

TRADING TOGETHER:

Reviving Middle East and North Africa Regional Integration in the Post-Covid Era

MENA ECONOMIC UPDATE
OCTOBER 2020

WORLD BANK MIDDLE EAST AND NORTH AFRICA REGION

Ha Nguyen
OCTOBER 19, 2020

Severe Impact of the Dual Shock (the Covid-19 Pandemic and a Collapse in Oil Price)

2020

Output is projected to **contract by 5.2 percent**

4.1 percentage points below our forecast in April 2020

7.8 percentage points below our forecast in October 2019

- The 7.8% downgrade compared to the pre-Covid19 forecast = the output cost of the dual shock (~**230 billion USD**)

2021

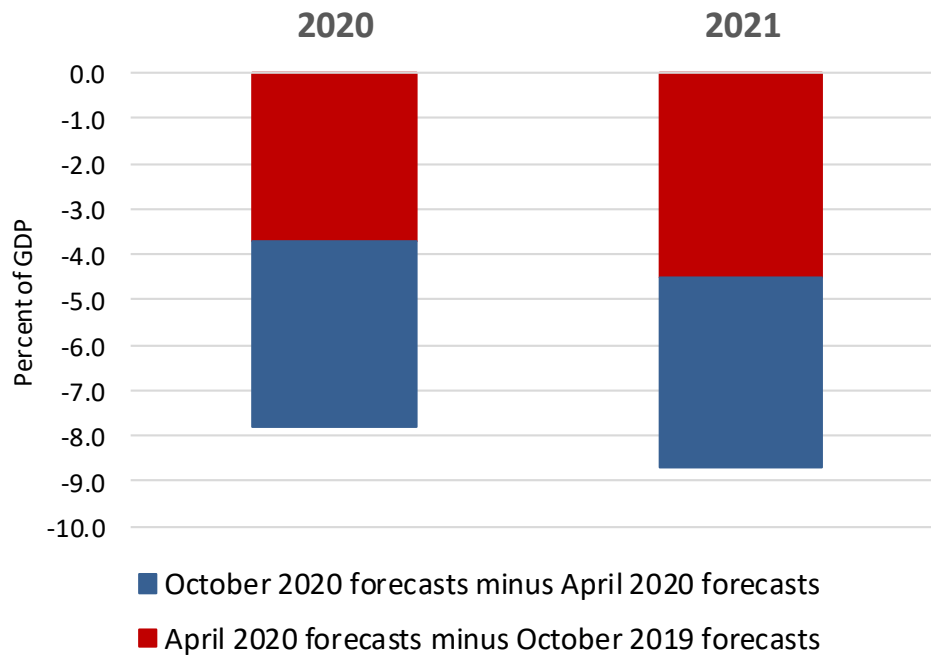
Output is projected to **grow by 1.9 percent**

0.2 percentage points below our forecast in April 2020

0.9 percentage points below our forecast in October 2019

Severe Impact of the Dual Shock: Cost of the Dual Shock in Output Level for MENA

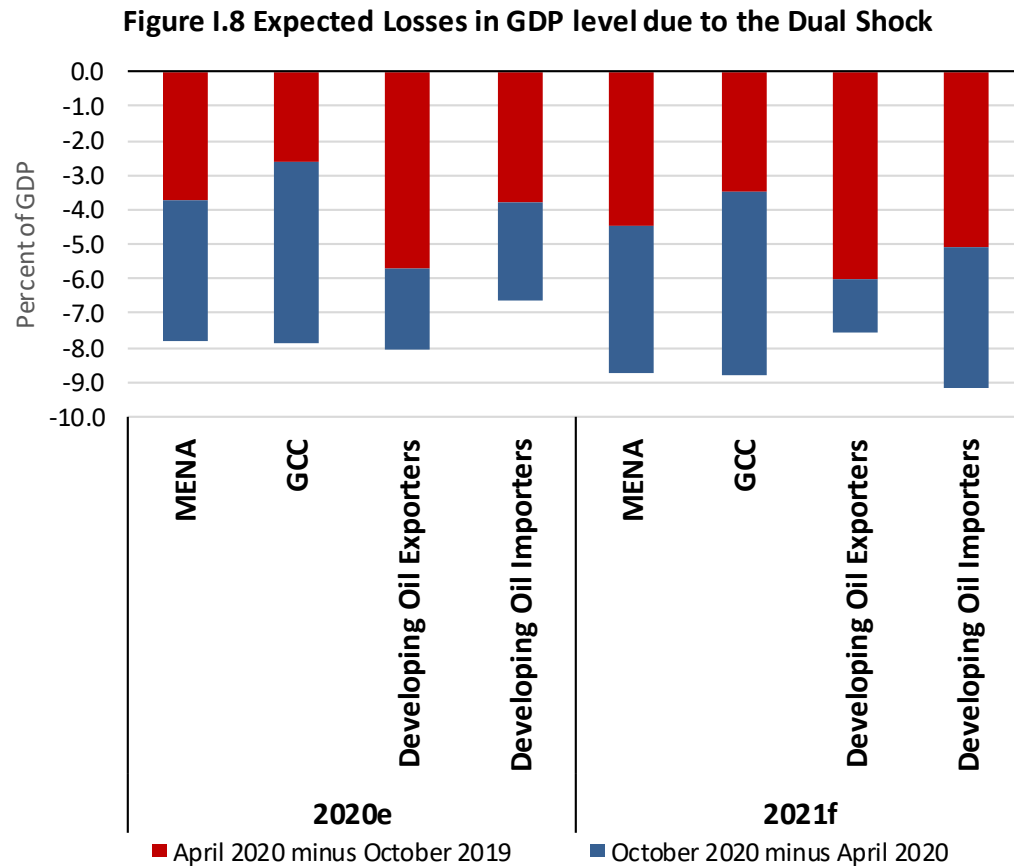
**Figure I.8: Expected Losses in GDP Level
Compared to the Counter-Factual GDP of No Dual Shock**



1. The cost is large
2. The cost has increased
3. A V-shaped recovery is not likely

Note: The counter-factual GDP level is predicted by the World Bank's October 2019 forecasts.

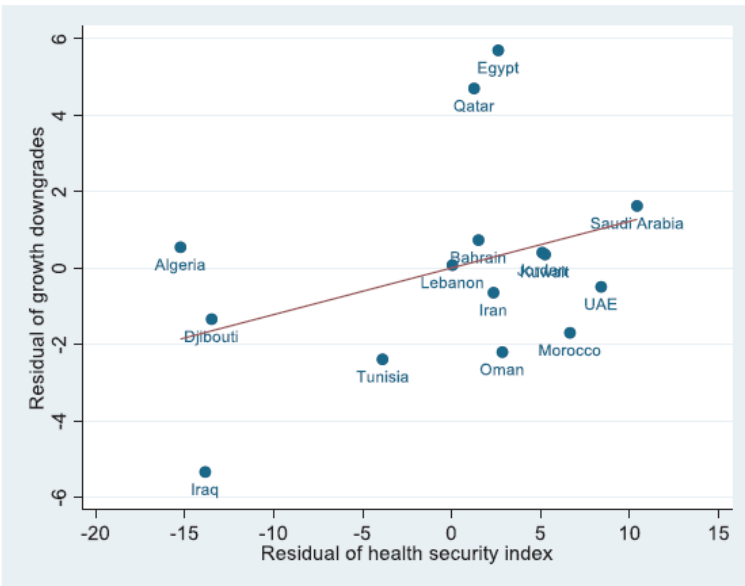
Severe Impact of the Dual Shock: Cost of the Dual Shock in Output Level for MENA



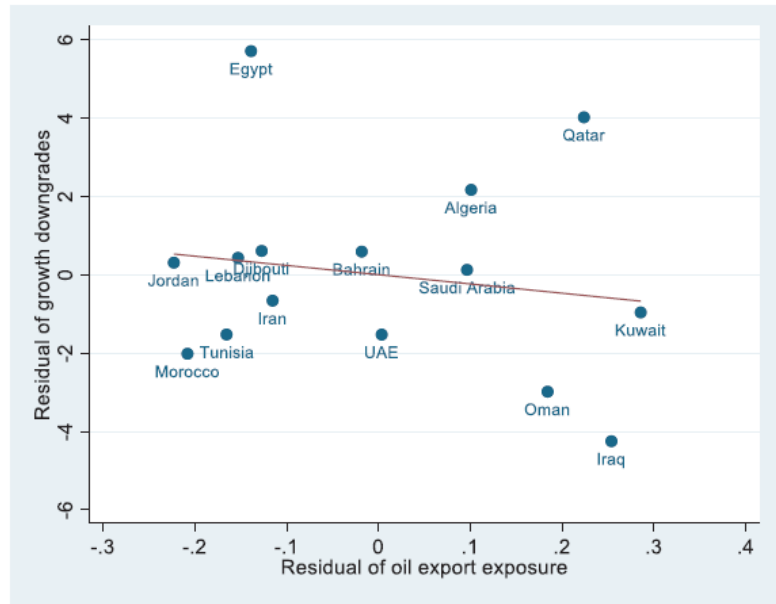
The Cost of the Dual Shock is Smaller for Countries with Better Health Preparedness

Figure I.9: Growth Downgrades, Oil Export Exposure and the Global Health Security Index

Growth Downgrades and Health Security Index



Growth Downgrades and Oil Export Exposure



Source: Authors' calculations based on data from World Bank Macro and Poverty Outlook

Forecasts remain fluid and uncertain...

Figure I.10, Panel A: 2020 MENA Growth Downgrade by Month of Forecasts (relative to the forecasts in December 2019)

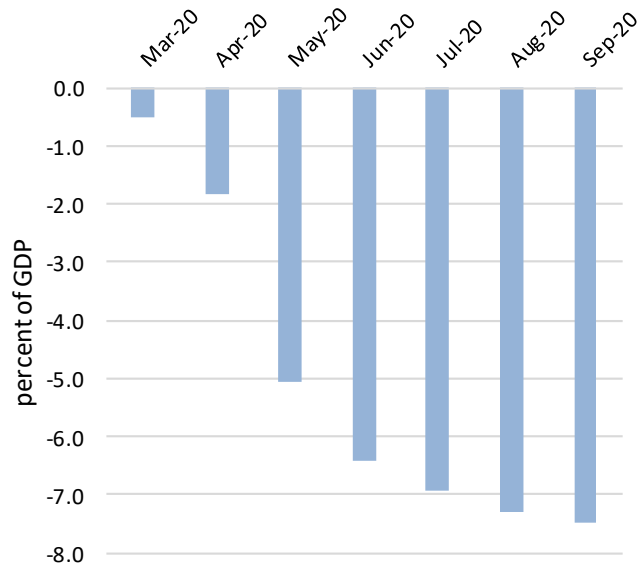
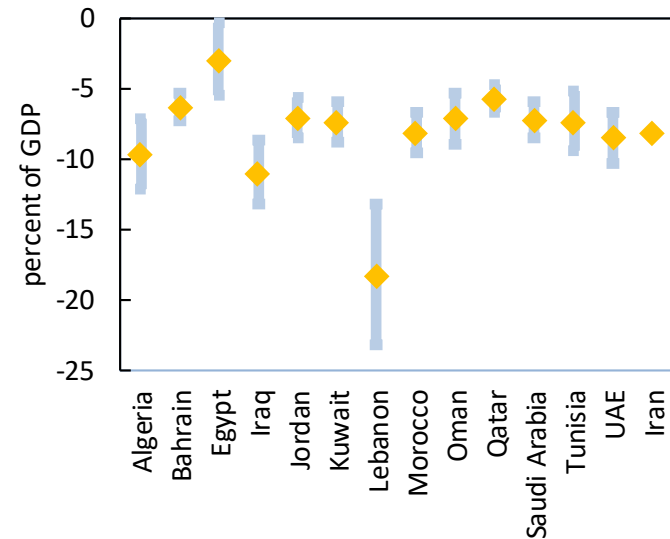


Figure I.10, Panel B: Mean and Standard Deviation of 2020 Growth Downgrades (September 2020 minus December 2019 forecasts)

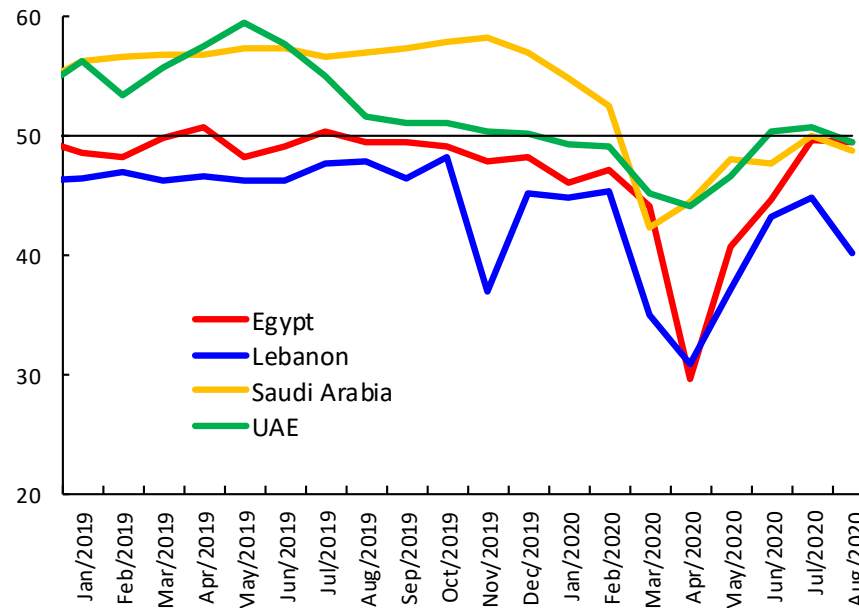


Source: Private sector forecasters- September 2020

...emphasizing data transparency

Available high-frequency data suggest economic activity is stabilizing, at a lower level

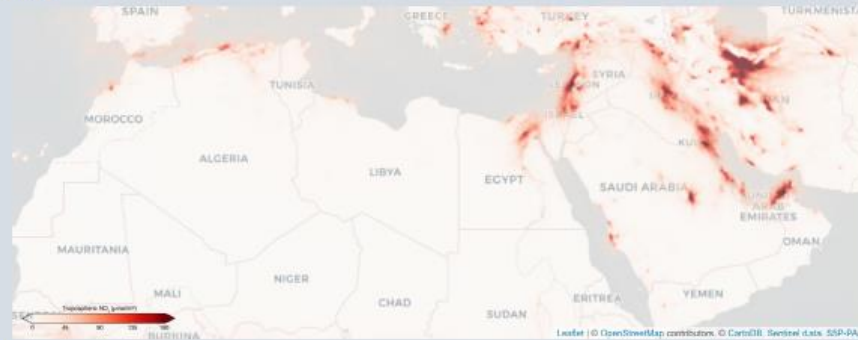
Figure I.11: Purchasing Managers' Index (PMI)



Note: Markit PMI for whole economy, seasonally adjusted. A PMI above 50 represents an expansion over the previous month. A PMI reading under 50 represents a contraction.

Box I.2: NO₂ Concentration as a Measure of Economic Activity in MENA

December 2019



March 2020

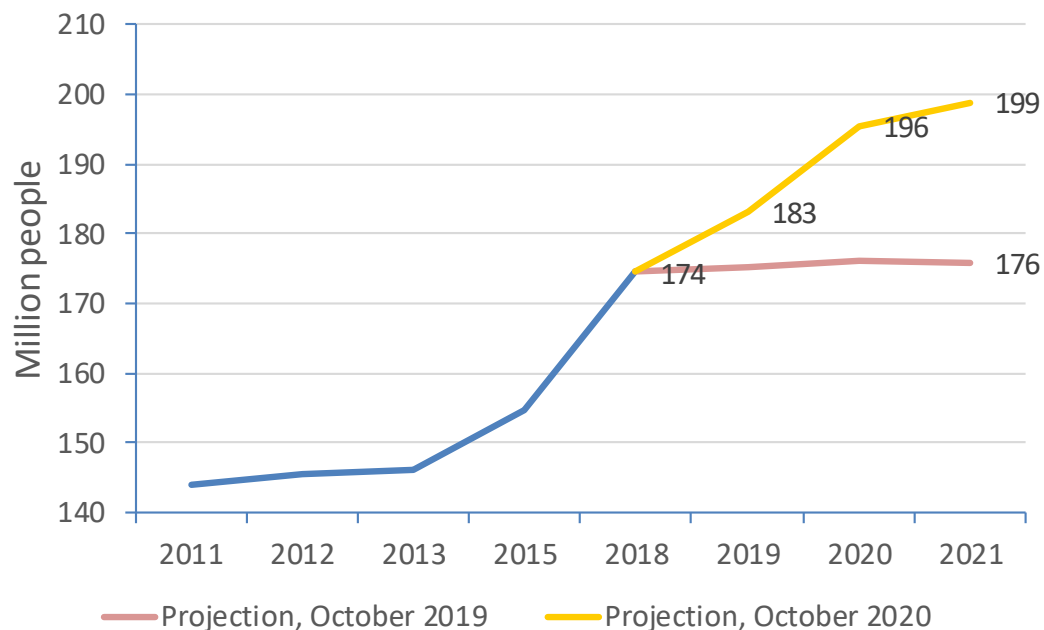


August 2020



Poverty Effects: The Number of Poor People Is Projected to Rise by ~23 million by 2021 (at \$5.5/day poverty line)

Figure I.18: Impact of the Dual Shock on the Number of Poor People in MENA

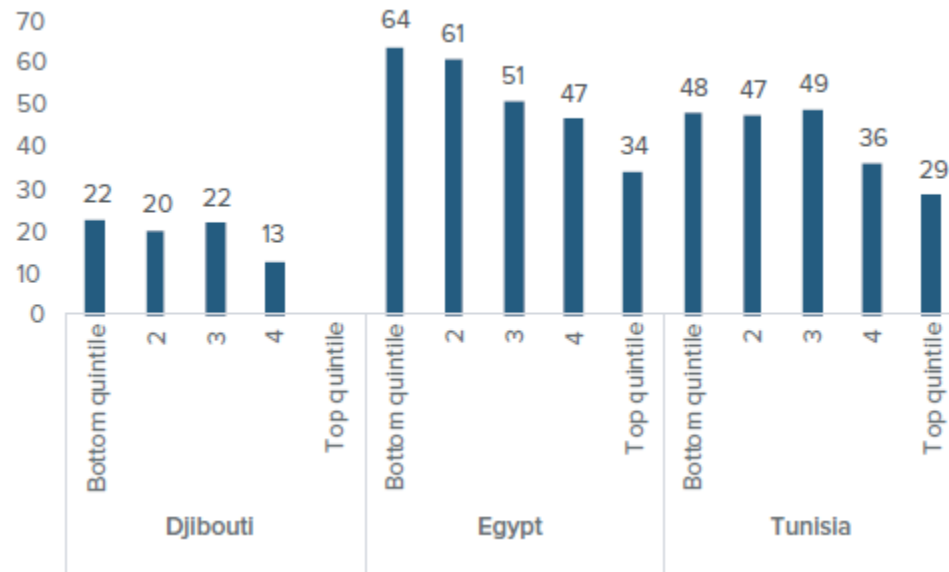


Note: Poverty is defined at \$5.5/day poverty line, assuming growth downgrades do not affect inequality.

Distributional Effects: The Poor Have Been Disproportionately Affected

The estimated increase in poverty is likely conservative

Figure I.20: Percent of Workers who Stopped Working

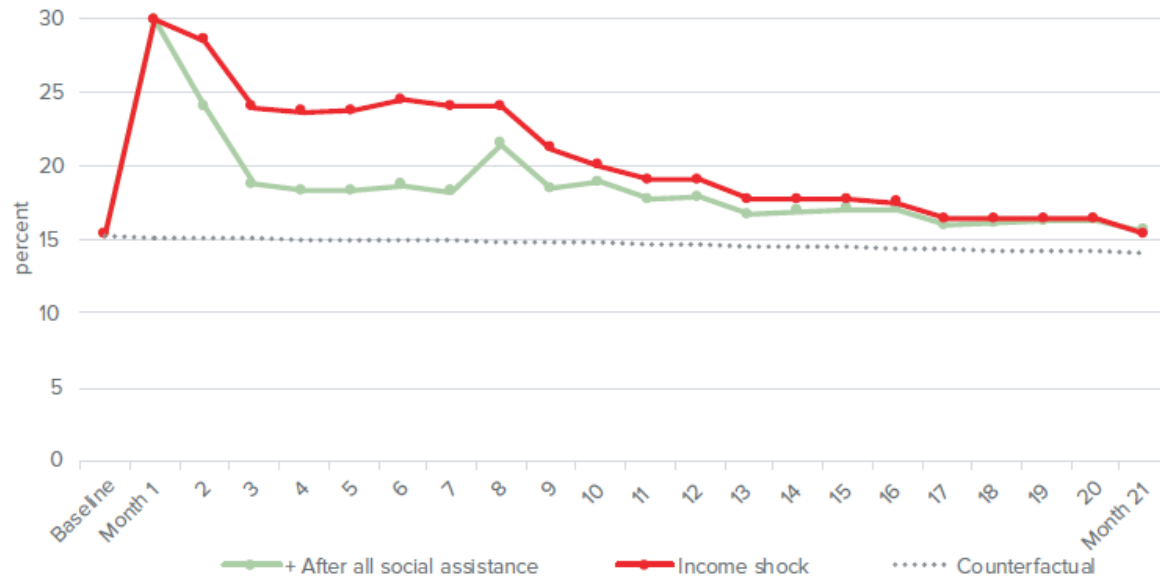


Source: MENA phone survey reports.

Note: The quintile breakdown is by household assets in Egypt, by income in Djibouti (the top quintile is not covered by the survey), and by consumption in Tunisia.

Assistance from Governments is needed

Figure I.29: Summary of Poverty Impacts from Income Shocks and Predicted Mitigation for Jordanian Households



Source: World Bank, Jordan Emergency Cash Transfer Covid-19 Response Project

Note: The figure does not account for deflation, which causes poverty estimates to fall slightly.

Policy Response

MENA countries have put in unprecedented responses

In the **short run**, to respond to the dual shock, countries could:

- focus on responding to health issues,
 - support the private sector,
 - assist vulnerable households.
- Important role of transparency and accountability

In the **medium run**, to restore growth and reduce debt/GDP, productivity must be enhanced.

- promote fair competition,
- adopt digital technology,
- **pursue regional integration.**



Thank you