-intensive manufacturing sectors, and, ultimately, raise inclusive growth over the medium term.

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

COUNTRIES FOSTERING PRIVATE SECTOR DEVELOPMENT AND LABOR MARKET POLICIES FOR PRIVATE SECTOR JOB CREATION AND YOUTH AND WOMEN INCLUSION



24. Moving forward, the question is, therefore, how to achieve these goals. The implementation strategy should rest on three pillars: (1) access to markets (private sector development), (2) access to talents (labor and education reforms), and (3) access to finance. And these reforms need to be underpinned by efforts to strengthen economic resilience and improve transparency and accountability.



25. In a region where governments can no longer be the employer of first resort, private sector development is crucial. Several steps are being taken to facilitate foreign direct investment, and to reform the legal environment for businesses to reduce the time and cost of starting a business and to enhance the frameworks for public-private partnerships and bankruptcy. Yet the region scores poorly on the World Bank's Ease of Doing Business, and is falling behind relative to other regions with its relative position deteriorating from around 40 percent below the level of best performer in 2014 to about 45 percent in 2017. Moreover, differences in the business environment across the region are large, ranging from the highest ranked country, the United Arab Emirates, which was 23 percent below the best performer in 2017, to the lowest, Somalia which was 80 percent below the best performer.

EASE OF DOING BUSINESS 2014-17
(CURRENT RANKING AND CHANGE IN DISTANCE TO FRONTIER)

	GCC	Non-GCC Arab Oil Exporters	Arab Oil Importers
Starting a Business	▲	▲	▲
Dealing with Construction Permits	▲	▲	▼
Getting Electricity	▼	▲	▼
Registering Property	▼	▼	▼
Getting Credit	▼	▼	—
Protecting Minority Investors	▲	▲	▲
Paying Taxes	▼	▲	▼
Trading across Borders	▼	▼	▼
Enforcing Contracts	▲	▲	▼
Resolving Insolvency	▲	—	▲

Change in distance to frontier from 2014 to 2017:

▲ Improving ▼ Worsening — No change

Top 25% Top 50% Top 75% Bottom 25%

Source: World Bank Doing Business Indicators. Non-GCC includes Algeria.

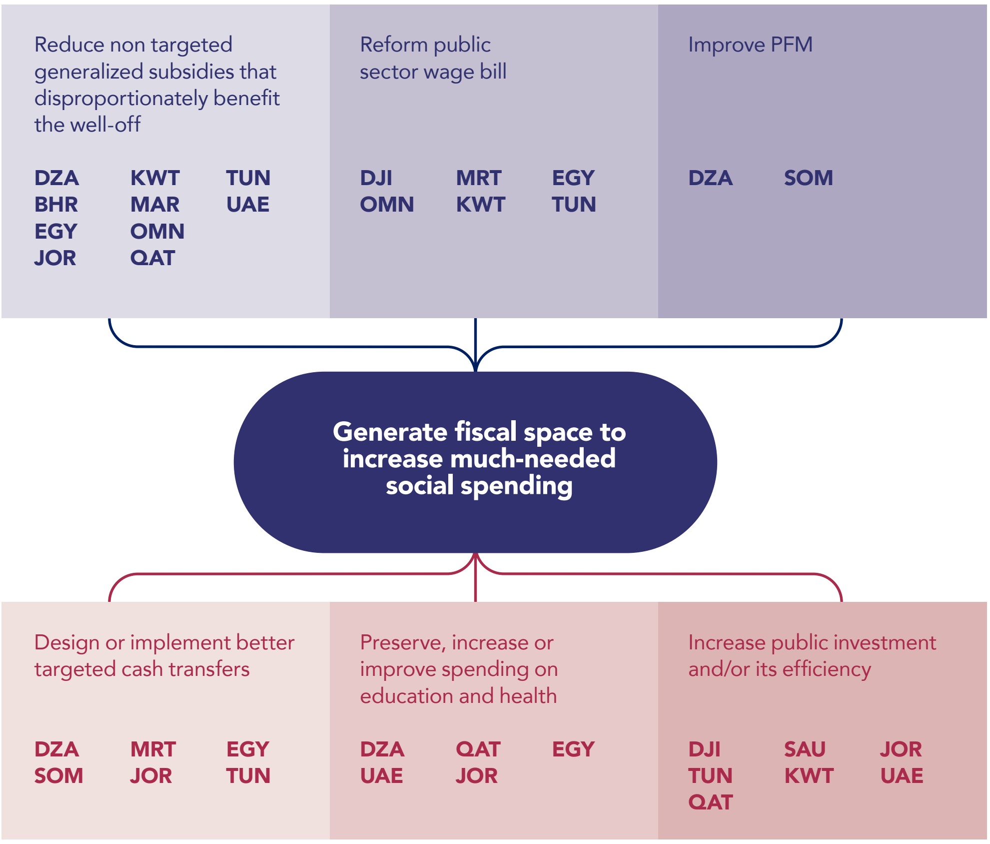
26. Most countries have also taken measures to tackle corruption and promote transparency. Strengthening governance and countering corruption remains an essential step to create greater space for social and pro-growth spending. Complementing these measures with policies to attract foreign investment, to promote technological innovation and to integrate better the region into global trade networks will allow individual countries to leverage the rebound in global economic activity, enhance the resilience of their economies, and, ultimately, better support their growth.

27. With over 14 million youth entering the workforce over the next five years, countries in the region are implementing measures to improve workers' skills, particularly women and youth, and boost labor demand in the private sector. With educational test scores well below the average of other non-Arab countries and with the share of adults with secondary level education significantly below peers, improving the quality of and access to education is crucial. Educational programs can align better with the needs of the private job market by partnering with the private sector to streamline and reorient the curricula. Policies such as vocational trainings, apprenticeships, paid or unpaid internships, job counseling, intermediation, and placement services, could also help enhance skills and meet the demands of the job market.

28. Better access to finance will allow people in the region to smooth income shocks and unlock access to economic opportunities. Despite relatively large financial sectors and a reasonable share of private credit in GDP compared with other regions, credit tends to be concentrated on large corporations. Access to finance is ranked as the top constraint to private sector development in the region, particularly for SMEs and women. Most countries are taking some measures to increase access to finance for SMEs (Algeria, Djibouti, Egypt, GCC, Jordan, Morocco) and for women (Jordan, Somalia), expand mobile banking (Djibouti, Morocco, Somalia), and develop Islamic finance (Djibouti, Mauritania, Morocco). These measures could be further supported by improving credit information systems, enhancing collateral regimes and greater adoption of financial technology ("fintech").

29. Given the need for continued fiscal consolidation to ensure economic resilience, countries are addressing growing demands for better and more accessible public services by reorienting spending with a focus on improving the efficiency of social expenditures, particularly in education and health, and public investment. Average health spending rose from 2.7 percent of GDP in 2010 to 3.1 percent in 2014. Many countries are phasing out generalized fuel subsidies and replacing them with better targeted cash transfer programs and increases in other social outlays to better protect the most vulnerable. Despite these positive developments, social spending in the region (12 percent of GDP) remains low relative to peers (Latin America spends 14 percent of GDP) and only 23 percent of the Arab region's social transfers go to the poorest 39 percent. Thus, more is needed to improve the quality of public services, broaden access to those services, and protect the most vulnerable. Some countries are tackling high public sector wage bills, and improving public financial management, to contain pressures on spending and deficits and prevent the crowding out of other spending.

COUNTRIES CREATING FISCAL SPACE BY REORIENTING SPENDING



Source: Surveys to IMF MENAP staff.

30. Countries are also taking steps to raise revenues to fund their social and investment needs while ensuring greater fairness. Between 2010 and 2016, GCC non-oil revenues rose from 5.1 to 8.3 percent of GDP (weighted average). Joining some 140 countries world-wide, VAT is being introduced by several countries while excluding basic food items or setting the registration threshold at a high enough level with a view to protecting lower income households and small enterprises. Countries are also taking steps to close loopholes, narrow costly and poorly targeted exemptions, and broaden the tax base. However, tax revenue-to-GDP ratio remains low in the region at under 10 percent. Tackling tax evasion, closing loopholes, raising progressivity, and exploiting the untapped potential of property and wealth taxes are further steps that would improve the distributional impact of tax measures

COUNTRIES CREATING FISCAL SPACE BY INCREASING REVENUES

Implement or increase excise taxes	BHR, OMN, UAE, EGY, QAT, JOR, SAU
Implement or increase VAT (including plans for future implementation)	BHR, OMN, UAE, EGY, QAT, KWT, SAU
Reduce tax exemptions	JOR, MAR
Broaden tax base	JOR, TUN
Increase progressivity	DJI, JOR, TUN

Source: Surveys to IMF MENAP staff.

CONCLUSIONS

31. The current global recovery—real growth is expected to rise from 3.2 percent in 2016 to 3.6 percent in 2017 and 3.7 percent over the medium term—provides a golden opportunity for adopting structural reforms as it will amplify and accelerate their beneficial effects. Risks to the outlook are broadly balanced in the short term, but tilted downside in the medium term. To make growth more inclusive and resilient, policy makers should orient their policies toward maintaining macroeconomic stability, creating jobs and encouraging gender equality, promoting environmental sustainability, boosting access to financial services, and strengthening the redistributive role of fiscal policy to protect the most vulnerable.

32. Despite the strengthening global recovery, the economic outlook for the region remains relatively subdued and is also diverging across countries. Growth is anticipated to accelerate gradually over the medium term in many Arab economies, but in many cases, it will remain below what is needed to effectively tackle the unemployment challenges facing the region. Growth risks for oil exporters remain tilted to the downside as spillovers from the low and uncertain oil price environment and fiscal adjustment continue to weigh on growth. For oil importers, the balance of risks to the outlook is also negative as regional conflicts and security risks could become more protracted or escalate.

33. Against this backdrop, it is essential that countries continue to focus on fiscal consolidation, strengthening their monetary policy frameworks, and making sure that the financial sector remains sound and resilient. Like most of global counterparts, policy makers in the region should accelerate structural reforms and strengthen institutional frameworks to reap the benefits from the recovery in global activity. To this end, trade integration and improving access to finance, including through greater adoption of financial technology, could provide essential growth dividends.

GLOBAL AND REGIONAL ECONOMIC PROSPECTS AND POLICY CHALLENGES

PREPARED BY

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