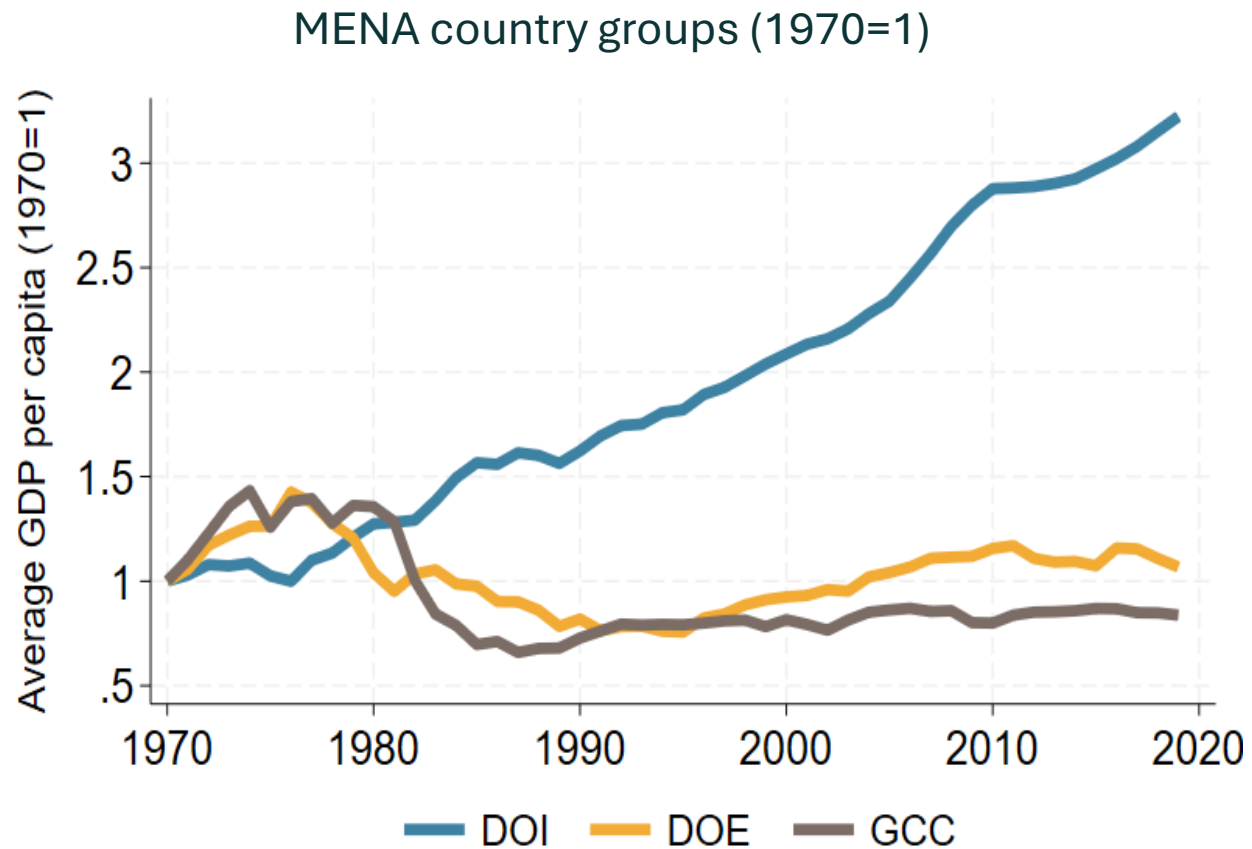


MENA ECONOMIC UPDATE – OCTOBER 2024

# Growth in the Middle East and North Africa

Roberta Gatti, Jesica Torres, Nelly Elmallakh, Gianluca Mele, Diego Faurès,  
Mennatallah Emam Mousa, and Ilias Suvanov

# The growth challenge in MENA (I)



Source: World Bank staff calculations based on data from the Penn World Table 10.01.

## The growth challenge in MENA (II)



25%

Average GDP per capita in MENA relative to the frontier

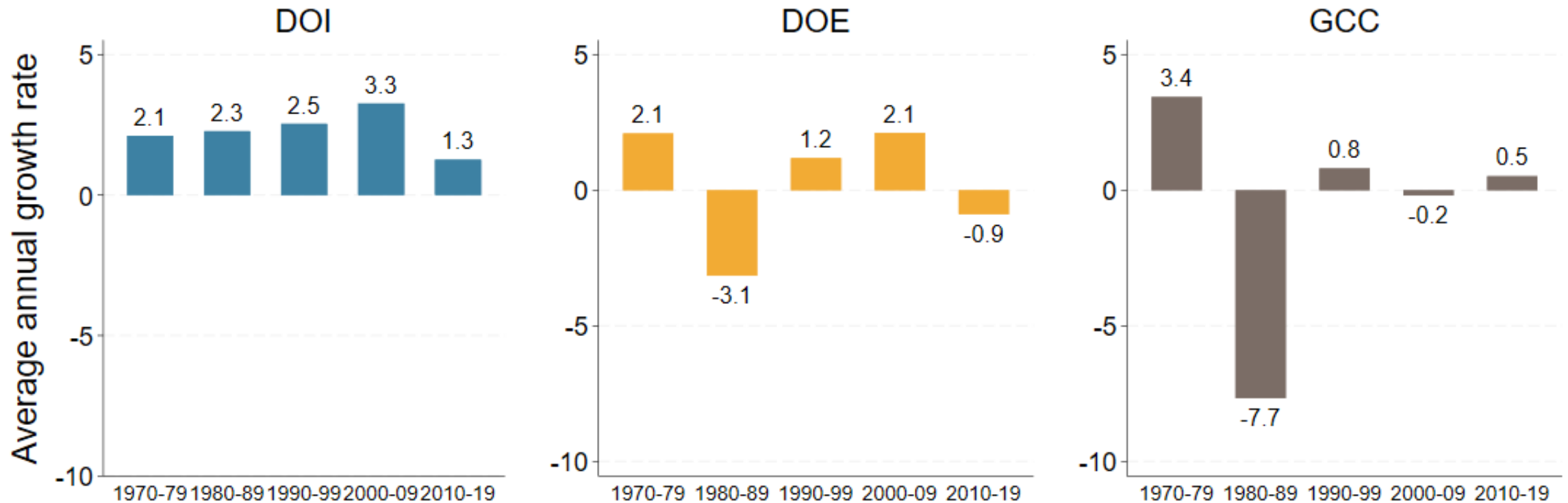


3.8%

Average growth rate to reach just halfway to the frontier in the next 30 years

# Growth has slowed down among DOI and remains volatile among oil exporters

Average annual growth rates in MENA country groups for decades 1970-2020



Source: World Bank staff calculations using data from the Penn World Table 10.01.

# Outline

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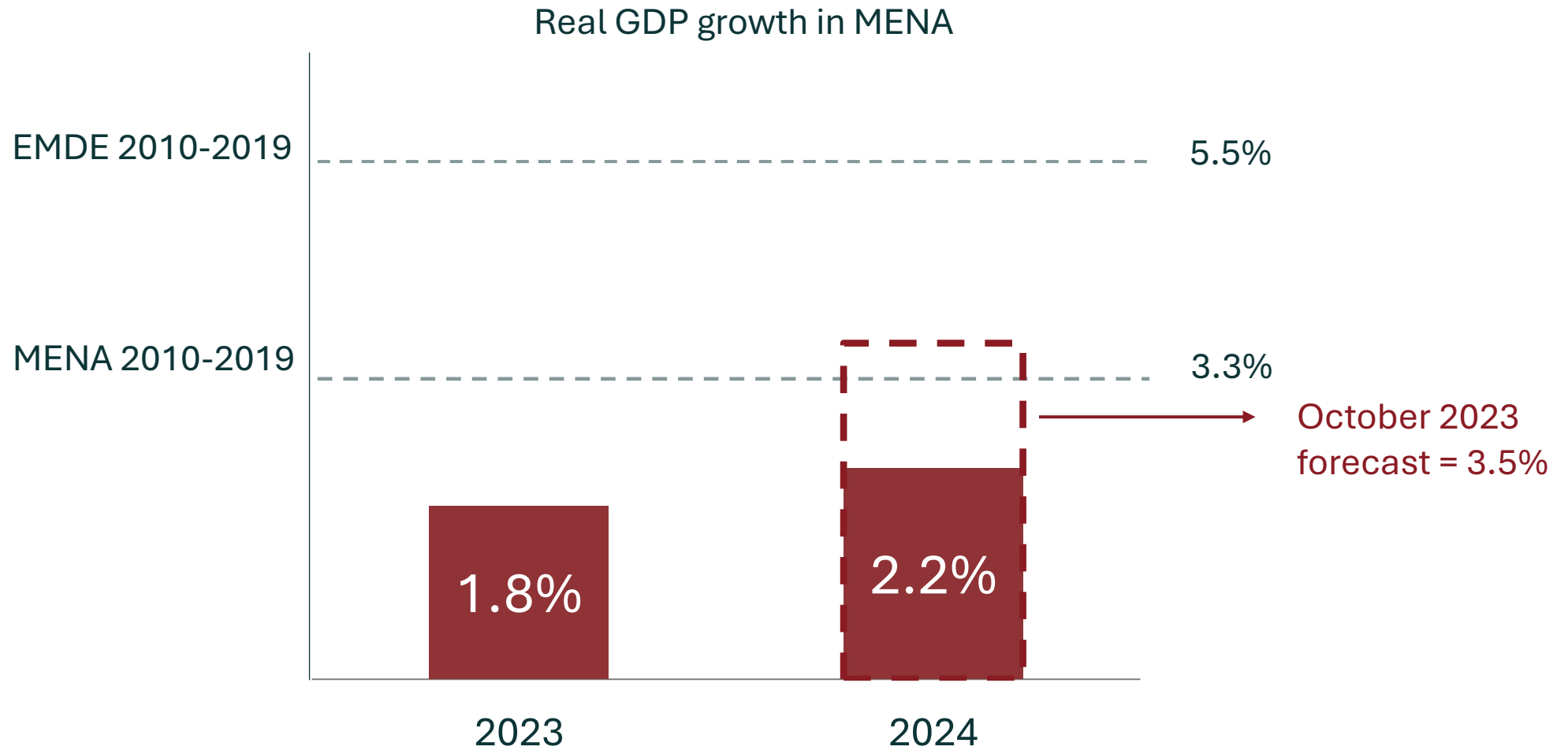
1. A fragile growth
2. The economic consequences of conflict
3. Towards a more prosperous MENA



# 1. A fragile growth

The background features a dark teal color with intricate, overlapping geometric patterns. On the right side, there are vertical bars of varying heights in shades of yellow-green and teal. The overall design is modern and abstract, with a focus on clean lines and a limited color palette.

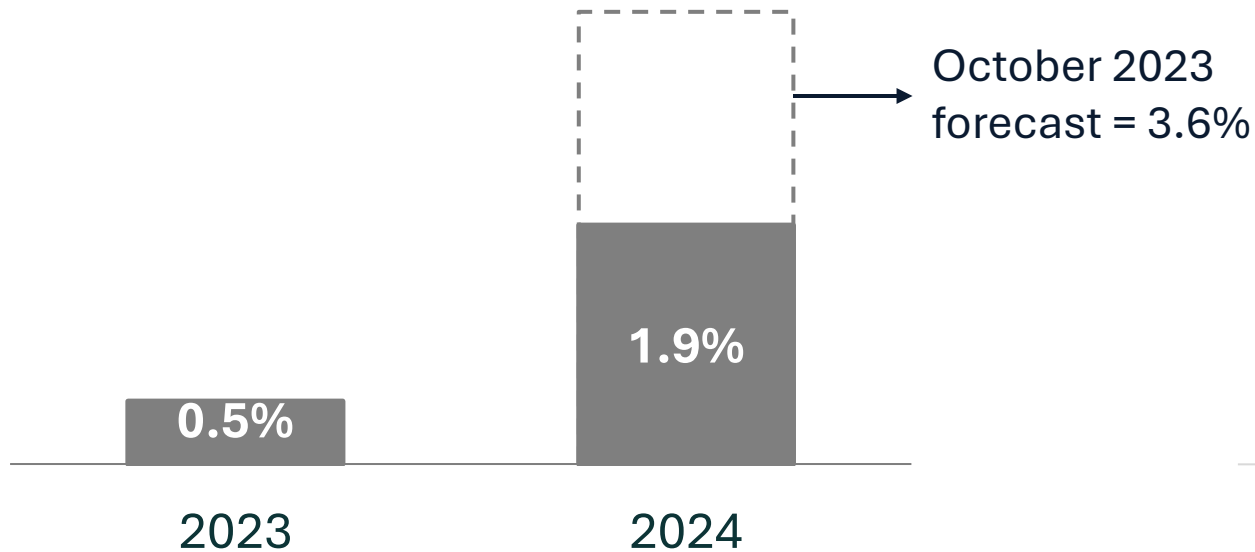
# Fragile growth...



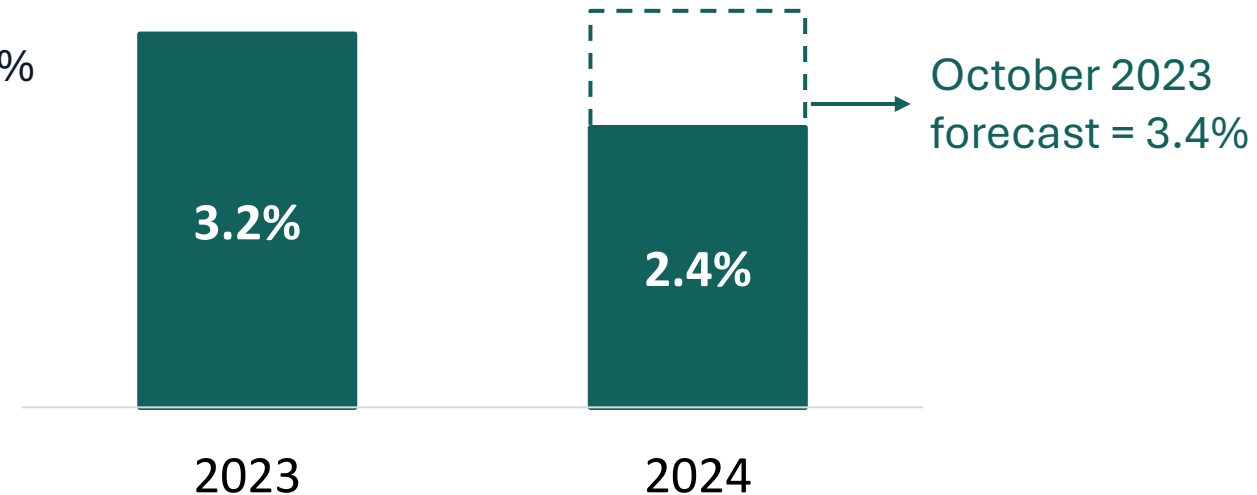
Source: World Bank staff calculations based on Macro Poverty Outlook data.

## ...with sub-regional disparities

Real GDP growth in GCC



Real GDP growth in developing MENA

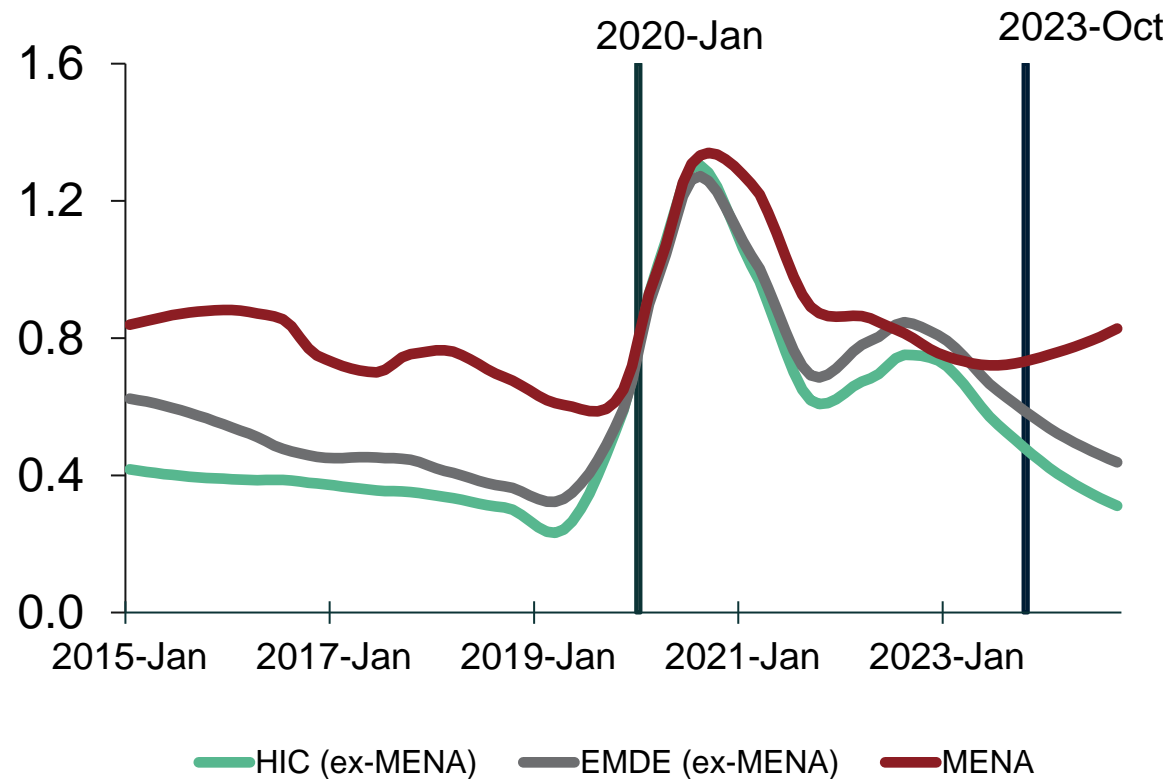


Source: World Bank staff calculations based on Macro Poverty Outlook data.



# Rising uncertainty in MENA

Uncertainty in one-year-ahead real GDP growth forecasts



Uncertainty tends to be higher in MENA

Increasing after the conflict while decreasing in EMDE

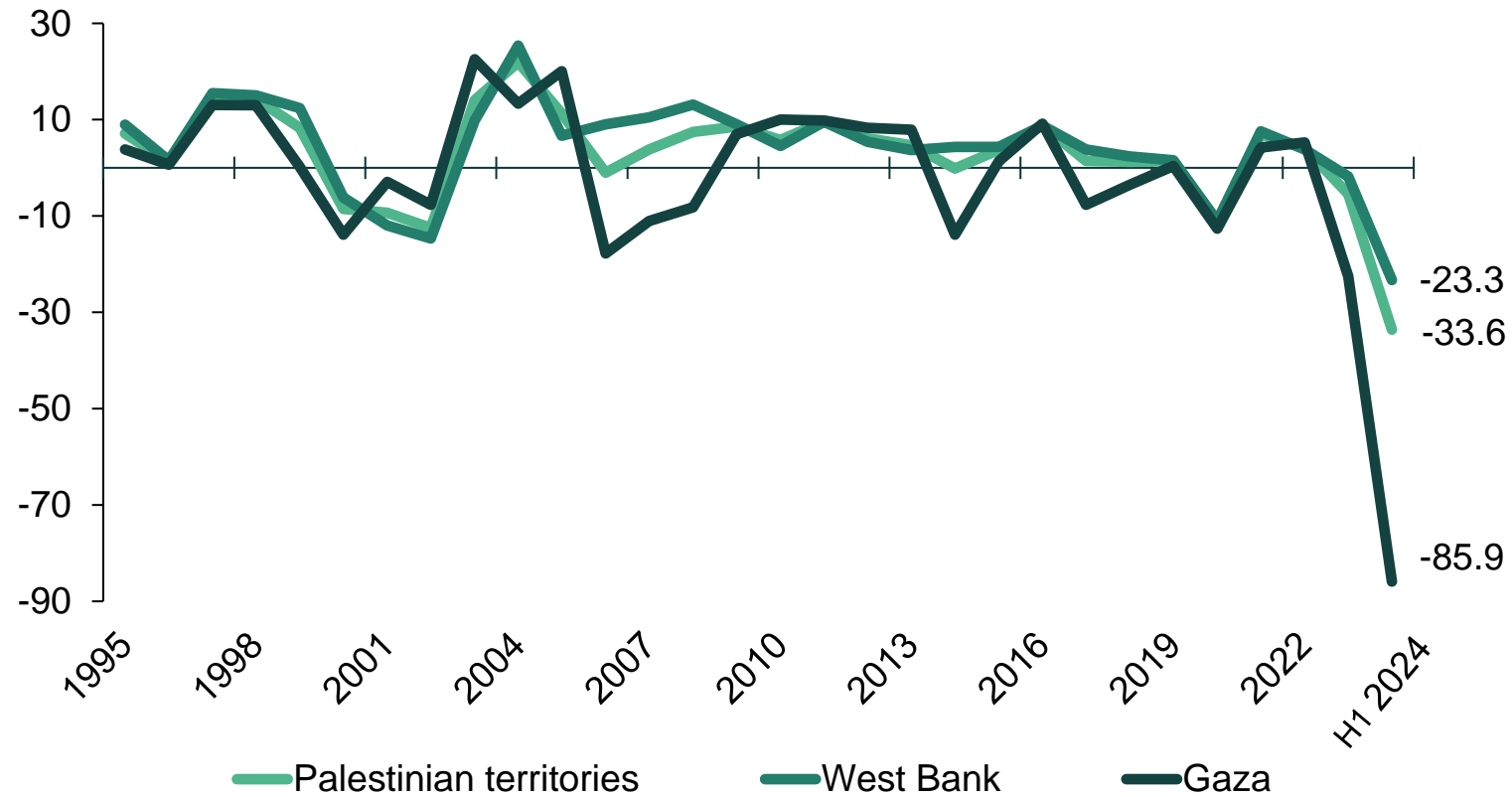
Twice as high as in other EMDEs

Source: World Bank staff calculations based on Consensus Economics and Focus Economics.

## **2. The economic consequences of conflict**

# Economic activity in Gaza has come to a near-total halt

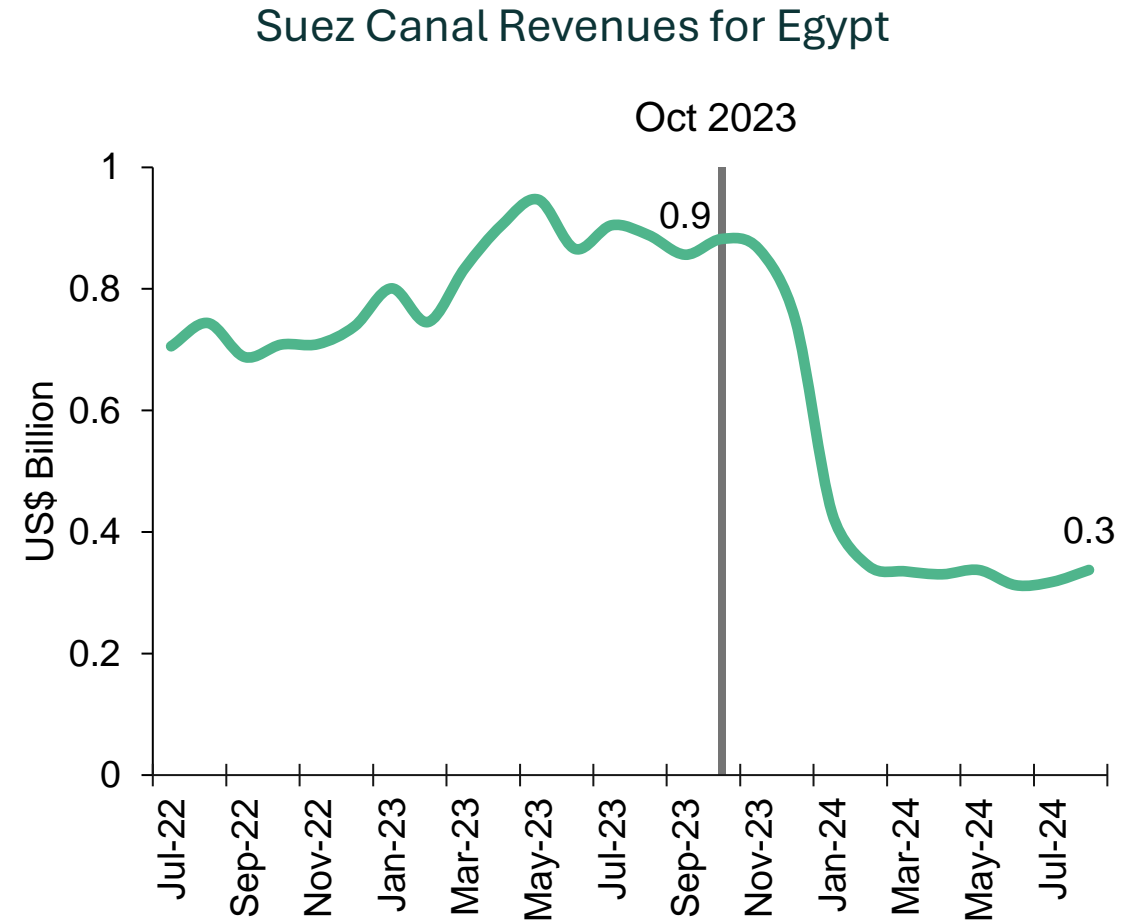
Real GDP growth in the West Bank and Gaza



Source: Palestinian Central Bureau of Statistics (PCBS).

# Reduced tourism and fiscal revenues in neighboring countries

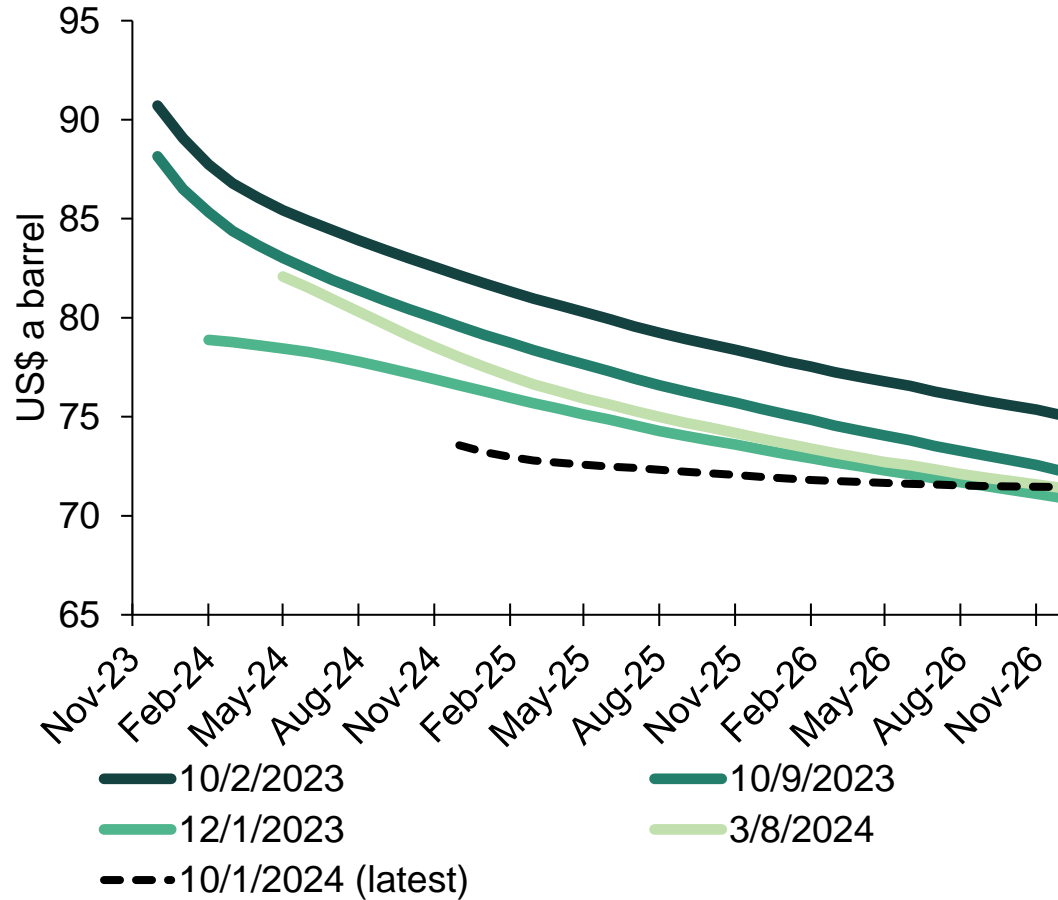
- **Other neighboring countries** such as Jordan and Egypt are mainly affected through a decline in tourism receipts and fiscal revenues.



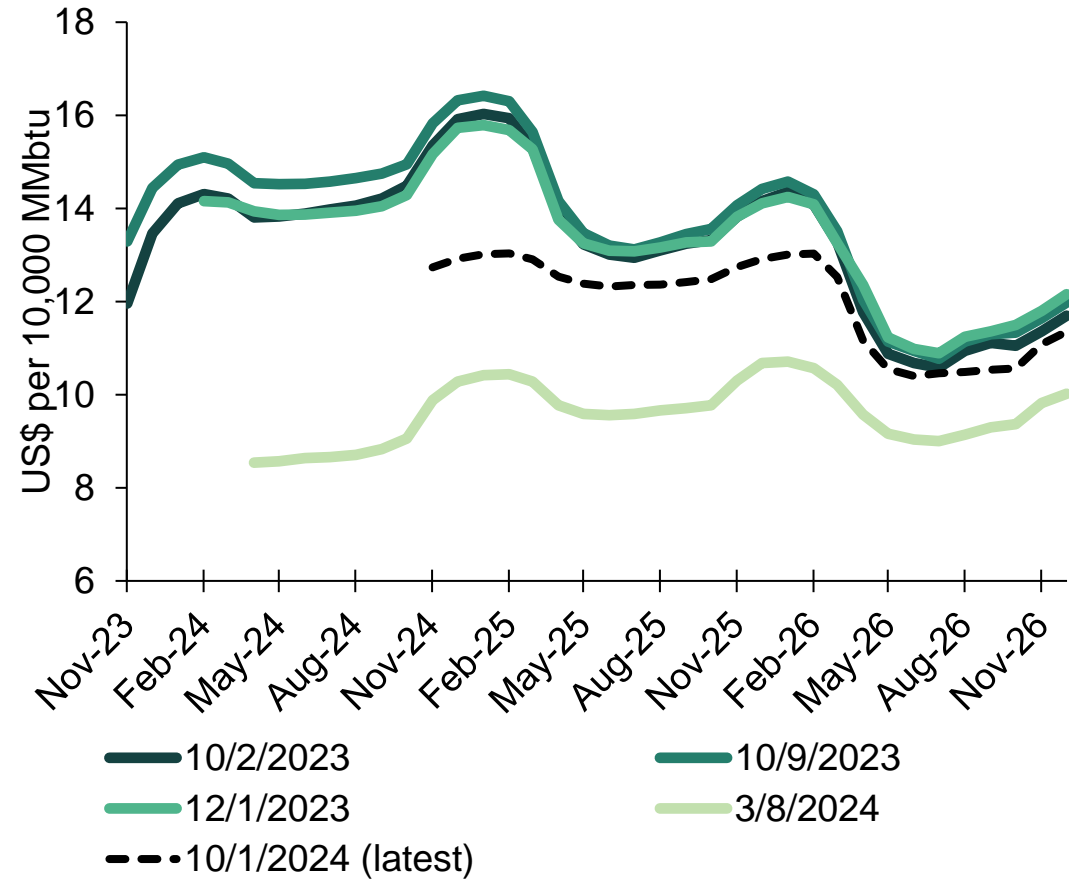
Source: Panel A: Jordan's Ministry of Tourism & Antiquities. Panel B: Central Agency for Public Mobilization and Statistics (CAPMAS) and CBE.

# The impact of the conflict on energy markets remains limited

Panel A. Oil futures since the start of the conflict



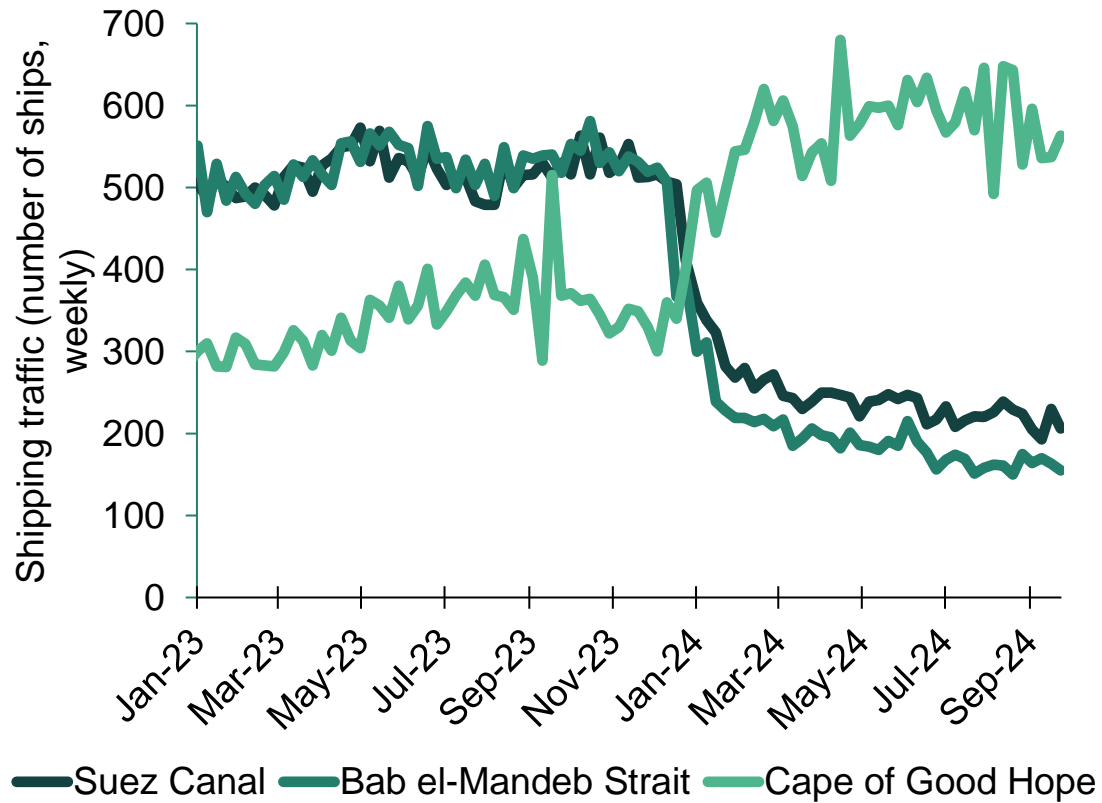
Panel B. EU Gas futures since the start of the conflict



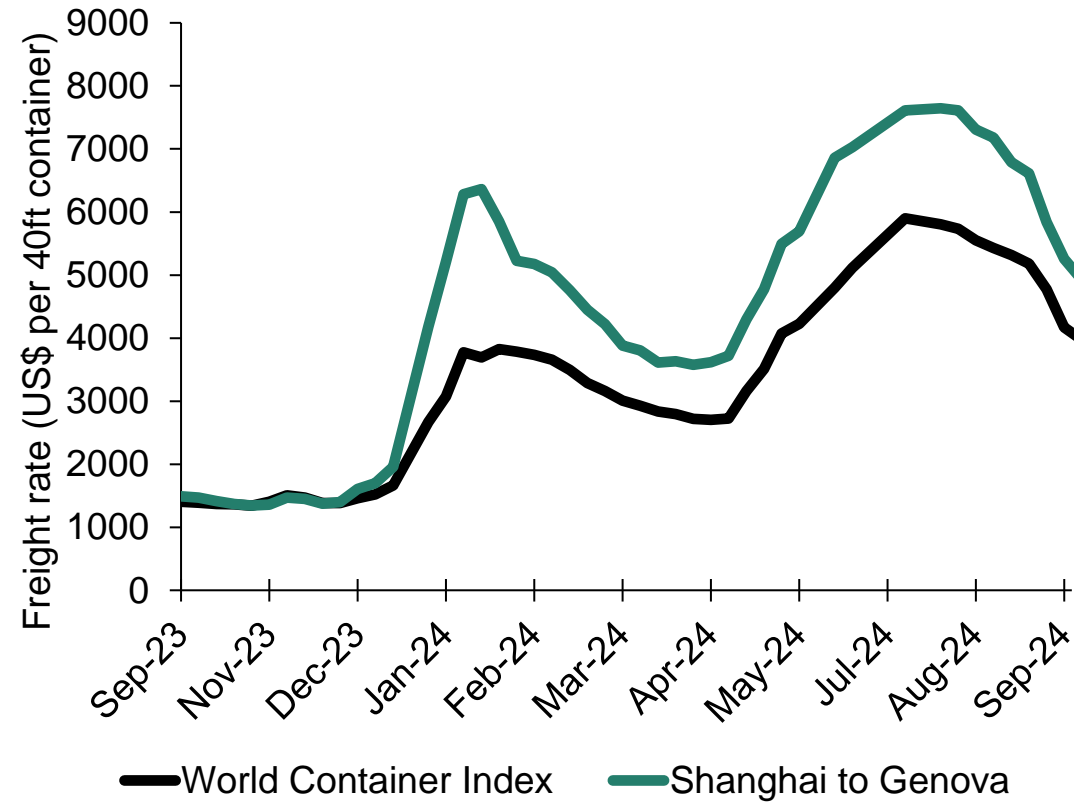
Source: World Bank staff calculations based on Bloomberg L.P.

# Maritime disruptions increased shipping times, with limited pass-through to consumers

Panel A. Number of ships traversing select chokepoints



Panel B. Drewry World Container Index

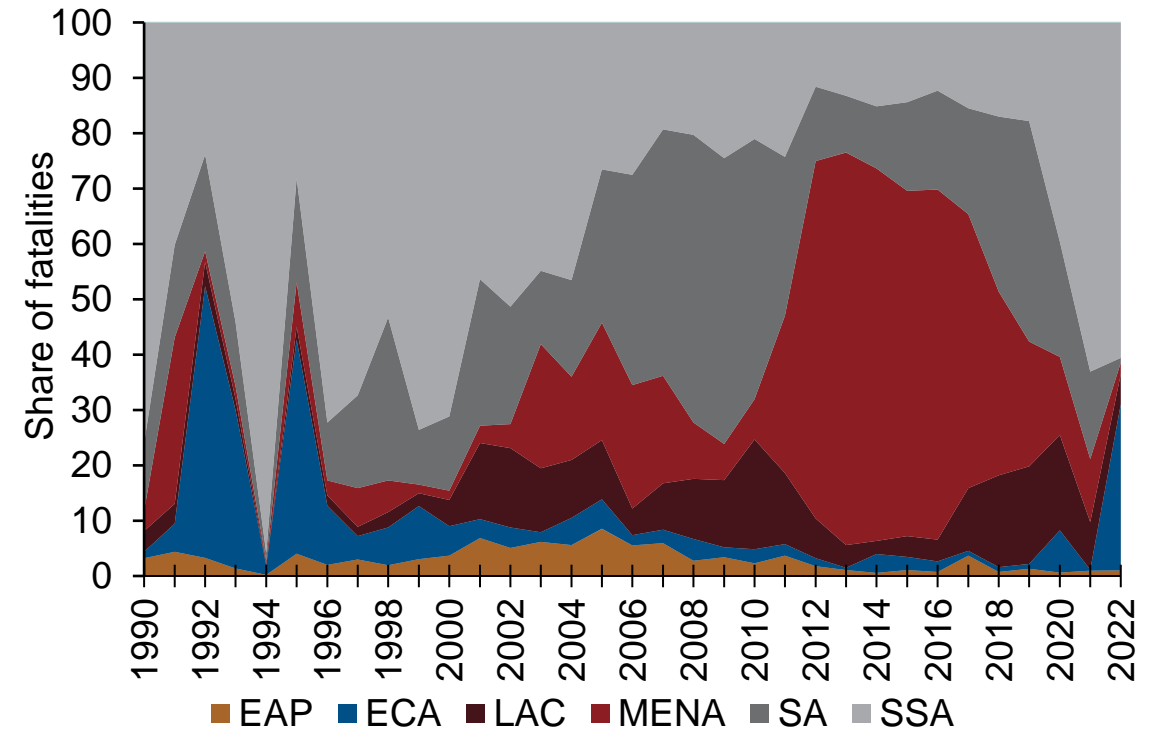
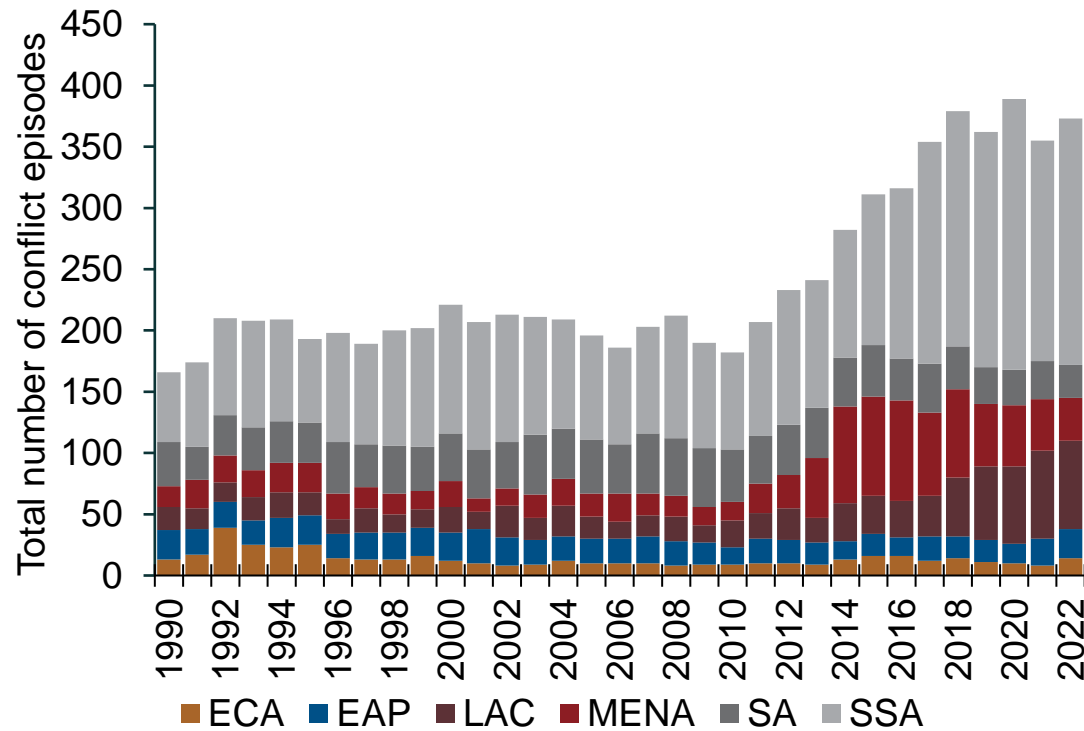


Source: International Monetary Fund, Portwatch.

# The frequency and severity of conflict have increased in MENA

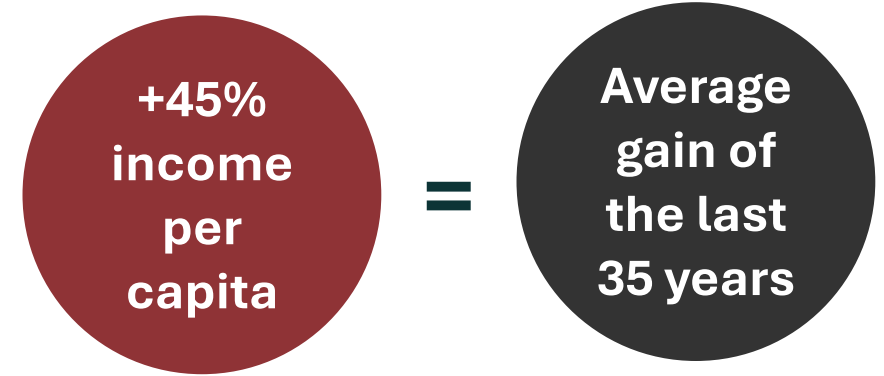
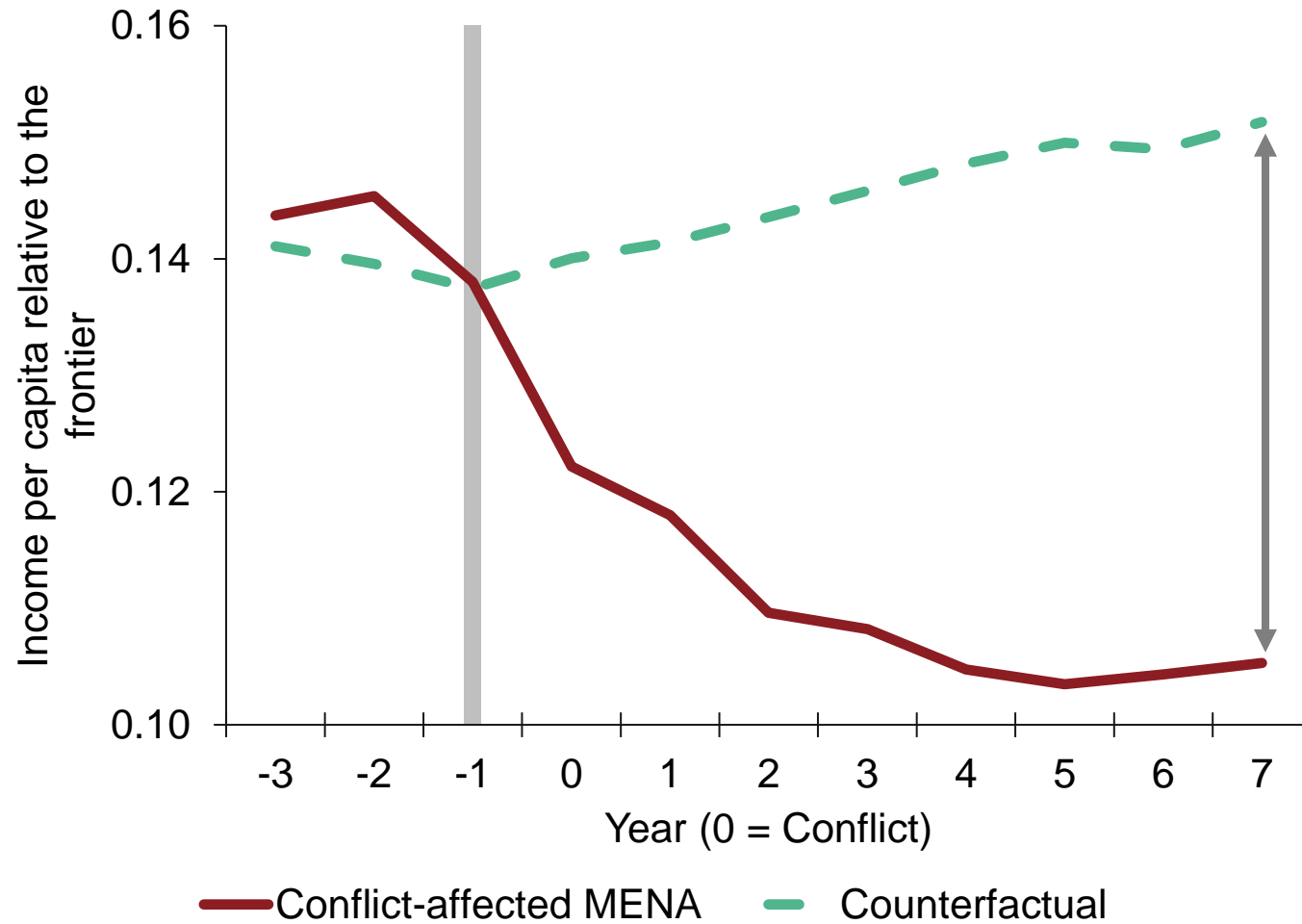
Panel A. Total number of conflict episodes

Panel B. Regional fatalities as share of global total



Source: Uppsala Conflict Data Program Georeferenced Event Dataset (UCDP) and World Bank staff calculations.

# Conflict dials back development ...

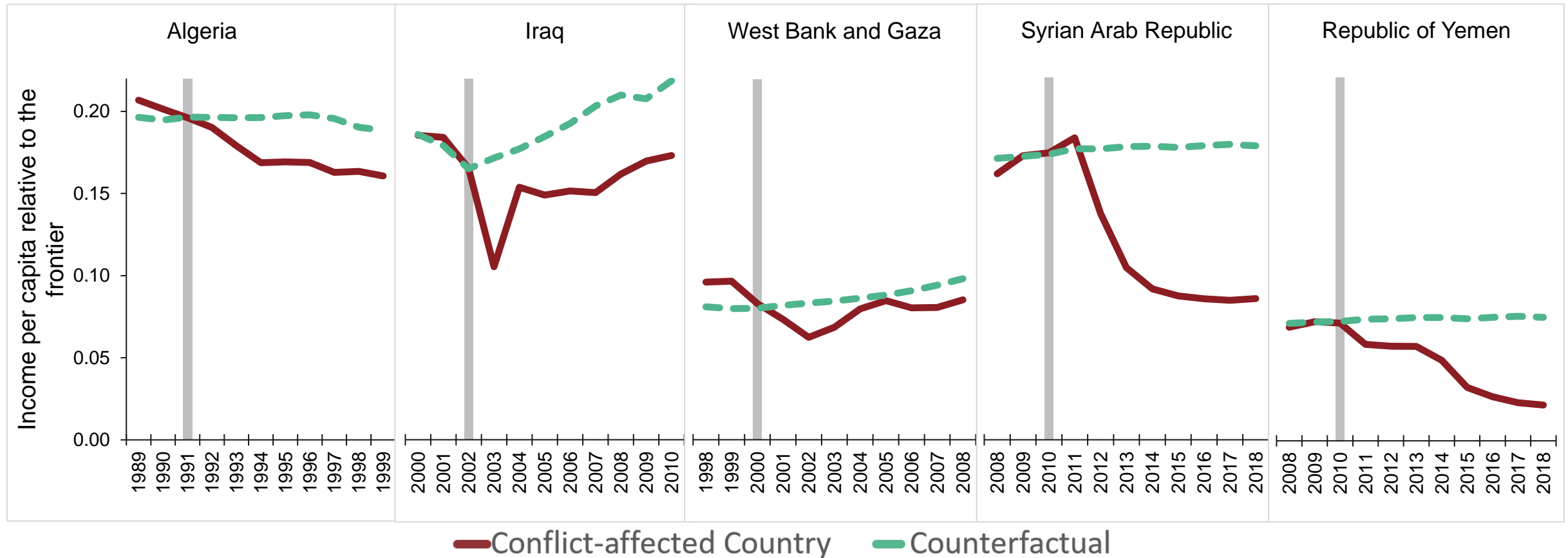


Source: IMF, Investment and Capital Stock Dataset (ICSD); Penn World Table 10.01; (UCDP); World Bank (WDI) and staff calculations.



# ... especially in protracted cases such as Syria and Yemen

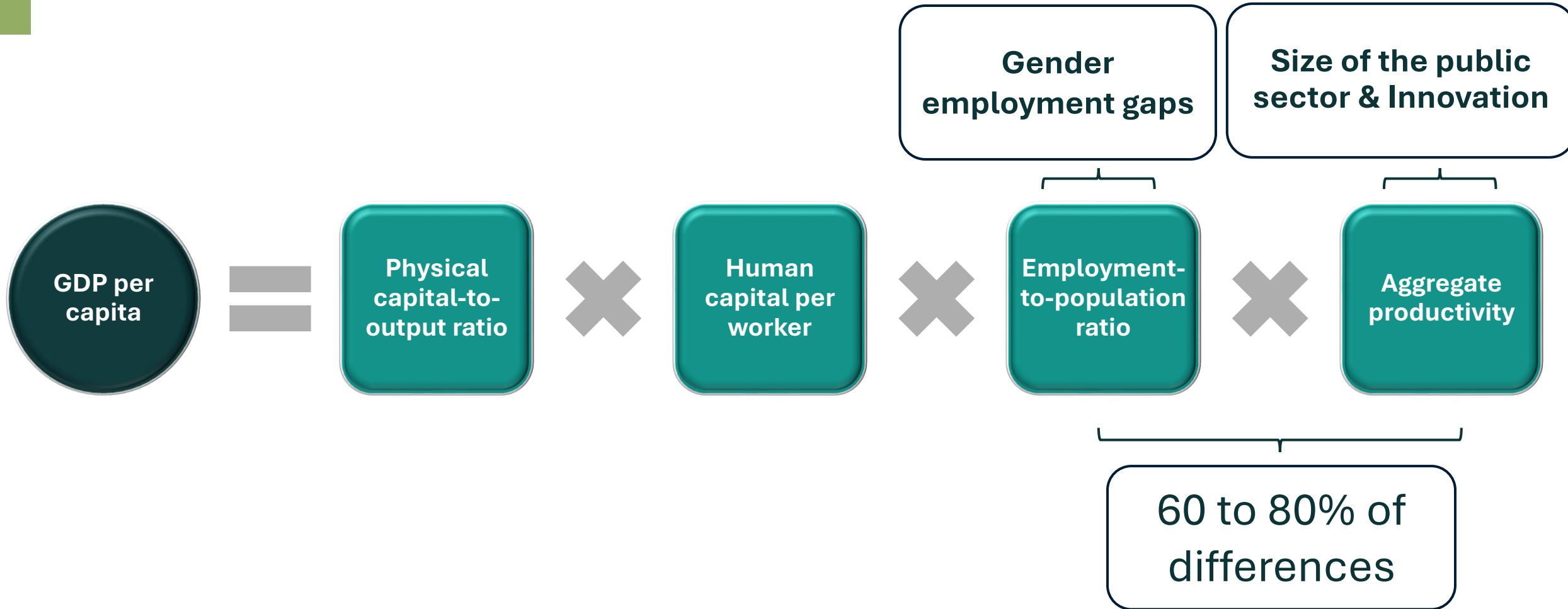
Counterfactual estimates of income per capita relative to the frontier around selected conflict episodes



Source: IMF, Investment and Capital Stock Dataset (ICSD); PennWorld Table 10.01; (UCDP); World Bank (WDI) and staff calculations.

# **3. Towards a more prosperous MENA**

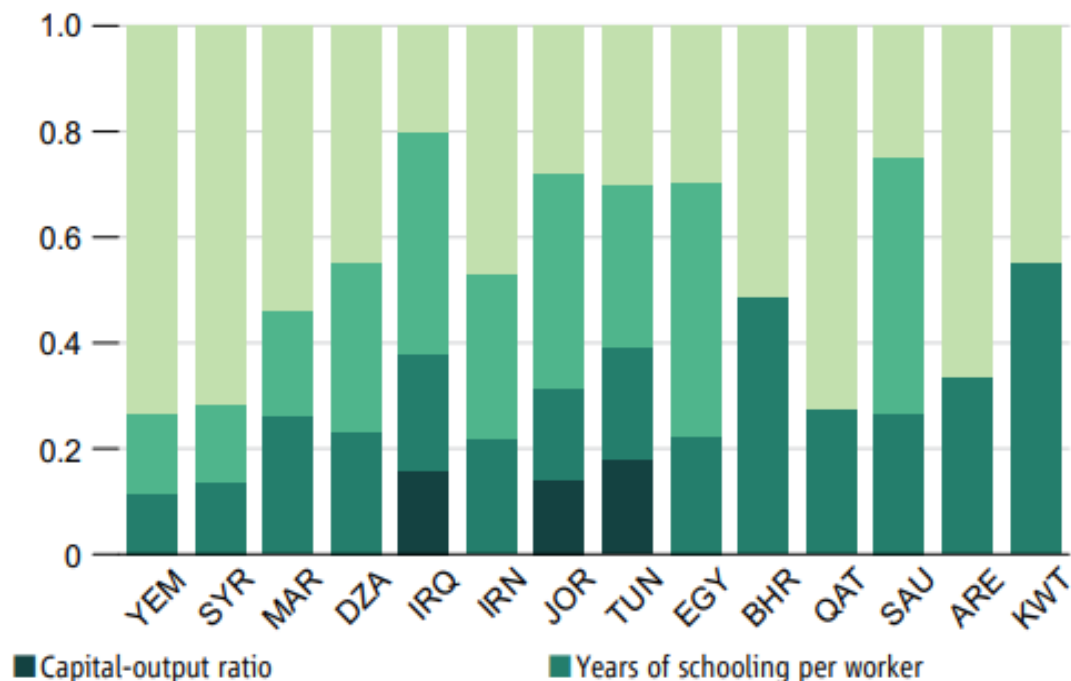
# What is driving income growth in MENA?



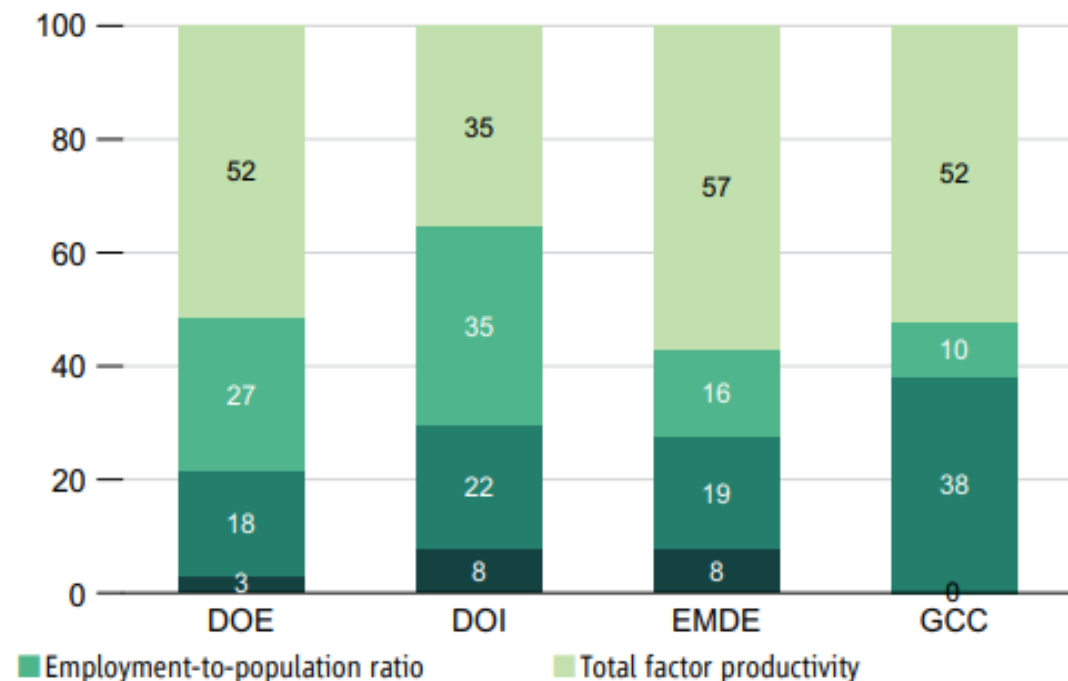
**Figure V.8.** Low employment-to-population ratios and low aggregate productivity together explain most of the distance in standards of living in MENA from the frontier.

Contribution to distance from the frontier

**a. Percent contribution of TFP and each production input in MENA countries**



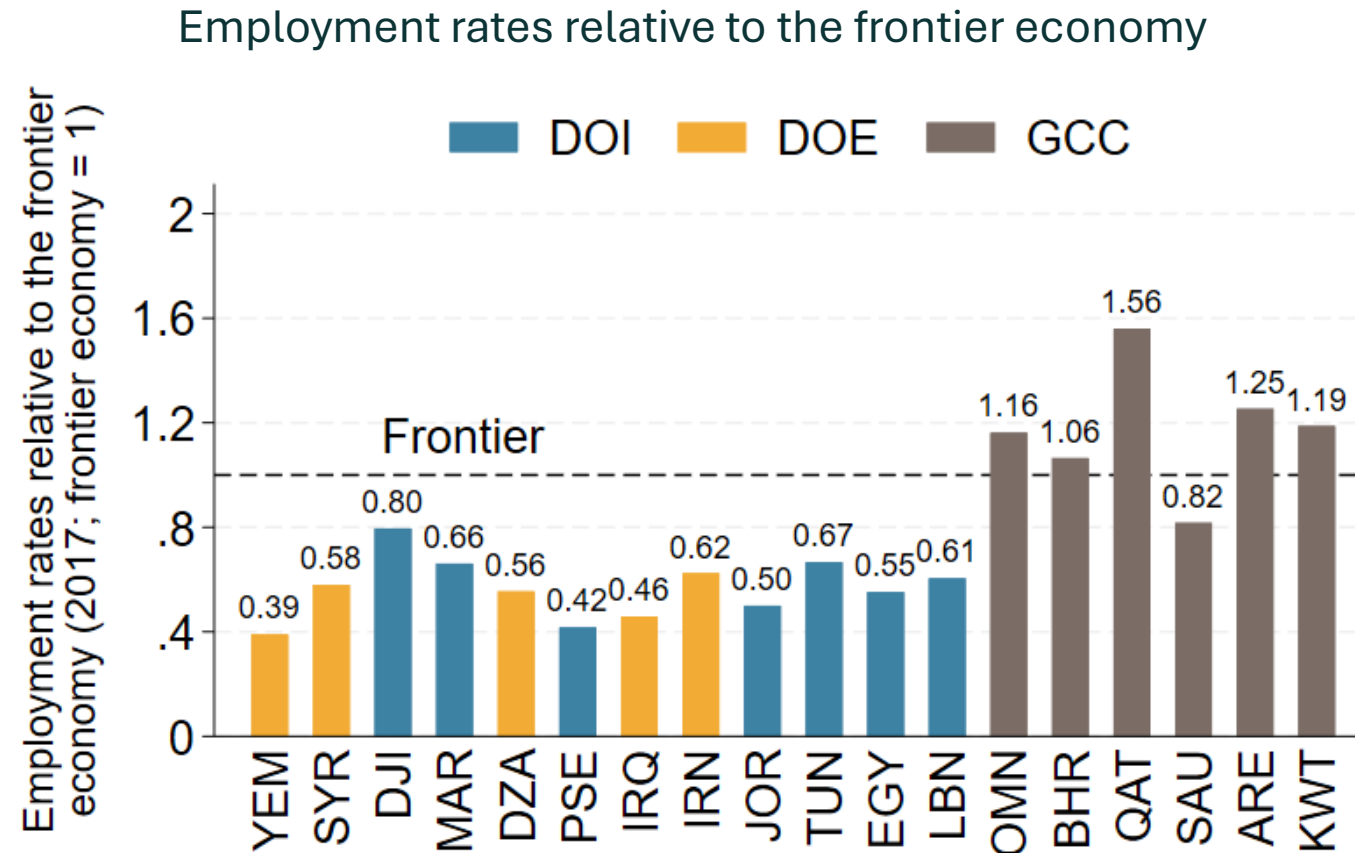
**b. Percent contribution of TFP and each production input in MENA country groups**



Source: World Bank, staff calculations based on data from the Penn World Table 10.01.

Note: DOI = developing oil importers, (Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, the West Bank and Gaza). DOE = developing oil exporters (Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic, the Republic of Yemen). GCC = Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates). The methodology to compute the shares adapts the computations in Jones (2016). First, the ratios in Table V.3 are inverted. To obtain the share attributed to differences in the employment rate, the inverse of the ratio of employment rates is divided by the product of the inverse of the ratios of the years of schooling index, the capital-output ratio, and TFP. The rest (the share of the distance to the frontier attributed to differences in schooling, physical capital, and aggregate productivity) is allocated by dividing the inverse of each corresponding ratio to the product of the inverse the ratios of the years of schooling index, the capital-output ratio, and TFP. Ratios that are above 1 exceed the value in the United States (frontier economy) and are set to zero in this calculation. For the list of country abbreviations, see Figure V.7.

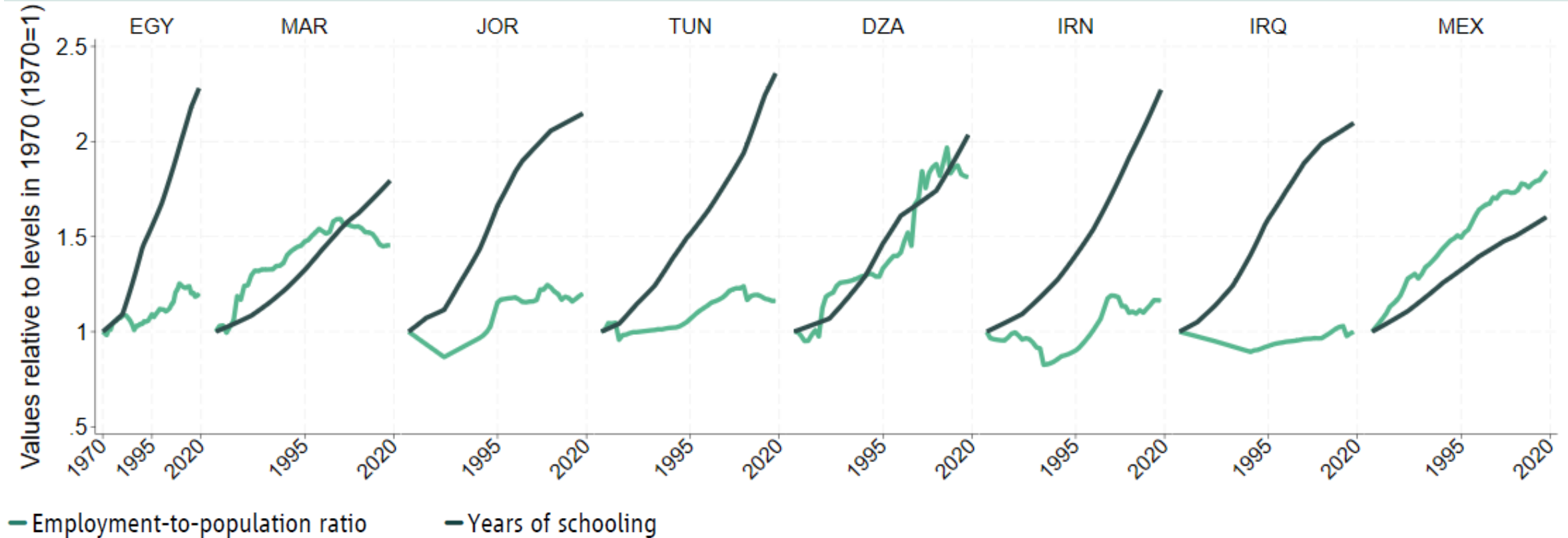
# Employment rates in developing MENA countries are among the lowest in the world



Source: World Bank, Enterprise Surveys and staff calculations based on data from the Penn World Table 10.01.

# Employment in the region has not kept pace with gains in years of schooling in the past 50 years

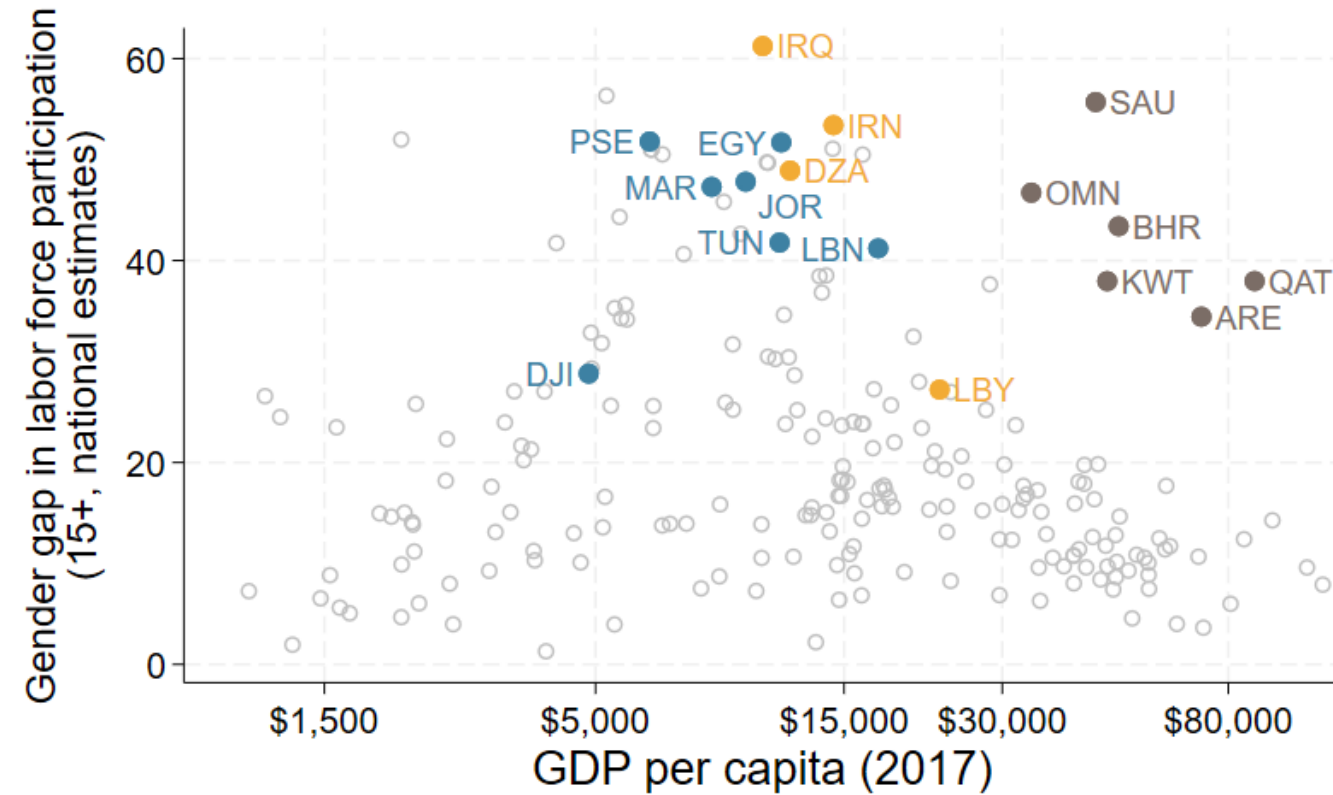
Growth in employment rates and years of schooling in the MENA region



Source: World Bank, World Development Indicators and staff calculations based on data from the Penn World Table 10.01.

# Closing the gender employment gap

Gaps between men and women in labor force participation rates

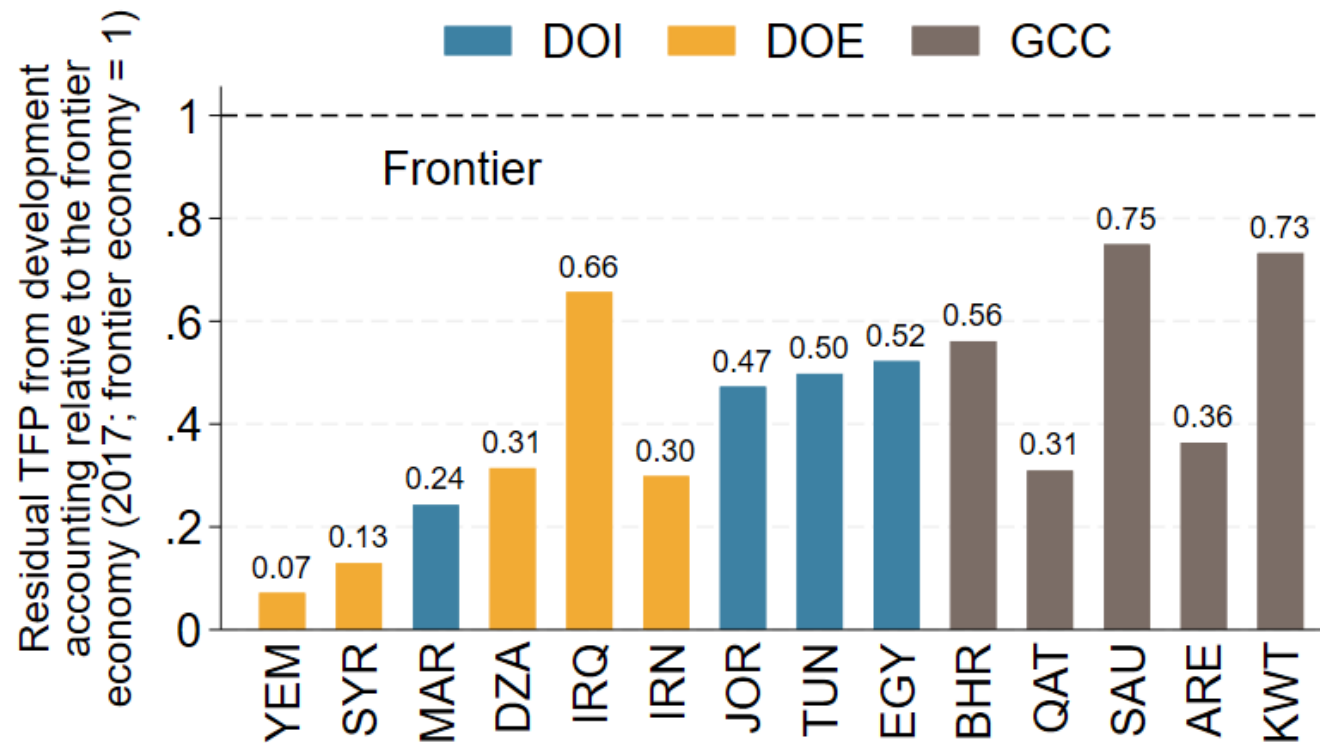


**+51% GDP per capita**

Source: World Bank, World Development Indicators and staff calculations based on data from the Penn World Table 10.01.

# Low productivity remains a key challenge across all MENA countries

Aggregate productivity relative to the frontier economy

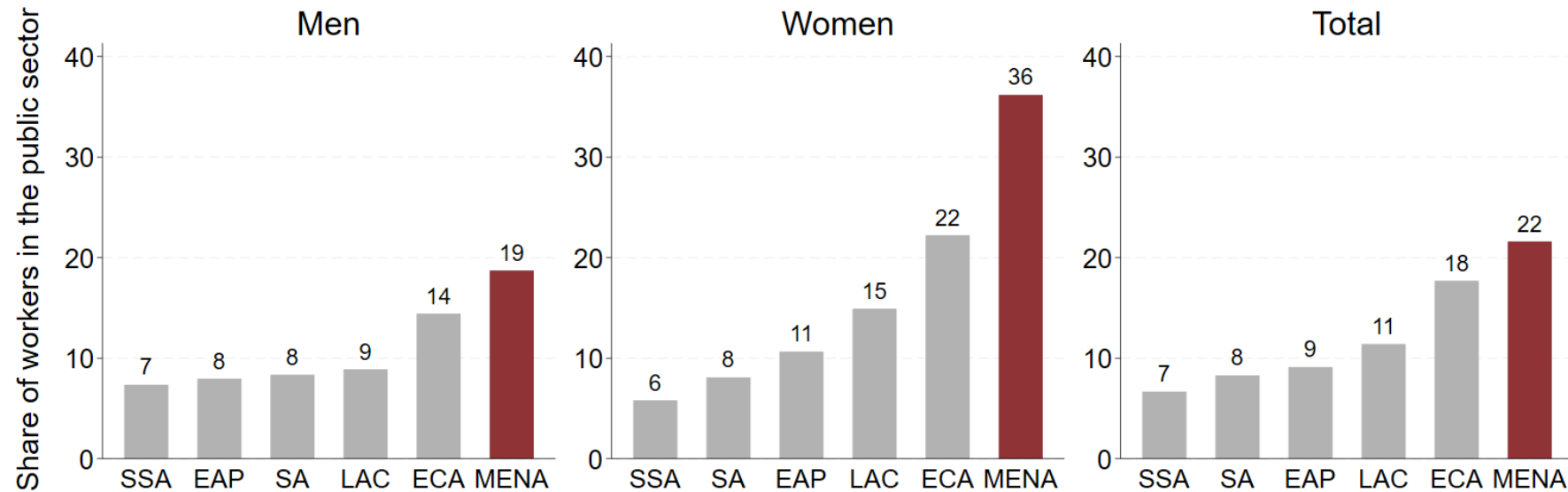


Source: World Bank, Enterprise Surveys and staff calculations based on data from the Penn World Table 10.01.



# MENA's public sector hires a large share of talent, especially women...

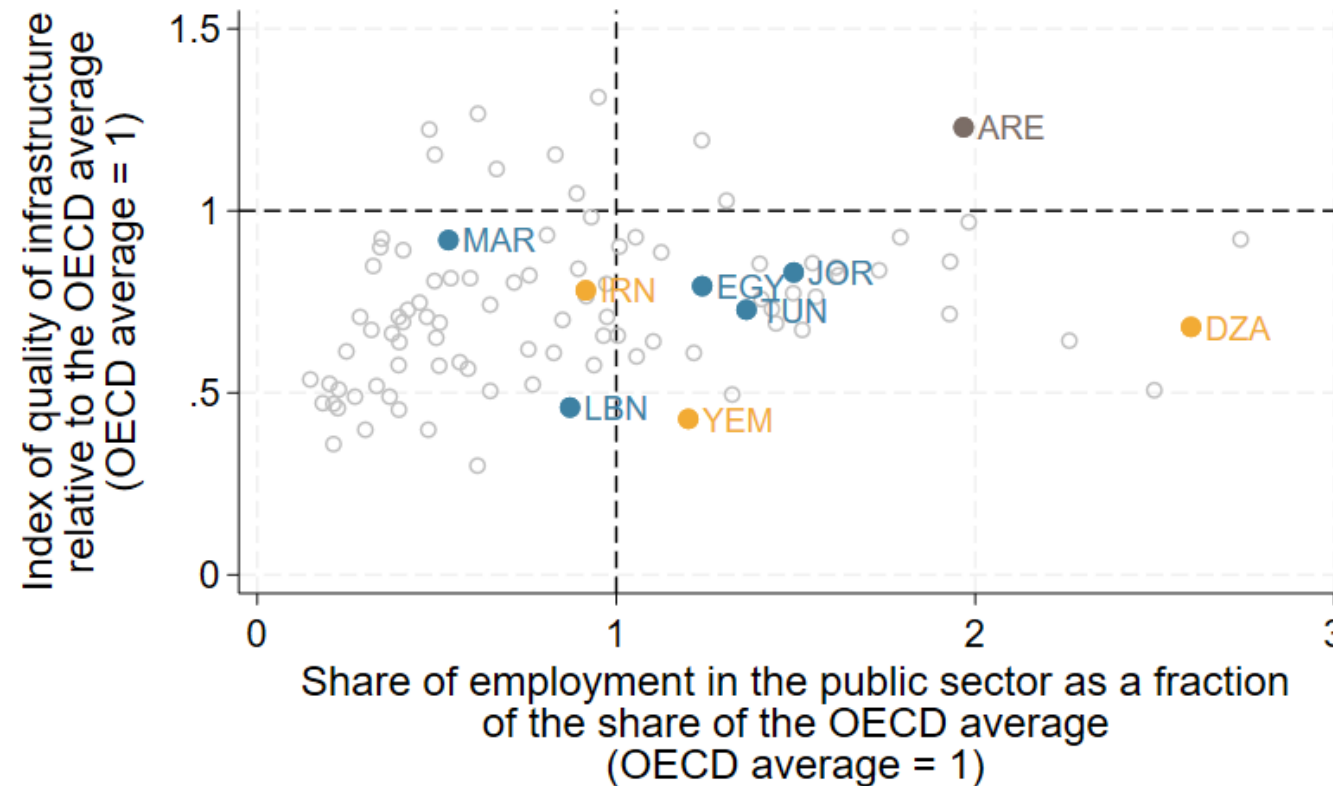
Share of employment in the public sector



Source: World Bank staff calculations based on data from the International Labour Organization's ILOSTAT.

...however, the public sector is inefficient in delivering productivity-enhancing goods and services

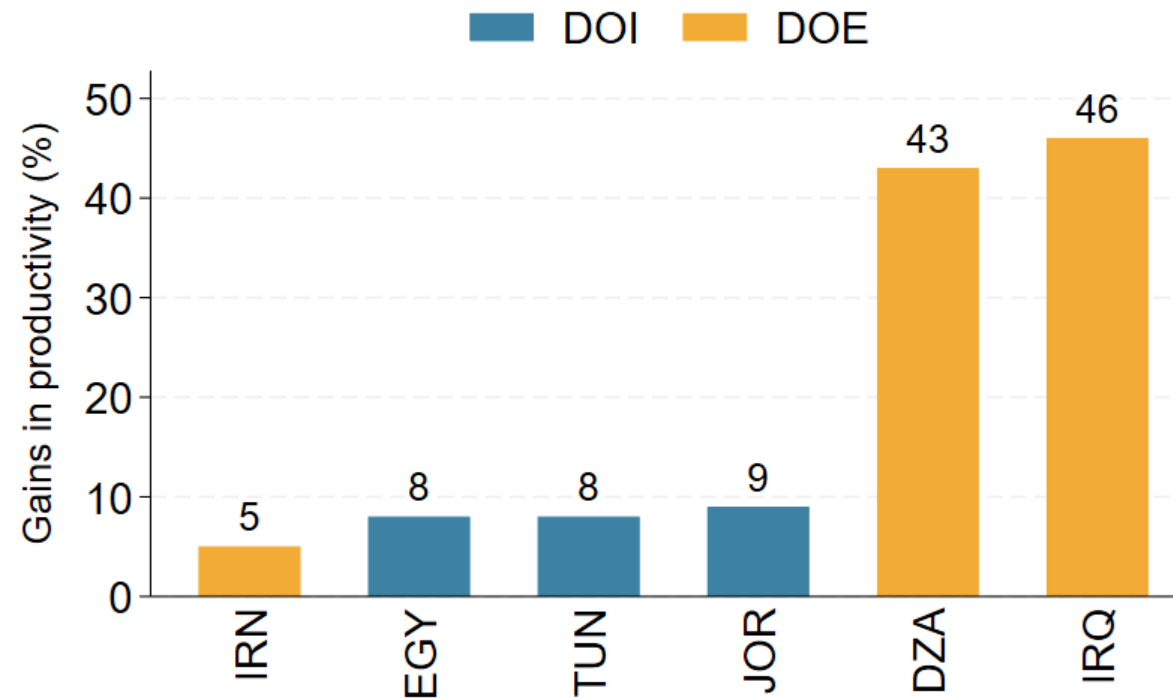
Quality of infrastructure and size of the public sector



Source: Belhaj et al. (2022). ILO, ILOStat database. World Bank staff calculations based on data from the WEF GCI, dataset (2016–17).

# Reallocating talent from the public to the private sector can boost productivity significantly

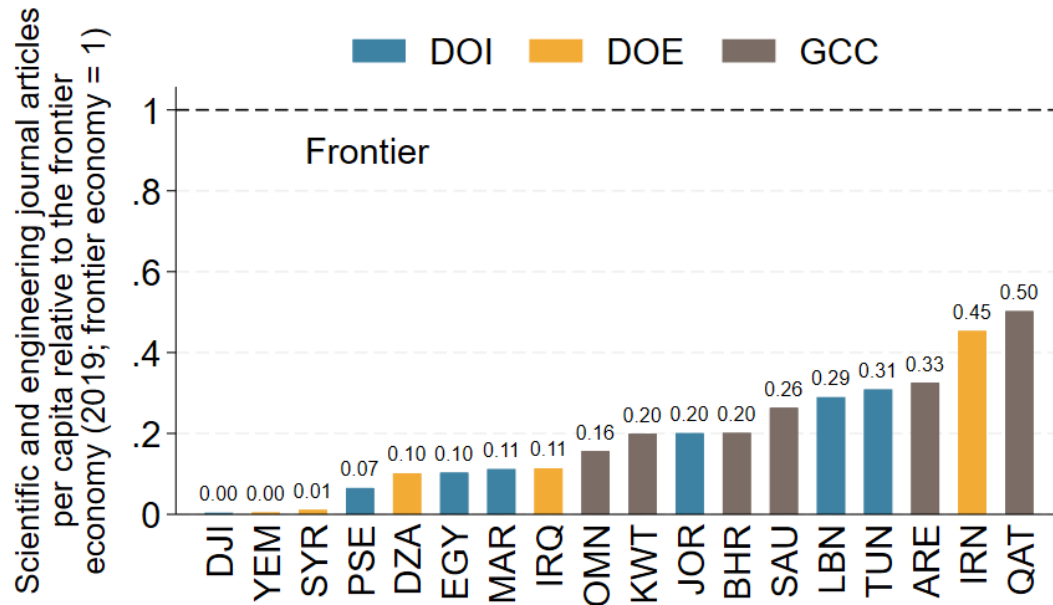
Productivity gains resulting from reallocating labor away from the public and into the private sector



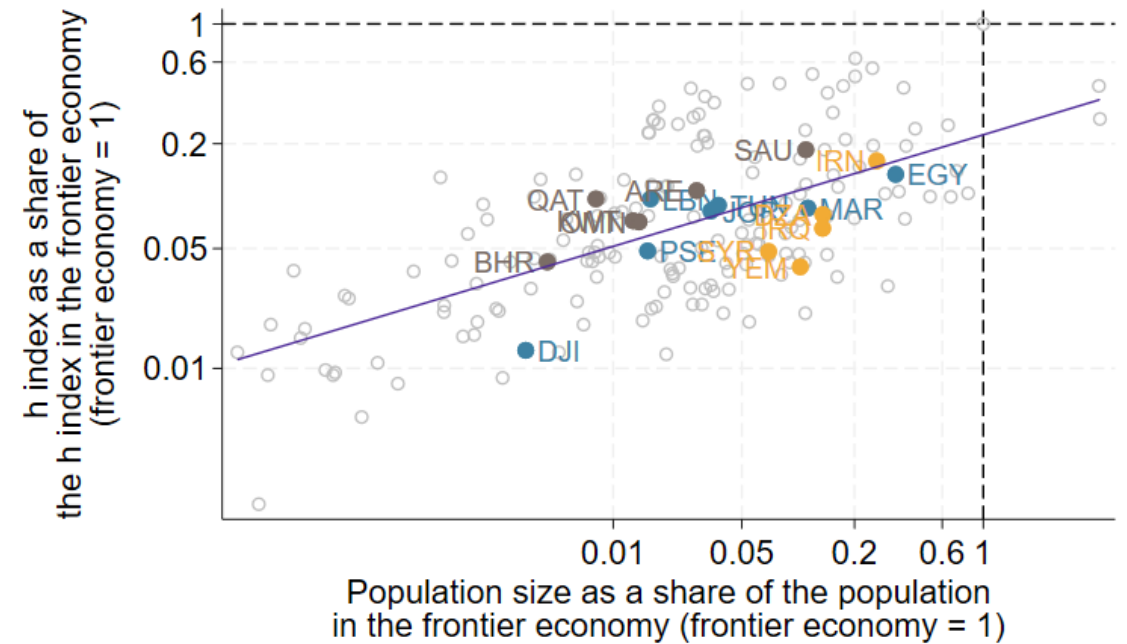
Source: World Bank staff calculations based on data from the International Labour Organization's ILOSTAT.

# The quantity and impact of the knowledge produced in MENA remain limited

Panel A. MENA countries produce relatively few scientific articles per capita



Panel B. Knowledge generated in MENA has less impact in terms of citations compared to countries of similar size.

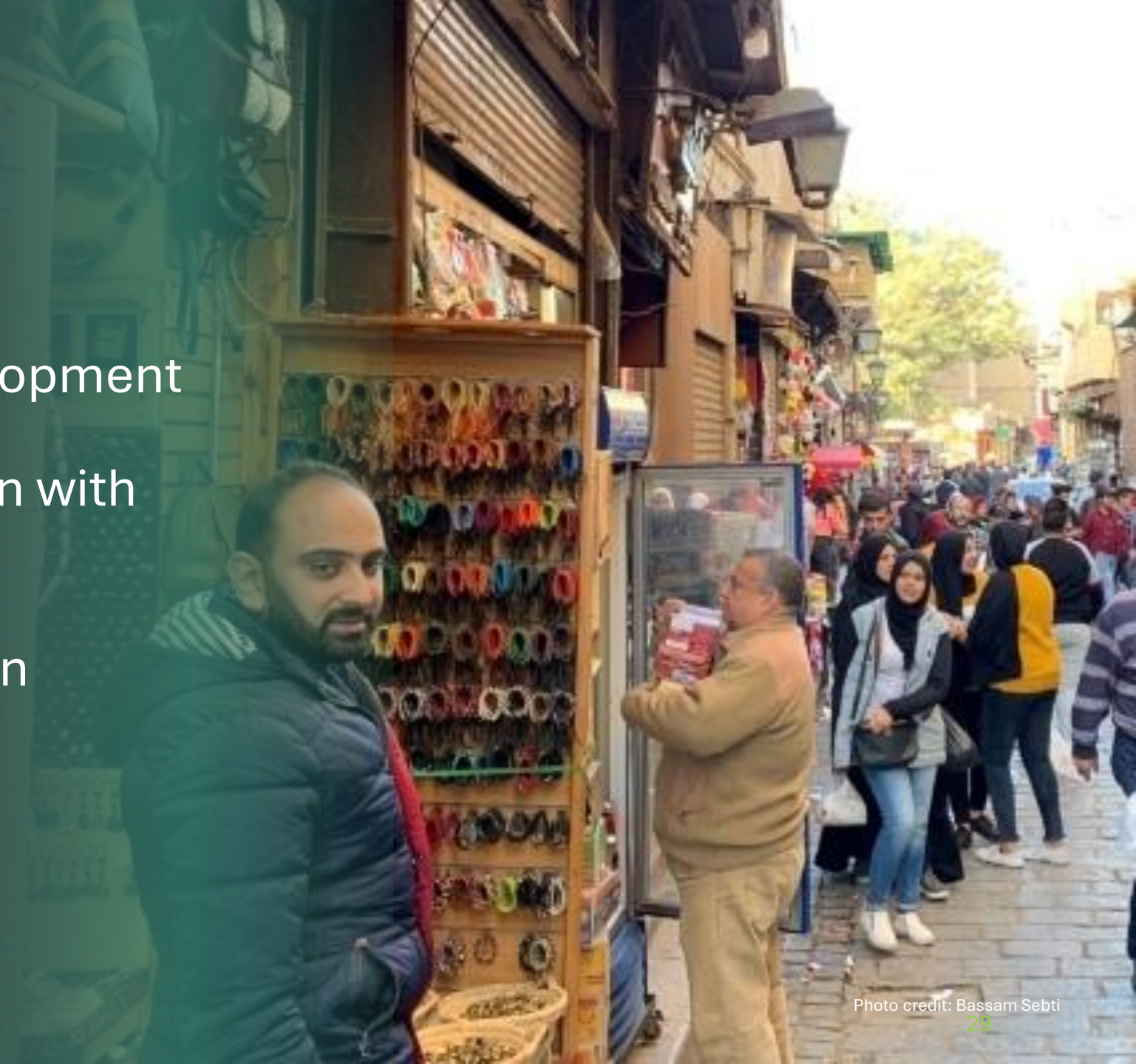


Source: Scimago, Chikis (2023), the WDR, 2024, and World Bank, staff calculations based on data from the World Bank databank.

# Summary

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- Fragile growth in MENA
- Conflict dials back development
- A more prosperous region with peace as a foundation
  - ❑ Better talent allocation
  - ❑ Innovation
  - ❑ Data transparency



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