Middle East and North Africa

Macro Poverty Outlook

Country-by-country Analysis and Projections for the Developing World

Annual Meetings 2020

WORLD BANK GROUP
Macroeconomics, Trade & Investment
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Middle East and North Africa

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ALGERIA

Table 1	2019
Population, million	43.4
GDP, current US$ billion	171.2
GDP per capita, current US$	3941.7
National poverty rate[a]	5.5
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	3.7
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	109.9
Life expectancy at birth, years[b]	76.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011).
(b) Most recent WDI value (2018).

The COVID-19 pandemic and concurrent crash in oil prices stormed Algeria's vulnerable macroeconomic environment, and the new authorities are now grappling with a multifaceted crisis. Swift lockdown measures have helped slow down the pandemic, severely affecting activity in the meantime. The sharp fall in global hydrocarbon prices and demand added to the sector's difficulties, cutting further into the hydrocarbon rent. Therefore, swift action to curb the twin deficits and structural reforms to foster private-led growth have only become more urgent.

Key conditions and challenges

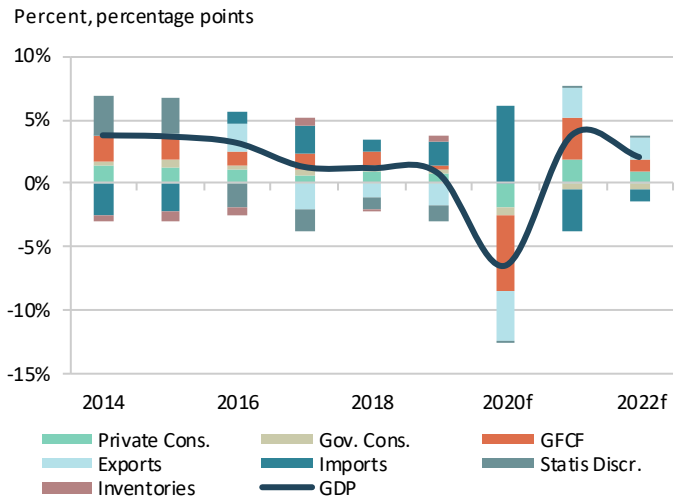
Algeria's long-term growth performance is slowing down, driven by a shrinking hydrocarbon sector, a winded public-led growth model, and an underdeveloped private sector. Between 2010 and 2016, GDP growth averaged 3.3 percent, before falling to an average of 1.1 percent after 2017, when GDP per capita growth turned negative. Faced with underinvestment, the hydrocarbon sector shrank by 2.1 percent yearly since 2010, and rising domestic consumption cut into export volumes, which fell by 2.8 percent yearly on average. At the mercy of oil price movements, current account and budget deficits averaged 13 and 11 percent of GDP since the 2014 oil shock. Long the driver of growth, real public spending moderated, and nonhydrocarbon sectors are slowing down. The small, low-productivity and mostly informal private sector struggles to take over as the new growth engine, facing red tape, limited access to credit and land, a significant skill gap or the omnipresence of state-owned enterprises.

The COVID-19 pandemic and concurrent crash in oil prices endangered a fragile economic environment. As in most countries, lockdown measures to curb contagion have impacted entire sectors. Labor-intensive and informal service and construction sectors are particularly affected, putting the livelihoods of vulnerable segments of the population at risk. Meanwhile, the decline in exports and sharp fall in hydrocarbon prices is taking a heavy toll on fiscal and external revenues, despite the dinar's depreciation. GDP is expected to contract by 6.5 percent in 2020, with significant uncertainty regarding the evolution of the pandemic, globally and in Algeria. The National Socioeconomic Recovery Strategy's success will hinge on its ability to restore macroeconomic equilibria and on the strength of the private sector response, just as reductions in public spending could endanger growth and employment. Swift and decisive reforms to boost private sector development are indeed essential in fostering growth and creating jobs, in the short and long term.

Recent developments

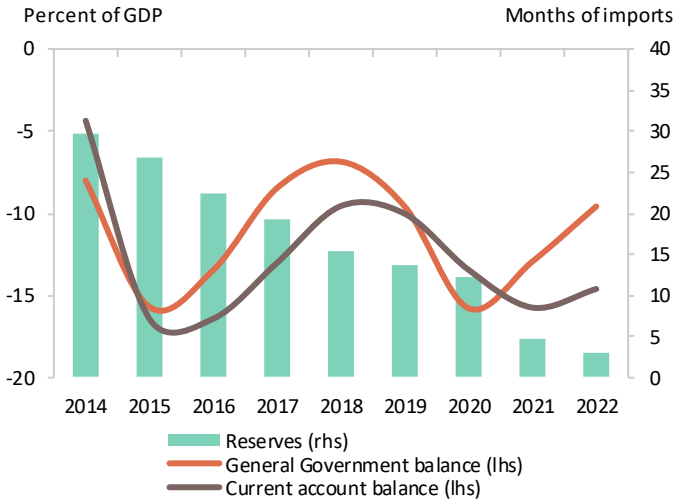
In 2019, protracted social mobilization and a lengthy political transition increased economic uncertainty and discouraged activity. Consumption slowed, as did investment, albeit more markedly. Correspondingly, growth moderated in construction, agriculture and commercial services. While nonhydrocarbon GDP growth moderated, to 2.4 percent, hydrocarbon GDP shrunk by 4.9 percent. A new Hydrocarbon Law with improved terms for investors was published, seeking to revive investment. Meanwhile, restrictions on foreign investment were lifted in non-strategic sectors. The current account deficit stabilized, as imports tracked lower domestic spending and import restriction policies, canceling the

FIGURE 1 Algeria / Real GDP growth and contributions to real GDP growth



Sources: Algerian authorities, World Bank staff estimates.

FIGURE 2 Algeria / Twin deficits and international reserves



Sources: Algerian authorities, World Bank staff estimates.

effect of lower hydrocarbon prices. International reserves steadily declined, to 13.6 months of imports. Lower hydrocarbon revenues and increased spending raised the budget deficit to 9.6 percent of GDP, and public debt approached 47 percent of GDP, 70 percent of which is owed to the Central Bank following large monetary financing operations. The latest poverty estimates are from 2011, making it difficult to estimate the impact of COVID-19 on welfare. Despite low inflation and stable unemployment, with higher rates for women and youth, slowing growth is limiting the potential for job creation and poverty alleviation.

During Q1-2020, a sharp decline in hydrocarbon production and early consequences from the COVID-19 pandemic exacerbated economic difficulties. As the hydrocarbon sector shrank by 13.4 percent against Q1-2019, GDP contracted by 3.9 percent. Nonhydrocarbon GDP shrunk by 1.5 percent, against a sharp investment contraction, and moderate ones for private and public consumption. Services sectors suffered most, consistent with the imposition of lockdown measures. Industrial and construction activity stagnated, tracking public and private demand, while the agricultural sector proved resilient. Meanwhile, shrinking hydrocarbon production and a competitive global market caused a severe export volume contraction, compensated by an even higher fall in imports, curbing the current account deficit despite lower oil prices. Inflation remained low, at 2.1 percent during S1-2020.

Outlook

A significant contraction of the economy is expected for 2020 as a result of the COVID -19 pandemic, with large uncertainties as to the duration of the sanitary and economic crises. Lockdown measures will generate sharp falls in aggregate demand components, and the effect of economic uncertainty could be protracted. External and fiscal deficits will rise, with the fall in hydrocarbon revenues only partly counterbalanced by falling imports and public investment, respectively, and by currency devaluation. Inflation should remain subdued until demand starts recovering.

A partial recovery in 2021 and 2022 is predicated upon a partial recovery in demand, in hydrocarbon production and exports, and on a set of structural reforms that restore confidence and foster private sector investment. With structurally lower budget revenues, and absent foreign borrowing or monetary financing, fiscal consolidation is expected in the medium-term. The dinar's stronger depreciation against the Euro and Yuan than against the Dollar will deteriorate Algeria's terms of trade and accelerate reserve exhaustion, as imports could recover faster than oil exports. Meanwhile, imported inflationary pressures will mount and, together with the economic contraction and shrinking employment, the potential for poverty or vulnerability reduction will remain limited.

Risks are tilted to the downside and uncertainties as to the course and effectiveness of reforms remain high. New domestic or international wave(s) of COVID-19 infections would delay recovery, as would insufficient progress in fostering a new, private-led and sustainable growth model, amid a volatile economic environment. Lower hydrocarbon prices could force another exchange rate adjustment and, together with the realization of contingent liabilities arising from public banks exposed to struggling SOEs, renewed monetary financing. Protecting public investment while financing fiscal deficits without endangering banking liquidity and the recovery will constitute a challenge. Meanwhile, efforts to strengthen the statistical system and monitor socio-economic dynamics, including the household survey under preparation, should be a priority.

TABLE 2 Algeria / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	1.3	1.2	0.8	-6.5	3.8	2.1
Private Consumption	1.8	2.8	2.1	-5.5	5.2	2.8
Government Consumption	2.8	2.3	1.9	-3.2	-2.4	-2.4
Gross Fixed Capital Investment	3.4	3.1	1.0	-16.6	10.6	2.7
Exports, Goods and Services	-6.1	-3.7	-6.1	-15.0	9.4	6.4
Imports, Goods and Services	-7.1	-3.6	-6.9	-24.3	16.1	4.6
Real GDP growth, at constant factor prices	1.7	1.5	1.0	-6.5	3.8	2.0
Agriculture	0.6	3.5	2.7	2.1	2.2	2.2
Industry	-0.1	-2.6	-1.7	-8.2	4.4	2.5
Services	4.0	5.6	3.3	-6.8	3.7	1.5
Inflation (Consumer Price Index)	5.9	3.5	2.3	2.1	3.8	4.2
Current Account Balance (% of GDP)	-13.0	-9.5	-10.0	-13.4	-15.7	-14.6
Fiscal Balance (% of GDP)	-8.4	-6.8	-9.6	-15.8	-12.9	-9.6
Debt (% of GDP)	27.4	37.7	47.0	68.2	77.4	81.2
Primary Balance (% of GDP)	-7.5	-6.3	-9.0	-15.1	-12.2	-8.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

BAHRAIN

Table 1	2019
Population, million	1.5
GDP, current US$ billion	37.9
GDP per capita, current US$	25257.1
School enrollment, primary (% gross)[a]	99.4
Life expectancy at birth, years[a]	77.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Bahrain's economy is expected to contract in 2020 due to lower international oil prices and the spread of COVID-19. Fiscal and external deficits are expected to rise sharply in 2020, reversing the narrowing path observed in 2019. The overall budget deficit is projected to only gradually narrow over 2021-22 given lower oil revenues, and the large off-budget spending. Downside risks arise from duration and depth of the twin crises of continued weakness in oil prices and COVID-19.

Key conditions and challenges

Even before COVID-19, lower oil prices since 2014 had widened fiscal and external imbalances and intensified macroeconomic vulnerabilities. Developing new oil and gas fields (e.g., in the Khalij al-Bahrain Basin) while diversifying the economy, and boosting non-oil revenues, and streamlining subsidies remain the keys to macroeconomic sustainability. But diversification hinges upon Bahrain's ability to reduce unemployment of nationals and develop the local skills base to transition the economy toward competitive activities besides finance. On the fiscal side, the authorities responded to debt vulnerabilities with the announcement of the Fiscal Balance Program (FBP) in late 2018, which provided a roadmap for a structural fiscal adjustment over the medium term.

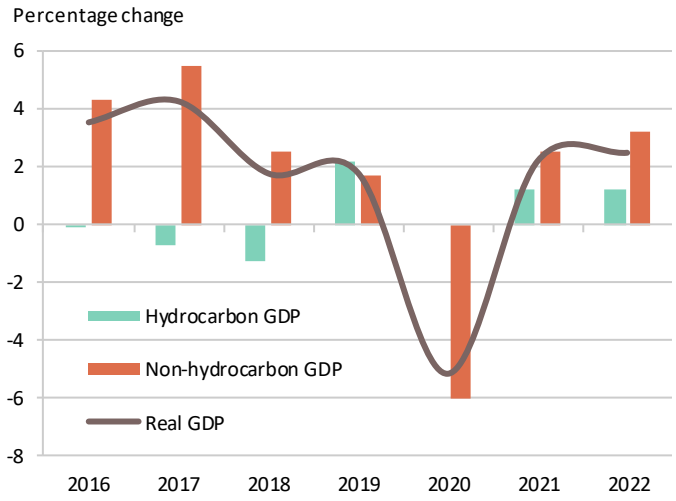
While the total fiscal deficit was declining under the FBP, it remained at over 10 percent of GDP in 2019 due to lower oil prices and large off-budgetary spending. Even before COVID-19, the prospect of achieving a balanced budget by 2022, committed under FBP, was most unlikely. More so, the mitigation measures of BD4.3 billion (or 4.2 percent of GDP)—introduced in March 2020 for 3 months period and extended in July—to support the country's citizens and private sector to weather the negative economic impact of the pandemic—are expected to put additional pressure on public finances. Until conditions ease and policy stance shifts from mitigation to resumed consolidation, the trajectory envisaged under the FBP will be delayed.

Recent economic developments

Hit by the sharp drop in oil prices and unfavorable global and domestic conditions including disruptions from COVID-19, preliminary official data indicate that Bahrain posted a 1.1 percent (y/y) contraction in its real GDP in Q1/2020. The decline was caused by disruptions in the non-oil economy which contracted by 1.7 percent (y/y), weighed down by the lockdown measures and travel restrictions, especially for services and tourism sectors where Bahrain has heavily invested. Weak consumer demand driven by social distancing and rising uncertainties due to the pandemic led to 2 percent (y/y) deflation in the first 7 months of 2020; rising prices expected in the next 2 quarters could offset that on annual basis.

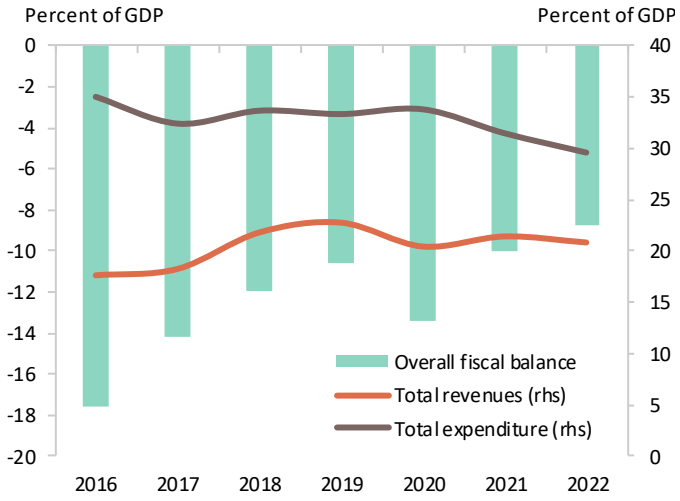
The plunge in oil prices and volatility in the global commodity markets and trade negatively impacted the demand for oil and aluminum (the key downstream sector), putting a significant strain on government revenues. Figures released by MoF reveal that government revenues in the first half of 2020 (H1/2020) fell by 29 percent (y/y). Oil revenues declined by 35 percent. As a result, Bahrain's overall budget deficit has almost doubled to BD 798 billion in

FIGURE 1 Bahrain / Real annual GDP growth



Sources: Bahrain authorities, World Bank; and IMF staff projections.

FIGURE 2 Bahrain / General government operations



Sources: Bahrain authorities, World Bank; and IMF staff projections.

H1/2020 (y/y), from BD 404 billion in H1/2019, up 98 percent.

The collapse in the tourism industry that accounted for 2.5 percent of GDP (2019) is also weighing heavily on tax revenues and economic activity. To bolster finances, the country secured a loan of about US$1 billion in March to repay a US$1.25 billion bond due end-March 2020, and in May, raised US$2 billion from international markets. The current account deficit widened as the value of exports declined by 9 percent (y/y) during Q2/2020 driven by lower oil exports revenues.

According to the most recent available data from the Labor Market Regulatory Authority (LMRA), while the number of foreign workers reached 594,944 in the second quarter of 2019, accounting for 79.5 percent of the country's total employment, Bahraini employment reached 153,103 during the same period. It is too soon to assess the scale of foreign worker departures prompted by COVID-19 impacts.

Outlook

Faced with further pandemic disruptions coupled with only modest recovery in oil prices over the remainder of the year, real GDP is expected to contract by 5 percent at end-2020. Over 2021-22, growth could bounce back to an average of 2 percent, supported by infrastructure projects and the pick-up in non-oil activity.

Lower oil prices and large off budgetary spending, along with constrained oil production capacity are projected to widen the overall fiscal deficit to over 13 percent of GDP in 2020. Persistent large fiscal deficits will lead to a rapid rise in public debt estimated to reach 130 percent of GDP in 2020. The expansion of Aluminum Bahrain (Alba) capacity will boost non-oil revenues as global demand recovers. Then, the overall budget deficit is projected to only gradually narrow in 2021-22, given lower oil revenues. In the aftermath of the pandemic, continuing fiscal reforms and better-targeted subsidies under the FBP will help to narrow the fiscal deficit. However, public debt is expected to increase further in 2021-22, given the sizable gross financing needs.

The current account deficit is estimated to widen sharply to nearly 8 percent of GDP in 2020 owing primarily to lower exports revenues from oil and aluminum combined with a collapse in tourism revenue. Foreign reserves are estimated to decline to US$2 billion in 2020 from US$3.7 billion at end-2019. Large current account deficits are likely to persist in 2021-22 albeit at slightly moderated levels.

Key risks stem from price volatility along the energy value chain (oil, petroleum products, energy-intensive industry), eventual tightening of global financial conditions, prolonged COVID-19, and insufficient fiscal adjustment, all of which would further increase the fiscal deficit and public debt. Delays in fiscal reforms under the FBP could lead to unfavorable macro-financial dynamics and squeeze capital spending. The current fiscal path makes a balanced fiscal position by 2022 all but impossible; changing the course will require a mix of using ample financing to absorb shocks with renewed commitment to streamline "big-ticket" subsidies and improve spending efficiency. While the new deal to normalize relations with Israel could benefit Bahrain in terms of trade, tourism, and technological cooperation, it is not yet clear what the full potential economic impact of this deal will be. Negative COVID-19 impacts on labor incomes are to be expected, especially in sectors such as tourism and services. Therefore, designing a reform program that safeguards the most vulnerable is critical. The likelihood of protracted foreign worker travel restrictions could be an impetus to boost domestic labor market matching of positions with incumbent nationals and foreign workers, building on existing labor market reforms in that direction.

TABLE 2 Bahrain / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.3	1.8	1.8	-5.2	2.2	2.5
Private Consumption	1.3	-1.9	1.6	-3.5	2.3	3.0
Government Consumption	11.0	0.6	0.9	6.3	2.1	1.4
Gross Fixed Capital Investment	10.6	9.5	5.0	-7.9	1.8	5.0
Exports, Goods and Services	3.7	3.3	4.3	-10.0	5.0	4.1
Imports, Goods and Services	7.6	5.7	4.4	-8.2	5.9	4.2
Real GDP growth, at constant factor prices	4.3	1.8	1.8	-5.2	2.2	2.5
Agriculture	-0.9	3.8	1.8	1.5	1.5	1.5
Industry	0.6	2.3	1.2	-5.2	2.5	2.5
Services	7.2	1.4	2.3	-5.3	2.0	2.5
Inflation (Consumer Price Index)	1.4	2.1	1.0	0.0	2.5	2.3
Current Account Balance (% of GDP)	-4.5	-5.9	-3.0	-7.9	-6.4	-5.3
Net Foreign Direct Investment (% of GDP)	0.8	1.9	1.9	2.2	2.1	2.0
Fiscal Balance (% of GDP)	-14.2	-11.9	-10.6	-13.4	-10.0	-8.7
Primary Balance (% of GDP)	-10.6	-7.6	-6.1	-8.5	-5.1	-4.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

DJIBOUTI

Table 1	2019
Population, million	1.0
GDP, current US$ billion	3.6
GDP per capita, current US$	3667.0
International poverty rate ($1.9)[a]	17.0
Lower middle-income poverty rate ($3.2)[a]	39.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	75.3
Life expectancy at birth, years[b]	66.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

Economic activity contracted in 2020 for the first time in two decades, as a result of COVID-19. Per capita GDP growth is expected to fall by 2.5 compared to an average annual growth of 5.4 percent during 2015-2019, with consequent effect on impressive poverty reduction progress. A resurgence of COVID-19 and delicate transitions across the Horn of Africa are the major risks to the medium-term outlook as they would undermine the productivity of sizable infrastructure investment.

Recent developments

Real GDP growth is projected at -1 percent compared to an average of 7 percent per year from 2015 to 2019, as a result of COVID-19. After a sharp increase the last two weeks of May and early June, the number of cases declined considerably in July and August; like many countries, the government is now monitoring whether resumptions in activity over the summer will manifest as a new surge of infections.

The fall in global demand for transshipment and logistics services was the main driver of contraction, as the economy depends heavily on the transportation and logistics services and re-export of activities by free zone companies to and from Ethiopia. During the first seven months of 2020, Djibouti's ports handled a total container throughput of 498,000 TEUs, down by 4.2 percent compared to the corresponding period last year, while bulk cargo volume increased only by 0.6 percent during the same period to 3.3 million tons.

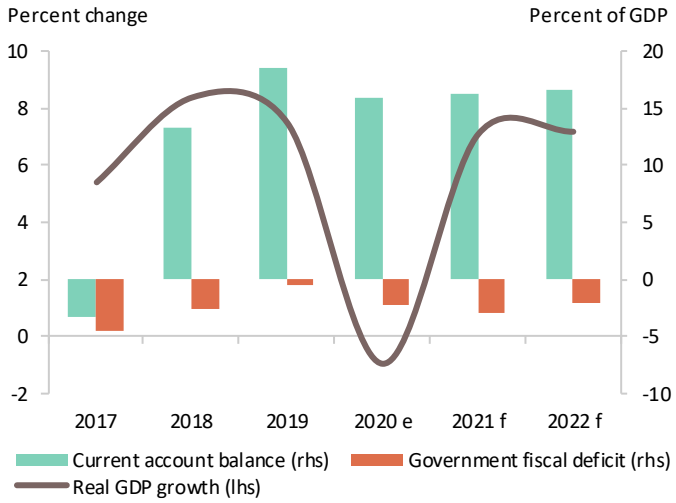
The general lockdown imposed by the Government from March 27 to May 17 and the suspension of international passenger flights, which was lifted on July 17, severely hit construction, general trade, air and urban transportation, and services. The year-on-year inflation rate increased by 3.8 percent at the end of July 2020 driven by the prices of food and beverages, which increased by 11.7 percent in the same period.

The impact of COVID-19 is reversing fiscal consolidation efforts started in 2015. The supplemental budget adopted in June 2020 has reprioritized public expenditure by reducing capital, operations and maintenance spending, enabling US$83 million for COVID-19 related public expenditure. Total revenue, excluding grants is expected to fall from 19.4 percent of GDP in 2019 to 17.5 percent of GDP in 2020. As a result of the revenue shortfall, the overall fiscal deficit is expected to widen to 2.3 percent of GDP up from 0.5 of GDP in 2019. To finance the deficit, the Government expect to mobilize more financing from development partners and international financial institutions, consistent with its goal of maximum concessionality of any new borrowing. DSSI participation has also provided valuable space to absorb the fiscal impact of COVID-19 (around US$25 million through September).

The current account balance, including the free zones, is expected to contract by 1.6 percent of GDP in 2020 compared to 2019, driven by global decline in logistics services and trade in Ethiopia. The Central Bank reserve holdings are expected to increase slightly to 3.5 months of imports (excluding imports of goods and services related to free zone reexports) reflecting the IMF Rapid Credit Facility and other disbursing budget support. Total public and publicly guaranteed debt (PPG) is expected to reach 68.3 percent of GDP in 2020 up from 61.5 percent in 2019 as a result of the contraction of the economy and the widening of the fiscal deficit.

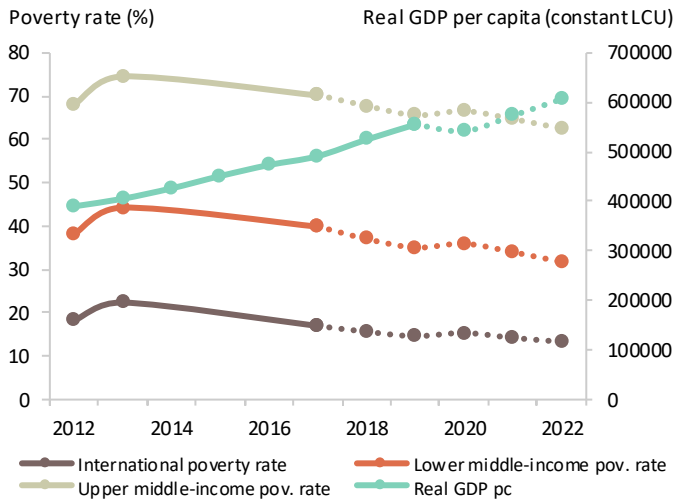
Results from the phone survey to assess the socio-economic impacts of COVID-19 and associated government's measures on

FIGURE 1 Djibouti / Real GDP growth, fiscal, and current account balances



Sources: Government of Djibouti and World Bank staff projections.

FIGURE 2 Djibouti / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: See Table 2.

Djiboutian households show that a large majority of individuals who stopped working after March claimed to have lost their work due to COVID-19 related reasons. In addition, households declared experiencing difficulties in accessing basic food items, along with price increases. The extreme poverty rate at US$1.90 per day is expected to increase from 14.5 percent in 2019 to 15.3 percent in 2020.

Outlook

The medium-term economic outlook remains positive despite the impact of COVID-19. Growth is expected to average 7.1 percent per year in 2021-2022 driven by a rebound in Ethiopia, which will underpin free zone reexports and exports of transportation, logistics, and telecommunication services. Ongoing infrastructure projects, including the windfarm, the Damerjog industrial park and the "cold chain" project are also expected to boost growth. The fiscal position is projected to deteriorate in 2021 as tax revenue only stabilizes and the outlook for grants may be less favorable than during 2020. As a result, the fiscal deficit is projected to widen to 3 percent of GDP in 2021. Even with a moderate increase in tax and nontax revenue and the unwinding of COVID-19 related special funds, the deficit will only be back at its 2018 level when fiscal consolidation was still in progress.

Oil and food prices are projected to drive up the consumer price index by 3 percent in 2021 and 2022; this import dependence being a key vulnerability for the country. In the post-pandemic stage, it is expected that poverty will decline thereafter to 13.2 percent in 2022 if Djibouti manages to grow at the same rate as in 2019 and if this growth is mirrored by job creation that is inclusive and broad based.

Risks and challenges

A global and/or local second wave of COVID-19 and delay in the development and distribution of a vaccine will have negative effects on growth and fiscal sustainability. The high dependence on Ethiopia, which is going through a transition period, is another major risk facing the country, as is the overall vulnerability of the Horn of Africa to natural disasters and political instability. Investments in ports are a key part of the regional dynamic and while Djibouti has a "first-mover advantage" on modern port development, neighboring ports could pose a competitive threat especially if trade volumes fall short of optimistic projections, resulting in over-capacity.

TABLE 2 Djibouti / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	5.4	8.4	7.5	-1.0	7.1	7.2
Private Consumption	8.0	6.0	5.0	3.9	4.9	4.9
Government Consumption	3.4	3.0	-0.5	-3.0	9.5	6.7
Gross Fixed Capital Investment	-22.3	-5.8	-2.7	-18.6	8.7	16.0
Exports, Goods and Services	9.9	8.6	6.5	1.2	5.5	6.0
Imports, Goods and Services	6.1	5.0	3.0	1.5	4.8	5.5
Real GDP growth, at constant factor prices	5.3	8.5	7.5	-1.0	7.1	7.2
Agriculture	35.1	15.3	3.5	3.5	3.5	3.5
Industry	14.1	45.3	10.8	2.0	5.0	8.2
Services	3.8	2.7	6.8	-1.7	7.7	7.0
Inflation (Consumer Price Index)	0.6	-0.1	3.3	3.5	3.0	3.0
Current Account Balance (% of GDP)	-3.3	13.4	18.5	15.9	16.3	16.6
Fiscal Balance (% of GDP)	-4.6	-2.5	-0.5	-2.3	-3.0	-2.2
Debt (% of GDP)	66.1	63.9	61.5	68.3	65.5	64.0
Primary Balance (% of GDP)	-3.6	-1.4	0.7	-1.0	-1.5	-0.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	17.0	15.6	14.5	15.3	14.1	13.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	39.8	37.0	35.1	35.9	34.1	31.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	70.2	67.7	65.5	66.4	64.6	62.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

ARAB REPUBLIC OF EGYPT

Table 1	2019
Population, million	101.2
GDP, current US$ billion	303.1
GDP per capita, current US$	2995.9
Lower middle-income poverty rate ($3.2)[a]	28.9
National poverty rate[a]	32.5
Gini index[a]	31.5
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	71.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2018).

COVID-19 is dampening growth, undermining external income sources, disrupting fiscal consolidation, and exacerbating long-standing challenges. Social hardship is aggravated by the ensuing job losses. Maintaining the recently-achieved macroeconomic gains is crucial for the economy's resilience against such a severe shock. This multi-faceted health and economic crisis underscores the urgency of advancing the human capital agenda and strengthening social protection, as well as adopting structural reforms to enhance private sector activity and job-creation.

Key conditions and challenges

COVID-19 and its disruptive repercussions intensified from March 2020 and has since interrupted an episode of a largely stabilized macroeconomic environment, characterized by relatively high growth, improved fiscal accounts, and a comfortable level of foreign reserves. At the same time, COVID-19 hit when long-standing challenges persisted, notably the elevated government debt-to-GDP ratio (despite its significant reduction over the previous two years), weak revenue-mobilization, an unfavorable structure of the government budget characterized by limited allocations to key sectors, such as health and education, sluggish job-creation in the formal sector, and underperformance of exports and non-oil FDI. The multi-dimensional health and economic crisis caused by the pandemic underscores the importance of advancing the human capital agenda and strengthening social protection. A pending second wave of reforms to unleash private sector activity and address the above challenges is crucial to create better employment opportunities and improve livelihoods.

Recent developments

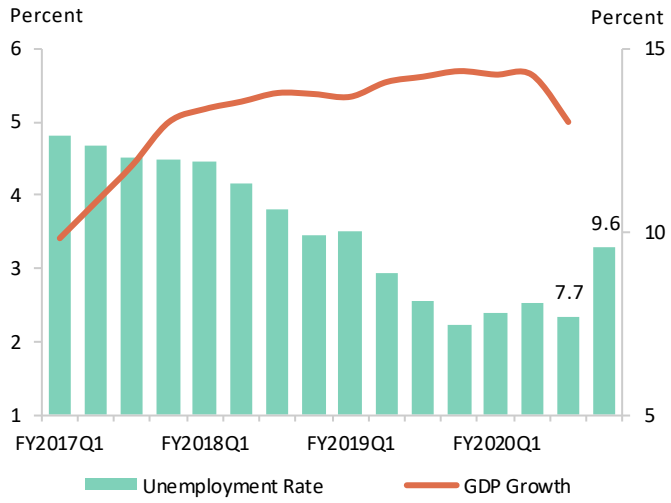
Economic activity slowed down, notably since the implementation of social distancing measures and the temporary suspension of air traffic. The Purchasing Managers' Index declined to 38.3 during April—June 2020 (Q4-FY2020), its lowest level on record, indicating a large contraction in non-oil private sector activity. Around 2.7 million jobs were lost during Q4-FY2020, pushing unemployment to 9.6 percent (from 7.7 percent in the previous quarter), with employment losses mainly reported in the retail and wholesale trade, manufacturing, tourism, transport and construction sectors, especially among informal workers.

An emergency response package worth LE100 billion (1.7 percent of GDP) augmented health expenditures and social protection programs, including a one-off cash grant to irregular workers and extending the existing cash transfer programs. Forbearance measures were introduced in the form of delayed tax filing and loan repayments, in addition to subsidized credit to targeted sectors. Further, the Central Bank of Egypt slashed policy rates by 300 basis-points to ease liquidity conditions.

Inflation was already moderating since early-FY2020, and has continued to decline, registering an average of 5.7 percent in FY2020 (from average 19.6 percent in the previous three years), reflecting subdued demand and the general decline in global commodity prices, including oil.

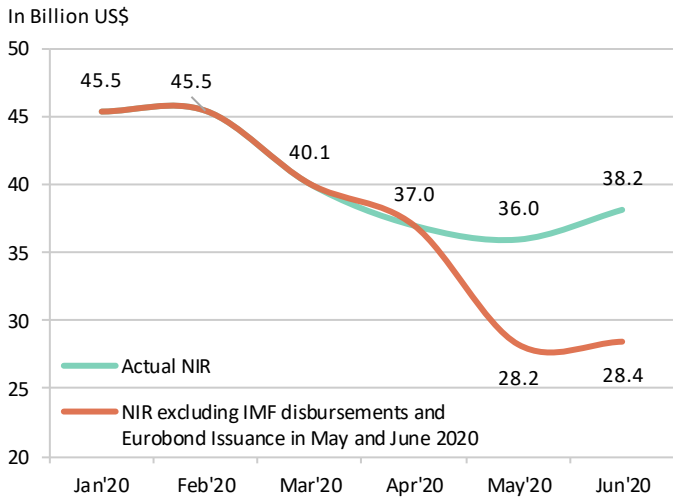
Foreign reserves depleted rapidly, due to large-scale capital outflows at the outset of the crisis, in addition to the sharp drop in tourism, Suez Canal revenues, and merchandise exports. Meanwhile, Egypt has mobilized external financing, including a US$2.8 billion stopgap loan under the

FIGURE 1 Arab Republic of Egypt / Real growth and unemployment rate (FY2017Q1-FY2020Q4)



Sources: Ministry of Planning and Economic Development & CAPMAS.

FIGURE 2 Arab Republic of Egypt / Net international reserves (Jan-Jun 2020)



Sources: CBE and Author's calculations.

IMF's Rapid Financing Instrument, a US$5.2 billion Stand-by Arrangement (of which the first US$2 billion tranche was disbursed), as well as a US$5 billion sovereign Eurobond and a US$2 billion loan from a UAE-led commercial bank consortium. Reserves hence remained ample at US$38.2 billion in end-FY2020 (7 months of merchandise imports), albeit still below its pre-crisis peak of US$45.5 billion in end-February 2020. The exchange rate depreciated marginally from LE15.7/US$ in February 2020 to around LE16/US$ as of August 2020, with the authorities tolerating a reserve drain in the intervening months to absorb some of the pressure experienced by many emerging markets.

The budget deficit widened to an estimated LE476.8 billion (8.2 percent of FY2020 GDP) close to the FY2019 level, but not reduced as previously expected. This was mainly due to the decline in the tax-to-GDP ratio (even prior to the crisis), which was exacerbated by the economic contraction and the postponed tax payments during Q4-FY2020.

Outlook

Under the scenario that the pandemic will persist through early-2021, COVID-19 impact will be spread across two fiscal years, with the adverse effect expected to be more severe in FY2021. Thus, growth is expected to have remained positive, but declined from 5.6 percent in FY2019 to 3.5 percent in FY2020, and then further to 2.3 percent in FY2021, before rebounding in FY2022. Private consumption in the near-term is expected to remain constrained as households' incomes are affected by increased joblessness and salary cuts. Subsequently, poverty is forecast to increase, particularly in urban areas. Since high-skilled formal sector jobs were relatively shielded during the crisis, inequality is also expected to rise. Private investments will remain subdued given disrupted production and international trade.

Exports are projected to decrease with the global recession and restricted tourism, but COVID-19 has also seen compression of imports. While remittances may initially react countercyclically (as expats may increase one-off transfers), they are expected to eventually decline with the downturn in Gulf countries. Thus, the current account deficit may deteriorate as the decline in remittances supersedes the expected narrowing of net exports. On the other hand, the capital and financial account is projected to remain buoyed by foreign borrowing, although FDI may decline, exacerbating a long-standing weakness in FDI into traded goods sectors.

Government debt is projected to increase from 90.2 percent of GDP in end-FY2019 to 93.8 percent of GDP in end-FY2020. However, the one-off cancellation of the debt owed by the government to the Social Insurance Funds (SIF) worth LE371 billion (6.4 percent of GDP) is estimated to bring down government debt to 87.4 percent of GDP in end-FY2020.

Measures were introduced to mobilize domestic resources (including increased fees on some government services, a one-year deduction of 1 percent from salaries of public and private sector employees and 0.5 percent from pension payouts, in addition to amending the income tax law to enhance its progressivity), although these may not be sufficient to raise the revenues-to-GDP ratio. Thus, the deficit is projected to continue widening, before fiscal consolidation is resumed in FY2022.

Risks are dominated by pandemic scenarios. Under a dismal scenario where this health crisis becomes protracted and lockdowns are re-imposed, the recovery may be delayed, and recently-achieved gains from the macroeconomic reforms may be undermined and long-standing challenges may be aggravated.

TABLE 2 Arab Republic of Egypt / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.2	5.3	5.6	3.5	2.3	5.8
Private Consumption	4.2	1.0	0.9	1.1	0.8	2.9
Government Consumption	2.5	1.7	2.8	4.3	5.0	5.0
Gross Fixed Capital Investment	11.9	16.4	13.7	4.0	3.9	16.5
Exports, Goods and Services	86.0	31.6	-2.1	-15.0	-7.2	9.9
Imports, Goods and Services	52.5	10.6	-8.9	-16.0	-7.5	6.6
Real GDP growth, at constant factor prices	3.6	5.3	5.1	3.4	2.2	5.7
Agriculture	3.2	3.1	3.3	3.3	3.3	3.0
Industry	2.1	6.4	5.8	2.0	0.2	7.0
Services	4.6	5.1	5.1	4.2	3.3	5.5
Inflation (Consumer Price Index)	23.3	21.6	13.9	5.7	9.5	10.0
Current Account Balance (% of GDP)	-6.1	-2.4	-3.6	-4.1	-4.4	-3.3
Net Foreign Direct Investment (% of GDP)	3.3	3.0	2.6	1.7	1.0	2.2
Fiscal Balance (% of GDP)	-10.9	-9.7	-8.1	-8.2	-8.4	-6.9
Primary Balance (% of GDP)	-1.8	0.1	1.9	1.6	0.6	1.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.8	3.9	4.1	4.3	4.4	4.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	28.9	29.5	30.0	30.5	31.1	30.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2017-HIECS.Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022. Poverty rates prior to 2010 are based on a different consumption aggregate.

(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.

IRAN, ISLAMIC REPUBLIC

Table 1	2019
Population, million	82.8
GDP, current US$ billion	440.4
GDP per capita, current US$	5318.0
Upper middle-income poverty rate ($5.5)[a]	12.9
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	110.7
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2018).

The COVID-19 pandemic has amplified the impact of economic sanctions and existing structural imbalances in Iran's economy. The decline in revenues led the government to issue new debt and sell assets on the stock market, increasing financial risk exposures. A sharp exchange rate depreciation has accelerated inflation, with negative consequences for the livelihoods of vulnerable households. The growth outlook remains subdued due to trade restrictions and the ongoing global pandemic.

Key conditions and challenges

Iran's economy has stagnated over the last decade, a legacy of sanctions and dependence on the volatile oil sector. Since 2010/11[1], GDP grew at an annualized rate of -0.1 percent and key opportunities such as peak oil prices were missed. Economic activity was highly volatile as the country underwent various economic sanctions and oil price cycles. High economic volatility led to a less favorable investment climate and heightened inflationary expectations. While the economic base is relatively diversified, non-oil sector growth has remained slow. COVID-19 amplified existing structural challenges but limited integration of Iran's economy with the rest of the world reduces exposure to external shocks. Abundant human capital and natural resources present opportunities for growth.

Fiscal policy has been procyclical and large public sector presence has overshadowed private sector's role in job creation. The oil export decline increased pressures on government revenues but progress in tax effort and debt issuance have helped contain the deficit and meet financing needs, respectively. Increasing reliance on bond issuance and asset sales in the equity market has increased financial risk exposures. High subsidy expenditures and large wage bill has inhibited counter-cyclical fiscal policy and the marginalization of the private sector has led to inadequate job creation. Poverty mitigation measures including cash transfers helped partly contain pressures on the poor.

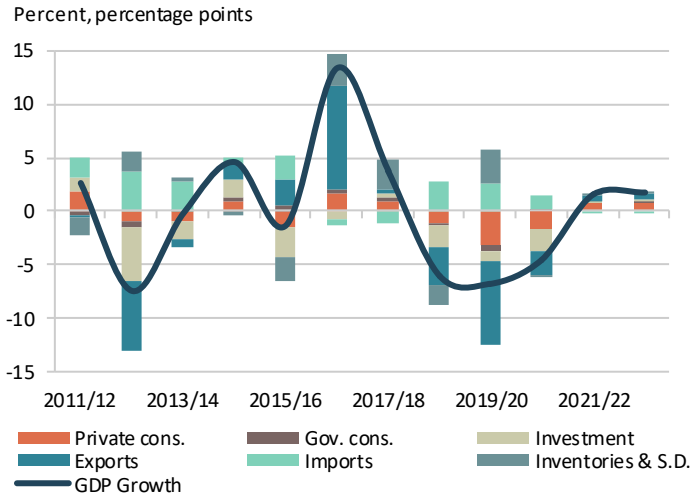
Recent developments

Iran's economy is undergoing a third consecutive year of recession due to US sanctions and the COVID-19 crisis. Iran's real GDP contracted by 6.8 percent in 2019/20 after sanctions led oil GDP to fall by 38.7 percent. Despite the expansion of sanctions to other key sectors, non-oil GDP grew by 1.1 percent as exchange rate (ER) depreciation made production more competitive. The GDP decline continued in Q1 2020/21 as COVID-19 containment measures contributed to GDP contracting by 3.5 percent (YoY); a modest contraction compared to most other countries. This smaller impact is partly due to the already lower economic base and limited integration with the rest of the world following decades of sanctions.

Inflationary pressures were high in 2019/20 and resurged in the first five months of 2020/21 as the rial depreciated. Inflation increased by 10 pp to 41.2 percent in 2019/20 due to inflationary expectations and higher cost push factors including higher trade costs and a sharp ER depreciation (45.7 percent). Inflation was led by food and housing rent, disproportionately impacting low-income deciles. In

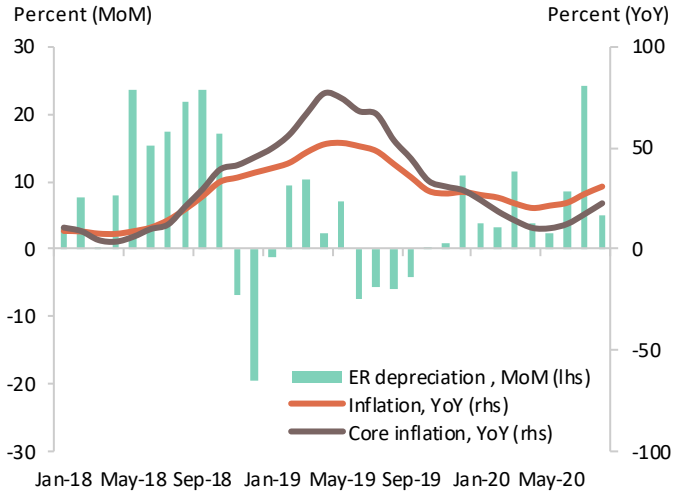
1/ The Iranian calendar year starts on March 21 of every year and ends on March 20 of the following year.

FIGURE 1 Islamic Republic of Iran / Real GDP growth and contributions to real GDP growth (demand side)



Sources: CBI, SCI and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Inflation and parallel market ER



Sources: CBI, SCI and World Bank staff calculations.

tandem with the ER trend, inflation jumped to 6.4 percent (MoM) in July 2020 (21 month high).

Rapid decline in exports led to a deterioration of external balances. The current account surplus declined to 0.9 percent of GDP in 2019/20 as real net exports contracted by 26.9 percent. Oil exports fell below 0.7 mbpd in 2019 after US sanction waivers for imports of Iran's oil ended in April 2019. Import contraction was large due to rationing of foreign exchange reserves and secondary US sanctions. Non-oil trade contracted by 31 percent (YoY, nominal) in Apr-Aug 2020 due to COVID-19 and the authorities' widening the import ban list.

The government resorted to bond issuance and sales of assets to compensate for oil revenue decline and lower tax base. The fiscal deficit to GDP ratio deteriorated in 2019/20 as oil revenues fell to 2.2 percent of GDP. Current expenditures grew faster due to wage bill and transfer growth. Bond issuance jumped to 6.9 percent of GDP following budget law amendments. In 2020/21, the government began selling shares in SOEs via the stock market and held additional bond auctions.

The worsening economic situation led to a deterioration of participation and employment rates. Employment had increased by 1.8 percent to reach 24.3 million people employed in 2019/20 but fell by 1.5 million (YoY) in Q1 2020/21 following COVID-19. Labor force participation declined by 0.4 pp in 2019/20 to 44.1 percent and in Q1 2020/21 the labor force shrank by 1.3 million (YoY). The unemployment rate in 2019/20 and Q1 2020/21 fell to 10.7 percent and 9.8 percent, respectively.

Poverty at the World Bank's upper middle-income threshold of US$5.5 per day (2011 PPP) was 12.9 percent in 2017/18, a moderate increase since 2013/14.

Outlook

Iran's economic outlook is impacted by the COVID-19 crisis and continuation of sanctions. Iran's GDP in 2020/21 is now estimated to contract at 4.5 percent due to a shorter lockdown period. Overall economic contraction is projected to increase in the second half of 2020/21 with a resurgence of cases in the colder season. In the absence of a widely adopted vaccine, recovery in 2021-2022 is projected to be weak and driven by the non-oil sector.

Fiscal pressures are projected to increase due to higher bond issuance and as COVID-19 costs increase in 2020/21. Government revenues are projected to reach a trough in 2020/21 before improving with moderate economic recovery. Inflationary pressures are expected to remain high due to economic uncertainties and ER pressures.

The COVID-19 outbreak will impact households through reduced incomes and high inflation. The fall in labor market incomes is estimated to increase poverty in the short-term by 7 pp, with worse outcomes for those working self-employed and in services. Government cash transfers help partly compensate for the shock, but their impact is hindered by high inflation eroding their value in real terms. Fiscal constraints may limit the scope for a wider response, but better targeting of cash transfers can help reduce mitigation costs.

Risks to Iran's economic outlook relate to the evolution of COVID-19 and geopolitical developments. The economic outlook is subject to significant risks if a large resurgence of COVID-19 cases forces stringent lockdown measures or a reliable vaccine is not distributed in 2021. Higher government debt issuance and stock market sales of assets increase financial risks and could place additional stress on the undercapitalized banking sector. External balances could worsen with further trade restrictions or if demand in other export partners remains weak. The lifting of US sanctions would have a large positive economic impact, similar to JCPOA implementation in 2016. With the economy operating below potential output, recovery in the outer years could be stronger.

TABLE 2 Islamic Republic of Iran / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017/18	2018/19	2019/20	2020/21 e	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	3.8	-6.0	-6.8	-4.5	1.5	1.7
Private Consumption	2.5	-2.6	-7.7	-4.0	1.7	2.0
Government Consumption	3.9	-2.9	-6.0	1.2	0.5	0.7
Gross Fixed Capital Investment	1.4	-12.3	-5.9	-13.8	1.9	2.0
Exports, Goods and Services	1.8	-12.5	-29.9	-10.9	2.6	2.9
Imports, Goods and Services	13.4	-29.5	-38.1	-30.8	1.0	2.0
Real GDP growth, at constant factor prices	3.7	-5.4	-6.5	-4.5	1.5	1.7
Agriculture	3.2	-0.9	8.8	0.5	1.0	2.0
Industry	3.0	-11.0	-15.9	-5.5	2.2	2.2
Services	4.5	-0.7	-0.5	-4.6	1.1	1.3
Inflation (Consumer Price Index)	9.7	31.2	41.2	34.1	27.4	23.0
Current Account Balance (% of GDP)	3.5	5.9	0.9	-0.6	0.5	0.7
Fiscal Balance (% of GDP)	-1.8	-1.6	-3.7	-6.6	-6.7	-6.9
Gross Public Debt (% of GDP)	36.1	41.8	42.9	45.6	47.5	49.6
Primary Balance (% of GDP)	-1.6	-1.3	-3.0	-5.5	-5.3	-5.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

REPUBLIC OF IRAQ

Table 1	2019
Population, million	40.1
GDP, current US$ billion	234.1
GDP per capita, current US$	5840.5
Lower middle-income poverty rate ($3.2)[a]	14.8
Upper middle-income poverty rate ($5.5)[a]	52.4
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	70.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011 PPPs.
(b) WDI for School enrollment (2007); Life expectancy (2018).

Iraq's economy is expected to contract in 2020 due to lower oil prices and the spread of COVID-19. The twin deficits are mounting as a result, reversing the declining trend on public debt and adding pressure on the exchange rate and central bank reserves. Weaker oil prices, budget rigidities as well as cuts to pro-growth program and the slow implementation of structural reforms are all upstream risks to the economic outlook that will hinder advancing human capital formation and job creation.

Recent developments

Faced with this multifaceted crisis, Iraq's growth is expected to contract by 9.5 percent in 2020, the worst annual performance since 2003. Oil-GDP is contracting by 12 percent, capped by the OPEC+ production agreement, while non-oil-GDP is contracting by 5 percent as services sectors are affected by COVID-19 mitigation measures especially the all-important religious tourism. Subdued domestic demand and the depreciation of the Iran and Turkey's currencies vis-à-vis the Dinar have kept inflation checked. Headline and core inflation registered only 0.4 and 0.7 percent rise in first 7 months 2020 (y/y).

Cuts in oil production and prices have seen budgetary revenues drop by 39 percent in the first half of 2020 (H1-20) (y/y). GoI's response was to stop discretionary spending and public investment including growth-critical human capital and service delivery programs. Nevertheless, given the wage bill and pension rigidities, which require a US$58 per-oil-barrel to be fully covered, the budget surplus in H1-19 turned into a 0.7 percent of GDP deficit in H1-20. With no access to international markets, the deficit is being primarily monetized with secured through the central bank (CBI) and to lesser extent by state-owned-banks, adding pressure on the exchange rate. Moreover, public debt is expected to reach 66 percent of GDP in 2020, up from 45 percent in 2019.

Less favorable terms of trade have also turned the current account surplus into a 0.9 percent of GDP deficit in Q1-20 (most recent data). With little financing available - foreign borrowing has dropped by 3.1 percent of GDP – such large swing is taking a toll on CBI reserves.

Outlook

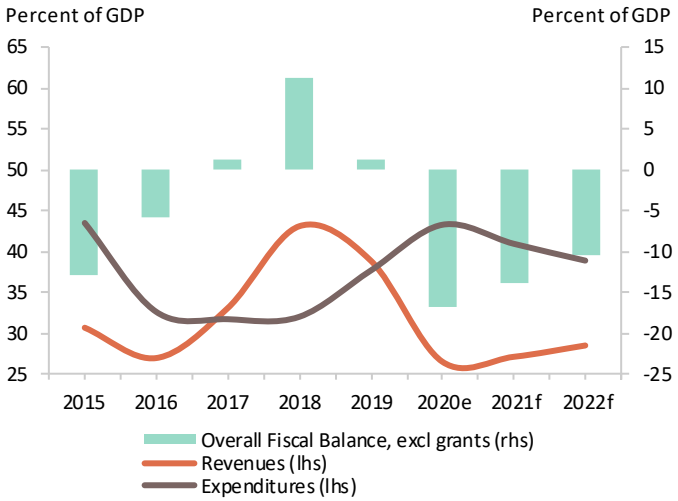
The outlook for Iraq's is highly uncertain and will depend on the evolution of global oil markets, the capacity of the Iraqi healthcare system to respond to the pandemic, and the reform process.

If conditions ease, growth is projected to gradually return to 2.0-7.3 percent in 2021-2022 with non-oil economy projected to bouncing back to an average of 4 percent in 2021-22. The recovery in domestic demand is expected to increase inflation in 2021-22, to an annual average of 2 percent.

In the absence of public wage bill and pension reforms, the fiscal deficit is projected to remain sizeable averaging 12 percent of GDP in 2021-22 amidst modest recovery in oil prices. Consequently, debt to- GDP ratio is projected to remain elevated over the forecast period. Securing budget financing will be challenging. Reliance on domestic financing would increase Iraq's debt service and repayment risks, and crowd out private sector.

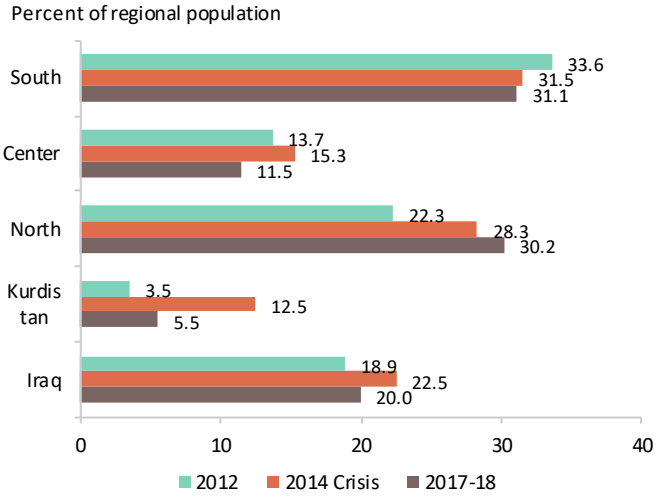
Iraq is also expected to face a persistent current account deficit. However, low public spending outside of the wage bill and pension is expected to ease the impact on the CBI reserves as imports are contained. Reserves are projected to reach seven months of imports by 2022.

FIGURE 1 Republic of Iraq / Fiscal accounts



Sources: Ministry of Finance; and World Bank staff projections.

FIGURE 2 Republic of Iraq / Regional poverty head-count rates



Sources: World Bank staff estimates.

Pre-existing conditions of rising unemployment and underemployment particularly among youth and IDPs are likely to worsen with the current crises. Projections suggest that poverty would increase by 7 to 14 percentage points. This means 2.7 to 5.5 million Iraqis would become poor due to the pandemic in addition to the existing 6.9 million pre-crisis poor.

Risks and challenges

The drop in oil prices and the COVID-19 pandemic are placing unprecedented strain on Iraq's economy. These fragilities are amplified by an already precarious political situation, a significant weak healthcare system, an ineffective social safety nets systems, rampant corruption, and dilapidated service delivery which continue to fuel large scale protests across the country.

While the new Government of Iraq (GoI) has been affirming its grip on security and illegal arms as well as announcing a date for new parliamentary election in response to popular protests, it has been struggling in dealing with economic challenges. The country's pre-existing conditions of heavy oil dependence, dominant presence of the state in economic activities, as well as budget rigidities limit GoI's capacity to respond to the Covid-19 and offer a stimulus package to restart the economy.

The key challenges for Iraq will be to navigate this multi-dimensional crisis amidst unfavorable conditions for international oil markets. The implementation of the OPEC+ agreement and a global recession means that growth prospects for Iraq are on the downside. It also underscores the importance of creating fiscal space for advancing the human capital, diversification, and job creation agendas. Even with a recovery in oil prices, Iraq will need to undertake many reforms to rebuild fiscal space by cutting distortionary and strengthening the orientation of macroeconomic policies. A failure to narrow the twin deficits and a rapid build-up in government debt would divert more resources away from productive investment and further reduce foreign exchange reserves and the economy's resilience to shocks.

These crises are also likely to worsen the welfare of Iraqi households. After years of conflict and displacement, many Iraqis were already vulnerable, and the pandemic will test their resilience further. While disruption in supply chains will increase basic prices, households' labor and non-labor incomes are likely to decrease due to the economic slowdown and reduced remittances. Tightening fiscal space could affect food and public cash transfers. Many households may lose all of their incomes, especially those in the informal private sector, compelling them to exhaust savings and employ negative coping strategies. In the absence of a significant government response, these short-term effects coupled with the reduced access to education, healthcare, and other services will have lasting impacts on households' ability to escape poverty or remain above it.

TABLE 2 Republic of Iraq / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	-2.5	-0.6	4.4	-9.5	2.0	7.3
Private Consumption	-1.2	0.3	2.0	-4.2	2.2	2.4
Government Consumption	4.4	15.2	14.3	14.3	10.4	7.3
Gross Fixed Capital Investment	-13.0	-9.1	-13.9	-13.6	2.1	2.3
Exports, Goods and Services	-0.1	1.4	3.9	-22.6	17.4	8.2
Imports, Goods and Services	-1.7	13.1	12.0	3.2	2.0	2.4
Real GDP growth, at constant factor prices	-2.5	-0.6	4.4	-9.5	2.0	7.3
Agriculture	-16.0	-26.1	5.0	3.0	5.5	5.0
Industry	-3.5	-2.3	4.2	-6.2	2.1	5.0
Services	0.9	4.6	4.8	-17.5	1.7	13.5
Inflation (Consumer Price Index)	0.1	0.4	-0.2	0.9	2.0	2.0
Current Account Balance (% of GDP)	1.8	6.9	2.7	-12.2	-8.0	-4.5
Fiscal Balance (% of GDP)	1.3	11.2	1.3	-16.8	-13.9	-10.4
Debt (% of GDP)	58.9	46.0	46.8	65.7	66.0	64.3
Primary Balance (% of GDP)	2.3	12.3	2.4	-14.9	-12.2	-9.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

JORDAN

Table 1	2019
Population, million	10.1
GDP, current US$ billion	44.6
GDP per capita, current US$	4412.4
School enrollment, primary (% gross)[a]	81.5
Life expectancy at birth, years[a]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Jordan has done well at minimizing the health impact of the COVID-19 crisis through strict enforcement of Non-pharmaceutical Interventions. However, domestic lockdowns, global economic slowdown, trade disruptions and suspension of international travel is likely to have a sizable impact on its economy. Consequently, poverty is expected to increase in the short run by 11 percentage points. The speed of economic recovery in the medium term depends, in large part, on the pandemic's evolution and accomplishment of aspired domestic reforms.

Recent developments

Economic activity decelerated during Q1-2020. Jordan's real GDP growth slowed down to 1.3 percent in Q1-2020 compared to 2.0 percent in Q1-2019. Growth on the supply side was driven by the services sector, while industry and agriculture sectors' contribution remained nominal.

Headline inflation remains muted. CPI inflation during 8M-2020 stood at 0.5 percent, largely reflecting substantial softening in global oil prices, while this impact is somewhat contained by a recent surge in food prices.

Pressure on the external sector appears to be increasing. Although the current account deficit (CAD) (incl. grants) during Q1-2020 narrowed by 6.3 percent year-on-year (y-o-y) in dollar terms, the latest data is showing significant build-up on external sector pressures. Exports, travel receipts and remittances substantially declined in Q2-2020 on account of sharp economic downturn in Jordan's major trading partners—the U.S., India and Saudi Arabia, while, significant contraction in energy and non-energy imports provided much relief.

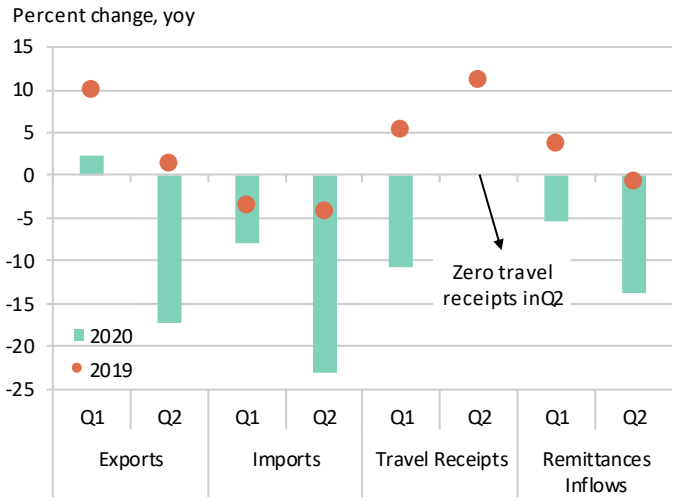
The Central Government (CG) fiscal deficit appears to be expanding. Overall fiscal deficit (excl. grants) of CG during 5M-2020 widened to 4.0 percent of forecasted annual GDP as domestic revenues declined by 26.2 percent y-o-y as a result of lockdown and postponement of tax payments. On the spending side, recurrent spending registered a nominal decline of 1.2 percent y-o-y while capital expenditures reached an unprecedented low.

Poverty was a challenging issue even before the COVID-19 onset, while employment challenges have been exacerbated by the crisis. In 2019, the national poverty rate reached 15.7 percent. Meanwhile, labor market indicators for Q2-2020 reflect the significant disruptions of the COVID-19 pandemic on Jordan's labor market. During Q2-2020, employment stood at 26.3 percent, dropping by 1.5 percentage points y-o-y. Meanwhile, unemployment in Q2-2020 edged up to 23.0 percent, 3.8 percentage points higher than Q2-2019. The youth (ages 15-24 years), particularly young women, seem strongly affected by the crisis. During the same time, the labor force participation rate declined by 0.4 percent y-o-y, indicating increased discouragement for labor market engagement.

Outlook

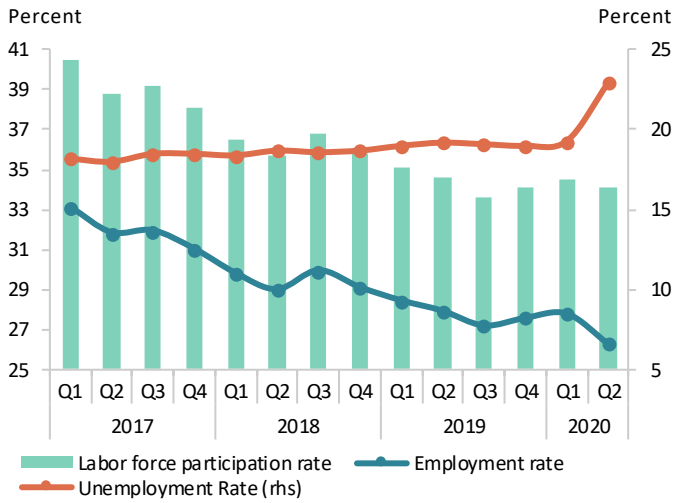
The COVID-19 pandemic has destabilized the world economy and the Jordanian economy is projected to contract by 5.5 percent in 2020. Significant downward revision in growth of main trading partners is projected to create a substantial drag on manufacturing and investment related activities. Moreover, the services sector is likely to face a substantial contraction due to suspension of international travel, domestic lockdowns (21 Mar to 3 May and 17 Sep to 1 Oct) and dwindling consumer sentiment. Over the medium-term, growth is projected to remain on a

FIGURE 1 **Jordan** / Current account indicators



Sources: Central Bank of Jordan and World Bank staff calculations.

FIGURE 2 **Jordan** / Labor market indicators



Sources: Department of Statistics and World Bank staff calculations.

low plateau unless Jordan's deep structural issues and economic challenges are addressed quickly and comprehensively.

Global economic downturn is expected to create significant external account pressure. CAD (incl. grants) is projected to widen to 7.5 percent of GDP in 2020 compared to 2.3 percent in 2019. Exports are projected to decline sharply due to a slump in global demand and domestic manufacturing. Tourism related revenues are expected to fall sharply due to the lockdowns and border closures. Remittances inflows are also projected to decline as three-fourths of Jordan's remittances originate from oil exporting economies which are impacted by the sustained dip in the oil prices. Thus, even significant contraction in imports due to fall in domestic demand is unlikely to be enough to offset these pressures. Over the medium-term, CAD is projected to gradually improve, driven by a pick-up in goods and services exports even though remittances and travel receipts are unlikely to reach pre-COVID levels even by 2022.

The COVID-19 shock and subsequent economic slowdown is likely to exacerbate the fiscal stance. Overall balance of the Central Government (including grants) in 2020 is projected to widen to 8.2 percent of GDP compared to 4.6 percent in 2019. This is a result of a sharp decline in domestic revenues (due to the economic slowdown) while COVID-19 spending pressures are likely to keep the recurrent side elevated. Capital spending on the other hand, is likely to disproportionally bear the burden of fiscal entrenchment and is projected to be lower than last year. Over the medium term, the fiscal balance (of Central Government) is projected to gradually improve contingent upon implementation of additional fiscal measures that are part of the IMF EFF program.

The household impacts of the COVID-19 shock raise serious concerns for household welfare. The declines in households' labor and remittances incomes due to the COVID-19 economic shock are expected to increase poverty in the near-term by 11 percentage points, although the government emergency response through cash transfers and continued expansion of the social safety net can help mitigate about a third of that increase. As lockdown restrictions are lifted and employment recovers, poverty is expected to fall, but a return to pre-crisis levels is subject to uncertainty about the economic recovery path potentially facing subsequent waves. Household recovery is expected to be uneven; informal workers and those in interaction-intensive services sectors like construction, transportation and hospitality will likely see depressed incomes for longer.

Risks and challenges

Even prior to the COVID-19 shock, Jordan's economic growth remained low while unemployment was elevated due to combination of factors including, numerous external shocks, and sluggish economic reforms. The unprecedented economic shock emerging from COVID-19 pandemic has exacerbated existing structural weaknesses in the economy as well as unresolved social challenges while putting pressure on country's fragile macroeconomic stance. Key challenges to Jordan's outlook include a prolonged decline in economic activity due to domestic lockdowns which could further escalate already high unemployment levels. Moreover, significant deterioration in the fiscal accounts and the fiscal cost associated with the energy sector and state-owned companies entail considerable risk to public finances and debt dynamics in the short and medium terms. In addition, Jordan's chronic structural weaknesses and a slow reform implementation may hinder a fast recovery over the medium-term.

TABLE 2 Jordan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.1	1.9	2.0	-5.5	3.8	2.2
Private Consumption	6.6	0.6	0.4	-5.6	2.6	1.4
Government Consumption	3.4	4.0	4.4	5.0	3.3	1.7
Gross Fixed Capital Investment	7.4	0.4	3.7	-6.4	4.6	4.0
Exports, Goods and Services	5.0	0.6	12.4	-28.8	6.4	2.9
Imports, Goods and Services	9.5	-0.8	7.6	-18.1	3.1	1.6
Real GDP growth, at constant factor prices	2.2	2.0	2.2	-5.0	3.4	2.0
Agriculture	4.8	3.2	2.6	3.0	0.2	0.1
Industry	1.7	1.2	1.4	-11.3	4.7	2.2
Services	2.2	2.3	2.4	-3.0	3.2	2.0
Inflation (Consumer Price Index)	3.3	4.5	0.8	-0.1	2.1	2.3
Current Account Balance (% of GDP)	-10.6	-6.9	-2.3	-7.5	-6.4	-5.2
Net Foreign Direct Investment (% of GDP)	4.9	2.2	1.8	0.4	2.4	2.6
Fiscal Balance (% of GDP)[a]	-2.2	-3.3	-4.6	-8.2	-5.6	-4.9
Debt (% of GDP)[b]	92.8	92.9	97.4	113.5	114.1	115.2
Primary Balance (% of GDP)[a]	0.7	0.0	-1.1	-4.1	-1.5	-0.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Central Gov. fiscal balance incl. grants, use of cash and unidentified fiscal measures as per IMF-EFF of 1.5% of GDP in 2021and 2.2% of GDP in 2022.

(b) Government and guaranteed gross debt including debt holdings by SSIF. Includes WAJ estimated borrowing for 2020-2022. Includes legacy arrears in 2019.

KUWAIT

Table 1	2019
Population, million	4.2
GDP, current US$ billion	135.5
GDP per capita, current US$	31888.9
School enrollment, primary (% gross)[a]	92.4
Life expectancy at birth, years[a]	75.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

While performance in 2020 will suffer from the twin shocks of COVID-19 and the oil price slump, growth in Kuwait has been tapering since 2014. The inevitable fiscal deficit increase from declining oil revenue and crisis mitigation spending, and funding needs for the Future Generations Fund are exacerbating pressure on fiscal buffers, in the absence of a debt law. While less exposed to internationally hard-hit sectors than its GCC neighbors, long-standing rigidities will impede adjustment to the protracted COVID-19 shock.

Recent developments

Real GDP posted a modest decline of 1.1 percent in Q1-2020; non-oil growth contracted by 3.5 percent while real oil GDP increased by 1.2 percent with the OPEC+ deal lapse. Broad-based measures to stem the pandemic included suspending flights, closing schools/ universities, banning public gatherings, suspending nonessential work, and imposing 24-hr curfew. Kuwait's persistence with variants of these measures is one of the longest continuous stretches in the world. These measures have significantly impacted private spending, investment activity and overall GDP starting Q2-2020.

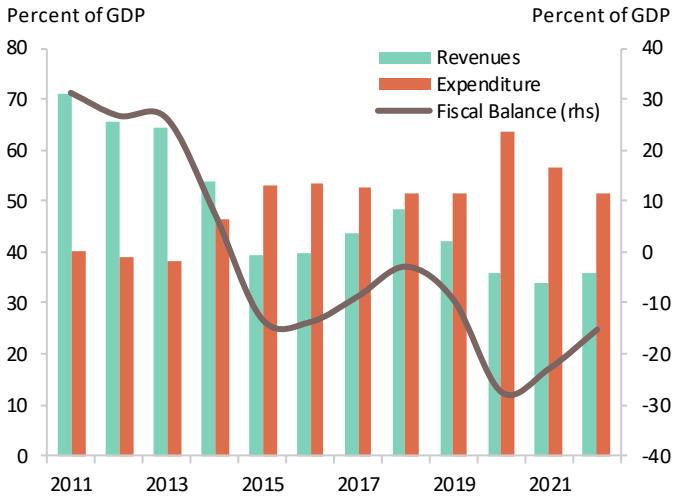
Discretionary fiscal response to mitigate the effects of the pandemic and public health response was small and included additional allocations of US$1.6 billion to the budget, the postponement of social security/ pension payments, and exemption of various fees. The Central Bank (CBK) introduced a US$16.5 billion support package, enabled deferred loan payments, reduced liquidity and capital adequacy requirements, cut risk weighting for SMEs, and mirrored policy rate cuts by the US Federal Reserve. Data from Knet shows a temporary boost in consumer spending in June from pent-up demand and loan repayment deferrals as lockdown restrictions eased. However, as in other countries, "second wave" fears could see the return of restrictions.

The fiscal deficit worsened from 3.1 percent of GDP in FY18/19 to 9.6 percent in FY19/20 (the fiscal year begins in April). These figures are excluding investment income and before transfers to the Future Generations Fund (FGF). However, these are better outturns than the budget target of KD6.7 billion (15.7 percent of GDP) due to the traditionally conservative oil price assumption. Oil revenues declined by 16.6 percent on the back of a 10.3 percent fall in oil prices and a 2.2 percent reduction in oil output. Non-oil revenues fell too due to weak economic activity. On the other hand, spending fell slightly driven by a fall in subsidies and capital spending.

While Kuwait has significant financial buffers (estimated at US$500 billion) to weather the current crisis, continued drawdowns for deficit financing and legally-mandated 10 percent of budgetary revenue transfers to the FGF have reduced the balances in the General Reserve Fund (GRF) by 12 percent of GDP in FY19/20. Kuwait has not issued debt since 2017 as it awaits parliamentary approval to raise the borrowing limit. Thus the fiscal crisis facing many oil exporters is compounded by the financing needs to execute the annual FGF transfers. The Parliament recently passed legislation making the annual transfer contingent on a fiscal surplus, but the legislation did not set out any mechanism by which a surplus would be achieved or FGF transfers made more predictable.

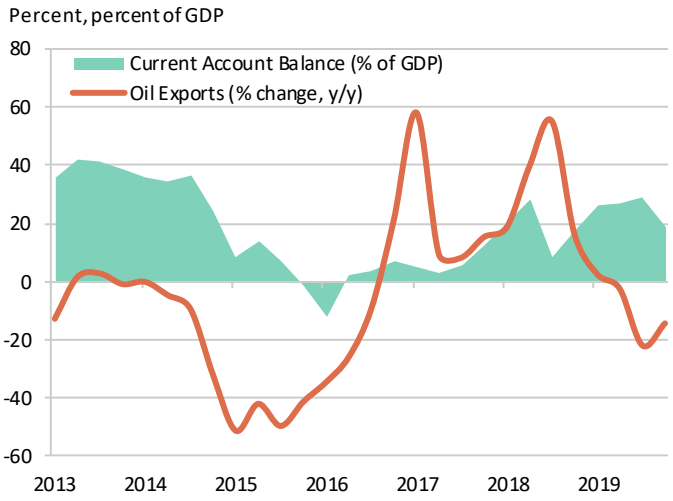
Like other GCC countries, Kuwait has significant labor market heterogeneity across genders and age groups with higher unemployment among the young (15-24 years). Kuwaiti women are less likely

FIGURE 1 **Kuwait** / General government operations



Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice, IMF WEO Oct 2019.
Notes: Based on fiscal year cycle, which starts April 1 and ends March 31 (2) Balances exclude investment income and before oil revenue transfers to the Future Generations Fund.

FIGURE 2 **Kuwait** / Current account and oil exports



Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.

to participate in the labor force than Kuwaiti men (30.8 percent and 47.7 percent in 2017, respectively) and face higher unemployment rates. Female unemployment in the 15-24 years age group almost doubles men unemployment in the same age bracket (37.1 percent for female nationals versus 20.5 percent for male nationals in 2017). In the context of the economic disruptions due to the pandemic, expatriate workers are expected to bear the brunt of the slump in business activity. Around 5 percent of the expat population reportedly left the country as proposed changes to the residency law aim at reducing the number of expats in Kuwait and as firms are forced to lay off workers.

Outlook

The protracted nature of the pandemic and slow government response has led to a downgrade in forecasts. Real GDP is now expected to contract by 7.9 percent of GDP in 2020 (compared to -5.4 percent forecasted in June 2020) as non-oil GDP growth is subdued by protracted public health measures and the constrained fiscal mitigation measures, while oil GDP contracts in compliance with the OPEC+ agreement. Over the medium-term growth will recover with continued recurrent public spending and credit growth, reaching to 2.9 percent by 2022.

The oil price slump and higher government spending are expected to widen the fiscal deficit in 2020. According to preliminary estimates, authorities are expecting an overall deficit of KD 14 billion (32 percent of GDP) for FY2020/21 (to end-March 2021), compared to the target of KD 7.7 billion approved in January 2020. Beyond 2020 the introduction of a VAT and modest rebound of oil prices is likely to reduce budgetary pressures, depending on the government's appetite for VAT implementation in a weaker economy. The trajectory of government debt is subject to the passing of the much-anticipated debt law. Despite the rebound in global merchandise trade in June, Kuwait's current account is expected to turn into deficit in 2020 but recover slowly over the medium term. Inflation is expected to rise gradually as economic activity and property rents recover.

Risks and challenges

Friction between the executive and legislative branches has led to frequent cabinet reshuffles and parliamentary opposition to critical fiscal reforms remains a key challenge. This friction, now to the fore in the stalled progress on the draft debt law, and the lessened appetite for reform, will continue due to the elections expected in November 2020. The subsequent formation of a new government will unfold in the context of the orderly accession of the Emir. Longer-term challenges relate to the economy's heavy dependence on oil and slow progress in the implementation of the Vision 2035. Large financial assets underpin Kuwait's economic resilience, but fiscal and structural reform are key to offset the risks of lower oil prices, low oil demand in the future and rising marginal cost of oil production. These measures include non-oil revenue mobilization as well as enhancing human capital and reforming economic governance to invigorate private sector led development and job creation.

Key risks relate to the length of COVID-19 and continued volatility in oil prices. If there is resurgence of cases in Kuwait or the pandemic fails to be contained globally and oil prices plunge further resulting from lower oil demand due to a protracted global slowdown or a recession in the US, this will lead to unfavorable macro-financial dynamics for Kuwait, widening fiscal and external imbalances and further eroding fiscal buffers.

TABLE 2 Kuwait / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	-4.7	1.2	0.4	-7.9	1.0	2.9
Private Consumption	3.5	5.4	3.2	-4.7	1.5	3.1
Government Consumption	2.0	6.3	2.6	-1.0	0.5	2.2
Gross Fixed Capital Investment	10.8	4.8	3.3	-3.5	-1.0	2.1
Exports, Goods and Services	-4.8	-4.8	-0.4	-12.0	3.3	5.0
Imports, Goods and Services	9.2	-0.9	2.0	-3.0	3.2	5.1
Real GDP growth, at constant factor prices	-4.0	1.3	-0.6	-7.3	0.9	2.7
Agriculture	6.2	-0.4	-6.0	1.0	1.5	2.0
Industry	-6.1	0.2	-1.5	-9.0	-0.5	2.1
Services	-0.4	3.1	0.9	-4.8	2.9	3.5
Inflation (Consumer Price Index)	2.2	0.6	1.1	0.9	2.0	2.3
Current Account Balance (% of GDP)	8.0	14.1	16.4	-5.3	-0.9	2.2
Fiscal Balance (% of GDP)[a]	-8.9	-3.0	-9.6	-27.7	-23.0	-15.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).

LEBANON

Table 1	2019
Population, million	6.9
GDP, current US$ billion	51.6
GDP per capita, current US$	7492.3
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	78.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011).
(b) Most recent WDI value (2018).

Lebanon's macroeconomy is in dire straits due to compounded crises. On October 2019, the economy plunged into a financial crisis brought about by a sudden stop in capital inflows, which precipitated banking, debt (including sovereign default) and exchange rate crises. End-March 2020, the Government imposed a lockdown to counter COVID-19. Lastly, on August 4, 2020, a massive explosion rocked the Port of Beirut (PoB), destroying much of the port and severely damaging the dense residential and commercial areas within 1- to 2-mile radius. Lebanon is in its third government in less than a year.

Recent developments

Real GDP is projected to decline by 19.2 percent in 2020. High frequency indicators support such a substantial contraction in economic activity. Tourist arrivals fell by 71.5 percent, year-on-year (yoy), over the first five months of 2020 (5M-2020), compared to an increase of 5.5 percent in the same period in 2019. The BLOM-PMI index, which captures private sector activity, averaged 38.7 in 5M-2020 (<50 represents a contraction of activity), the lowest since it was first published in 2013. Meanwhile, the real estate sector has been subject to two offsetting factors; on the one hand, facilitation by the financial sector to allow real estate purchases using pre-October 2019 dollar deposits under conditions of capital controls (and therefore, lack of alternatives to get those deposits out) has led to an increase in such purchases. On the other hand, construction permits and cement deliveries, which are more accurate indicators of construction activities in the real estate market, suffered yoy declines of 67.9 and 55.7 percent, respectively, in Q1-2020. On the demand side, net exports, is expected be the sole positive contributor to GDP, driven by falling imports (the total value of merchandize imports declined by 48.7 percent in 6M-2020, compared to the same period in 2019).

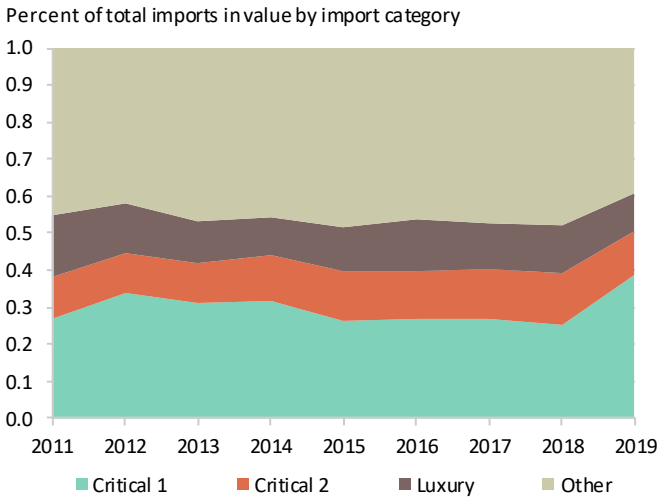
Partial-year fiscal data confirm severe fiscal stress. Over the 5M-2020 period, total revenues declined by 15.4 percent (yoy), driven by 54.5, 51.1 and 37.9 percent yoy decreases in telecoms, VAT and customs revenues, respectively. Total expenditures over 5M-2020 have also decreased by 15.5 percent. This, however, is almost exclusively due to cuts in interest payments on foreign debt, which is the result of the Eurobond default decision in March 2020, whereas primary spending remained largely unvaried.

Monetary conditions continue to mirror crisis conditions centered around exchange market pressures. The highly volatile black-market exchange rate breached LL 10,000/ US$. This is within the context of a multiple exchange rate system, which includes the official exchange (LL 1,515/ US$) as well central bank (BdL)-backed lower rates for critical imports (Figure 1). Exchange rate pass through effects on prices have resulted in triple-digit inflation rates (the CPI rose to 112% (yoy) in July). Meanwhile, discussions with the IMF have stalled and remain at the diagnostic stage, with highly publicized differences between Government and BdL (especially on debt and banking sector restructuring), or between the IMF and BdL-Government (e.g. exchange rate).

Outlook

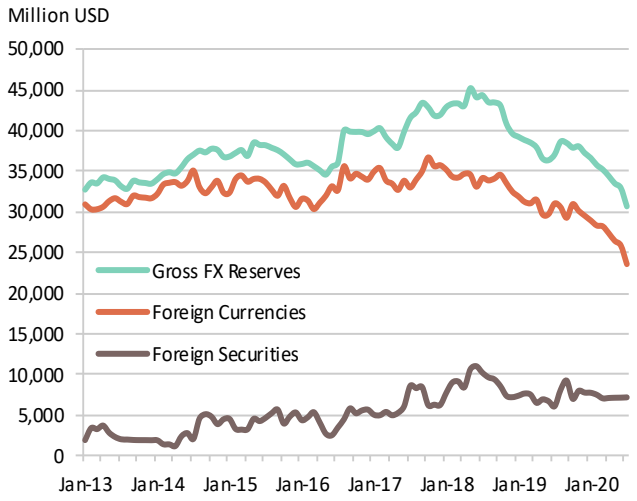
Subject to unusually high uncertainty, we project real GDP to contract by a further 13.2 percent in 2021. Our projection assumes the following key factors: COVID-19 effects carry through H1-2021, macro policy responses continue to be absent,

FIGURE 1 Lebanon / Plot of BdL-backed critical imports; C1 (fuel, medicine and wheat) and C2 (essential food items)



Sources: Lebanese authorities and WB staff calculations.

FIGURE 2 Lebanon / Gross foreign exchange position at BdL



Sources: Customs, MOET, BdL and WB staff calculations.

and limited reconstruction and recovery efforts in the aftermath of the PoB explosion. We are not assuming runaway inflation, but it is a realistic downside risk.

Lebanon's recession is likely to be arduous and prolonged given the lack of policymaking leadership. Exchange market pressures will continue to stifle trade finance and corporate finance in the highly dollarized economy, constraining the importation of capital and final goods, and inducing disruptions all along the supply chain. This implies an inability to tap international markets for foreign financing, and an impaired banking system. As a result, capital controls will continue to be needed, but are also projected to become less effective over time, in line with international evidence.

The sudden stop in capital inflows for an economy with a high import ratio for its consumption basket, and an inability to sufficiently produce substitute goods in the short term, has implied a steady depletion in foreign exchange (FX) reserves at BdL (Figure 2). As of August 31, 2020, gross FX reserves at BdL reached $28.5 billion, declining by $8.8 billion since end-2019. The gross position, however, guises key pressure points (BdL, contrary to other central banks, does not publish net reserves). The breakdown includes $5 billion in Lebanese Eurobonds and an unpublished amount lent out to banks since October 2019, leaving much of the remainder as required reserves on banks' customer FX deposits. BdL officials have made statements to the effect that their FX reserves will reach require reserves levels in the next few months, at which point they will be unable to back up critical imports at lower exchange rates, further exacerbating inflation.

A contraction of the Lebanese GDP per capita in real terms and two-digit inflation in 2020 will undoubtedly result in substantial increase in poverty rates affecting all groups of population in Lebanon through different channels such as loss of productive employment, decline in real purchasing power, stalled international remittances and so forth. Tracking population wellbeing on a regular basis and protecting the poor and the most vulnerable is an urgent priority for the country nowadays.

Risks and challenges

Macroeconomic stabilization is a key prior action for Lebanon's recovery process. This necessitates a credible strategy that identifies measures along a number of dimensions, especially, the external, fiscal and financial sectors, social safety nets, a growth framework and the governance deficiency. A key risk is hyperinflationary.

The Social impact already dire, could become catastrophic; half the population is falling below the poverty line, unemployment is rising rapidly. Currency deterioration and the resulting inflationary effects are highly regressive factors, disproportionally affecting the poor and middle class. In fact, inflation in the food and non-alcoholic beverages category has averaged 142.2 percent over 7M-2020, and has been a key driver of overall inflation. Those paid in LL—the bulk of the labor force—are seeing potent purchasing power declines. Violent street action has erupted across the country even under COVID conditions.

In the absence of formal capital controls, the lack of harmonization between banks, and between customers within the same bank, has generated considerable popular backlash against banks and the central bank. De facto lirafication and haircuts on dollar deposits are ongoing despite BdL's official commitment to safeguarding deposits. When paying out dollar deposits to customers, banks are exchanging at rates below the black-market rate and paying out in LL, implying a loss in real value. The burden of the ongoing adjustment/deleveraging is highly regressive concentrated on the smaller depositors and SMEs.

TABLE 2 Lebanon / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f
Real GDP growth, at constant market prices	0.9	-1.9	-6.0	-19.2	-13.2
Private Consumption	0.1	-1.3	-5.7	-13.8	-23.1
Government Consumption	9.9	6.7	-6.2	-49.4	-13.2
Gross Fixed Capital Investment	-1.9	-0.2	-16.9	-46.6	17.7
Exports, Goods and Services	3.9	-4.7	-1.2	-28.1	3.1
Imports, Goods and Services	2.1	1.2	-9.2	-32.6	-14.3
Real GDP growth, at constant factor prices	0.9	-1.7	-3.0	-15.1	-13.4
Agriculture	13.4	-4.0	28.6	8.6	-12.7
Industry	-3.3	-4.2	-0.5	-15.0	-12.9
Services	1.0	-1.1	-5.3	-17.0	-13.5
Inflation (Consumer Price Index)	4.5	6.1	2.9	70.0	37.0
Current Account Balance (% of GDP)	-22.8	-24.3	-22.4	-4.4	4.4
Net Foreign Direct Investment (% of GDP)	2.3	3.7	3.6	5.3	2.6
Fiscal Balance (% of GDP)	-6.7	-11.0	-10.6	-14.5	-14.8
Debt (% of GDP)	149.7	154.9	172.4	178.2	196.0
Primary Balance (% of GDP)	2.7	-1.2	-0.5	-4.0	-2.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

LIBYA

Table 1	2019
Population, million	6.6
GDP, current US$ billion	51.7
GDP per capita, current US$	7815.7
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	72.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2006); Life expectancy (2018).

The Libyan economy has recently been hit by four overlapping shocks: an intensifying conflict that suffocates economic activity, the closure of oil fields that puts the country's major income-generating activity largely on hold, decreasing oil prices that reduce income from oil production in surviving fields, and the COVID-19 pandemic (with 3,438 confirmed cases and 73 deaths as of August 2020), which threatens to further suppress the economy. A political resolution is needed to implement the required reforms for a private sector driven growth and jobs generation.

Recent developments

The attack on Tripoli in early 2019 and the blockade of the country's major oil ports and terminals in January 2020 generated the most serious political, economic, and humanitarian crisis faced by Libya since 2011. The economic impact was already felt in 2019 as real GDP growth slowed sharply to 2.5 percent, down from what seemed a promising steady recovery during 2017–18, with a record growth performance of 20.8 percent on average. As military confrontations escalated, oil production decreased from 1.2 million bpd in December 2019 bpd to 0.1 million bpd in April 2020 (Figure 1), choking the lifeline of the economy.

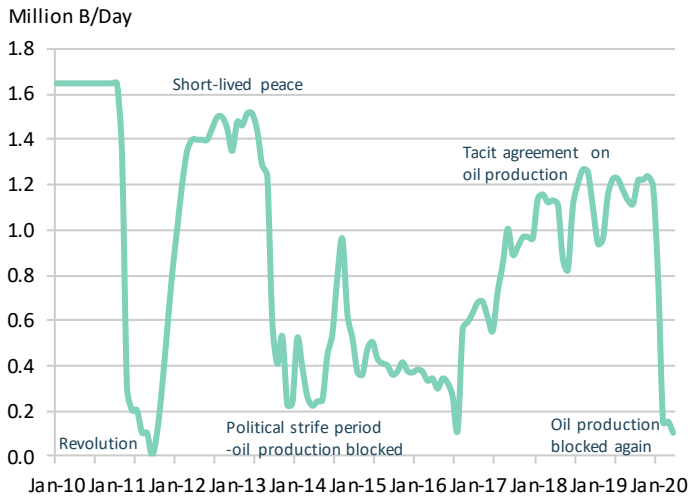
Despite higher oil revenues and forex fees, public finances remained under stress in 2019, constrained by higher and rigid expenditures. In particular, the wage bill continued to increase, reflecting a plethoric public sector and rising real salaries. The financing gap in 2019 would have been very high without a fee on hard currency transactions (183 percent) introduced in September 2018. Consequently, the budget ran a small surplus after six years in a row of deficits. Libya's gross domestic debt declined slightly but remains high (144 percent of gross domestic product).

The 2020 budget depicts a huge deficit due to high and rigid expenditures in a context of the domestic and global health and economic crisis, resulting in oil supply and demand shocks. On March 20, GNA adopted a budget for 2020 underlying a deficit of LD 29.2 billion (LD 19.3 billion for Tripoli and LD 9.9 billion for Beyda), representing 90.6 percent of GDP, the highest deficit ever. The budget estimated an amount of LD 19.2 billion as total revenues for 2020 (59.5 percent of GDP), almost a third of last year's size. Only LD 6 billion are expected from oil proceeds, less than a fifth of 2019 proceeds. Nonoil revenues (LD 3.2 billion) seem overly optimistic given the dire political, social, and economic context and weak tax and customs administration.

After years of high inflation, the consumer price index (CPI) declined in 2019 as parallel market exchange rate premia decreased. CPI fell by 2.2 percent over 2019 compared to the high inflation of 21.6 percent on average over 2016–18. Inflation picked up in the first two quarters of 2020, reaching 1.3 percent by April, as the conflict and shortages intensified.

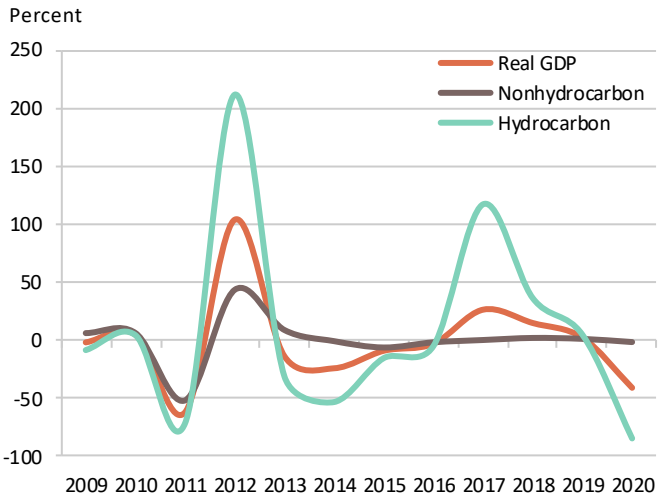
Libya's currency continues to suffer in the parallel market because of political uncertainties and macroeconomic instability. The official exchange rate of the Libyan dinar against the US dollar stood at 1.37 in August 2020, depreciating by 1.1 percent compared to that in August 2018. The parallel exchange market often diverges, however, from official rates. The introduction of the forex fee, while easing access to foreign exchange—especially for essential imports and for family allowance—allowed a steady convergence of parallel and official taxed exchange rates by bringing parallel market rates from LD/US$9.2 in 2017 to LD/US$4.0 in 2019. The fee rate was reduced to 163 percent in August

FIGURE 1 **Libya** / Oil production



Sources: US Energy Information Administration.

FIGURE 2 **Libya** / GDP growth rate



Sources: Country authorities.

2019 as the parallel exchange rate steadily converged toward the taxed official one. Prompted by weak macroeconomic fundamentals, the lack of oil exports, decline of global oil prices, and foreign currency sales restrictions imposed by the CBL, the Libyan dinar in the parallel market lost 54 percent of its value in the first half of 2020, reaching LD/ US$6.17 in August 2020.

In 2019, the current account continued to register surpluses for the third year in a row. This surplus is due to the persistence of the CBL rationing policy to limit supply of hard currency to essential imports only. The higher hydrocarbon revenues also contribute to the surplus. Despite the current account surplus, foreign reserves of the CBL declined by the end of 2019. The dramatic drop in foreign direct investments (FDIs) since 2014 has also contributed to the pressure on foreign reserves.

According to a joint World Bank-WFP mobile phone survey conducted in October 2019 and April 2020, a large share of households in Libya faced multiple deprivations even before the onset of the COVID-19 pandemic. A third of respondents had their utilities cut off in the month prior to the survey, half of respondents either did not have access to a bank account or were not able to withdraw money for the prior three months, and 65 percent did not have access to food subsidized by the government. With increasing incidence of Covid-19, these conditions have likely deteriorated further since then.

Outlook

In the absence of significant improvements on the ground, the economic downturn will deepen. If the inability, or severely limited capacity, to produce and export oil might well prevail over the rest of 2020 despite the recent efforts to restart the production, Libya is expected to produce a daily average of only 0.17 million barrels in 2020, which is less than one-seventh of last year's production. As a result, GDP is expected to shrink by 41 percent this year (Figure 2). The adopted budget for 2020 partially reflects this dire situation, with a large forecasted deficit, the highest in recent years. Likewise, the current account is expected to run astronomic deficits in 2020 (Table 2). Consequently, reserves will be further declining this year. Given the extreme volatility and unpredictability surrounding the determinants of economic trends, it is not sensible to produce forecasts beyond the immediate horizon.

Risks and challenges

Risks to the economic outlook are unusually high and tilted to the downside. First, peace and stability seem elusive given the conflicting agendas of the foreign countries supporting the main parties involved in the fight for power and wealth, which would delay recovery and stability. The disruption of oil production and export may continue for a longer period with disastrous economic and social consequences. Second, the ongoing spread of COVID-19 infection in Europe is disrupting both demand and supply of commodities. Libya may suffer from lower demand for oil, reducing its income. It might also face lower supply of equipment and final consumption goods, which would disrupt further basic services delivery and increase the hardship of the population. Third, as the COVID-19 infection spreads in Libya, containing the infection will become increasingly challenging for the rapidly weakening health system. At the time of this note's preparation, a military escalation with both sides amassing military equipment and troops around Sirte reinforced the downside risks going forward.

TABLE 2 Libya / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e
Real GDP growth, at constant market prices	26.7	15.1	2.5	-40.9
Private Consumption	2.8	3.6	1.7	-15.4
Government Consumption	14.1	0.0	2.7	-6.4
Gross Fixed Capital Investment	31.6	28.8	17.1	-25.2
Exports, Goods and Services	82.6	32.2	33.6	-82.0
Imports, Goods and Services	25.5	23.8	43.9	-34.0
Inflation (Consumer Price Index)	28.4	9.3	-3.0	-2.0
Current Account Balance (% of GDP)	11.7	21.4	11.6	-52.6
Fiscal Balance (% of GDP)	-28.4	0.7	9.9	-59.3
Debt (% of GDP)	82.0	59.5	48.8	155.3
Primary Balance (% of GDP)	-28.4	0.7	9.9	-59.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

MOROCCO

Table 1	2019
Population, million	35.6
GDP, current US$ billion	119.7
GDP per capita, current US$	3363.6
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.2)[a]	7.3
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	113.9
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014).
(b) Most recent WDI value (2018).

With the double domestic and external shocks stemming for the COVID-19 shock, the economy is projected to face a deep recession, its first recession since 1995. Fiscal consolidation paused given the pressures on expenditures and downturn in economic activity. The decrease in remittances, tourism and FDI along with the significant drop of exports are adversely impacting the external position. Growth is expected to gradually recover but the pace and length of the recovery are subject to high uncertainty.

Key conditions and challenges

The COVID-19 pandemic hit Morocco's economy in a context of low and below potential economic growth, constrained by low productivity. The economic impacts of the crisis through the drop in the production of goods and services, a reduction in exports, disruption of global value chains, as well as a decline in tourism have been translated into unprecedented and daunting challenges for the country trying to mitigate both health and economic impacts of the pandemic. Consequently, a large degree of uncertainty surrounds the projected pace of recovery and risks are still tilted to the downside. Delayed vaccine, new Covid-19 waves and a renewed lockdown would further worsen growth. On the external side, the recession in Europe could be deeper than anticipated, leading to a potential reduction of Moroccan exports', tourism revenues, remittances and FDI, which would have knock-on effects on the external balance and put pressure on the foreign reserve position. A continued disruption of global financial markets could hinder access to finance. Furthermore, sluggish economic activity and its volatility negatively impact households' wellbeing too, particularly the wellbeing of those whose consumption expenditure is just above the poverty line; a small negative shock can push this group back into poverty. As result, poverty and vulnerability are expected to grow and invert a trend observed in the last years of fast poverty reduction.

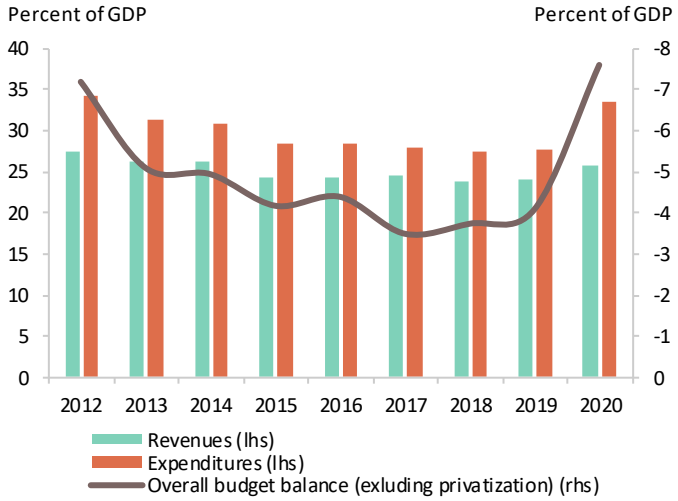
Recent developments

With a far longer period of disruption and lockdown (almost three months) taking place in Q2-2020, economic output contracted significantly by 13.8 percent in Q2-2020 compared to a 0.1 percent increase in Q1-2020. On the supply side, manufacturing industries declined significantly, by 6 percent in H1-2020, as many industries stopped their activities in mid-March, in particular the automotive sector. The services sector, the main engine of economic growth over the past 20 years, also dropped significantly, by 5 percent in H1-2020, thus dragging down non-agricultural growth to -6.8 percent in H1-2020. The central bank cut its policy rate by 75 bp to 1.5% and increased bank refinancing from 5% to 11% of GDP. Meanwhile, the unemployment rate worsened from 8.1 percent to 12.3 percent in H1-2020.

On the external front, despite an improved trade balance, the decline of tourism receipts (-33.2 percent) and remittances (-8.1 percent) worsened the current account balance. International reserves have increased thanks to foreign financing, including $3bn IMF PLL in March 2020 and €1bn bonds (5 and 10 year) issued in September 2020.

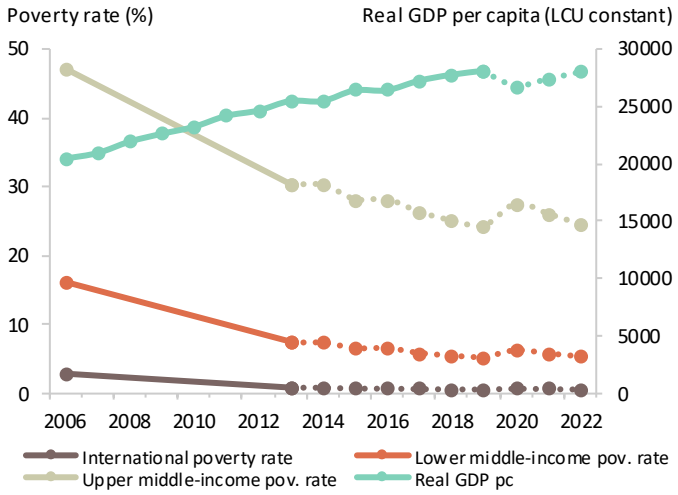
The fiscal consolidation efforts undertaken by the authorities in recent years have been discontinued, as expenditures increased

FIGURE 1 Morocco / Slowing fiscal consolidation



Sources: Ministry of Economy and Finance, World Bank staff estimates.

FIGURE 2 Morocco / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

mainly driven by the budgetary support of the Covid-19 fund (Government contributed 1 percent of GDP). The latter aims to supports households with cash payments and short-term work benefits as well as credit guarantees for firms. The Covid-19 Fund revenues has reached nearly (3 percent of GDP) at end-August, while spending reached 2.1 percent of GDP. In addition, the collapse in economic activity has resulted in a shortfall of tax revenues by 8.3 percent mainly from customs duties, goods and services, income and profits, all of which increased the budget deficit.

The sudden economic stop has led to income losses. A recent High Commission of Planning's survey indicated that 34 percent of households claim to have no income source due to the shutdown of their activities during confinement (35 percent in rural areas).

Outlook

Real GDP is projected to contract by 6.3 percent in 2020, primarily due to the COVID-19 pandemic but also to poor rainfall conditions impacting the agriculture sector. On the demand side, except public consumption, all components of aggregate demand are expected to significantly decline. Over the medium term, the economic recovery will likely be a protracted one as agricultural output recovers to its historical growth rate while non-agricultural output slowly picks up as economic activity gradually restarts. Tourism may recover at a slower rate as concerns about subsequent waves of COVID-19 and reduced household incomes may limit global tourism demand. Morocco plans the creation of a Strategic Investment Fund (4 percent of GDP) as a public limited company to support recovery financing in the short-run and infrastructure financing in the medium-to long run.

The current account deficit is expected to widen to 9.9 percent of GDP in 2020 before narrowing over the medium term. The external shock has led to sharp decline in imports, exports, tourism revenues and remittances. Although imports (except food imports) will decrease, this will not fully offset the decline in exports and tourism revenues. On the fiscal front, revenue will be lower than expected in both 2020 and 2021 while expenditures are projected to increase in 2020 on the back of additional spending related to COVID-19 policy responses. As a result, the overall fiscal deficit will widen to 7.6 percent of GDP in 2020. Central government debt is projected to rise, reaching 78.9 percent of GDP in 2022 before gradually declining to 76.4 percent by 2025.

In 2020, the extreme poverty (international poverty line US$1.90 PPP) will slightly increase but remain below 1 percent, while the poverty measured with the US$3.2 PPP line will increase by 1 percentage point in 2020 and reach 6.2 percent. The percentage of the population "vulnerable" to fall into poverty is expected to increase in 2020 from 24.4 percent to 27.5 percent of the total population. Poverty is projected to decline in 2021 and 2022 but at a much slower pace than previous years and poverty indicators won't return to the pre-Covid-19 situation before 2022. However, the planned increase of social spending with a better targeting can accelerate the pace of poverty reduction.

TABLE 2 Morocco / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.2	3.1	2.5	-6.3	3.4	3.6
Private Consumption	3.8	3.4	1.8	-5.1	3.4	3.7
Government Consumption	2.1	2.7	4.7	8.9	4.5	3.5
Gross Fixed Capital Investment	-0.2	1.2	1.0	-8.7	4.7	4.9
Exports, Goods and Services	11.1	6.0	5.5	-10.7	6.5	6.8
Imports, Goods and Services	7.9	7.4	3.3	-6.3	4.3	4.5
Real GDP growth, at constant factor prices	4.4	3.0	2.5	-6.2	3.4	3.7
Agriculture	13.1	2.4	-4.6	-5.7	8.1	3.8
Industry	3.6	3.0	3.5	-7.4	2.4	3.5
Services[a]	2.7	3.1	4.0	-5.8	2.7	3.8
Inflation (Consumer Price Index)	0.7	1.9	0.2	0.7	1.0	1.5
Current Account Balance (% of GDP)	-3.4	-5.5	-4.1	-9.9	-6.5	-5.2
Net Foreign Direct Investment (% of GDP)	1.5	2.4	0.5	0.6	1.5	1.8
Fiscal Balance (% of GDP)	-3.5	-3.7	-3.6	-7.6	-5.3	-4.2
Debt (% of GDP)	65.1	65.2	65.2	76.6	78.6	78.9
Primary Balance (% of GDP)	-0.9	-1.3	-1.3	-4.9	-2.7	-1.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.7	0.7	0.6	0.8	0.7	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	5.8	5.4	5.2	6.2	5.8	5.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	26.3	25.1	24.4	27.5	26.1	24.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Service is recalculated as the residual of GDP at Factor Cost minus Agriculture and Industry to ensure internal consistency; might differ from official sources.

(b) Calculations based on 2013-ENCDM .Actual data: 2013. Nowcast: 2014-2019. Forecast are from 2020 to 2022.

(c) Projection using neutral distribution (2013) with pass-through = 1 based on GDP per capita in constant LCU.

OMAN

Table 1	2019
Population, million	5.0
GDP, current US$ billion	74.9
GDP per capita, current US$	14971.7
School enrollment, primary (% gross)[a]	103.4
Life expectancy at birth, years[a]	77.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

The economy is expected to contract very sharply in 2020 amid the weakness of oil prices and the disruptions from COVID-19. Fiscal and external deficits will remain under immense strain due to prolonged low oil and gas prices, elevating public and external debt. Key risks to the outlook are prolonged low oil prices, which will induce high external borrowing needs, and lack of impetus for private sector job creation that does not depend on government spending.

Key conditions and challenges

Economic disruption from the spread of COVID-19 and the oil price slump is significant. Following the 2014 oil price shock, fiscal and external vulnerabilities have greatly increased with the country experiencing double-digit fiscal and current account deficits since then. Pre-COVID-19, and despite efforts to expand the non-hydrocarbon revenue base, public spending remained heavily susceptible to oil price volatility, and key reforms such as the introduction of VAT taxes had been delayed. Persistently large fiscal and current account deficits since 2014 have resulted in higher debt levels at 64 percent of GDP (2019) and in a series of credit rating downgrades.

The devastating impact of COVID-19 on economic activity indicates that the public finances will remain under increasing pressure over the forecast period reinforced by severely subdued global energy prices. Although the introduced austerity measures will help to slow fiscal deterioration in 2020, the pressure on recurrent expenditure will remain as the government seeks to cushion the economic fallout from the pandemic.

Over the medium to long term, reforms that aim to tackling wage bill rigidities and cutting wasteful distortionary and inefficient budgetary spending are key to rebuilding fiscal space. Moving ahead with VAT reforms and mobilizing more domestic revenues will be critical for fiscal sustainability. Failure to implement these reforms raises the risk of a more abrupt fiscal adjustment, when there is still an option for gradualism amid somewhat calmer financing conditions for emerging markets.

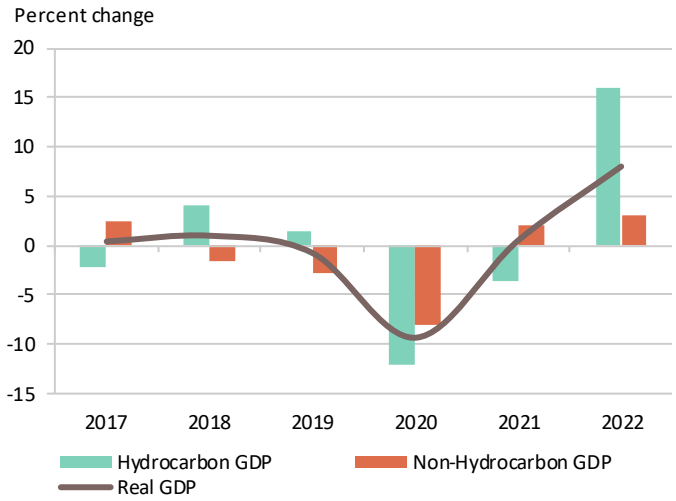
Disruptions related with COVID-19 and the associated measures to contain the virus outbreak had a negative effect on employment, in a context where young Omanis were already facing high unemployment rates and where affected sectors had high non-Omani employment.

Recent economic developments

The drop in oil prices and COVID-19 are placing unprecedented strain on Oman's economy. While no official data are available yet on the economy in 2020, preliminary data issued by the authorities indicate that Oman's nominal GDP has contracted by 3.9 percent in Q1/2020 (y/y); non-oil activities contracted by over 6 percent. Inflation has reached negative territory with -0.4 percent (y/y) in Q2/2020 reflecting weak domestic demand.

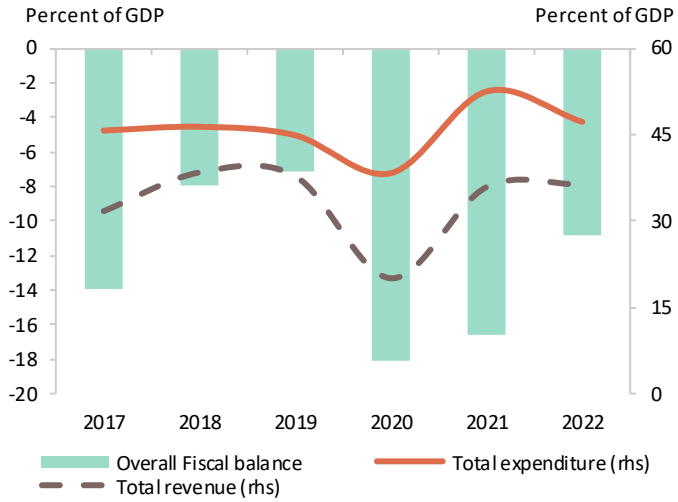
The sharp drop in oil prices in 2020 will take a heavy toll on public finances. Latest data reveals that total revenues declined by 22 percent in Q2/2020 (y/y), of which 20 percent comes from a decline in oil receipts. To compensate for the loss in revenues, the government announced in mid-April austerity measures to cut

FIGURE 1 **Oman** / Real annual GDP growth



Sources: Oman authorities; and World Bank staff projections.

FIGURE 2 **Oman** / General government operations



Sources: Oman authorities; and World Bank staff projections.

spending for all government agencies by 10 percent (about 5 percent of GDP). The persistently high fiscal deficit will raise the public debt-to-GDP ratio over 80 percent in 2020. In the emerging market space, Oman is slipping below investment grade due to its large financing needs and diminishing buffers.

Official data show that the trade surplus in Q1/2020 decreased by OR 88.6 million (US$230 million), compared to the same quarter 2019, driven by a dip in the value of exports of almost 9 percent (y/y). A larger decline is expected in subsequent quarters as Q1 was still relatively unaffected by the pandemic.

Latest official data from the National Center for Statistics and Information shows that the unemployment rate in Oman was 2.5 percent in July of 2020, up from 2.1 percent in June. However, unemployment was significantly higher among the young population (aged 15 to 24), where it reached 8 percent. The gap in unemployment was especially large among the age group 25 to 29 years old, where female unemployment rate (23.7 percent) was far in excess of the male rate (1.7 percent). Between May of 2019 and 2020, the number of Omanis employed in the private sector fell slightly in 0.3 percent. In contrast, the number of expats working in the private sector decreased 11.7 percent from July 2019 to July 2020. To add flexibility in the labor market, the government has recently moved to end the requirement of a No Objection Certificate (NOC) affecting expatriate workers, starting on January 2021, facilitating non-Omanis to transfer to new employers once they complete their contract period.

Outlook

The economy is projected to sharply contract by over 9 percent in 2020, owing to depressed global demand for oil and the pandemic hit to the non-oil sector. The new OPEC+ oil cut agreement is putting significant pressure on the hydrocarbon sector, which is expected to contract by over 12 percent this year. The non-oil economy also faces significant pressure amid ongoing restrictions, with tourism and hotel sectors are among the hardest hit. If conditions ease, growth is projected to gradually pick up to an average of 4 percent in 2021-22, but very backloaded to 2022, partly due to a spike from the second phase of the Khazzan field. Gas field development has been critical to meet growing domestic and global demand, but it is not on a scale that is transformative in its own right. Inflation will likely pick up to around 3 percent in 2021, reflecting the recovery of domestic demand and the introduction of VAT.

Despite expenditure restraint measures, the revenue shortfall and mitigation measures are estimated to increase the budget deficit to 18 percent of GDP in 2020. The current account is projected to be in deficit of around 14 percent of GDP in 2020, before starting to narrow down by 2022. The very gradual improvement in fiscal and external deficits is entirely dependent on the modest recovery path for oil prices, and in the meantime, debt will accumulate rapidly.

Due to the disruptions from COVID-19 and unfavorable global conditions, impacts in labor incomes are expected, especially in sectors such as tourism and services. Implementing a reform program that safeguards the most vulnerable while creating enough private sector jobs to deflect pressure on the public sector as the employer of last resort is critical to ensure sustained progress and safeguard the welfare of the population. The major institutional reshuffle in August, which delegated increased power from the Sultan to key ministries and consolidated public sector entities, signals a renewed high-level urgency to push forward with economic diversification.

TABLE 2 **Oman** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	0.3	0.9	-0.8	-9.4	0.5	7.9
Private Consumption	8.7	2.1	0.9	-5.2	3.0	3.8
Government Consumption	0.8	2.7	0.3	-8.3	-2.8	2.9
Gross Fixed Capital Investment	-4.3	-5.3	-3.8	-7.6	-3.0	6.0
Exports, Goods and Services	-0.7	2.7	4.8	-9.5	4.7	5.7
Imports, Goods and Services	13.8	-4.4	-0.4	-10.3	4.4	6.0
Real GDP growth, at constant factor prices	0.3	0.9	-0.8	-9.4	0.5	7.9
Agriculture	8.7	27.9	2.0	3.8	3.9	4.5
Industry	-1.6	2.2	1.2	-7.6	1.5	7.0
Services	3.0	-2.3	-4.1	-13.3	-1.7	9.9
Inflation (Consumer Price Index)	1.6	0.9	0.1	-0.5	2.6	1.7
Current Account Balance (% of GDP)	-15.6	-5.4	-4.6	-14.4	-12.7	-6.2
Fiscal Balance (% of GDP)	-14.0	-7.9	-7.1	-18.1	-16.6	-10.8
Primary Balance (% of GDP)	-12.6	-5.8	-4.9	-15.1	-12.7	-7.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

PALESTINIAN TERRITORIES

Table 1	2019
Population, million	4.9
GDP, current US$ billion	17.1
GDP per capita, current US$	3463.3
Upper middle-income poverty rate ($5.5)[a]	21.9
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	98.6
Life expectancy at birth, years[b]	73.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

After successful containment of COVID-19 in the spring, the second wave has returned by July. Economic activity suffered during the lockdown in the second quarter and is expected only to stabilize in the second half if the current conditions prevail. The fiscal position has worsened not only due to the outbreak but also due to a political standoff that is disrupting the flow of revenues. The outlook remains precarious and subject to numerous political, security and health risks.

Recent developments

Following three consecutive years of economic growth below two percent, 2020 is proving to be an exceptionally difficult year as the Palestinian economy faces triple reinforcing crises: i) resurgent Covid-19 outbreak, ii) a severe economic slowdown, and iii) another political standoff between the Palestinian Authority (PA) and Government of Israel (GoI), disrupting clearance revenues.

Measures to restrict the spread of COVID-19 were introduced in March with a full lockdown occurring in April and for most part of May until it was eased afterwards. However, by the end of June, infection levels continued to rise reaching an average of 500 per day by the end of August, up from dozens a day at the end of March. By the beginning of July new measures, although limited in scope, were reintroduced restricting movement and activity.

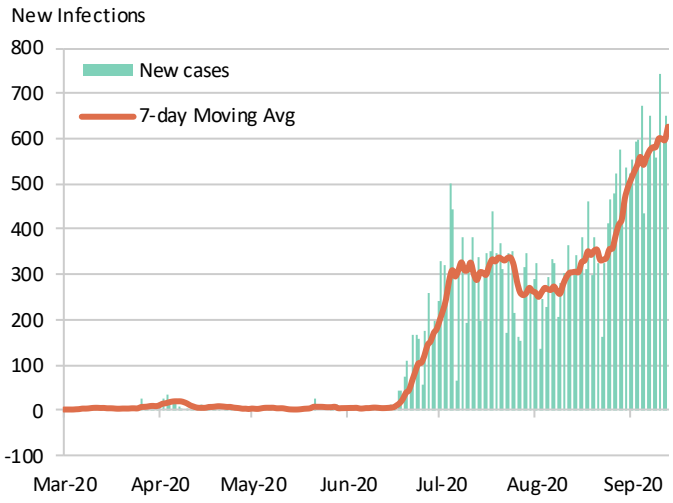
Even though initial lockdowns only affected one month in the first quarter, the declines in activity were rapid and broad; GDP registered a contraction of 4.9 percent compared to the previous quarter (q/q) or a contraction of 3.4 percent compared to the same quarter of the previous year (y/y). All components of the GDP declined with public consumption, capital investments, and exports falling by most. By June, prices were 2 percent lower than in the same month of 2019 reflecting weak demand by consumers, and shekel appreciation had a deflationary effect on the prices of imported goods.

The PA's fiscal stress heightened in the first half of 2020 due to COVID-19 outbreak and the decision to halt coordination with GoI which resulted in the latest suspension of clearance revenue receipts. As expected, the public health measures negatively impacted local revenue collection. On the expenditure side, the PA managed to reduce its overall expenditure in the first half of 2020, despite increasing medical and social spending to deal with the outbreak. The first half financing need (deficit after grants) amounted to US$354 million, forcing the PA to increase local borrowing and accumulate more arrears to the private sector.

Growth in consumer prices had been modest prior to the outbreak of COVID-19, where prices generally moved in the 1-2 percent range. However, since April, growth in prices has turned negative and by June, prices were 2 percent lower than in the same month of 2019, reflecting weak demand by consumers. The Israeli Shekel, which is the main currency in circulation in the Palestinian territories, has continued its appreciation and this had a deflationary effect on the prices of imported goods. In addition, the prices of food products (most of which are produced domestically or in Israel) remained stable.

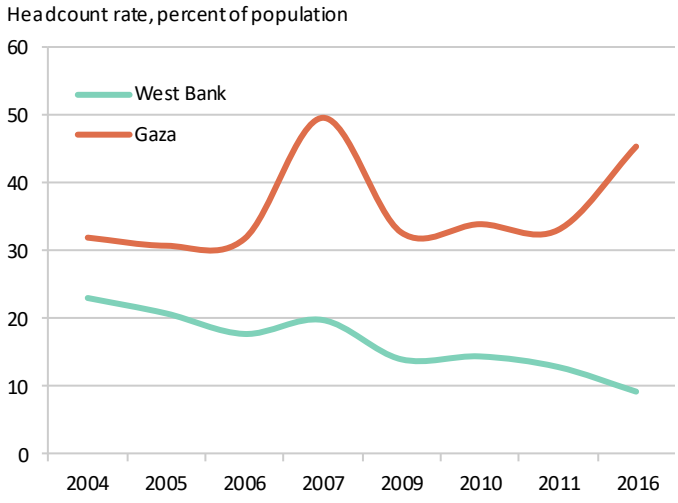
The unemployment rate rose to 26.6 percent in the second quarter as COVID-19 struck, up from 24 percent at the end of 2019. This headline story, however, masks a regional divergence. In Gaza, 49 percent of those in the labor force were unemployed in the second quarter of 2020, while the West Bank recorded an unemployment rate of 15 percent during the

FIGURE 1 Palestinian territories / New daily Covid-19 infections



Sources: John Hopkins University CSEE.

FIGURE 2 Palestinian territories / Poverty rate at USD5.5 2011 PPP poverty line



Sources: PECS, World Bank staff calculations.

same time. Furthermore, the modest increase in the unemployment rate is explained by a sharp reduction in the labor force participation rate, which fell to just 39 percent in the second quarter, down from 43 percent in the previous quarter. With the onset of COVID-19 outbreak, some 121 thousand people have lost their jobs in the second quarter alone. Of this, some 96 thousand people have lost a job in the Palestinian territories, especially in sectors that have been affected by social distancing measures, such as tourism, restaurants and construction. Some 25 thousand Palestinian workers that regularly cross to Israel for work lost their job in the second quarter of 2020.

Around 22 percent of Palestinians lived below the US$5.5 2011 PPP a day poverty line in 2016/17. In the West Bank, poverty status is sensitive to even small shocks in household expenditures, while in Gaza any change in social assistance flows can significantly affect the population's well-being. As a consequence, projections based on GDP per capita growth indicate that the poverty rate is constantly increasing since 2016, being at 24 percent in 2018 and 27.5 percent in 2020, an increase of 5.6 percentage points in the last four years. This amounts to approximately 1.4 million people living in poverty in 2020.

Outlook

A difficult year is already assured even with no further escalation of public health measures. While some measures to curb the movements and gatherings are still in place, the great majority of activity remains open. Assuming that the lockdowns remain limited, the severe first half contraction will likely avoid repetition, though not sufficiently to offset the losses in the first half. Consequently, GDP for 2020 is expected to contract by about 8 percent. A modest bounce back is expected in the forecast period with growth averaging 2.5 percent as full normalization of activity is not expected to occur before the second half of 2021. The poverty rate is projected to stall around 27.5 percent in 2021.

On the fiscal side, the outlook depends on whether there is a resumption of clearance revenue transfers. Assuming that domestic revenues slowly recover and that clearance revenue transfers are resumed, the PA's deficit is expected to reach 4.4 percent of GDP in 2020. This outturn will be an improvement compared to 2019 when higher deductions were made by the GoI from clearance revenues. If the political standoff continues, the fiscal deficit could double in size.

Risks and challenges

Should the outbreak in the West Bank get worse during the fall and winter of 2020, another complete lockdown might become necessary, adversely affecting the outlook. Further, if the recent spike in the number of cases in Gaza continues or if violence escalates, the Strip may be placed under a long-term lockdown, which would further squeeze an already weak economy. Potential sources of growth will be very limited even in the post-Covid environment due to the external constraints on trade and movement.

TABLE 2 Palestinian territories / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	1.4	1.2	0.9	-7.9	2.3	2.4
Private Consumption	-1.1	1.1	4.2	-7.0	2.4	2.5
Government Consumption	-13.7	7.3	-6.1	-2.1	5.6	2.3
Gross Fixed Capital Investment	6.9	2.5	-1.9	-13.0	5.0	1.7
Exports, Goods and Services	13.9	2.5	1.8	-15.0	3.8	1.5
Imports, Goods and Services	1.3	4.5	1.4	-8.5	5.6	2.1
Real GDP growth, at constant factor prices	0.2	1.9	0.8	-7.9	1.8	2.3
Agriculture	-6.0	1.6	0.0	-3.6	0.0	1.3
Industry	11.6	2.2	-0.9	-10.0	3.0	2.0
Services	-2.2	1.8	1.5	-7.7	1.6	2.6
Inflation (Consumer Price Index)	0.0	1.2	0.8	-1.0	0.7	0.9
Current Account Balance (% of GDP)	-9.7	-10.2	-8.7	-9.3	-10.1	-10.1
Net Foreign Direct Investment (% of GDP)	-1.4	-1.4	-0.8	-0.8	-0.8	-0.8
Fiscal Balance (% of GDP)	-3.2	-2.5	-4.6	-4.4	-4.3	-4.1
Debt (% of GDP)	15.8	14.5	16.7	20.4	21.0	20.7
Primary Balance (% of GDP)	-2.7	-2.1	-4.3	-4.1	-3.9	-3.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

QATAR

Table 1	2019
Population, million	2.8
GDP, current US$ billion	184.5
GDP per capita, current US$	65137.6
School enrollment, primary (% gross)[a]	103.8
Life expectancy at birth, years[a]	80.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

COVID-19 and the sharp fall in hydrocarbon revenues will lead to a contraction of real GDP growth of 2 percent in 2020. The decline has been mitigated by infrastructure related spending ahead of the FIFA World Cup in 2022, continued expansion of LNG capacity, and fiscal and monetary response. Steps taken to improve the business environment, as well as the final push ahead of the World Cup are expected to underpin growth in the medium term.

Recent developments

Qatar has been struck very hard by COVID-19 both through global demand and price channels as well as through the domestic health impact (more than 120,000 cases reported by September 9, 2020), the second highest exposure in the GCC. Yet stringent containment measures, aggressive testing and trace policies, as well as the effectiveness of the Qatari healthcare system, have resulted in the second lowest death rate amongst this group of countries (73 deaths per one million population). Nearly 240,000 tests per million have been conducted in Qatar and there are no visible signs of a second wave.

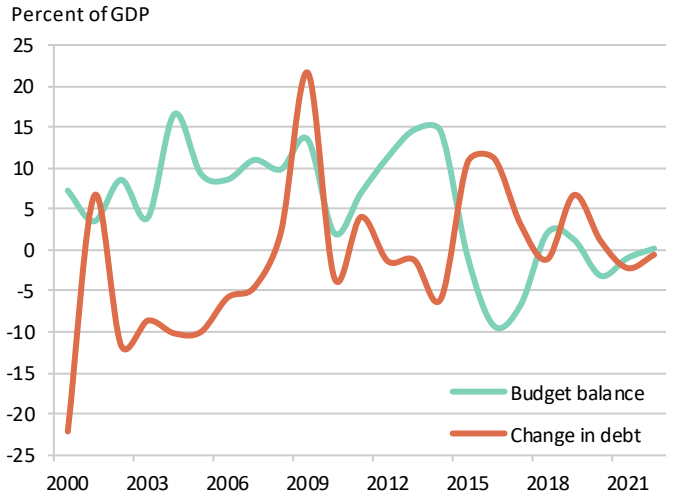
The government undertook a swath of measures to offset the economic effects of the pandemic, including stimulus through tax deferrals and eased credit flow to hard pressed firms and households amounting to QR75 billion with guarantees to local banks of QR3 billion (approximately 10 percent of GDP). On the social side, measures included steps to guarantee basic salary and allowances for workers who are isolated or quarantined, whether they are entitled to sick leave or not.

Qatar is the world's fifth-largest gas producer, second-largest gas exporter, and largest exporter of liquefied natural gas (LNG). The collapse in crude oil prices at the start of the pandemic reverberated through to LNG markets, especially for oil-linked LNG contracts. These contracts decreased in price by 25-30 percent, narrowing the gap between spot LNG prices and long-term LNG contracts. Qatar with a high dependence on oil-linked contracts, has seen export revenues significantly impacted. The country's total exports dropped 42.8 percent y/y in June 2020 and total Imports fell by 19.5 percent.

Qatar's Q1 GDP growth rate, which was still largely unaffected by COVID-19, was a mere 0.9 percent, an early indication of a difficult 2020 ahead. Low economic sentiment is portrayed in the non-energy PMI, which fell from 49.3 in February to 36.6 in May 2020 as COVID-19 spread around the world. It improved rapidly to 59.8 in July 2020 when restrictions eased before leveling off again to 57.3; this indicates a loss of recovery momentum and undermines an ostensible V-shaped recovery.

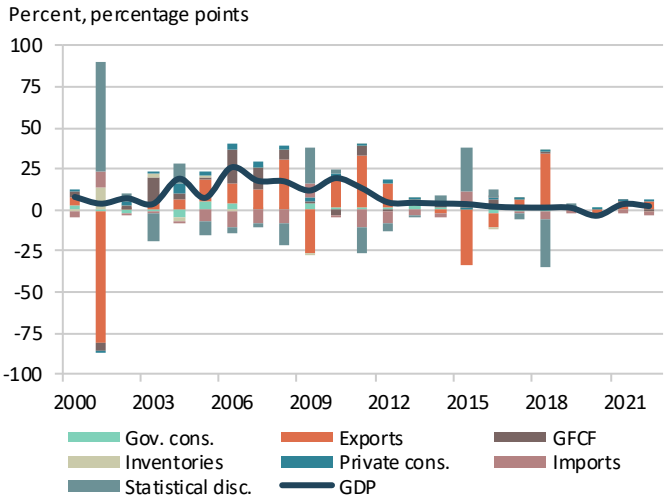
The combined effects of lower revenues and increased spending will change the positive pre-COVID trends in public finances. With the bulk of government revenues derived from hydrocarbons and given offsetting expenditures to mitigate the economic effects of COVID-19 amongst hardest hit sectors (air travel, tourism and real estate), the fiscal balance is projected to swing sharply into deficit in 2020. The fiscal stimulus announced in March 2020 was bolstered by strengthened cash buffers from a US$10 billion issuance in Government bonds in April 2020. With foreign exchange reserves of US$37 billion (July 2020), equal to 18 months of imports, and with the QIA sovereign wealth fund above US$300 billion in assets under management, the

FIGURE 1 Qatar / Public finances and debt



Sources: World Bank staff calculations.

FIGURE 2 Qatar / Real GDP growth and contributions to real GDP growth



Sources: Haver.

country's credit standing remains very strong, in turn underpinning its ample market access and its ability to be an activist investor overseas.

Qatar's money supply M2 increased 6.2 percent y/y in July 2020 and domestic credit increased by 10.4 percent. This is markedly lower than the 20 percent (and higher) domestic credit growth rates recorded at the start of the year. Consumer prices are in deep deflationary territory at -0.8 percent in Q1/2020 and declining to -3.2 in Q2/2020.

Poverty is not an issue for citizens. Over 90 percent of Qataris are employed in the public sector or in public-private enterprises and have continued to receive their salaries throughout the crisis. By contrast, foreign workers, who represent over 90 percent of the labor force, are more likely to suffer job and income losses since they are employed in face-to-face sectors hit hardest by the crisis and in other jobs that cannot be conducted remotely (e.g., craft and trade related workers, plant and machine operators). A recent increase in the universal minimum wage (to US$275 per month) and abolition of the requirement that migrants get permission of employers to change jobs are likely to positively impact migrant worker welfare and improve labor market incentives.

Outlook

The annual growth rate for 2020 is expected to be -2 percent, driven by a curtailed hydrocarbon sector and deteriorating non-energy market sentiment. Real GDP growth will turn positive again in 2021 as energy prices stabilize at around US$42bbl, global LNG demand picks up, and non-energy economic sentiment improves once the pandemic is controlled. Over the medium term, growth will reach around 3 percent by 2022 from delivery and legacy investments for the FIFA World Cup.

The fiscal deficit is expected to be -3.6 percent on account of substantial drops in fiscal receipts of hydrocarbon exports, and a fiscal stimulus to mitigate COVID-19. As the pandemic is controlled, global demand picks up, and energy prices normalize, the fiscal deficit is expected to regain balance and turn into surplus by 2022. Public sector balances will also be supported by the eventual introduction of a VAT.

Like other macroeconomic indicators, the current account is largely a function of energy-related commodity prices and export volumes. With the sharp reduction in exports expected for 2020 (-6.5 percent), the current account will drop to a deficit of 1 percent of GDP in 2020. This will turn into surplus over 2021-22 with global rebound and FDI recovery (the latter driven by new LNG projects and recent improvements to the business environment).

Risks and challenges

The economic rebound in 2021 and 2022 depends on the control of COVID-19, which is a function of effective containment strategies worldwide and/or effective vaccines to engender widespread immunity – a likely prerequisite for FIFA 2022 to go ahead. Existing testing and tracing infrastructure will be helpful to quickly administer vaccines to the population, in turn safeguarding the investment in event-based tourism and services.

A lack of resolution of the protracted diplomatic rift with neighboring countries prolongs the lost opportunity of further GCC regional integration and crisis burden sharing and confines the market size impact of reforms to strengthening the business environment. In this regard, Qatar has recently introduced measures to provide permanent residency for select expatriates and allowing foreigners to own 100 percent of the capital of companies across all economic sectors, amongst other measures.

TABLE 2 Qatar / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	1.6	1.5	1.4	-2.0	3.0	3.0
Private Consumption	4.4	5.0	3.0	-12.1	8.5	5.9
Government Consumption	-6.1	-3.0	3.0	15.6	3.3	3.3
Gross Fixed Capital Investment	1.3	3.6	2.5	5.5	3.1	3.1
Exports, Goods and Services	27.3	119.5	1.1	-6.5	2.7	1.0
Imports, Goods and Services	6.1	28.1	6.0	-1.5	5.7	0.8
Real GDP growth, at constant factor prices	1.0	0.5	1.2	-5.0	3.5	1.7
Agriculture	11.1	8.2	-1.0	3.0	5.0	8.0
Industry	2.2	0.6	1.2	0.9	3.0	2.8
Services	-1.5	0.3	1.3	-18.7	5.0	-1.4
Inflation (Consumer Price Index)	0.4	0.2	-0.4	-4.0	3.0	3.0
Current Account Balance (% of GDP)	3.8	8.7	2.6	-1.0	0.9	1.9
Net Foreign Direct Investment (% of GDP)	-0.4	-3.0	260.0	-572.1	-993.0	-1470.9
Fiscal Balance (% of GDP)	-6.6	2.2	1.8	-3.6	-3.7	1.2
Primary Balance (% of GDP)	-5.2	3.6	3.4	-1.9	-2.2	2.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

SAUDI ARABIA

Table 1	2019
Population, million	34.1
GDP, current US$ billion	749.1
GDP per capita, current US$	21941.7
School enrollment, primary (% gross)[a]	99.8
Life expectancy at birth, years[a]	75.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

COVID-19 and lower oil production levels and prices are weighing heavily on the economy and fiscal position, despite sizable fiscal and monetary mitigation measures. The 2020 outlook remains very weak with medium-term recovery dependent on global economic rebound and eventual containment of the pandemic. Medium-term fiscal deficits are estimated to continue, leading to a rapidly rising public debt trajectory. The prospects for successful diversification are complementary to a stable fiscal framework that is well-signaled to the private sector.

Recent developments

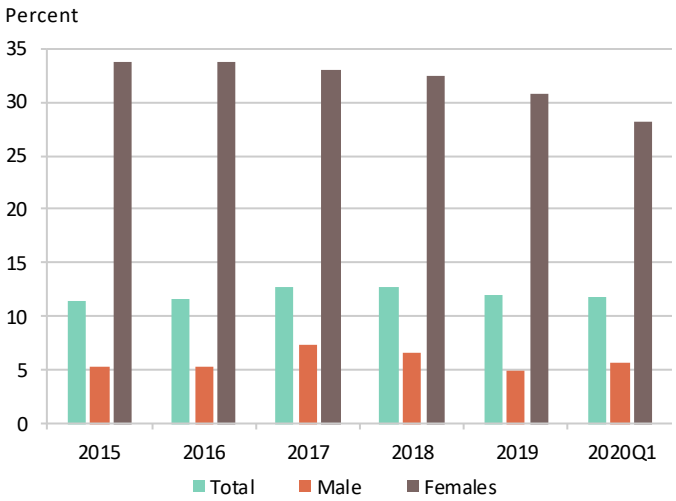
Saudi Arabia continues to evolve its response to the twin shocks of COVID-19 and lower oil prices. Daily confirmed COVID-19 cases have trended downwards, and oil prices recouped some of their lost ground in the Spring owing to OPEC+ agreement and a pick-up in economic activity as countries ease containment measures. Furthermore, the government has extended various fiscal mitigation measures, estimated at SAR 180 billion (7.3 percent of GDP), to mitigate the impact of the pandemic on the local private sector. These include the payment of up to 60 percent of wages of local private sector employees and the deferral or waiver of certain taxes and fees, with unspecified expiration dates for many measures.

After contracting by 1 percent in the first quarter 2020, Saudi GDP declined by 7 percent during the second quarter. Output contracted during the first quarter 2020 by 1 percent, with oil sector falling by 4.6 percent reflecting production cuts in response to weak market conditions predating the pandemic outbreak. The oil sector continued its drag on the economy as fresh production cuts (subsequent OPEC+ agreements) led oil output to fall by 5.3 percent during the second quarter. Output across the non-oil sectors contracted by 8.2 percent during the second quarter 2020 reflecting the impacts of containment measures. Net foreign investment flows fell drastically over this period, but the government is continuing to implement major projects at the center of Vision 2030. The freeze of religious tourism and fiscal adjustments (most notably the tripling of VAT rate to 15 percent effective July) will further suppress private consumption and investment and prolong non-oil sector weakness. With the VAT increase, headline inflation spiked to 6.1 percent in July, from a one-year low of 0.5 percent in June.

The budget deficit widened in the first half of 2020 to SAR 143.3 billion (11.7 percent of GDP) compared to SAR 5.6 billion (0.4 percent of GDP) during the same period last year. Lowering spending by 8.3 percent through cutting the wage bill and slashing capital spending fell short of matching the collapse in revenues, which dropped by 35.6 percent. The scale of the decline in oil revenues means that even with painful fiscal measures like the suspension of cost of living allowance and increasing VAT, financing needs are very large. Thus far, depletion of reserves and ample market access have proven sufficient, providing space to smooth some of the fiscal adjustment to when economic conditions are stronger.

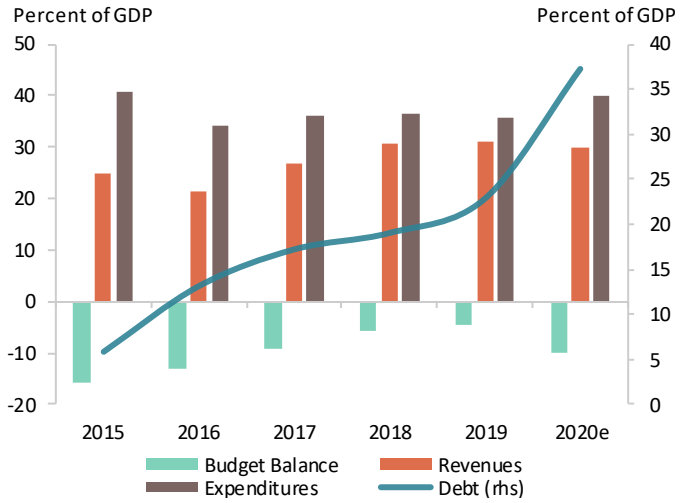
Poverty information and access to survey data to measure welfare conditions have been limited. However, in recent years there have been gains in administrative capacity to identify and support low income households. Like other GCC countries, the bulk of low-income residents are migrant workers, but there is as yet no systematic data on their repatriation as a result of the pandemic. Unemployment among Saudis is largely made up of the young and educated. The participation rate of women is 26 percent, and the

FIGURE 1 Saudi Arabia / Saudis unemployment rate by gender



Sources: Haver Analytics.

FIGURE 2 Saudi Arabia / Central government operations



Sources: Haver Analytics, Macroeconomics Trade & Investment.

unemployment rate among Saudi females is almost five times that of males (28.2 percent and 5.6 percent, respectively).

Outlook

The severity of the 2020 contraction will depend on COVID-19 progression and oil price volatility during the remainder of the year. GDP growth is expected to contract by 5.4 percent as oil production levels are kept around OPEC+ commitment. Growth in non-oil sectors will inevitably be depressed due to the significant capital spending cutbacks, continuation of social restriction measures, and households' adjustment to the VAT increase.

Over the medium term, and pending global recovery and tapering of the pandemic, growth is expected to reach 2.2 percent by 2022; supported by expansion of hydrocarbon output and resumption of capital projects slowed down as part of the reprioritization of spending. While the hit to sectors and the current account is broad-based, continuation of domestic tourism recovery and an emerging niche tourist sector based on outdoor natural settings could partially compensate for religious tourism losses. There is little risk of the VAT increase being embedded in inflation expectations and the inflation spike will be brief.

The budget deficit is anticipated to widen in 2020 to 10 percent of GDP before it narrows in the medium term, but not quickly enough to achieve a balanced budget by 2023, per the pre-Covid fiscal balance programs. The public debt target of 30 percent of GDP from the original fiscal balance program has been wisely dropped. Signs of urgency by authorities to push forward with the privatization program will instill confidence about the private sector role in Vision 2030 and ease financing needs from other sources.

Risks and challenges

Authorities are gradually lifting stringent public health measures, enabling a pickup in activity. Many countries have seen such steps lead to higher cases from COVID-19. A spike in new cases would likely see re-imposed containment measures; further hurting businesses, employment, and vulnerable groups.

Oil prices have partially rebounded from their April lows largely owing to the revival in global demand and constrained supply through OPEC+ agreement. Compliance to quotas by member states is critical in keeping a floor under prices and the agreement intact, and the Kingdom has signaled its frustration both with non-compliance and financial market expectations of another plunge in oil prices.

Imposing further fiscal restraint, whether for the bloated wage bill or new capital projects, will need to be assessed against the need for fiscal mitigation to reduce COVID-19 impacts. The initial public offering of Saudi Aramco highlighted the tradeoff between predictability of oil revenues – its dividends – and investment needs in the hydrocarbon sector. Payoffs from diversification both in terms of productivity and the non-oil revenue base are therefore increasingly urgent. Significant efforts were already underway to reform the labor market, leaving nationals better incentivized to fill the gap left by expatriate exodus than other GCC countries.

TABLE 2 Saudi Arabia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	-0.7	2.4	0.3	-5.4	2.0	2.2
Private Consumption	3.2	1.9	4.4	-2.5	1.5	1.6
Government Consumption	3.3	6.0	0.6	-5.2	1.0	1.5
Gross Fixed Capital Investment	0.7	-2.9	4.9	-2.3	1.4	1.9
Exports, Goods and Services	-3.1	6.8	-4.5	-9.7	2.6	2.8
Imports, Goods and Services	0.3	2.7	1.3	-3.9	1.0	1.3
Real GDP growth, at constant factor prices	-0.7	2.6	0.3	-5.4	2.0	2.2
Agriculture	0.5	0.3	1.3	0.0	0.1	0.2
Industry	-2.4	2.7	-2.6	-6.1	1.4	1.6
Services	1.9	2.5	4.3	-4.6	3.0	3.1
Inflation (Consumer Price Index)	-0.9	2.5	-1.2	2.0	2.2	2.5
Current Account Balance (% of GDP)	1.5	9.0	6.6	-4.8	-4.5	-1.7
Net Foreign Direct Investment (% of GDP)	0.9	0.7	0.8	-3.0	-1.0	1.0
Fiscal Balance (% of GDP)	-9.2	-5.9	-4.2	-10.0	-7.9	-5.7
Primary Balance (% of GDP)	-8.9	-5.4	-3.4	-9.2	-7.0	-4.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

TUNISIA

Table 1	2019
Population, million	11.7
GDP, current US$ billion	38.8
GDP per capita, current US$	3311.2
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.2)[a]	3.0
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	115.4
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015).
(b) Most recent WDI value (2018).

Following a successful containment of the initial Covid-19 outbreak, sharp contractions in growth, employment and fiscal revenues by mid-2020 are making the extent of the shock more apparent. The economic outlook for 2020 has worsened since the last forecast. In the meantime, a second wave of infections and further turbulence on the political front are causing more uncertainty.

Key conditions and challenges

The pandemic comes at a weak point of Tunisia's economic history. With persistent political instability, the economy has struggled to garner investor confidence since the revolution such that GDP growth averaged just 1.5 percent between 2011 and 2019. Growth now relies increasingly on consumption while investment and exports remain significantly below pre-revolution levels and unemployment stubbornly high at 15 percent. As growth stagnated, a social contract that sees the public sector as a source of jobs and a guarantor of affordability has seen the fiscal context deteriorate under the weight of a large public sector wage bill and consumer price subsidies.

The Tunisian authorities handled the first wave of the pandemic well, avoiding a large outbreak through an early and strictly enforced lockdown. This allowed for a full reversal of confinement measures and the reopening of borders by early July. A second round of infections is now exceeding the first. For example, 477 new infections were recorded on September 14 compared with a peak of 61 cases in April. Cases have been mostly concentrated in clusters. The authorities are managing this through contact tracing and localized containment but limited social distancing is a risk to ensuring containment.

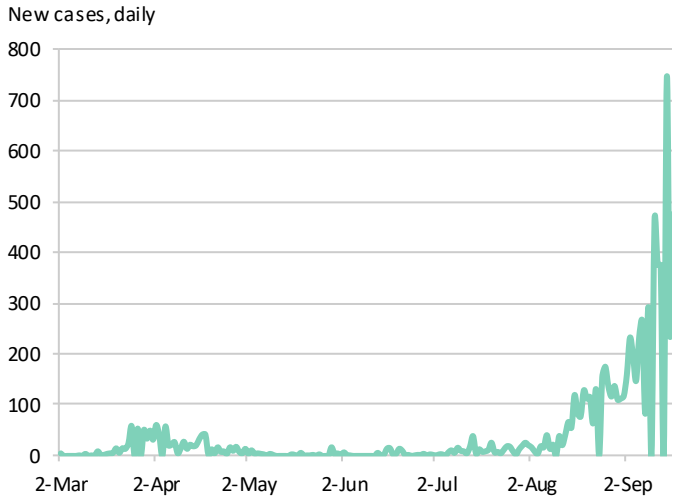
Another major challenge will be the capacity to rebuild the economy after this shock. A fragmented political setting, limited fiscal space and increasing social pressure from a frustrated population suggest limited room for maneuver. Yet, the much needed reforms to improve the fiscal position, rebuild investor confidence and raise productivity are more urgent than ever.

Recent developments

The pandemic is having a heavier impact than previously anticipated. The lockdown simultaneously suppressed domestic supply and demand, contracting GDP by 21 percent (YoY) in the second quarter. At the same time, reduced external demand and travel restrictions lowered tourism receipts by 47 percent and reduced exports of mechanic and electric industry and textiles (Tunisia's main manufacturing exports) by 27 percent by YoY mid-2020. Other factors are affecting growth this year. Further political upheaval as Elyes Fakhfakh's recently formed government fell added more uncertainty and worker disruptions are affecting mining output. Taken together, these factors are contributing to an expected 9.2 percent contraction in 2020, down from the first Covid forecast of -4 percent. It is not surprising that, in this context, unemployment increased from 15 to 18 percent in the second quarter of the year, a level last reached in the time of the 2011 revolution.

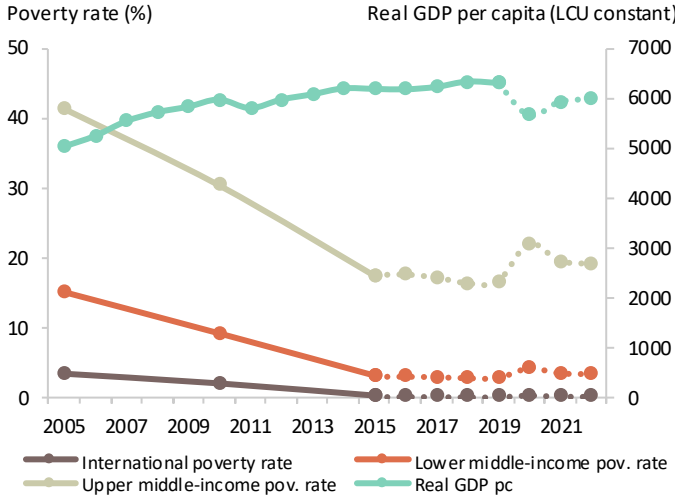
Poverty and vulnerability are expected to grow and invert a trend observed in the last years of fast poverty reduction.

FIGURE 1 **Tunisia** / New Covid-19 infections



Sources: World Health Organization.

FIGURE 2 **Tunisia** / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

According to a series of telephone interviews conducted by INS and the World Bank, there is evidence that pandemic modified eating habits. Poorer households reduced quantities consumed or started consuming less preferred foods. To cope with rising food prices or to make up for jobs loss, households drew on their savings, received help or borrowed money from relatives and deferred payment of their obligations. In 2020, extreme poverty-measured using the international poverty line of US$1.9 PPP will still be below 1 percent but poverty measured with the US$3.2 PPP line will increase by about 1.3 percentage points, from 2.9 to 4.2 percent. Also, the percentage of the population "vulnerable" to fall into poverty is expected to increase in 2020. Using an expenditure threshold of US$ 5.5 PPP, the number of poor and of those vulnerable to poverty is expected to increase from 16.6 percent to 22 percent of the total population.

The current account deficit remains high at an expected 7.1 percent of GDP in 2020 but has improved (from 8.8 percent in 2019) as imports decline at a faster pace than exports. These factors are supporting continued growth in forex reserves, which stood at 142 days of import by August (against 95 days a year earlier).

In contrast, the fiscal deficit was aggravated by an 11 percent decline in revenues by mid-year, reflecting the reduction in economic activity and tax deferral measures. The wage bill increased by 14 percent by mid-2020, adding to spending pressures and signaling lack of progress in containing civil service pay. These developments are worsening debt vulnerabilities. Public debt is forecasted to rise from 72.2 percent of GDP in 2019 to a peak of 86.6 percent of GDP in 2020, well above the emerging market debt burden benchmark of 70 percent of GDP.

Outlook

After an expected 9.2 percent contraction in 2020, growth is temporarily expected to accelerate to around 6 percent as the pandemic's effects abate. But after this short-term uptick, growth is expected to return to a more subdued trajectory at around 2 percent. In line with this, the current account deficit is expected to improve as export industries begin to recover but at a sluggish pace given persistent structural constraints and political uncertainty. The fiscal deficit is expected to increase to 8.1 percent of GDP in 2020 and decline gradually to 4.5 by 2022, with downside risks from a growing wage bill.

The outlook for reforms to support the recovery is challenging. With the population already strained by this unprecedented shock, space to improve the fiscal outlook by reducing the wage bill and untargeted subsidies is narrow. Structural reforms to address SOE performance, increase market contestability and clampdown on corruption are evermore necessary but will depend on the extent to which Hichem Mechichi's new technocratic government, formed in September 2020, can garner consensus to implement the needed reforms. Security risks are a further concern for the outlook with periodic incidents (most recently on September 6th) hamper tourism's prospects for recovery. Following an increase in 2020, poverty is expected to begin declining from 2021 onwards, but at a slow pace.

TABLE 2 Tunisia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.0	2.7	1.0	-9.2	5.9	2.0
Private Consumption	2.5	2.1	0.9	-3.0	4.1	1.7
Government Consumption	0.3	0.2	0.3	-4.8	-5.1	1.3
Gross Fixed Capital Investment	0.3	2.0	-12.3	-42.1	28.4	-2.5
Exports, Goods and Services	4.6	4.4	-5.0	-19.0	21.0	12.0
Imports, Goods and Services	3.5	1.7	-8.6	-18.0	16.0	9.0
Real GDP growth, at constant factor prices	1.8	2.6	0.9	-8.8	5.9	2.0
Agriculture	1.8	11.3	0.8	5.3	2.0	4.0
Industry	-0.7	0.2	-1.0	-10.7	4.2	2.0
Services	2.9	2.3	1.7	-10.2	7.2	1.6
Inflation (Consumer Price Index)	6.3	6.5	7.1	5.6	5.0	4.5
Current Account Balance (% of GDP)	-10.3	-11.2	-8.8	-7.1	-6.2	-6.3
Net Foreign Direct Investment (% of GDP)		2.5	2.1	0.8	1.5	1.9
Fiscal Balance (% of GDP)	-6.1	-4.8	-3.6	-8.1	-5.4	-4.5
Debt (% of GDP)	70.4	78.2	72.5	86.6	85.1	85.5
Primary Balance (% of GDP)	-3.7	-2.1	-0.7	-4.9	-2.2	-1.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.2	0.2	0.2	0.4	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	3.0	2.8	2.9	4.2	3.6	3.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.1	16.3	16.6	22.0	19.5	19.1

Source: Government of Tunisia; World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices; IMF.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-NSHBCSL.Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2015) with pass-through = 1 based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2019
Population, million	9.7
GDP, current US$ billion	421.1
GDP per capita, current US$	43510.0
School enrollment, primary (% gross)[a]	108.4
Life expectancy at birth, years[a]	77.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2017); Life expectancy (2018).

UAE's economy will contract in 2020 due to the disrupted engines of growth from COVID-19 pandemic containment efforts, OPEC+ oil production cuts, lower oil prices, reduced global oil demand, and disruption in global supply chains. The government continues to provide mitigation support in response to the pandemic as businesses strive to recover, worsening the consolidated fiscal deficit. The medium-term non-hydrocarbon outlook remains uncertain and hinges on a rebound in tourism and trade following a global recovery.

Recent developments

The UAE's non-hydrocarbon (non-HC) economy was already weakening prior to the pandemic as it faced persistently weak business sentiment and a prolonged real estate downturn. Overall GDP contracted by 0.3 percent in Q1-2020, with non-HC GDP contracting by 1.9 percent y-o-y. The purchasing managers' index (PMI) had slipped to 49.1 in February (below 50 indicates negative growth) for the first time since the crisis in 2009. On the other hand, HC GDP increased by 3.3 percent as OPEC+ cuts ended.

In the wake of COVID-19, authorities aggressively implemented a containment strategy with strict lockdowns, postponed major events such as World Expo2020, imposed social distancing, and large-scale testing. These measures hit tourism, with international hotel guests in Abu Dhabi falling by 47 percent y-o-y in March. DP World, the state-owned ports operator, recorded a fall of 6.8 percent in freight at Jebel Ali. As a global logistics hub, disruptions in supply chains weighed heavily on UAE's non-oil sector. The PMI declined rapidly to an all-time low of 44.1 in April 2020, increased to 50.8 in July as the economy re-opened but fell again below 50 in August, indicating a fragile recovery.

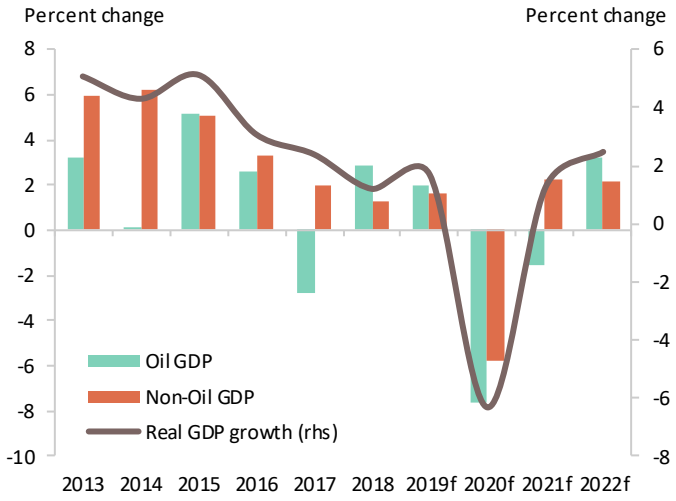
The authorities announced AED 26.5 billion (US$7.2 billion or 1.8 percent of GDP) in combined fiscal measures. The federal government approved measures worth AED 16 billion (US$4.4 billion), Dubai launched an AED 1.5 billion (US$0.4 billion) stimulus package to support businesses by reducing costs and simplifying procedures, targeting tourism, retail, trade and logistics and Abu Dhabi approved an AED 9 billion package. The Central Bank (CBUAE) announced a AED 256 billion (US$70 billion) package to maintain bank liquidity.

The overall fiscal balance is estimated to have turned into deficit at 1.1 percent of GDP in 2019 as revenue growth is estimated to be modest with low oil prices compounded by fee reductions. Market access remains ample as Abu Dhabi sold US$7 billion in bonds in April 2020, and then reopened the issue to add US$3 billion in May plus another US$5 billion in August. Sharjah borrowed US$1 billion sukuk in July and Dubai borrowed US$2 billion in September despite high government-related enterprise (GRE) debt.

CBUAE cut its policy rate twice in March 2020, by a total of 125 basis points amid concerns over the coronavirus. While domestic liquidity growth was muted in 2019 deposits increased in Q1-2020 y-o-y by 5.9 percent, driven by GREs and private sector. Credit growth increased by 5.6 percent, supported by GRE lending. Inflation continues to be negative with Q2-2020 CPI at -2.3 percent, as tradables, non-tradables and housing prices declined.

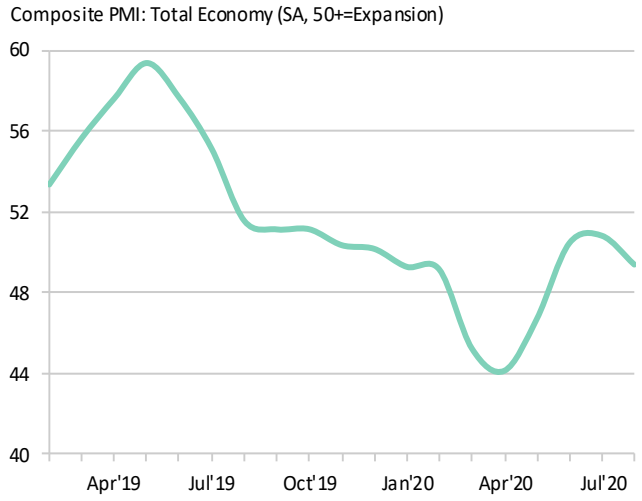
Information from representative household and labor surveys is sparse. Job and income losses due to COVID-19 have disproportionately affected foreign workers, some of whom have left the country, whereas Emiratis were more likely to receive support through public employment and other benefits. According to the CBU-

FIGURE 1 United Arab Emirates / Annual GDP growth rate



Sources: UAE authorities and IMF/World Bank Staff estimates.

FIGURE 2 United Arab Emirates / Composite purchasing manager's index



Sources: IHS MARKIT PURCHASING MANAGERS SURVEY.

AE, private sector employment grew 2 percent in Q1-2020 y-o-y, driven by a 7.1 percent increase in employment in real estate and business services (which represent 7 percent of total private employment). During Q1-2020, the construction and services sectors represented more than half of all private employment (at 31.9 and 21.6 percent, respectively), and while services grew 1.2 percent y-o-y, employment in construction decreased by 3.2 percent. However, the effects of the pandemic will be captured staring Q2.

Outlook

Growth in 2020 is projected to contract by 6.3 percent due to the fallout from COVID-19 and lower oil production following the revitalization of the OPEC+ agreement. Over the medium term, and dependent on the speed of global recovery, growth is expected to reach to 2.5 percent by 2022; supported by the government's mitigation and recovery plans, higher oil prices and production capacity, improved business sentiment and a boost from Dubai Expo2021. The UAE-Israel normalization deal could expand opportunities as it also involves trade/technology cooperation. Modest inflation will return as growth rebounds.

The consolidated fiscal deficit is expected to widen in 2020 as revenues take a hit from the oil price slump and as other revenues decline due to weak economic activity; various emirates have announced fee cuts to support the private sector, which is one of the few discretionary quasi-tax instruments available. Spending will increase to mitigate the pandemic's impact. The deficit will be financed through international debt, domestic financing and sovereign wealth withdrawals.

While the consolidated fiscal deficit is expected to slowly improve as oil prices rebound and the effects of the pandemic abate, balance sheet pressures in the broader public sector continue. An intensified focus on sustainability of GRE debt and strengthening GRE contribution to diversification has led to steps towards corporate consolidation. Notable sectors with streamlining and strengthening around core competitiveness areas include ports (e.g., delisting of DP World from Nasdaq Dubai and combination of major Abu Dhabi entities into the ADQ holding company), property (e.g., Nakheel), and the financial sector (reflecting scope for efficiencies among the largest banks).

The current account will swing to deficit in 2020 due to lower oil prices, global trade slowdown, and tourism receipts and then modestly rebound, reflecting the narrow upside for oil prices and the high import content of spending.

Risks and challenges

Reinvigorating key sectors that were hit hard by the pandemic while maintaining commitment to infrastructure spending is the UAE's immediate challenge. While fiscal policy priority is to support growth in the short term, progress needs to be made in strengthening fiscal policy frameworks and coordination across the emirates, avoiding procyclical spending and improve fiscal risk management, as well as structural reform to boost labor productivity.

A key risk to the outlook is the resurgence of COVID-19 cases and the return of containment measures, in addition to the risk of further volatility in oil prices. Dubai GREs were already facing debt service burden prior to Covid-19 and this is now comingled with the adverse shocks to its dynamic comparative advantage in trade logistics, aviation, and tourism. Regional geopolitical uncertainty is evolving with UAE-Israel normalization, but for now, the pandemic effects will dominate the outlook, explaining the focus on large-scale testing and vaccine development (in cooperation with China).

TABLE 2 United Arab Emirates / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.4	1.2	1.7	-6.3	1.2	2.5
Private Consumption	9.4	6.1	13.4	-4.9	2.3	2.2
Government Consumption	11.7	-5.0	14.3	3.2	2.1	2.3
Gross Fixed Capital Investment	-17.3	3.6	0.0	-4.5	2.5	2.1
Exports, Goods and Services	-2.5	11.5	-2.9	-7.3	3.6	3.9
Imports, Goods and Services	3.0	10.9	3.6	-4.5	2.5	4.2
Real GDP growth, at constant factor prices	2.4	1.2	1.7	-6.3	1.2	2.5
Agriculture	3.3	5.4	2.7	-5.0	3.4	2.1
Industry	-0.2	1.8	2.1	-7.2	0.3	2.6
Services	5.0	0.6	1.2	-5.5	2.1	2.3
Inflation (Consumer Price Index)	2.0	3.1	-1.9	-1.6	1.2	2.0
Current Account Balance (% of GDP)	7.1	9.3	6.5	-1.5	2.9	4.9
Fiscal Balance (% of GDP)	-1.6	1.2	-1.0	-8.0	-0.5	1.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

REPUBLIC OF YEMEN

Table 1	2019
Population, million	29.6
GDP, current US$ billion	22.6
GDP per capita, current US$	761.9
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	66.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2016); Life expectancy (2018).

An unprecedented humanitarian crisis, now aggravated by COVID-19, persists, leaving many Yemenis dependent on relief and remittances. Economic conditions are deteriorating rapidly, driven by a drop in oil exports, downsizing of humanitarian support, and devastating torrential rains and flash floods. Fragmentation of macroeconomic policies add further strains on the fragile economic conditions, with serious humanitarian consequences.

Recent developments

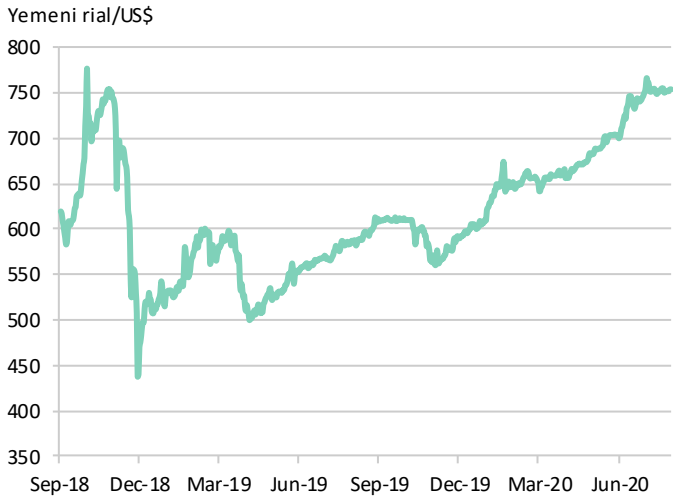
Violent conflict has entered its sixth year, and Yemen continues to face an unprecedented humanitarian, social and economic crisis. Socio-economic conditions deteriorated further in 2020, affected by low global oil prices, the economic fallout of COVID-19, and weak public infrastructure and coping capacity to deal with extreme climate events/natural disasters. Distortions created by the fragmentation of institutional capacity (especially of the Central Bank of Yemen, CBY) and the divergent policy decisions between the areas of control, have further compounded the economic and humanitarian crisis, from protracted conflict, interruption of basic services, and acute shortages of basic inputs, including fuel.

Anecdotal evidence indicates a likely contraction of the economy from an already low base in the first half of 2020. The oil sector—the only large export earner—was hard-hit by low global oil prices. Non-oil economic activity suffered significantly from COVID-19 related trade slowdown and exceptionally heavy rainfalls, which caused intense flooding, infrastructure damage and human casualties. Foreign exchange shortages deepened further with the near depletion of Saudi Arabia's basic import finance facility, reduced oil exports, and downsizing of humanitarian assistance. In April, some breathing space was provided through the IMF Catastrophe Containment and Relief Trust (CCRT). Trends in remittances are not clear, but were already troubling before Covid-19 due to the impact of weak oil prices on the GCC economies and the increased emphasis on employment nationalization programs in these economies.

The macroeconomic policy environment differs spatially due to the bifurcation of administration between areas of control. In the areas controlled by the internationally recognized government (IRG), significant revenue underperformance and continued monetization of the fiscal deficit have undermined macroeconomic stability. Oil prices remain low, eroding government hydrocarbon revenue, the main revenue source. Collection of non-hydrocarbon revenue has been compromised by contested control of key institutions in Aden, due to the associated fragmentation of revenue administration functions. The severe revenue shortfall has led to expenditure compression. The expected formation of a new government within the framework of the Riyadh Agreement will strengthen the ability of the IRG to tackle the huge economic challenges facing the country.

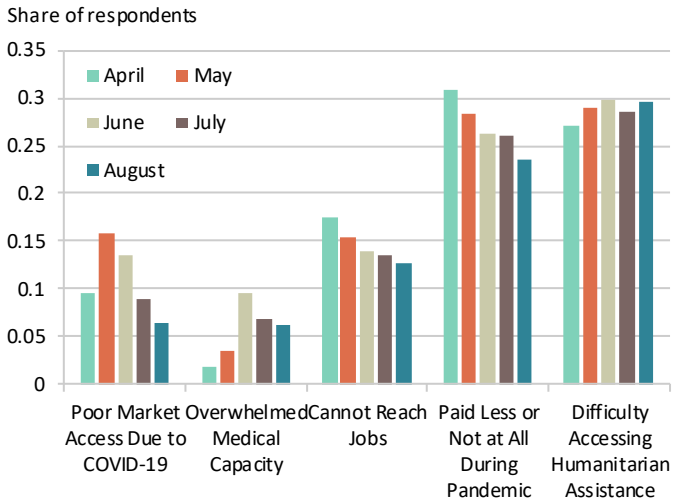
Since early 2020, salary payments to public sector workers have seen frequent delays and uneven geographical coverage in the IRG-controlled areas. Payables to suppliers (mostly to energy suppliers) have continued to build up, disrupting fuel imports and the supply of electricity. Debt service to external creditors (except for IDA and IMF) have been halted since 2015. While official data remain unavailable, growing evidence suggests that the widening government deficit has been financed by the CBY overdraft facility.

FIGURE 1 Republic of Yemen / Parallel market exchange rate in IRG controlled areas, daily average



Source: World Bank.

FIGURE 2 Republic of Yemen / Access to food, health care, and employment over the course of COVID-19[1]



Source: World Food Program. Data obtained from a mobile phone survey using random digit dialing that reaches approximately 4200 households each month.

Without stable sources of foreign exchange, expansionary monetary policy has accelerated the depreciation of the Yemeni rial. Given Yemen's high dependence on imports, the weakening of the currency has passed through to domestic prices, eroding purchasing power of households and businesses.

The *de facto* authorities (DFA) in Sana'a, the country's main commercial and financial center, apply a different policy framework reflecting constraints and conditions in their area of control. The complete ban on the use of new banknotes since December 2019 (notes printed after September 2016 when the CBY headquarters was moved to Aden) has effectively segmented the DFA-controlled areas from the impact of macroeconomic policy implemented by the IRG and CBY (Aden).

Fiscal policy of the DFA operates under a cash-constrained balanced budget. The structure of DFA's budget reflects the absence of hydrocarbon revenue. Collection of corporate profit and sales taxes and customs revenue, the three largest revenue sources, was affected negatively by COVID-19 related trade slowdown and movement restrictions, and administrative disruption caused by flooding. So far in 2020, the DFA has disbursed half-month salaries to public sector workers under its controlled areas every other month. Since late 2019, the value of the rial circulating in the governorates under the DFA (old banknotes) has been broadly stable on the parallel market, and significant inflation has not been observed.

Deteriorating economic conditions have likely translated into widespread poverty. Accurate projections are unable to be produced in the current environment. The last national poverty rate was estimated using data prior to the conflict, and is a difficult base from which to estimate how poverty has changed given the profound impacts the conflict has had on the country. Despite the lack of a precise projection of poverty, it is clear that the conflict has placed an extraordinary stress on households. This stress cannot be exclusively captured by monetary poverty alone. Observation suggests that households lack access to food and many basic and essential services, such as health and education, and are experiencing a widespread forced displacement crisis. Approximately 80 percent of respondents of a monthly mobile phone survey conducted by the WFP had difficulty accessing either food or basic services. All of these difficulties have been exacerbated by COVID-19, with increasing households having trouble accessing food markets, receiving pay due to difficulties in reaching jobs, and accessing medical care due to local capacity being overwhelmed. The worsening conditions peaked by June 2020 and, as of September 2020, remain significantly worse than at the beginning of the pandemic.

Outlook

Economic and social prospects for the remainder of 2020 and beyond are highly uncertain. A gradual recovery of global oil prices would help ease the strain on public finances governorates under the IRG and reduce the recourse to central bank financing. However, with ongoing political and security situations, socio-economic conditions will remain difficult. Urgent progress to address the current restrictions of access to supplies and fuel imports through Hodeidah would improve the provision of public services and the operational environment for humanitarian operations. A cessation of hostilities and eventual political reconciliation, including the return of unitary macroeconomic policy implementation, are prerequisites for the reconstruction of the economy and rebuilding of social fabric.

Risks and challenges

The overarching risks derive from fragility and conflict. Near-term macroeconomic risks are closely tied to improving external and fiscal accounts. In the governorates under the IRG, there is a difficult trade-off between salary payments and macroeconomic stability, in the absence of other financing sources. In the governorates under the DFA, the trade-off relates more to the predictability of the private sector business environment, given the reliance of the DFA on such revenue sources. Increasing fragmentation of institutional capacity and the lack of policy coordination would further deepen the divisions in the financial sector and aggravate market distortions which are already evident (e.g., in smuggling activity and arbitrage of goods and assets between different areas of control).

TABLE 2 Republic of Yemen / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019 e
Real GDP growth, at constant market prices	-5.1	0.8	2.1
Real GDP growth, at constant factor prices	-5.8	-2.7	2.1
Inflation (Consumer Price Index)	30.4	27.6	10.0
Current Account Balance (% of GDP)	0.1	-2.2	-4.4
Fiscal Balance, cash basis (% of GDP)	-5.1	-6.7	-4.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

Macro Poverty Outlook

10/
2020

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