MENAP – the low oil price makes a big difference

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The oil price has a profound influence on the economic prospects in the region comprising the Middle East, North Africa, Afghanistan and Pakistan (MENAP). It is home to both major oil producing and net oil importing countries. Yet the region is shaken by geopolitical crises and conflicts, even though stability and security would be particularly important for it to realise its growth potential.

Diverging outlooks

During the resource boom, both the net oil exporters and the oil importing countries grew at roughly the same pace but after the global economic crisis the net oil exporting countries showed significantly higher growth rates. That picture has now changed. Since 2013 the group of net oil importing countries has been boasting higher (expected) growth.

The reason is that the net oil exporters are now paying the price for their heavy economic dependence on oil, both for their national budget and for their economic structure and export focus. The oil price, which is expected to be comparatively low even over the medium term, is forcing the countries to consolidate their public finances, tap into their reserves or incur debt. The effects of the geopolitical conflict in the region are exacerbating the situation. However, when the net oil exporters run into economic difficulties, this also hits the importing countries, particularly through the government support of the Gulf states and – particularly for Egypt, Jordan and Yemen – through worker remittances.

For the net oil importers, the low oil price is generally beneficial. Domestic demand is on the rise. The improved economic situation in the euro area is boosting foreign trade because around one third of goods exports goes to this region. Furthermore, the low oil price is an opportunity to reform fuel subsidies, which most countries are seizing.

Export structure: oil vs. other goods

The oil price has dropped to almost the level countries require to balance their current accounts and has even fallen below this level for some countries. Accordingly, the current account balance for the group of net oil exporting countries has dipped into negative territory (an expected -3.4 % of GDP in 2015). Currency devaluations would mitigate the exporters' revenue losses. But that would do little to bolster their competitiveness as they export only relatively few goods besides oil and related products.

The net oil importers, on the other hand, have a more diversified export profile. However, their currencies have tended to appreciate in real terms towards their trading partners since early 2014, reducing their competitiveness.

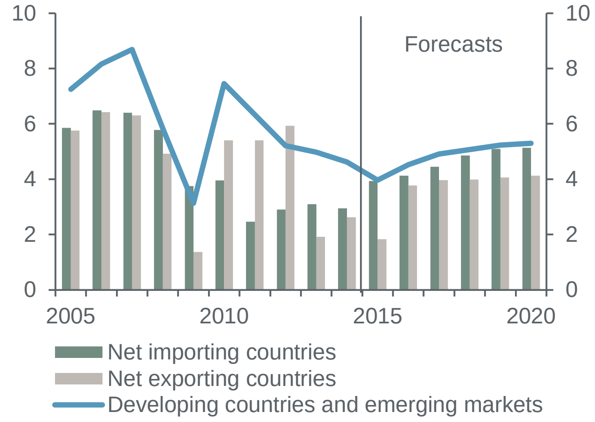
Private sector improvements also help the labour market situation

As all countries of the region – not just the net oil importing countries – have a current-account deficit, they depend on capital inflows from abroad for their financing. But this presupposes the existence of investment opportunities in order to attract direct investment, for example – in addition to a stable economic and political environment.

Expanding the private sector and reducing incentives for capital-intensive production by lowering energy subsidies would help, while opening up employment opportunities for the young population. After all, career prospects for the middle class and life satisfaction are important preconditions for reducing the potential for conflict and promoting stable societies in the region. ■

Figure 1: Real GDP annual growth rates

(in per cent)



Source: IMF

Figure 2: Fossil fuels as a proportion of imports and exports

(in per cent)

Source: World Bank