



MACROECONOMIC DEVELOPMENTS AND OUTLOOK FOR THE MIDDLE EAST AND NORTH AFRICA REGION

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Based on [MNACE's MENA Economic Update](#), October 2022

Office of the Chief Economist for the Middle East and North Africa Region (MNACE)

The World Bank Group

Tokyo, Japan

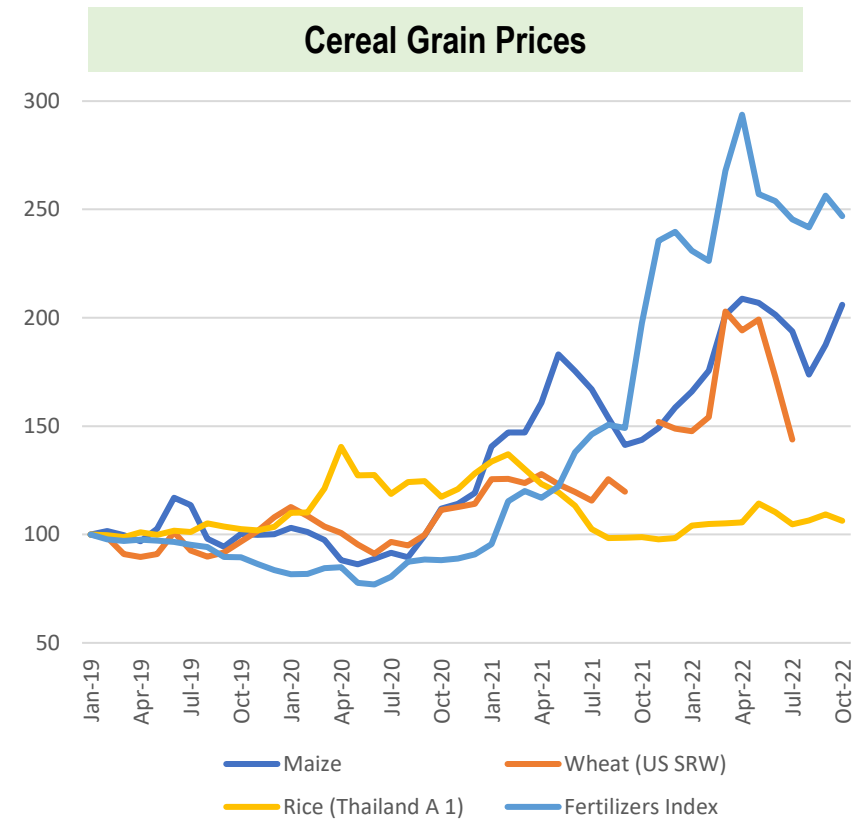
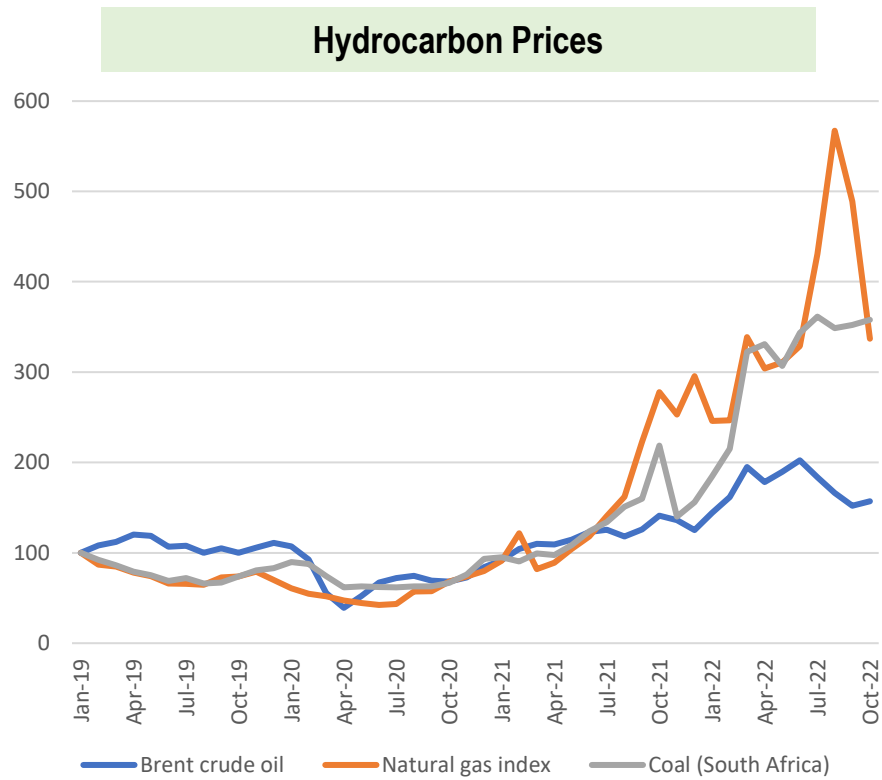
November 18, 2022

Key Messages: Macroeconomic Outlook for the Region

- The global economy is transitioning from a low inflation, low interest rates environment to a high inflation, high global interest rates environment
- The MENA region is facing significant vulnerabilities: increasing inflation, a two-track growth trajectory, high debt and the lingering effects of the COVID-19 pandemic
- Two key aspects:
 - While higher than before, inflation in MENA countries is lower than expected → fiscal costs of product market interventions; effectiveness of cash transfer policies
 - MENA oil-importers face rising debt vulnerabilities

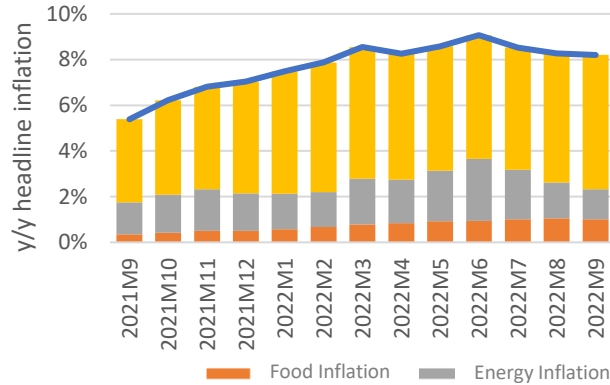
Volatile Commodity Markets

The Ukraine war accelerated the rise in commodity prices begun during H2 2021

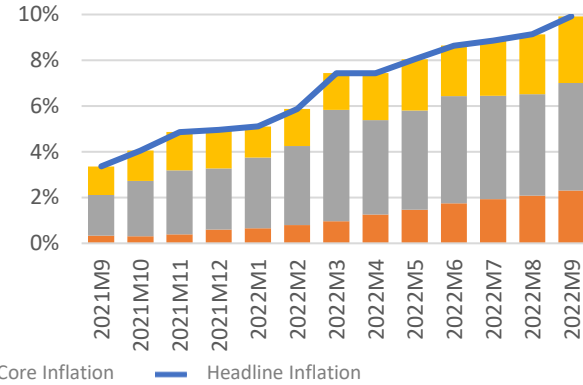


From Low Inflation-Interest Rates to High Inflation and Rising Interest Rates

United States

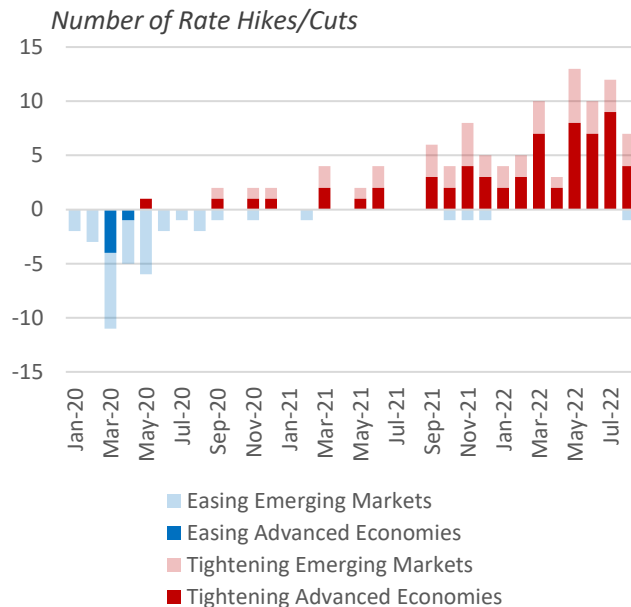


Euro Area

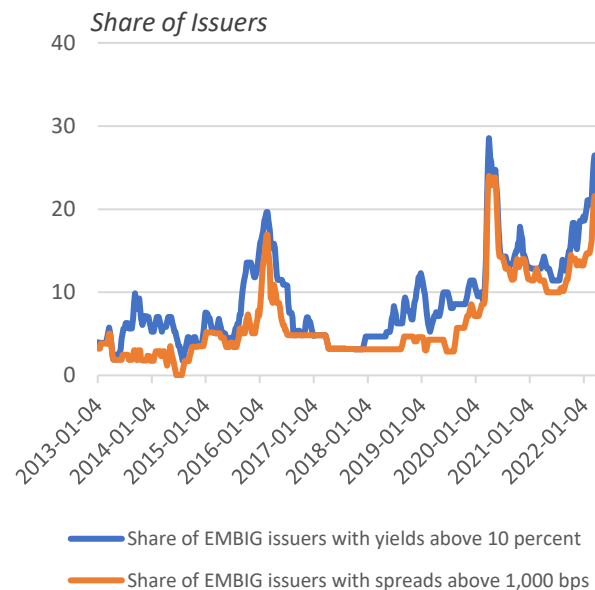


Inflation accelerated in the US and EU during H1 2022 due to higher energy and food prices...

G20 Central Bank Rate Increases



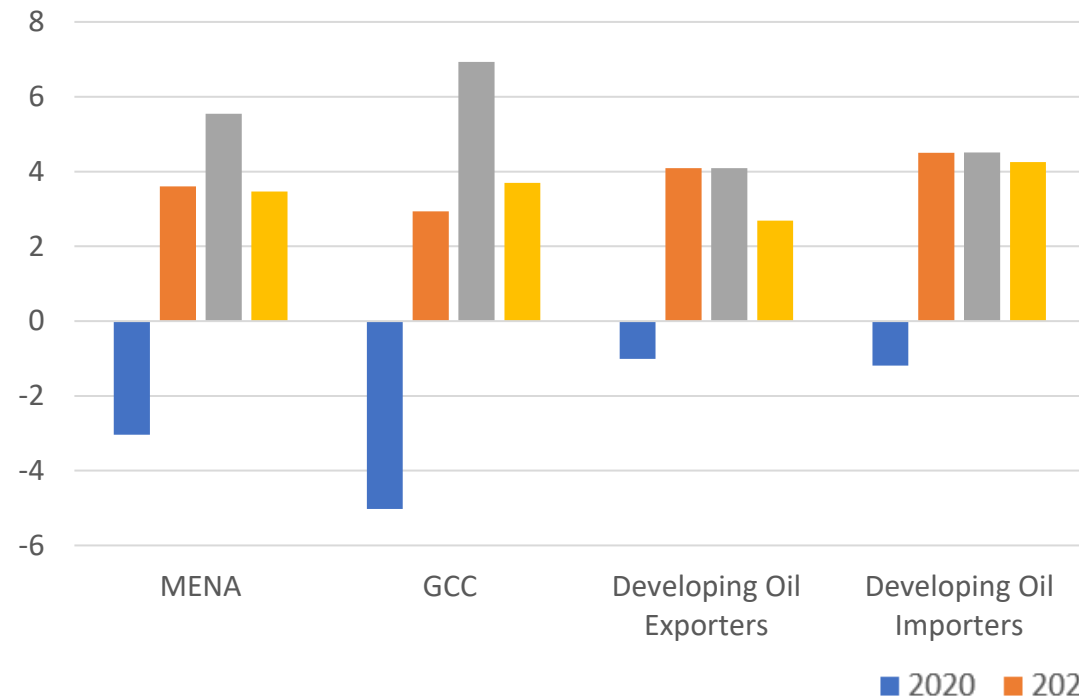
Higher Interest Rates for EMDE Debt



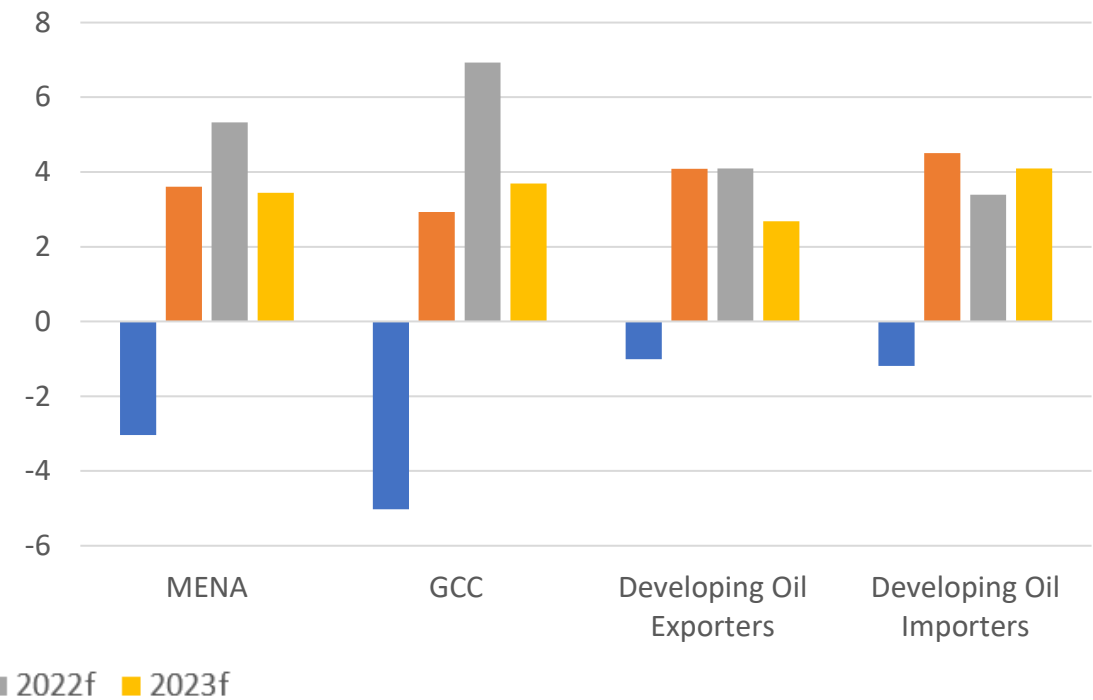
... pushing central banks to raise interest rates more quickly and more forcefully than expected, which has led to tighter financing conditions for governments

World Bank Growth Forecasts for MENA

MPO Growth Forecast for MENA

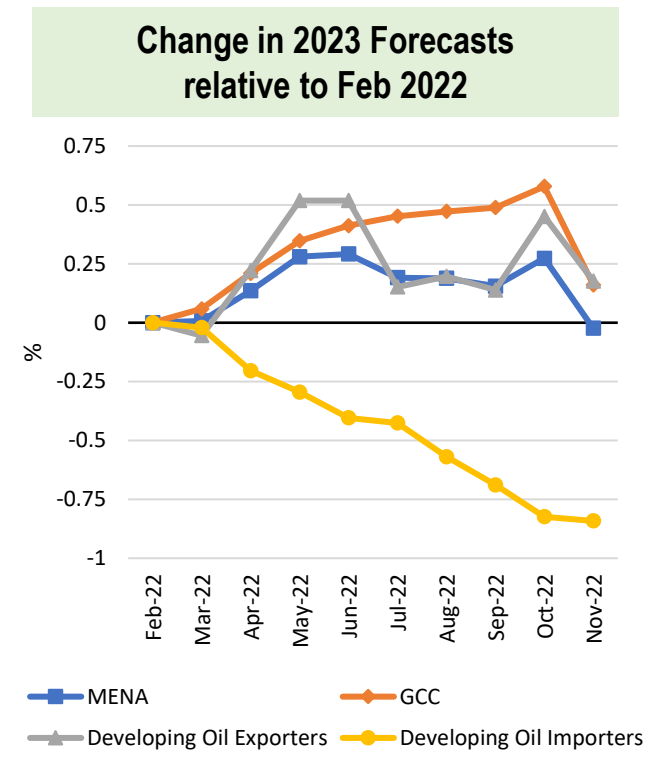
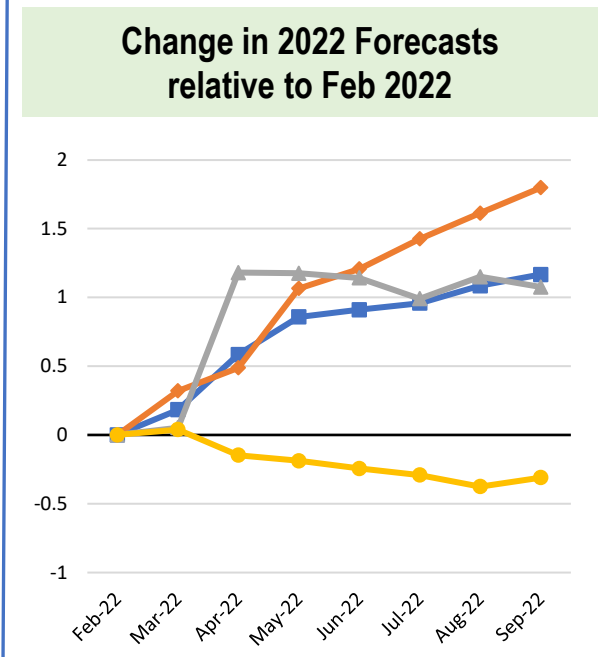
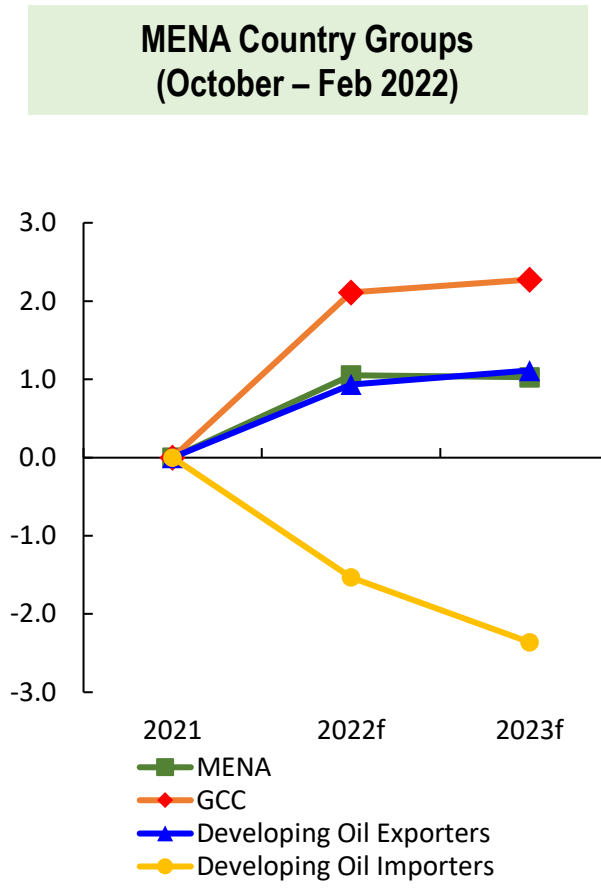


MPO Growth Forecast for MENA – Adjusted for Egyptian Fiscal Year

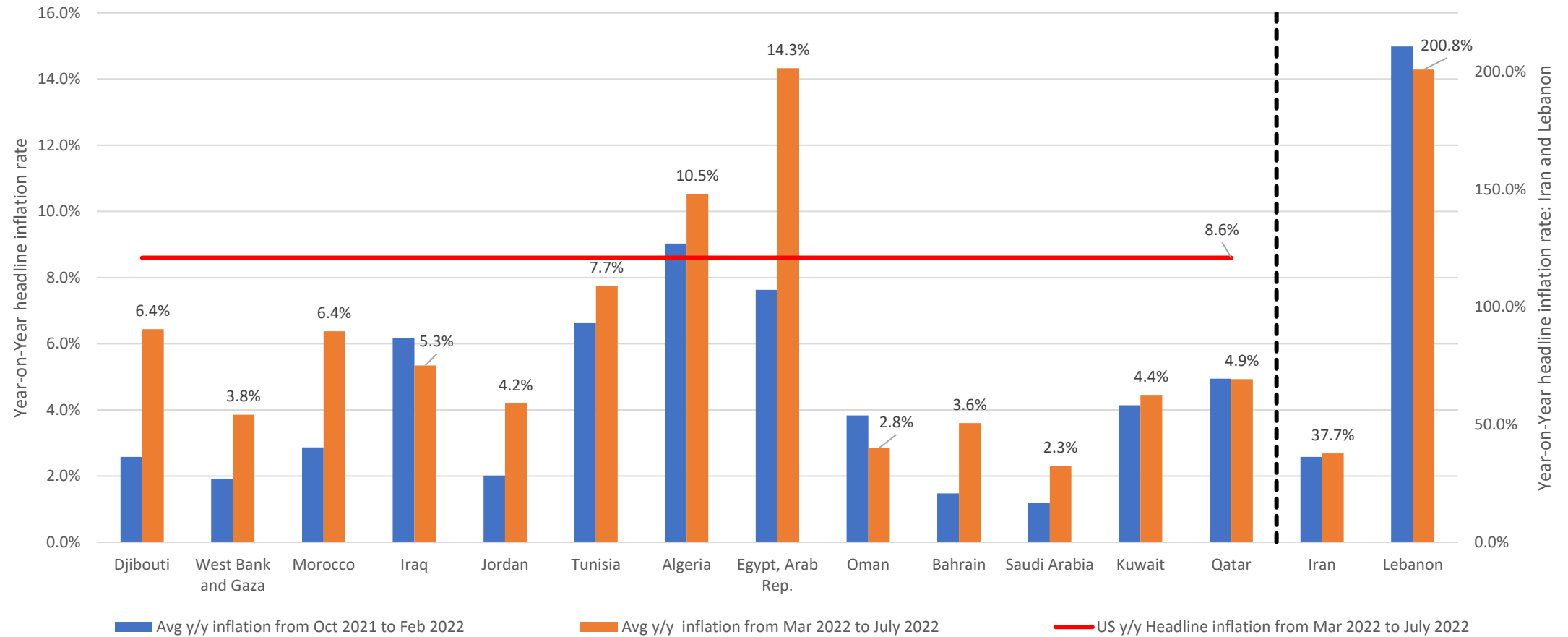


Changes in Private-Sector Consensus Growth Forecasts since Start of the Ukraine War

Uneven trajectories relative to the start of the Ukraine war



Inflation is Lower than Expected in MENA



The Relationship between Headline Inflation and Global Inflation in Small Open Economies (by assumption)

$$P = a \times [P^T] + (1 - a) \times [P^{NT}] \quad (1)$$

Differentiating with respect to P and abstracting from effect on non-tradable inflation ($\frac{dP^{NT}}{dP^T} = 0$):

$$\frac{dP}{P} = a \times \frac{P^T}{P} \times \left[\frac{dP^{T*}}{P^{T*}} + \frac{de}{e} + \frac{d(1+n)}{(1+n)} \right] \quad (2)$$

where:

- a : weight of tradable consumption
- P^{T*} : international tradeable price
- e : exchange rate
- $(1 + n)$: pricing policy (e.g., subsidies, tariff)
- P^T : Tradable price (a function of Demand, Supply)
- P^{NT} : Non-tradable price (a function of P^T , Demand, Supply)

The Relationship between Headline Inflation and Global Inflation in Small Open Economies (continued)

- We can calculate the exchange rate adjusted inflation rate as follows

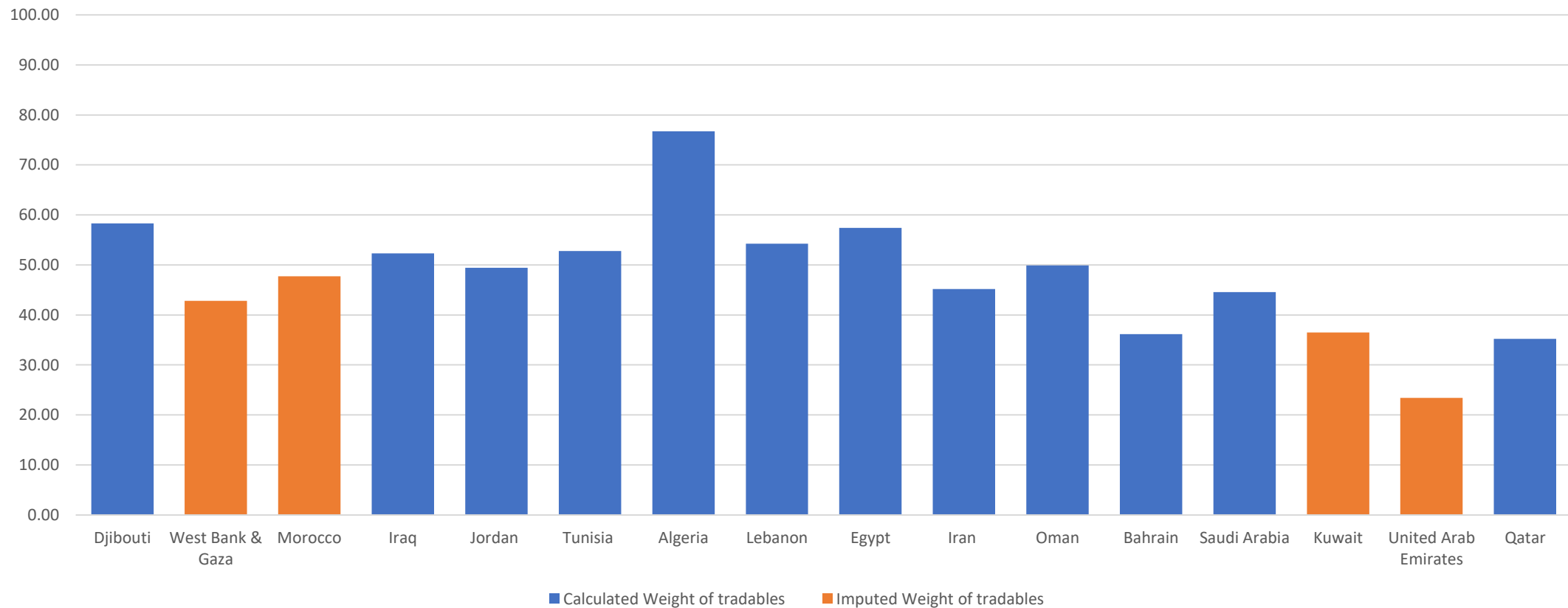
$$\frac{dP}{P} - a \times \frac{P^T}{P} \times \left[\frac{de}{e} \right] = a \times \frac{P^T}{P} \times \left[\frac{dP^{T*}}{P^{T*}} + \frac{d(1+n)}{(1+n)} \right] \quad (3)$$

- We can calculate the policy adjusted inflation rate as follows

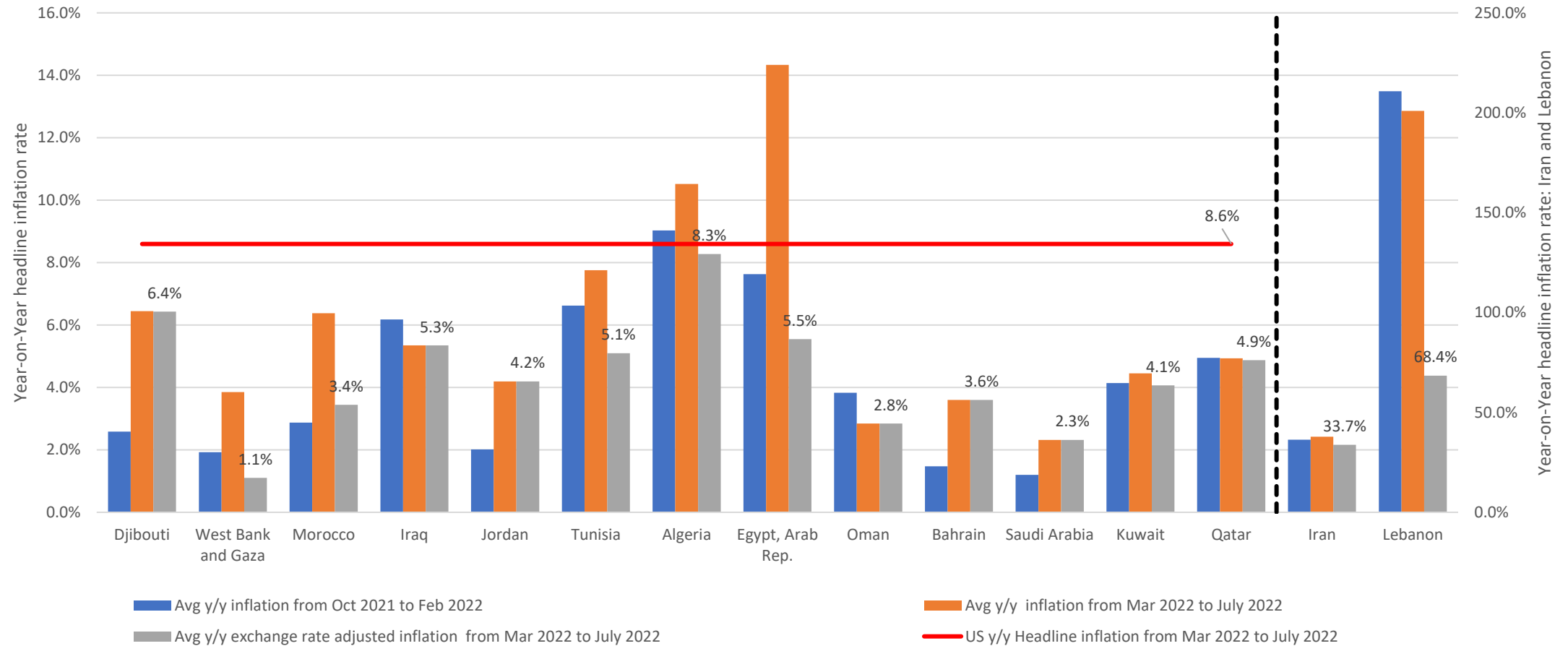
$$\frac{dP}{P} - a \times \frac{P^T}{P} \times \frac{d(1+n)}{(1+n)} = a \times \frac{P^T}{P} \times \left[\frac{dP^{T*}}{P^{T*}} + \left[\frac{de}{e} \right] \right] \quad (4)$$

MENA Tradable Consumption Shares

Tradable Consumption Share (% of total consumption, CPI weights)

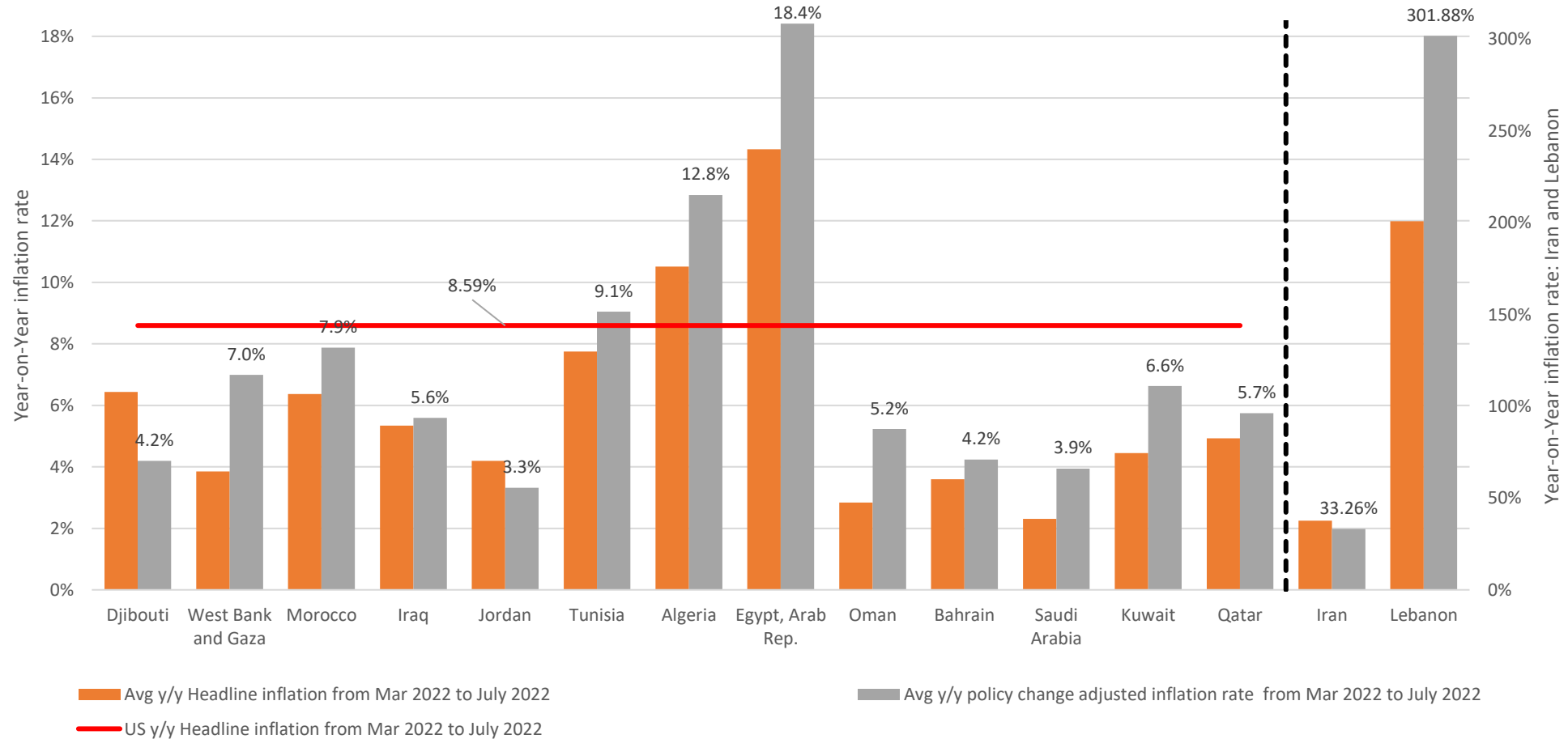


Inflation Is Lower than Expected in MENA



Without Product-Market Interventions, Inflation Would Have Been Higher in MENA

Estimates of the Impact of Tradeable Product-Market Policy Responses on Headline Inflation, March – July 2022



The Net Effect of Product-Market Interventions on Headline Inflation

- Governments responded to inflation through **product-market interventions** that affect the domestic prices of tradable goods
- IMF research finds that MENA countries have the lowest pass-through rate from global to domestic oil prices (IMF, 2022).

Estimates of the Net Effect of Product-Market Interventions on Average National Year-on-Year Headline Inflation February – July 2022 (percentage points)

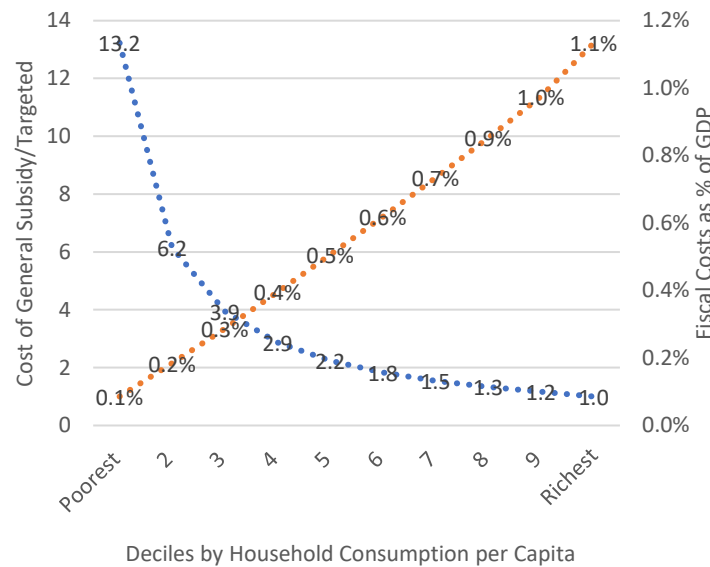
Country	Percentage Points relative to Observed Inflation Rates
Egypt, Arab Rep.	-4.1
West Bank and Gaza	-3.1
Oman	-2.4
Algeria	-2.3
Kuwait	-2.2
Saudi Arabia	-1.6
Morocco	-1.5
Tunisia	-1.3
Qatar	-0.8
Bahrain	-0.6
Iraq	-0.2
Jordan	0.9
Djibouti	2.2
Iran	4.5

What Governments have been Doing since Feb 2022 in Product Markets to Contain Inflation

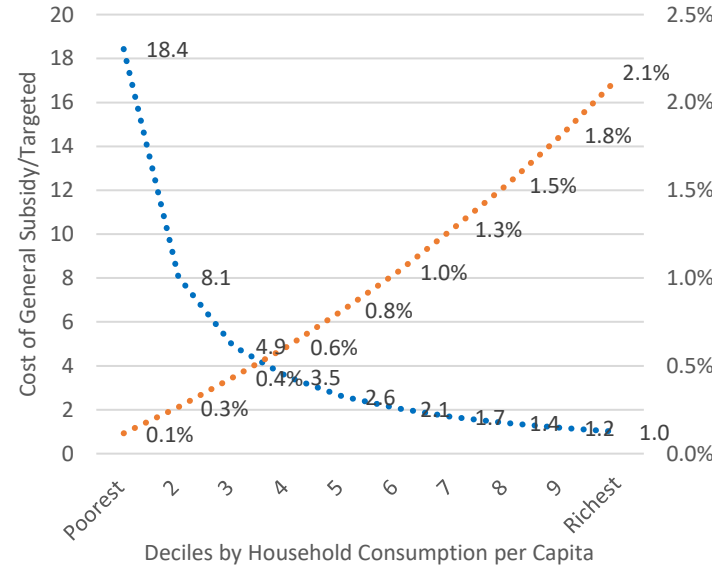
	Product-Market Interventions						Targeted Social Protection		
	Increased Food and Fuel Subsidies	Instituted New Price Controls	Trade Regulations	Indirect Tax Exemptions	Product-Specific Exchange Rates	Increasing Regulated Prices/ Reducing Subsidies	Cash Transfers	Utility and Financial Support	Improved Targeting
Gulf Cooperation Council									
Oman		✓						✓	
Bahrain				✓				✓	
Saudi Arabia		✓					✓		
Kuwait		✓							
United Arab Emirates	✓	✓						✓	
Qatar									
Developing Oil Exporters									
Syrian Arab Republic			✓		✓	✓			✓
Yemen, Rep.			✓						
Iraq	✓		✓				✓	✓	✓
Algeria				✓				✓	
Iran, Islamic Rep.					✓	✓	✓		
Libya		✓	✓					✓	
Developing Oil Importers									
Djibouti	✓	✓		✓			✓		✓
West Bank and Gaza	✓	✓		✓					
Morocco	✓								
Jordan	✓	✓	✓	✓		✓	✓		
Tunisia	✓	✓				✓			
Lebanon					✓	✓	✓	✓	
Egypt, Arab Rep.	✓	✓	✓		✓		✓		
Total: Out of 19	8	10	6	5	4	5	7	7	3

Inflation Mitigation, but at What Cost? General Subsidies vs Targeted Transfers

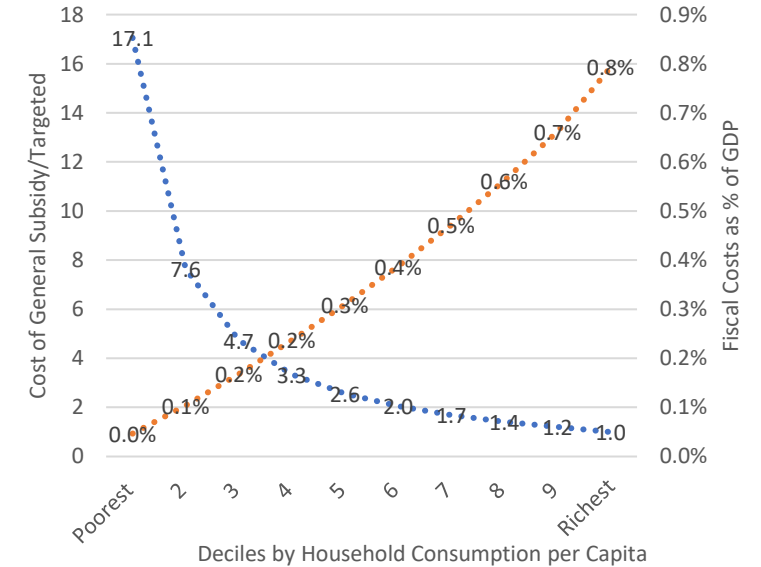
Egypt – Compensating for a 9.4pp increase in Food and Energy Prices



WB&G – Compensating for an 8.0pp increase in Food and Energy Prices



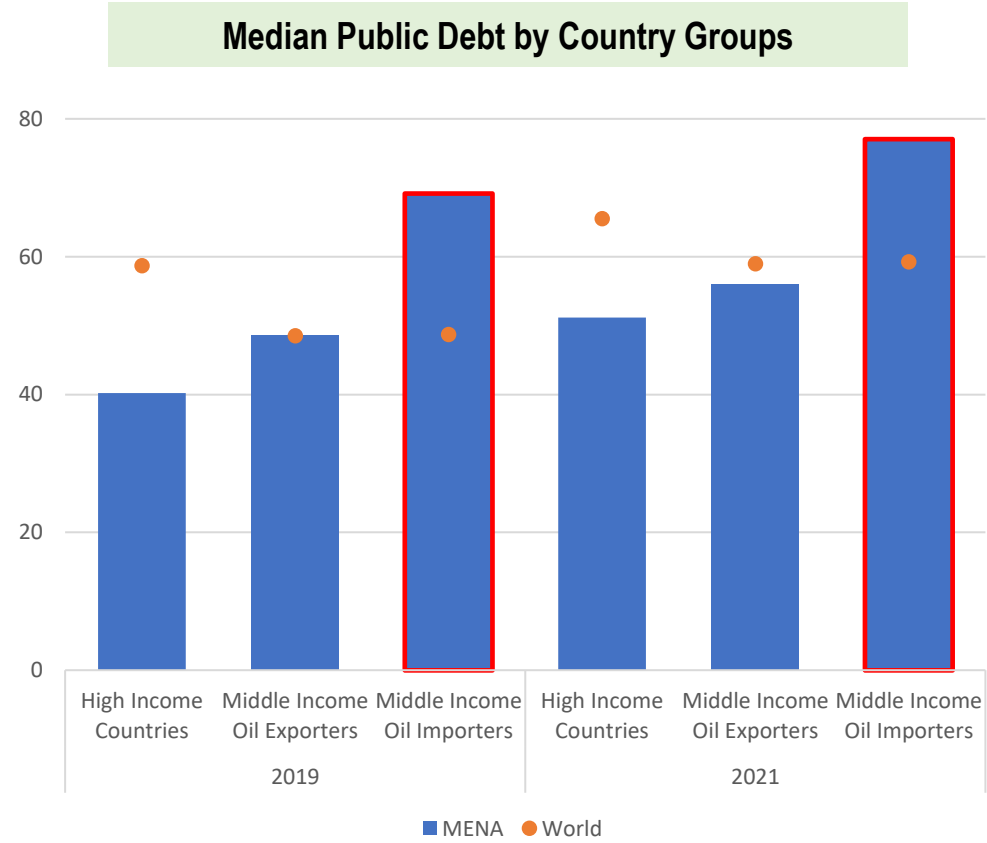
Morocco – Compensating for a 3.4pp increase in Food and Energy Prices



●●●●● Relative Cost of General versus Targeted Subsidy (LHS)

●●●●● Cumulative Cost of Subsidy across Deciles (% of GDP) (RHS)

Starting from a high debt stock



The Rise in Debt Servicing Costs among MENA Countries with Pre-Existing Debt Vulnerabilities

Interest Payment Expenditures and Weakening Debt Affordability

Country	2021 Govt Revenues	2021 Debt	2021 Local Currency Debt	2021 Foreign Currency (FC) Debt	Market-Based FC Debt	Change in Domestic Bond Yields	Change in Market Based FC Yields	Annualized Change in 2022 Interest Payments	2021 Interest Payments/ Govt Revenues	2022 Interest Payments/ Govt Revenues
	% GDP	% GDP	% Debt	% Debt	% FC Debt	%	%	% GDP	%	%
Morocco	24.2	68.9	86.7	13.3	22.9	0.4	2.2	0.1	8.7	9.1
Jordan	25.3	113.7	77.0	23.0	45.9	1.7	2.6	0.9	17.3	20.6
Tunisia	25.8	82.4	37.1	62.9	24.1	1.8	8.0	0.8	10.9	13.5
Egypt	17.5	92.4	78.4	21.6	22.1	2.9	4.9	1.2	51.0	55.6
MICs Median	25.0	65.7	47.4	52.6						
World Median	26.8	59.0	46.3	53.7						

These estimates focus only on changes of interest rates for Market-Based Debt. They are conservative estimates of the effect of changes in global yields and interest rates on the interest burden of each country.

Excludes:

1. the effect of currency depreciations,
2. it assumes that only 1/3 of stock of date is subject to interest rate shock (will increase in interest rates and yields be over next year?).
3. non-market debt affected by changes in interest rates.
4. increases in fiscal deficits.



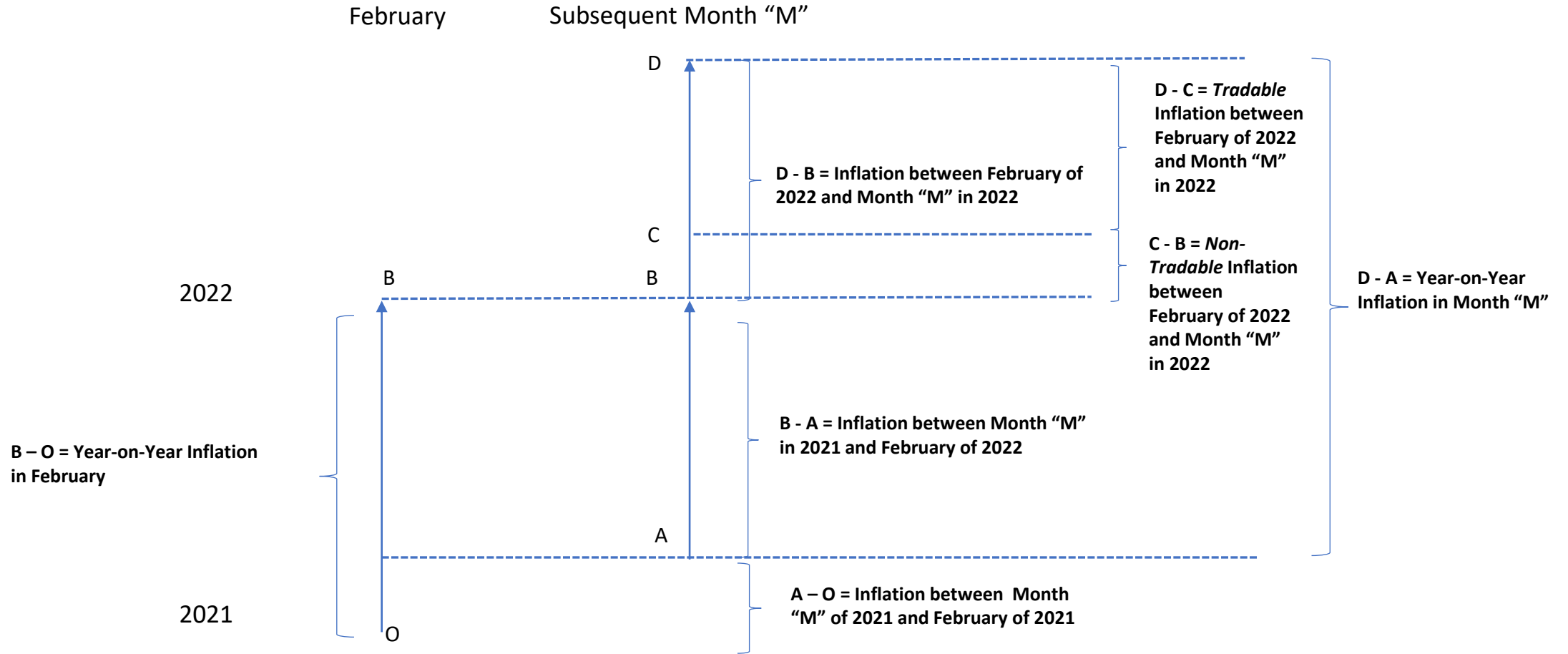
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THANK YOU!

REPORT AVAILABLE HERE.

Appendices

Post-Ukraine-War Inflation Event Study Analytical Framework



Distance $D - B$ is headline inflation between February of 2022 and Subsequent Month "M" in 2022. It can be decomposed into the contributions of tradable goods inflation and non-tradable goods/services inflation:

In levels, $P = s_T \times P_T + (1 - s_T) \times P_{NT}$, where s_T is the share of tradable consumption in total consumption, computed from CPI weights, so that $\Delta P = s_T \times \Delta P_T$

P_T has three components: $P_T = e \times P_T^* \times (1 + n)$, where e = exchange rate (lcu/usd), P_T^* is the global price of tradables (in the U.S.), and $(1 + n)$ reflects the net effect of product-market interventions such as subsidies, taxes, etc., but $(1 + n)$ is NOT observed in data.

But, in log differences, $\Delta p_T = \Delta e + \Delta p_T^* + \Delta \ln(1 + n)$, and thus the effect of a change in product-market policies can be computed as:

$\Delta \ln(1 + n) = \Delta p_T - \Delta e - \Delta p_T^*$, which is the portion of tradable inflation not explained by exchange-rate fluctuations or global tradable inflation (in the U.S.). [Further technical complications elaborated in the Appendix.]