

MENAP to grow at 3.6% in 2009

Continuous spending by the oil exporting countries in the MENAP region has helped to soften the impact of the global economic slowdown on the region as a whole. But the economies in this region have been affected to a great extent and, like the global economy, need a mixture of monetary, financial and fiscal policy prescriptions to tide over the crisis. A **MONEYworks** report.

The International Monetary Fund (IMF) expects the MENAP (Middle East, North Africa and Pakistan) oil exporters, including the GCC nations, to grow at 3.6 per cent this year, down from 5.6 per cent in 2008. Growth estimates are higher for the emerging markets and developing countries in this region, which grew at 6.3 per cent during 2008.

"The global economy is going through its most severe economic crisis since the Great Depression, with global growth projected to be only 0.5 per cent during 2009. The advanced countries will suffer more with negative growth, while the emerging markets are expecting to grow only a little over three per cent," says Masood Ahmed, Middle East and Central Asia department director of the IMF.

This outlook is perhaps the worst economic outlook in terms of one-year projection since the creation of the IMF.

The crisis, which started around the beginning of 2007 with mortgage-related lending, spread to a number of emerging nations (Latin America, emerging Europe and Asian economies) by mid-2008 through lower external demand and exports, lower commodity prices and a tight credit policy. October 2008 marked

the turning point of the collapse, leading to a systematically high stress period.

According to Ahmed, the world economy is going through an abnormally stressful zone because of two main reasons. First, despite the infusion of liquidity by the respective governments of the advanced countries, measures taken are inadequate when it comes to troubled financial institutions and damaged assets. Second, there has been an extraordinary collapse of confidence in the system. With everyone holding back decisions on spending, the economic outlook is worsening with lower demand leading to lower lending, which in turn is telling upon the balance sheets of banks. Hence, there is less credit availability and ultimately lower production, completing the vicious economic cycle.

These circumstances have led the IMF to continuously revise growth estimates downwards, as the uncertainty surrounding the outlook is unusually high. There are too many downside risks, including the pernicious feedback loops between real activity and financial markets intensifying further, the continuation of the severe and prolonged process of deleveraging, insufficient current policy measures and further deterioration in

global financial conditions. These risks are accompanied by a sudden stop and disruptive currency depreciation in a number of emerging countries.

According to Ahmed, although the regional growth will be muted thanks to its stronger starting position and continued investment spending in some of the countries, it will offset some of the severity of the crisis seen elsewhere. Ahmed added that the continued investment spending by Middle Eastern oil exporters will have a cushioning effect on the entire region. He also said that the ill effect of the slowdown will vary between MENAP oil exporters and MENAP developing economies.

Impact on MENAP region

The oil exporters in this region have enough foreign exchange reserves and export receipts due to the boom in oil prices over the last few years. But the decline in oil prices and OPEC production cuts are projected to reduce oil export receipts by almost 50 per cent this year, implying a loss of government revenue to the tune of US\$300 billion compared to 2008.

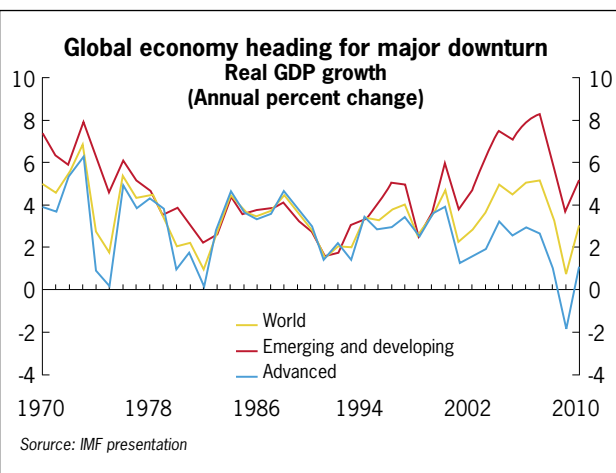
Ahmed notes that as a result, the region's oil exporters' current account surplus of

All regions affected...

Overview of the World Economic Outlook projections (year on year)

	Projections				Difference from Nov. 2008 WEO projections	
	2007	2008	2009	2010	2009	2010
World output	5.2	3.4	0.5	3.0	-1.7	-0.8
Advanced economies	2.7	1.0	-2.0	1.1	-1.7	-0.5
US	2.0	1.1	-1.6	1.6	-0.9	0.1
Euro area	2.6	1.0	-2.0	0.2	-1.5	-0.7
Emerging and developing economies	8.3	6.3	3.3	5.0	-1.8	-1.2

Source: IMF presentation



around US\$400 billion in 2008 is expected to turn into a deficit of US\$30 billion this year. For most countries, this deterioration is from a position of significant strength that can be comfortably sustained by the large reserves that these economies have built up.

“Nevertheless, most governments, especially those in the GCC, have so far indicated that they will maintain their spending and investment plans. Thus, by continuing to spend, oil-exporting countries are contributing substantially to support global demand and are acting as stabilisers during the global downturn,” says Ahmed.

For emerging markets and developing countries in this region, the global slowdown will clearly have a significant impact on growth through lower exports, tourism, remittances and a higher cost of credit. However, spending by oil exporters will soften this impact on countries that have strong trade and investment links with them, Ahmed points out.

“Because of the relatively high public debt ratios and the much more difficult financing outlook, the scope for counter-cyclical policies is limited for most of the emerging market countries,” notes Ahmed.

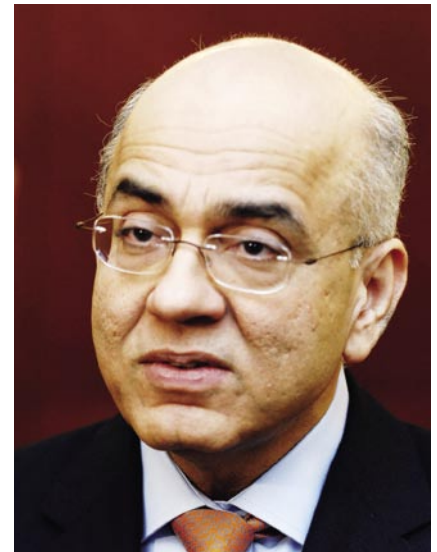
Against this background are several risks to the outlook for the countries in the region. First, if oil exporters were to

cut their long-term oil price expectations and consequently their spending, growth prospects would be weaker for the entire region. Second, a more prolonged global recession would imply even weaker exports, tourism and remittances for most MENAP emerging markets and developing countries. Third, if asset price corrections deepened and the impact of asset price corrections fed through to corporate and bank balance sheets, some financial institutions in the region would likely be under stress.

Policy measures

So what’s the way forward for both the world economy as a whole and the MENAP region in particular? Most economists in the world probably agree with the IMF prescription – that no one policy can cure this terrible hurt. The need of the hour is a right mixture of policies: monetary, fiscal and financial. As far as the financial sector is concerned, it is important to restore normal functioning to the financial market.

On the monetary policy front, the IMF recommends unlocking key credit markets. On the fiscal policy front, it recommends timely and coordinated implementation of stimulus and the use of available fiscal space with an eye on long-term sustainability (which, according to the IMF,



Masood Ahmed

is maintaining a GDP growth rate of at least two per cent).

Coming to specific measures for this region, Ahmed once again recommends three elements of policy measures. He says that while the oil producers are to continue with their fiscal spending, the emerging markets in this region should exploit the fiscal space available to them. These countries also need to apply some monetary stimulus if possible and enhance financial supervision and monitoring, Ahmed adds.

