

MIDDLE EAST and NORTH AFRICA



Growth in the Middle East and North Africa (MENA) region is projected to pick up to 3 percent in 2018 from 1.6 percent in 2017 as oil exporters ease fiscal adjustments amid firming oil prices. The region is also expected to benefit from a favorable global environment, post-conflict reconstruction efforts, and from oil importers' reforms to boost domestic demand and increase foreign investment. The outlook for growth in MENA is expected to improve slightly in both 2019 and 2020. Positive surprises in trading partner activity or reconstruction efforts could further raise growth prospects. Geopolitical tensions or possible renewed volatility in oil prices could cloud the outlook.

Recent developments

Growth in the Middle East and North Africa (MENA) region improved in early 2018. Oil exporters were recovering following a year of declining oil production and fiscal tightening (Figure 2.4.1).¹ Oil importers' growth was robust in 2017, and high-frequency data indicate that this momentum is continuing into 2018. Many countries in the MENA region are pursuing broad-based reforms that should eventually improve productivity, but growth continues to be challenged by geopolitical tensions and fiscal adjustment.

Low oil production led to slow growth for oil exporters in 2017, as members and non-members of the Organization of the Petroleum Exporting Countries (OPEC) adhered to agreement on production limits intended to support global oil prices. Generally subdued oil revenues since 2014

have been associated with tightening fiscal policies and diversification of revenues, such as the introduction of value-added taxes (VAT) in Saudi Arabia and the United Arab Emirates in 2018. Non-oil sectors showed modest growth, including in services and manufacturing. In 2018, a number of oil exporters have eased fiscal adjustment plans, in response to somewhat more buoyant oil prices and improved terms of trade, including by expanding capital expenditure plans in Algeria and Saudi Arabia.

Growth in large oil importers has been supported by broad-based improvements in domestic and external demand, reflecting progress in policy reforms, higher business confidence, and an improved global economy. In the Arab Republic of Egypt, the region's largest oil importer, investment and net exports have improved, supported by the stability of the exchange rate and stronger domestic demand. Morocco and Tunisia have also further benefited from more favorable agricultural production. International reserves have grown in Egypt and Morocco, aided by capital inflows, although they have declined in Tunisia due to a rising current account deficit and central bank interventions in the foreign exchange market. Other smaller oil importers still face sluggish growth that hinders progress on their labor market challenges.

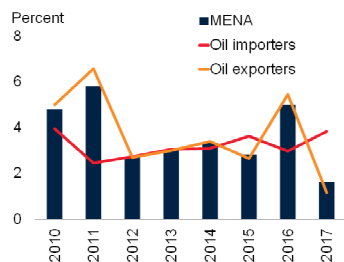
Note: This section is prepared by Lei Sandy Ye. Research assistance is provided by Julia Roseman.

¹The World Bank's Middle East and North Africa aggregate includes 16 economies. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates comprise the Gulf Cooperation Council (GCC); all are oil exporters. Other oil exporters in the region are Algeria, Iran, and Iraq. Oil importers in the region are Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, and West Bank and Gaza. The Syrian Arab Republic, Yemen, and Libya are excluded from regional growth aggregates due to data limitations.

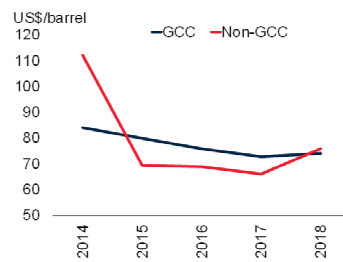
FIGURE 2.4.1 MENA: Recent developments

The MENA region is improving from a year of weak growth in 2017, associated with oil production reductions as well as fiscal adjustments in response to subdued oil prices. As oil prices have firmed, terms of trade have improved in large GCC oil exporters in the past year. Among the oil importers, industrial production has markedly improved, boosted by enhanced competitiveness and external conditions. Inflation in the region has been generally contained.

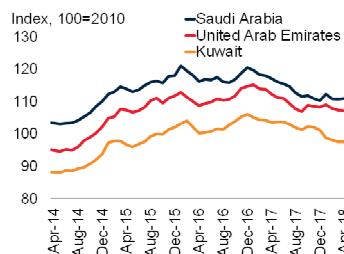
A. Growth



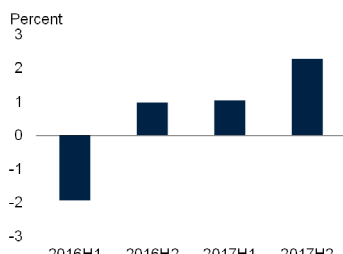
B. Fiscal break-even prices: Oil exporters



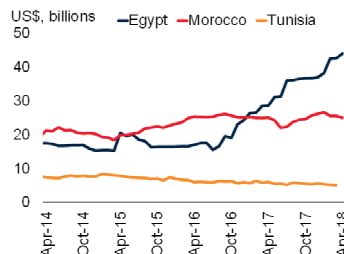
C. Real effective exchange rate: GCC



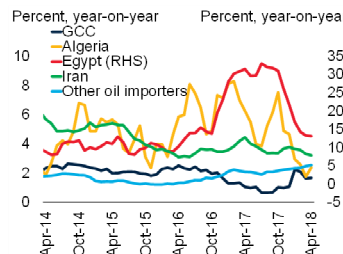
D. Industrial production growth: Oil importers



E. International reserves: Oil importers



F. Inflation



Sources: Bank for International Settlements, International Monetary Fund, Haver Analytics, World Bank.

A. Aggregate growth rates calculated using constant 2010 US dollar GDP weights.

B. Non-GCC includes Algeria, Iraq, and Iran. GCC includes Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates. Unweighted averages.

C. CPI-based broad indices for Saudi Arabia and the United Arab Emirates. PPI-based index for Kuwait. Last observation is April 2018.

D. Industrial production indexes of Egypt, Jordan, Tunisia, and West Bank and Gaza. Unweighted averages. Figure shows average of year-on-year 3-month moving average growth rates.

E. International reserves. Last observation is April 2018.

F. Unweighted averages. Last observation is April 2018.

[Click here to download data and charts.](#)

Inflation is well-contained across most of the MENA region. It is averaging less than 3 percent in the Gulf Cooperation Council (GCC) in 2018, despite edging upwards recently due to VAT introduction in its two largest economies. In Egypt, inflation has subsided substantially in 2018, falling to 13 percent in April from a peak of more than 30 percent in July 2017, allowing the central bank to implement two interest rate cuts this year to support activity (Central Bank of Egypt 2018). In Tunisia, inflation has risen markedly as the dinar has depreciated, leading the central bank to hike rates in March, although rates remain negative in real terms. In the Islamic Republic of Iran, inflation edged downwards to about 8 percent in April from 10 percent at the end of last year, as declining food prices have offset upward pressure from currency depreciation.

Financing conditions in the MENA region are stable, while the financial sector is deepening throughout the region. Partly to finance fiscal deficits, international sovereign bond issuance rose further in 2018, both in the GCC and among major oil importers. The inclusion of Saudi Arabia in the FTSE Emerging Markets Index (effective next year) is expected to attract foreign equity investors. Deeper and more liquid financial sectors have also supported FDI inflows, even in the face of elevated geopolitical uncertainty.

Outlook

GDP growth in the region is projected to strengthen to 3.0 percent in 2018, and rise slightly higher in 2019-2020, with oil exporters continuing their recovery from the collapse of oil prices, and oil importers experiencing a smaller acceleration. The outlook assumes continued policy reforms and oil prices remaining above their 2017 average.

In 2018, growth in oil exporters is expected to rise substantially to 2.7 percent due to additional government spending, enabled by increased domestic revenues and firm oil prices. In the GCC, 2018 growth will be further supported by

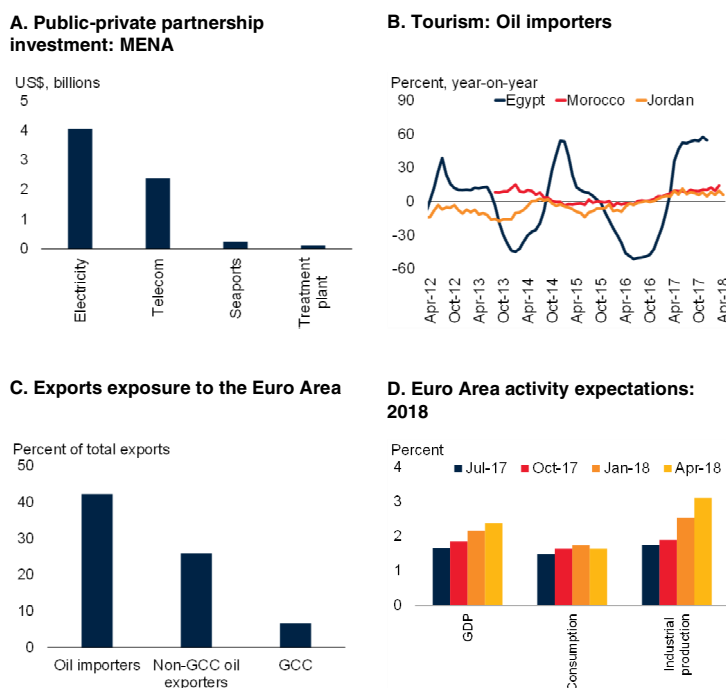
higher fixed investment, bolstered by public investment programs and improved demand. Growth will remain stable during 2019-20, propelled by steady growth in private consumption, infrastructure investment programs like those related to the Dubai Expo 2020 or Qatar’s World Cup 2022, and the expiration of OPEC+ agreement. Growth in non-GCC exporters is expected to be supported by higher capital expenditures. Fiscal balances in oil exporters are expected to improve as oil prices are forecast to stay firm and revenue-enhancing measures, such as VAT and energy subsidy reforms, are implemented. These measures are expected to improve the non-oil share of government revenue in oil exporters. Higher oil prices are also expected to support remittance inflows (World Bank 2018j).

Growth in oil importers is expected to rise to 4.0 percent in 2018, as business and consumer confidence are spurred by business climate reforms and improving external demand. Policies to relax foreign investment restrictions have supported higher capital flows, and are expected to boost foreign investment and trade flows, in part through relaxing financial constraints in firms (Kiendrebeogo and Minea 2017; Wood and Yang 2016). Tourism growth is also expected to improve upon stable security conditions. However, fiscal consolidation is expected to be an important headwind for activity among oil importers. In smaller oil importers (e.g., Jordan, Lebanon), external and fiscal imbalances remain a constraint to higher growth in the short-term.

Reform programs, such as World Bank-supported initiatives to improve urban investment capacity or electricity performance, are expected to improve growth potential (World Bank 2017e, 2018k). Similarly, public-private partnerships and bilateral agreements within the region are expected to support private sector participation in infrastructure investment, which benefits economic activity (Figure 2.4.2, Arezki et al. 2018; Calderon and Serven 2004). Additional plans in energy subsidy reforms or tax revenue enhancement across oil importers will support further fiscal adjustment.

FIGURE 2.4.2 MENA: Outlook and risks

The short-term outlook in MENA is positive. Public-private partnerships are expected to support private sector participation in infrastructure investment. However, geopolitical tensions may deter the recovery of tourism in oil importers. Upside risks are associated with the possibility of higher-than-expected activity in key trading partners.



Sources: Consensus Economics, Haver Analytics, International Monetary Fund, World Bank. A. Denotes public-private partnership physical investment in infrastructure projects. Sum of investments from 2015-16 based on available data. B. Figure shows 6-month moving averages of growth of tourism arrivals for Egypt, Jordan, and Morocco. Last observation is April 2018. C. Denotes share of exports to the Euro Area as a ratio to total exports in each country group. Data are for goods exports value as of 2017. D. Dates in legend denote month and year in which Consensus forecast is generated. Columns denote growth rates in respective indicators. [Click here to download data and charts.](#)

Risks

Risks to the outlook are diverse, but tilt to the downside. Key downside risks include renewed volatility in oil prices, an intensification of geopolitical tensions, and a slower-than-expected pace of reforms. Nonetheless, favorable spillovers from stronger than expected activity in key trading partners and recovery in war-torn areas cannot be ruled out.

On the downside, the recent rise in oil prices may not be sustained in the short term, potentially due to higher-than-expected U.S. shale production

(Chapter 1). This would reduce fiscal space in oil exporters and complicate fiscal management reform across many economies. Tighter fiscal policy in oil exporters may lead to spillovers to oil importers via external linkages (e.g., FDI and remittances). Volatility in oil prices may also affect oil importers through their current account exposure to higher oil prices.

The amplification of security concerns or escalation of geopolitical tensions may cloud oil importers' tourism prospects, which have strengthened considerably in the past year. Intra- and interregional tensions in the region may also affect investor confidence and access to finance, such as through higher sovereign spreads.

Continued progress in reforms could face challenges to implementation. Among oil importers, potential social discontent about higher energy prices may lead to delayed implementation of fiscal adjustments. This issue may be further compounded by the high debt levels (in some cases exceeding 100 percent of GDP) among several economies in the region. The loss of momentum in these reforms could negatively impact longer-term growth in the region.

On the upside, positive growth surprises in key advanced and emerging economy trading partners would provide an important support to growth in MENA. Oil-importing economies in the Maghreb region are dependent on the Euro Area for trade, remittances, or financial flows. Stronger-than-expected external demand could mitigate headwinds to growth associated with domestic policy uncertainty in smaller oil importers, or from potential spillovers associated with reduced FDI and remittance flows from GCC economies to oil importers.

Stronger-than-expected impacts from reconstruction programs and rising infrastructure investment in war-torn countries, such as Iraq, could lead to a sustained economic recovery. Associated spillover effects could unlock the potential for higher growth among other countries in the region. This would also allow the restoration of access to health, water, or food (Devarajan and Mottaghi 2017a; World Bank 2018l) to these economies, and improve the conditions of neighboring host economies (e.g., Djibouti, Jordan, Lebanon) by providing more resources for public services for both host residents and refugees (Devarajan and Mottaghi 2017b).

TABLE 2.4.1 Middle East and North Africa forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

Percentage point differences
from January 2018 projections

	2015	2016	2017e	2018f	2019f	2020f	2018f	2019f	2020f
EMDE MENA, GDP¹	2.8	5.0	1.6	3.0	3.3	3.2	0.0	0.1	0.0
(Average including economies with full national accounts and balance of payments data only) ²									
EMDE MENA, GDP ²	2.6	4.8	1.8	3.0	3.3	3.3	0.1	0.0	0.0
GDP per capita (U.S. dollars)	0.7	2.9	0.1	1.4	1.8	1.9	0.1	0.0	0.0
PPP GDP	2.6	5.1	2.1	3.2	3.4	3.5	0.1	-0.1	0.0
Private consumption	-0.4	1.5	3.2	3.4	3.5	3.5	0.4	0.2	0.2
Public consumption	1.4	-5.1	1.0	1.3	1.4	1.6	-0.3	-0.5	-0.2
Fixed investment	1.6	-2.1	0.8	5.1	3.6	4.8	0.0	-2.5	-1.2
Exports, GNFS ³	2.5	10.0	3.4	3.7	4.1	4.0	0.0	0.5	0.3
Imports, GNFS ³	-2.1	-1.2	4.1	3.7	3.1	3.4	0.4	-0.2	0.1
Net exports, contribution to growth	2.0	5.1	0.2	0.5	0.9	0.8	-0.1	0.4	0.2
Memo items: GDP									
Oil exporters ⁴	2.7	5.5	1.2	2.7	3.1	2.9	-0.1	0.1	0.0
GCC countries ⁵	3.6	2.5	0.2	2.1	2.7	2.7	0.1	0.0	0.0
Saudi Arabia	4.1	1.7	-0.7	1.8	2.1	2.3	0.6	0.0	0.1
Iran	-1.3	13.4	4.3	4.1	4.1	4.2	0.1	-0.2	-0.1
Oil importers ⁶	3.6	3.0	3.8	4.0	4.4	4.6	0.1	0.1	0.1
Egypt	4.3	4.2	4.6	5.3	5.7	5.8	0.4	0.1	0.0
Fiscal year basis ⁷	4.4	4.3	4.2	5.0	5.5	5.8	0.5	0.2	0.0

Source: World Bank.

Notes: e = estimate; f = forecast. EMDE = emerging market and developing economy. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.

- GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes Libya, Syria, and Yemen due to data limitations.
- Aggregate includes all countries in notes 4 and 6 except Djibouti, Iraq, Qatar, and West Bank and Gaza, for which data limitations prevent the forecasting of GDP components.
- Exports and imports of goods and non-factor services (GNFS).
- Oil exporters include Algeria, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
- The Gulf Cooperation Council (GCC) includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
- Oil importers include Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, and West Bank and Gaza.
- The fiscal year runs from July 1 to June 30 in Egypt; the column labeled 2017 reflects the fiscal year ended June 30, 2017.

For additional information, please see www.worldbank.org/gep.

TABLE 2.4.2 Middle East and North Africa economy forecasts¹

(Real GDP growth at market prices in percent, unless indicated otherwise)

							Percentage point differences from January 2018 projections		
	2015	2016	2017e	2018f	2019f	2020f	2018f	2019f	2020f
Algeria	3.7	3.3	1.6	3.5	2.0	1.3	-0.1	-0.5	-0.3
Bahrain	2.9	3.2	3.9	1.7	2.1	2.1	-0.3	0.5	0.4
Djibouti	6.5	6.5	7.0	6.5	6.4	6.3	-0.5	-0.6	-0.7
Egypt	4.3	4.2	4.6	5.3	5.7	5.8	0.4	0.1	0.0
<i>Fiscal year basis²</i>	4.4	4.3	4.2	5.0	5.5	5.8	0.5	0.2	0.0
Iran	-1.3	13.4	4.3	4.1	4.1	4.2	0.1	-0.2	-0.1
Iraq	4.8	11.0	-0.8	2.5	4.1	1.9	-2.2	2.4	0.0
Jordan	2.4	2.0	2.1	2.2	2.4	2.4	0.0	0.0	-0.1
Kuwait	0.6	3.5	-2.9	1.9	3.5	3.0	0.0	0.0	-0.5
Lebanon	0.8	2.0	2.0	2.0	2.0	2.0	-0.2	0.0	0.0
Morocco	4.5	1.2	4.0	3.0	3.5	3.7	-0.1	0.3	0.5
Oman	4.7	5.4	0.7	2.3	2.5	2.9	0.0	0.0	0.4
Qatar	3.6	2.2	1.6	2.8	3.2	2.8	0.2	0.2	-0.2
Saudi Arabia	4.1	1.7	-0.7	1.8	2.1	2.3	0.6	0.0	0.1
Tunisia	1.0	1.2	1.9	2.4	2.9	3.4	-0.3	-0.4	-0.6
United Arab Emirates	3.8	3.0	2.0	2.5	3.2	3.3	-0.6	-0.1	0.0
West Bank and Gaza	3.4	4.7	3.1	2.5	2.3	2.3	-0.5	-0.6	-0.6

Source: World Bank.

Notes: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of economies' prospects do not significantly differ at any given moment in time.

1. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes Libya, Syria, and Yemen due to data limitations.

2. The fiscal year runs from July 1 to June 30 in Egypt; e.g., the column labeled 2017 reflects the fiscal year ended June 30, 2017.