Middle East and North Africa

Macro Poverty Outlook

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

Annual Meetings 2022

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Middle East and North Africa

Annual Meetings 2022

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Iran, Islamic Republic	Oman	Yemen, Republic
Iraq, Republic	Palestinian Territories	
Jordan	Qatar	

ALGERIA

Table 1	2021
Population, million	44.7
GDP, current US$ billion	163.0
GDP per capita, current US$	3650.5
National poverty rate[a]	5.5
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	4.0
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	111.3
Life expectancy at birth, years[b]	77.1
Total GHG emissions (mtCO2e)	221.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ Most recent WDI value (2020).

High oil and gas prices, along with import reduction policies, are improving the current account balance, stabilizing foreign exchange reserves, and raising State revenues. Benefitting from a hydrocarbon revenue windfall and in response to rising inflation, authorities increased public sector wages and pensions, and introduced an unemployment benefits scheme. The implementation of reforms to open space for the private sector and improve the macroeconomic policy framework will be key to diversifying and strengthening the resilience of the economy.

Key conditions and challenges

The Algerian economy remains dominated by the oil and gas sector, which accounted for 19 percent of GDP, 93 percent of product exports, and 38 percent of budget revenues between 2016 and 2021. Over the past 15 years, however, declining investments contributed to stagnating oil and natural gas production, while rising domestic consumption has led to a steeper fall in export volumes.

Since 2016 the current account and overall budget deficits have averaged 11 percent and 10 percent of GDP, respectively, leading to a marked decline in international reserves, currency depreciation, import reduction policies, as well as debt monetization. Real public spending also stagnated, contributing to a slowdown in non-hydrocarbon sectors. Growth fell from 3.3 percent per annum in 2010-2016 to 1.1 percent in 2017-2019, causing GDP per capita (in PPP terms) to decline to its 2014 levels. Nonetheless, non-monetary poverty declined between 2013 and 2019, amid improvements in education, health, and living standards.

While the COVID-19-induced recession exacerbated growth challenges, the subsequent surge in hydrocarbon prices resulting from the global recovery and the war in Ukraine has generated a substantial rise in Algeria's export and budget revenues.

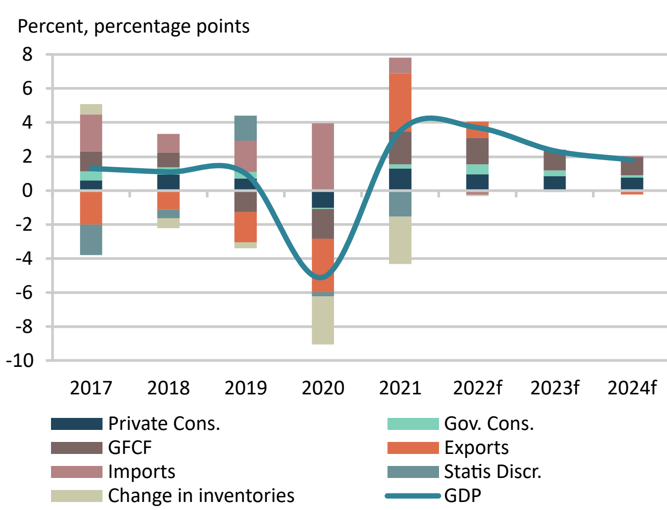
Since 2020, the Government has taken steps to boost foreign and domestic investment by issuing a new Hydrocarbon Law, partly lifting restrictions on foreign ownership of domestic firms, as well as adopting a new Investment Law. Meanwhile, the September 2021 Government Action Plan has made the transition to a private sector-led growth and job creation model a developmental priority, notably arguing for rationalizing public spending, reducing imports, boosting non-hydrocarbon exports, and for significant improvements to the business environment, including through the reform of public banks and state-owned enterprises.

Recent developments

After contracting by 5.1 percent in 2020, Algeria's GDP rebounded by 3.5 percent in 2021, supported by the strong increase in oil and gas output. Meanwhile, non-hydrocarbon GDP returned to its pre-pandemic level in the fourth quarter of 2021, supported by continued recovery in the services sector, and despite low rainfall causing a decline in agricultural output.

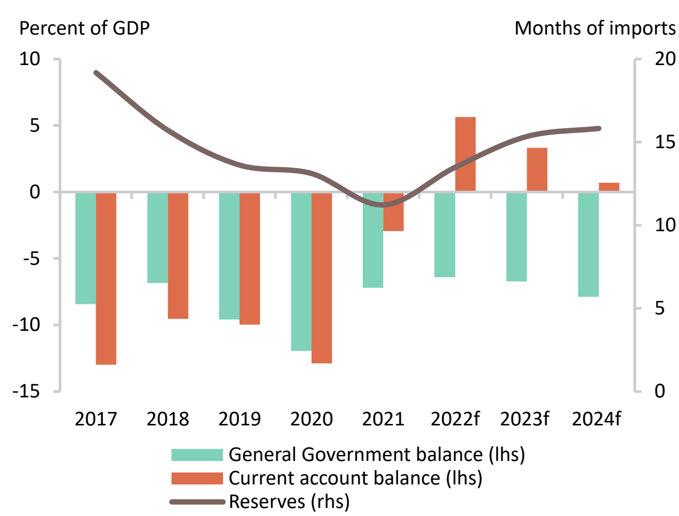
Higher hydrocarbon prices supported a surge in export and budget revenues. Together with the muted recovery in imports, this allowed the current account deficit to shrink from 14.1 to 2.9 percent of GDP in 2021. In H1-2022, product exports rose to US$ 26 billion (+48 percent year-on-year), generating a US$ 5.6 billion product trade surplus. After declining to 11.2 months of imports goods and services at end-2021, international reserves increased by US$ 5 billion, to reach US$ 46.5 billion in July 2022.

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



Sources: Algerian authorities and World Bank staff estimates.

FIGURE 2 Algeria / Twin deficits and international reserves



Sources: Algerian authorities and World Bank staff estimates.

The overall budget deficit improved from 12 percent of GDP in 2020 to 7.2 percent in 2021, driven by surging hydrocarbon revenues (+36 percent), recovering tax revenues, an increase in Bank of Algeria dividends, and only a moderate increase in spending. Meanwhile, public debt reached 63 percent of GDP at end-2021, remaining entirely domestically held at negative real interest rates, and mostly at long-term maturities. The Amended Finance Law for 2022 projects a doubling in public investment, and a 41 percent increase in current spending, led by rising public sector wages and pension benefits, the increased cost of food subsidies, as well as the introduction of an unemployment benefits scheme.

Broad money increased rapidly in 2022 (+12.7 percent y-o-y in May) amid rising export revenues and the continuation of prudential and monetary easing measures introduced during the COVID-19 crisis. However, credit to the private sector barely increased with over half of new credit channeled to the central Government. Inflation rose to 9.4 percent y-o-y in July 2022, fuelled primarily by its food component (+13.4 percent). High food inflation could hurt vulnerable Algerians since food accounts for over half of household spending among the bottom 40 percent of the population.

Outlook

GDP is expected to return to its 2019 level in 2022, supported by the recovery in hydrocarbon output and services activity, and a moderate rebound in agricultural production. The public and energy sectors are expected to lead investment growth, while consumption growth is expected to be more modest, amid the gradual labor market recovery and the effect of high inflation on real consumer income, cushioned by higher government spending. By 2024, hydrocarbon GDP is expected to resume a gradual decline, and nonhydrocarbon GDP to return to its pre-pandemic trajectory.

In 2022, the current account balance is expected to rise to a significant surplus, aided by high hydrocarbon prices and import reduction policies. The overall budget deficit is expected to remain stable, as the surge in public spending mostly absorbs that in hydrocarbon and tax revenues. Over the medium-term, external and budget balances are expected to deteriorate in line with declining hydrocarbon export volumes and prices. Inflation is expected to decline gradually, fueled by the rise in public spending but dampened by the dinar's appreciation against the Euro, and the moderation in global inflation.

The sustainability of external and budget balances remains dependent on highly volatile global oil prices, in a context of uncertainty surrounding the evolution of the war in Ukraine and the dynamics of the global economy. Meanwhile, financing large budget deficits through the domestic banking sector and maintaining import reduction policies could increasingly weigh on private credit, investment, and growth.

Europe's efforts to diversify its energy supply could support hydrocarbon sector investment in Algeria and medium-term growth. On the other hand, fostering sustainable nonhydrocarbon growth and job creation will hinge on the success of the Government's structural reform agenda in opening space for the private sector to become the engine of growth and diversification.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.0	-5.1	3.5	3.7	2.3	1.8
Private Consumption	2.1	-3.0	3.7	2.7	2.5	2.2
Government Consumption	1.9	-0.3	1.2	2.9	1.6	0.6
Gross Fixed Capital Investment	-3.6	-5.2	5.7	4.5	3.4	3.1
Exports, Goods and Services	-6.1	-11.7	13.7	3.5	0.1	-0.9
Imports, Goods and Services	-6.9	-15.9	-4.2	1.2	0.4	-0.2
Real GDP growth, at constant factor prices	1.0	-4.7	4.0	3.7	2.3	1.8
Agriculture	2.7	1.3	-1.3	2.4	2.0	1.8
Industry	-1.6	-7.5	8.3	5.1	2.6	1.6
Services	3.4	-3.4	1.2	2.6	2.2	2.0
Inflation (Consumer Price Index)	2.0	2.4	7.2	9.4	7.8	6.5
Current Account Balance (% of GDP)	-11.6	-14.1	-2.9	5.6	3.3	0.7
Fiscal Balance (% of GDP)	-9.6	-12.0	-7.2	-6.4	-6.7	-7.9
Debt (% of GDP)	45.5	52.1	63.0	54.9	59.2	65.2
Primary Balance (% of GDP)	-9.0	-11.0	-6.6	-5.7	-5.9	-7.0
GHG emissions growth (mtCO2e)	2.3	-2.4	1.3	2.8	2.6	2.1
Energy related GHG emissions (% of total)	64.4	64.2	64.4	65.4	66.2	66.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

BAHRAIN

Table 1	2021
Population, million	1.7
GDP, current US$ billion	38.9
GDP per capita, current US$	22236.1
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	77.4
Total GHG emissions (mtCO2e)	52.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

Bahrain's economy continues to rebound with growth estimated to accelerate in 2022 driven mainly by rising non-hydrocarbon sector as pandemic pressures fade. Higher oil prices and renewed fiscal reforms momentum is expected to ease fiscal and external vulnerabilities and improve debt position. Downside risks to the outlook largely center on a sudden fall in oil prices and potential delays in the implementation of fiscal reforms, creating setbacks to the current improvements in fiscal and external positions and dampening growth outcomes.

Key conditions and challenges

Bahrain is considered the most diversified economy within the GCC region. The government took considerable measures to diversify the economy, expanding into finance, services, logistics, tourism, and heavy-industrial sectors—becoming the world's largest aluminum smelter. As such, non-oil sector accounts for the majority of GDP. The country delivered a rapid and successful COVID-19 vaccination rollout alongside strong containment measures and policy response that helped to mitigate the health and economic impact of the pandemic. A revised Fiscal Balance Program (FBP) announced in October 2021 aims at achieving a balanced state budget by 2024 with a mix of revenues and expenditures measures. On the revenue side, the government doubled the VAT rate to 10 percent from January 2022, while all the measures on the expenditures side targeted rationalizing spending and streamlining subsidies. Higher oil prices and renewed fiscal reforms momentum are mitigating Bahrain's fiscal and external vulnerabilities, improving debt and foreign exchange reserves dynamics.

However, challenges remain. While improvements have been made in diversifying government revenues away from oil, hydrocarbon sector continues to account for 60 percent of total budget revenues; accordingly, increasing non-hydrocarbon revenues is essential to reducing volatility from oil price shocks. Furthermore, achieving a balanced budget target by 2024 could be challenging considering that the FBP targets the state budget and excludes extrabudgetary spending outlays.

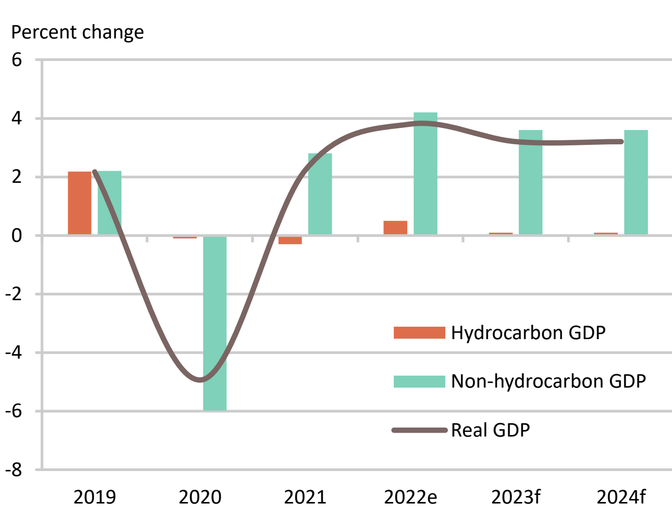
Downside risks to the outlook include lower hydrocarbon prices, tighter global financial conditions, which could reverse the recent improvements in the fiscal and external positions, making FBP goals more challenging to realize. The war in Ukraine caused a marked impact on inflation, particularly food price inflation, with implications on food security. On the upside, adherence to FBP accompanied by prolonged higher oil prices, and strengthening the PFM would further reduce fiscal and external vulnerabilities and lessen fiscal risks from off-budget expenditures.

Additional efforts are needed to unleash more fiscal space to meet the increased challenges posed by climate change and support the transition toward a low-carbon economy and build a more inclusive, diversified, and greener economy. Higher oil prices provide an opportunity to advance the ambitious reforms in line with the FBP under favorable macroeconomic and financing conditions to contain external borrowing and put debt on a firm downward path while rebuilding fiscal buffers.

Recent developments

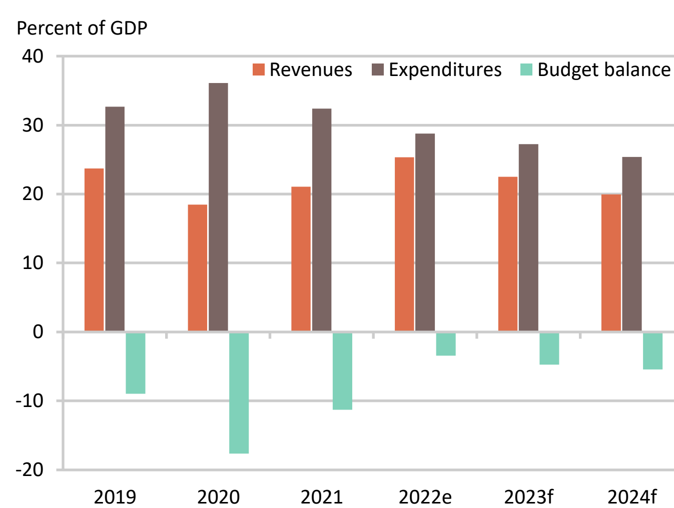
Bahrain's economy continues its gradual recovery with real GDP accelerating to 5.5 percent in Q1 2022 supported by a notable improvement in the non-oil economy,

FIGURE 1 Bahrain / Real annual GDP growth



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

FIGURE 2 Bahrain / General government operations



Sources: Bahrain authorities and World Bank projections.

which grew by 7.8 percent. The strong performance of high-contact sectors, e.g., hotels and restaurants, transportation and communications, manufacturing, is evident as the economy swings back to full reopening. In contrast, the oil GDP growth contracted by 4.7 percent due to seasonal oil fields maintenance. Doubling of the VAT to 10 percent, coupled with higher food, transport, and hospitality prices have pushed inflation to a six-year high of 3.5 percent during the first 7 months of 2022.

Government revenues increased by 52 percent in H1 2022 on the back of higher oil prices and the rebound of non-oil revenue supported by the recovery and doubling of the VAT rate. Higher revenues more than compensated for the rise in expenditures, which grew by 2 percent during the same period. As a result, the overall fiscal balance turned into a surplus of US$88 million (0.2 percent of GDP) during H1 2022, from a deficit of US$1.4 billion (3.6 percent of GDP) in H1 2021, and improved debt path trajectory for the remainder of this year.

Improvements in oil and non-oil exports strengthened the external balance position remarkably, registering a surplus of US$3.6 billion (8 percent of GDP) during H1 2022, despite the rebound in higher import bills.

A second edition of the national employment program, introduced in 2021, targets providing more employment opportunities in the private sector. As a result, over 5,000 Bahrainis have been employed under the program as of March 2022. Moreover, as part of the "National Labor Market Plan 2021-2023", the government has prioritized (i) the creation of employment opportunities for Bahrainis in the private sector, (ii) the recruitment of skilled expatriates, and (iii) the harmonization of education outputs with the needs of the labor market.

Outlook

Bahrain's economic outlook hangs on oil market prospects and the government's commitment to the reform agenda. Growth is expected to accelerate to 3.8 percent in 2022; mainly driven by the non-hydrocarbon sector which is expected to exceed 4 percent supported by the full reopening of the economy and a stronger manufacturing sector. The oil sector, on the other hand, will see a modest increase of 0.5 percent in line with OPEC+ planned output hikes and Bahrain's production capacity. Growth is projected to moderate at 3 percent in the medium term as government fiscal adjustments continue. Inflation is anticipated to hover around 3 percent in 2022 driven by recovering demand, higher global commodity prices, and the recent doubling of the VAT rate to 10 percent before moderating in the medium term as global commodity prices lose steam and the impact of the VAT rate dissipates.

Higher oil prices and resuming spending restraints under FBP are expected to significantly narrow the fiscal deficit to less than 4 percent of GDP in 2022. However, public finances are expected to remain under pressure over the medium term amid declining oil prices and increasing debt burden from the higher global interest rates. The current account balance, which recorded its first surplus in seven years in 2021, is forecasted to improve markedly to reach 11.3 percent of GDP in 2022 and remain in surplus over the medium term. This should boost foreign reserves to over US$13 billion during 2022-24 and strengthens resilience against future external shocks.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.2	-4.9	2.2	3.8	3.2	3.2
Private Consumption	0.5	-4.4	3.0	2.6	2.4	2.0
Government Consumption	-1.5	-2.1	2.8	2.5	2.2	1.4
Gross Fixed Capital Investment	-2.8	-3.8	2.4	2.1	3.8	4.0
Exports, Goods and Services	0.4	-2.5	5.4	3.5	3.8	3.6
Imports, Goods and Services	-5.6	-0.7	5.0	4.6	3.6	3.1
Real GDP growth, at constant factor prices	2.2	-4.9	2.2	3.8	3.2	3.2
Agriculture	-1.0	0.2	7.2	1.2	3.5	3.0
Industry	2.3	-1.2	0.4	0.9	3.5	4.0
Services	2.2	-7.6	3.6	6.0	3.0	2.6
Inflation (Consumer Price Index)	1.0	-2.3	-0.6	3.4	2.6	2.3
Current Account Balance (% of GDP)	-2.1	-9.3	6.7	11.3	7.5	5.3
Fiscal Balance (% of GDP)	-9.0	-17.7	-11.3	-3.5	-4.7	-5.4
GHG emissions growth (mtCO2e)	6.1	-2.0	3.1	3.5	3.3	3.3
Energy related GHG emissions (% of total)	63.3	62.2	62.9	63.7	64.2	64.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

DJIBOUTI

Table 1	2021
Population, million	1.0
GDP, current US$ billion	3.5
GDP per capita, current US$	3476.1
International poverty rate ($1.9)[a]	19.1
Lower middle-income poverty rate ($3.65)[a]	43.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.2
Life expectancy at birth, years[b]	67.5
Total GHG emissions (mtCO2e)	1.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

Global supply-side rigidities and soaring prices, together with severe droughts and sluggish demand from Ethiopia contributed to slow Djibouti's economic activity in 2022. GDP thus is expected to decline to 3.6, from 4.8 percent in 2021. These trends continue to gradually reduce poverty, which is estimated at 16.5 percent in 2022, though at a much slower pace. Regional stability and commitment to fiscal consolidation and structural policy reforms remain pivotal factors for Djibouti's medium-term growth prospects.

Key conditions and challenges

Over the two decades preceding the COVID-19 pandemic, Djibouti successfully managed to leverage its geo-strategic location to turn a small and resource-constrained economy into a fast-growing transport and logistics regional hub. Djibouti's GDP per capita increased from less than USD 800 in 2000 to more than USD 3,000 in 2020 driven by large investments aimed to make the country a key regional naval refueling, trade, and transshipment center. Nonetheless, this development strategy has come at the cost of rising debt vulnerabilities. Djibouti's public and publicly guaranteed debt as a percentage of GDP roughly doubled since 2010, reaching 71.7 percent in 2021. The external public debt service has recently been on a strongly upward trajectory, moving from USD 54 million in 2021 (1.4 percent of GDP) to USD 184 million in 2022 (projected; 4.7 percent of GDP) and expected to reach USD 266 million (4.8 percent of GDP) in 2024, reflecting the end of the DSSI and the maturity of two large loans. Against this background, the government is expected to engage with its creditors to explore avenues to address existing debt obligations, as well as to possibly ease debt service, and increase fiscal space.

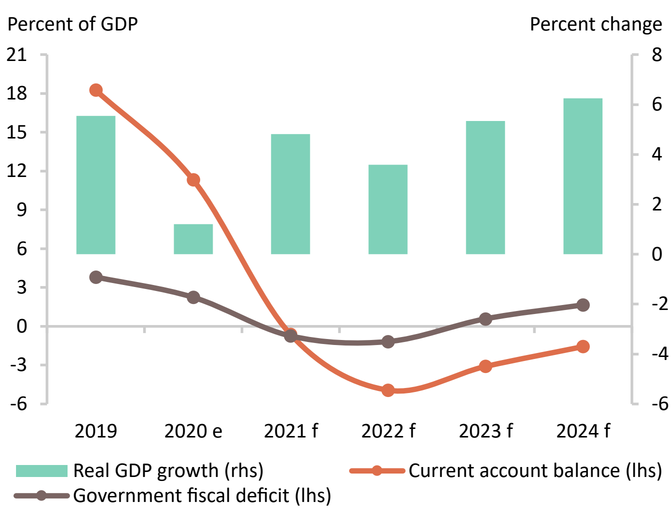
Poverty in Djibouti was estimated at 19.1 percent in 2017 ($ 2.15 international poverty line using 2017 purchasing power parity), and projections show a gradual–though substantially slower, over time – decline to around 16.5 percent in 2022. A number of factors in the current economic conjuncture, such as droughts, global prices shocks, supply-side shocks, as well as regional sources of pressure like the Ethiopian conflict, all concur to put additional pressure on price levels – as inflation reached 11.5 percent (y-o-y) in June 2022. If sustained, these pressures could potentially reverse years of poverty reduction.

Recent developments

Economic activity has been decelerating through 2022, following rigidities in the global maritime transport and logistics value chain associated with the war in Ukraine, sluggish demand from Ethiopia, and severe droughts in 2022. As a consequence, real GDP growth is estimated at 3.6 percent in 2022, down from 4.8 percent in 2021. Domestic demand remains sustained, as evidenced by continued double-digit increases in energy consumption, construction activities, and imports.

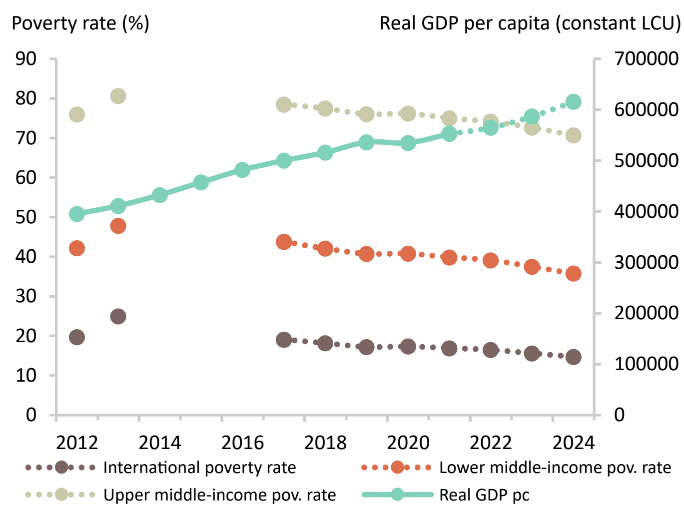
Food subsidies and other recent fiscal policy measures, which were introduced to mitigate the negative effects of rising global commodity prices and the increasing cost of public debt, have exacerbated fiscal pressures, further widening the overall fiscal deficit estimated to reach 3.5 percent of GDP in 2022, 0.2 points above the level of 2021. The government's decision to suspend the automatic adjustment mechanism of pump prices to global fuel prices caused a reduction of taxes and royalties

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



Source: World Bank. Notes: see Table 2.

on (imported) oil and is expected to expand the size of forgone revenues to USD 42 million in December 2022 (approximately equivalent to 1.1 percent of GDP). On the public expenditure side, current spending increased by 4 percent y-o-y in Q1, reflecting increasing debt servicing, while authorities rationalized COVID-related expenditure and enhanced the prioritization of capital spending. The fiscal deficit is expected to be financed mostly by accumulation of external debt service arrears. The stock of external debt arrears is estimated at USD 103 million (3 percent of GDP) in H1. On the external front, soaring prices of imported raw materials and the growing costs reflecting supply-chain tensions are causing a significant worsening of the Current Account balance, projected to close the year at -4.9 percent of GDP. On the other hand, gross official reserves are at broadly comfortable levels (close to 5 months of imports, at the end of Q1). The banking sector remains stable, with ample liquidity and a small proportion of non-performing loans – which have massively declined from 22.4 percent in 2016 to 6.4 percent in March 2022 – thanks to limited exposure to the most affected sectors by the COVID-19 and the wars in Ethiopia and Ukraine (mainly the maritime transport and transit sectors).

Outlook

Djibouti's economy is projected to gradually recover over the medium term, driven by private and SOE investment programs (including the development of the Damerjog industrial park project, a new fuel storage terminal, and an oil jetty) and structural reforms that will be undertaken as part of the implementation of the second national development plan (Djibouti Inclusion - Connectivity - Institutions ICI). GDP growth is thus expected to accelerate to 5.3 percent in 2023 and, further, to 6.2 percent in 2024.

The fiscal deficit is projected to slightly decline to 2.6 percent of GDP in 2023 and 2 percent of GDP in 2024 with the reprioritization of the central government's capital expenditure, the freeze of new recruitments in the public service, and increased oversight on the efficiency of central government's tenders and procurement functions.

The current account deficit is projected to gradually improve over 2023-2024, assuming stronger demand for logistics and transport services from Ethiopia, and reduced disruptions in international shipping supply chains. The three top downside risks to Djibouti's medium-term prospects are represented by 1) potential shocks in global transport and logistics value chains (particularly important for port-related SOEs activities), 2) the continuation or possible intensification of the Ethiopian crisis, and 3) the occurrence of climatic shocks.

Current projections indicate that poverty in 2022 may have declined by around 0.4 percentage points, to 16.5 percent, from an estimated 16.9 percent in 2021. Reflecting stronger growth prospects in the baseline, poverty should continue to decline accordingly; however, regional instability and external shocks, particularly those affecting food insecurity and consumption, could affect these expectations and cause a reversal of these poverty reduction trends.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.5	1.2	4.8	3.6	5.3	6.2
Private Consumption	6.3	10.2	7.0	2.1	5.0	5.3
Government Consumption	-3.9	1.6	-7.0	18.1	3.6	6.5
Gross Fixed Capital Investment	7.3	1.0	3.5	1.0	2.4	6.7
Exports, Goods and Services	9.2	-29.7	3.0	1.5	5.1	6.5
Imports, Goods and Services	10.1	-29.5	3.0	3.0	5.0	7.5
Real GDP growth, at constant factor prices	6.0	2.0	4.8	3.6	5.3	6.2
Agriculture	12.9	11.5	11.4	5.0	7.0	7.0
Industry	13.4	-4.4	9.9	8.5	8.5	9.0
Services	4.5	3.1	3.7	2.7	4.7	5.7
Inflation (Consumer Price Index)	3.3	1.8	1.2	5.2	4.2	3.3
Current Account Balance (% of GDP)	18.3	11.3	-0.6	-4.9	-3.1	-1.6
Fiscal Balance (% of GDP)	-0.9	-1.7	-3.3	-3.5	-2.6	-2.0
Debt (% of GDP)	70.3	75.9	71.7	71.3	71.3	71.1
Primary Balance (% of GDP)	0.4	-1.6	-3.1	-3.4	-2.4	-1.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	17.2	17.3	16.9	16.5	15.6	14.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	40.7	40.8	39.9	39.1	37.5	35.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	76.0	76.2	75.0	74.2	72.7	70.7
GHG emissions growth (mtCO2e)	1.7	0.6	1.1	1.1	1.1	1.1
Energy related GHG emissions (% of total)	25.1	25.1	25.2	25.3	25.4	25.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

ARAB REPUBLIC OF EGYPT

Table 1	2021
Population, million	104.3
GDP, current US$ billion	404.1
GDP per capita, current US$	3876.4
Lower middle-income poverty rate ($3.65)[a]	22.0
National poverty rate[b]	29.7
Gini index[a]	31.5
School enrollment, primary (% gross)[c]	106.4
Life expectancy at birth, years[c]	72.2
Total GHG emissions (mtCO2e)	354.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ Most recent value (2019).
c/ Most recent WDI value (2020).

Following a rebound to 6.6 percent in FY2021/22, economic activity is expected to slow down in FY2022/23 due to global headwinds from the Ukrainian war, tightening monetary conditions and lingering supply bottlenecks from COVID19. The concurrent shocks are raising domestic inflation and exposing long-standing challenges facing Egypt, including the underperforming non-oil exports and FDI. Fiscal space is expected to be constrained by the spiking costs faced by the government and higher interest rates.

Key conditions and challenges

As the world economy faces the headwinds stemming from the war in Ukraine, the lingering effects of the COVID-19 pandemic, and rapid monetary tightening (notably in advanced countries), Egypt – a net commodity importer and an emerging market – in turn, is experiencing higher domestic inflation and abrupt large-scale portfolio outflows, which are adding pressures on the country's already stretched public finances and external accounts.

Whereas macroeconomic and structural reforms since 2016 have increased Egypt's resilience in navigating the current challenging environment, the pace of economic transformation remains sluggish, as the structure of the economy has generally been shifting over the past two decades towards non-tradable lower productivity sectors. This resulted in limited export penetration and sophistication as well as below-potential FDI; heightening Egypt's long-standing challenges, and further exposing Egypt to such exogenous shocks that are further undermining foreign income sources.

Official estimates indicate gains in welfare between 2017 and 2019; however poverty figures (prior to the pandemic) were still elevated at 29.7 percent, and – more recently – labor force participation and employment rates hover below potential at 42.6 percent and 39.5 percent of the working-age population, respectively (as reported for Q4-FY2021/22); thus pointing to persisting challenges related to job-creation. Domestic real incomes are additionally being affected by ongoing inflationary pressures and the waning economic rebound.

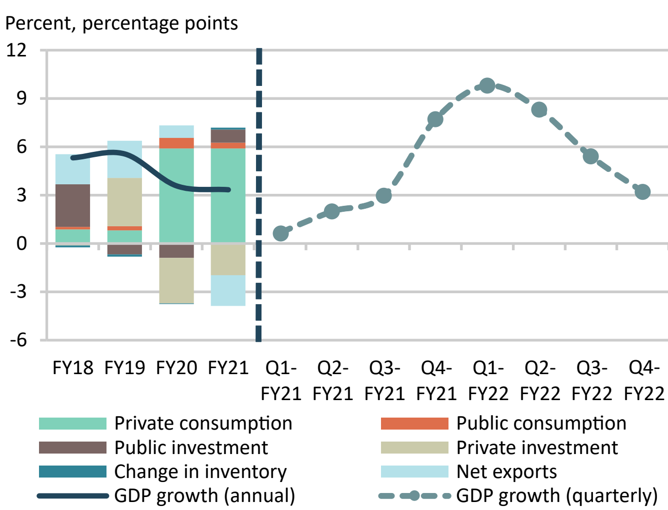
Creating fiscal space remains a crucial challenge to advance human and physical capital for the Egyptian population, which exceeds 104 million. Importantly, continuing to pursue structural reforms to unleash the private sector's potential in higher value-added and export-oriented activities will be necessary to create jobs and improve living standards.

Recent developments

A solid bounce-back prior to the war in Ukraine supported an increase in economic growth to 6.6 percent in FY2021/22; double its pace in the previous year. But economic activity has been adversely impacted by multiple global shocks, as captured by leading indicators in recent months: the Industrial Production Index contracted (month-on-month) by 8.7 percent in April 2022. Similarly, the PMI declined to 45.2 (a two-year low) and 46.4 during June and July 2022; signaling more pronounced contractions in non-oil private sector activity; which reflect the rising cost of domestic and imported inputs.

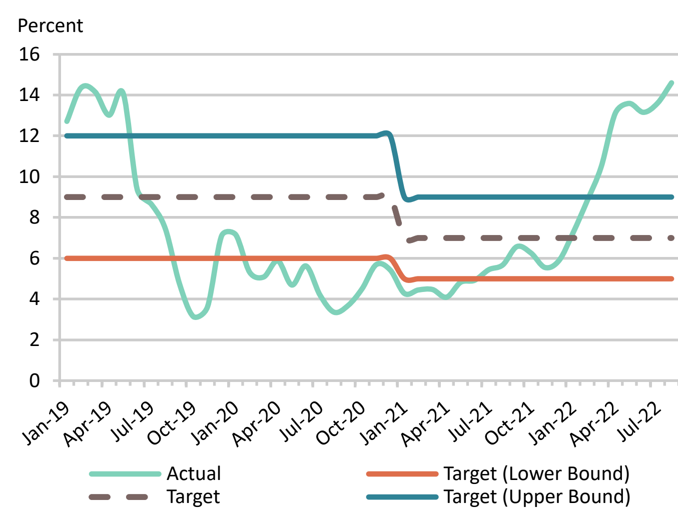
Headline urban and core inflation accelerated to 13.1 percent and 13.7 percent respectively on average during March-August 2022; exceeding the CBE's target (7 +/-2 percent), on account of global price dynamics, exchange rate depreciation, and domestic

FIGURE 1 Arab Republic of Egypt / Growth decomposition, demand side



Source: World Bank staff estimates based on Ministry of Planning and Economic Development (MPED).

FIGURE 2 Arab Republic of Egypt / Headline inflation vs. announced target inflation



Source: CBE.

supply bottlenecks. In response, the CBE raised key policy rates in March and May 2022 cumulatively by 300 basis points, and allowed the exchange rate to depreciate.

Notwithstanding the monetary and exchange rate policy adjustment, the war in Ukraine intensified pre-existing pressures on external accounts. Official reserves and foreign currency assets jointly decreased to US$42.1 billion in end-March; US$12.4 billion lower than a month earlier (a loss of 22.7 percent), despite financial support from the GCC in March as well as the successful issuance of Egypt's first (US$0.5 billion) Samurai bond. Total foreign exchange resources continued to witness downticks, reaching US$37.4 billion at end-August 2022, as milestone debt repayments fell due, in addition to an uptick in the non-oil trade deficit.

The budget deficit-to-GDP ratio continued to narrow in FY2021/22, thanks to the uptick in tax and non-tax revenues, as well as the containment of expenditures. Nevertheless, the debt-to-GDP ratio increased due to the adverse valuation effect of the exchange rate depreciation, as well as the extra-budgetary transactions that result in additional debt accumulation.

Outlook

Growth is expected to decline to 4.8 percent in FY2022/23 from 6.6 percent a year earlier, as key activities – including manufacturing and tourism – perform below-potential, in part due to the war in Ukraine; in addition to the new import rules to which markets need adjusting. Over the medium term, economic activity is forecast to pick up, as the repercussions of the war in Ukraine start abating, export-oriented sectors begin to recover, and as the country continues to push ahead with macroeconomic stabilization and structural reforms. Meanwhile, poverty rates may still suffer the impact of decreasing purchasing power caused by inflation, notwithstanding the partial mitigation that recently announced measures should offer, through food subsidies and cash transfer programs (Takaful and Karama are envisaged to expand to cover 20 million individuals).

The current account deficit-to-GDP ratio is expected to stabilize in FY2021/22—23, just below its level in FY2020/21. The higher imports bill, and the adverse impact of the Ukraine war on demand for non-oil exports (notably by Europe) will be counterbalanced by the uptick in the oil exports, Suez Canal revenues as well as continued gradual recovery in tourism. The capital and financial account is expected to remain under stress, but it can be relatively buoyed if potential financing from the IMF (requested last March) and inflows from the GCC materialize.

Fiscal consolidation is expected to slow down in FY2022/23, as government purchases, subsidies, wages, and interest rates are driven up by the mitigation measures introduced in March and July 2022, and a combination of soaring global prices and monetary tightening. The debt-to-GDP is expected to benefit from favorable debt dynamics (with GDP growing faster than real interest rates during FY2022/23). On the other hand, valuation effects from the exchange rate may still lead to an uptick in the debt ratio. Fiscal consolidation (notably through enhancing tax administration) is expected to put the debt-to-GDP ratio on a downward path over the medium term.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.6	3.6	3.3	6.6	4.8	5.0
Private Consumption	1.0	7.3	7.1	5.5	3.8	4.1
Government Consumption	2.8	6.7	3.7	10.7	3.7	4.6
Gross Fixed Capital Investment	14.1	-20.9	-8.5	6.7	9.1	10.1
Exports, Goods and Services	-2.2	-21.7	-13.4	20.0	15.0	11.0
Imports, Goods and Services	-8.9	-17.9	0.2	11.5	9.0	8.0
Real GDP growth, at constant factor prices	5.1	2.5	2.0	6.2	4.8	5.1
Agriculture	3.3	3.3	3.8	4.5	4.5	3.5
Industry	5.8	0.6	-1.1	7.5	4.7	5.3
Services	5.1	3.6	3.5	5.8	4.9	5.3
Inflation (Consumer Price Index)	13.9	5.7	4.5	8.5	13.0	9.2
Current Account Balance (% of GDP)	-3.6	-3.1	-4.6	-3.9	-4.1	-4.4
Net Foreign Direct Investment Inflow (% of GDP)	2.6	1.9	1.2	1.8	2.2	1.9
Fiscal Balance (% of GDP)	-8.1	-7.9	-7.4	-6.6	-6.7	-6.5
Debt (% of GDP)	90.2	87.0	92.4	94.9	93.6	89.8
Primary Balance (% of GDP)	1.9	1.8	1.5	1.6	1.8	2.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.5	2.5	2.5	2.5	2.9	2.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	21.6	23.1	23.0	22.8	25.0	24.8
GHG emissions growth (mtCO2e)	2.0	1.3	-0.6	1.9	1.8	1.8
Energy related GHG emissions (% of total)	64.7	64.6	64.3	64.3	64.2	64.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2010-HIECS, 2015-HIECS, and 2017-HIECS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.02 based on GDP per capita in constant LCU.

IRAN, ISLAMIC REPUBLIC

Table 1	**2021**
Population, million	85.0
GDP, current US$ billion	359.7
GDP per capita, current US$	4230.5
Upper middle-income poverty rate ($6.85)[a]	27.6
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	76.9
Total GHG emissions (mtCO2e)	884.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

Iran's economic recovery continues to be driven by services and the oil sector. While higher oil prices have increased oil revenues and eased fiscal pressures, higher global commodity prices overall have also increased the import bill and spurred inflation. Growth in the medium term is projected to be modest due to inflationary pressures and continued sanctions. Intensified climate challenges and continued high inflation pose risks to the outlook. The growth outlook would be significantly stronger if economic sanctions were to be removed.

Key conditions and challenges

External shocks, including sanctions and commodity price volatility, caused a decade-long stagnation that ended in 2019/20.[1] The large contraction in oil exports following the re-imposition of US sanctions in 2018 placed significant pressure on government finances and drove inflation to over 40 percent for four consecutive years. Sustained high inflation led to a substantial reduction in households' purchasing power. At the same time, job creation was insufficient to absorb the large pool of young and educated entrants to the labor market.

Growth has rebounded over the past two years, supported by a recovery in services post-pandemic, increased oil sector activity, and accommodating policy action. Economic activity in Iran has also adjusted to sanctions, including through exchange rate depreciation which helped domestically produced tradable goods to become price competitive internationally.The decline in oil exports also prompted additional processing of crude oil and hydrocarbons that was then exported as petrochemicals. Under sanctions, trade has pivoted further towards neighboring countries and China, and bilateral currencies, barter, and other indirect payment channels are increasingly used to settle international transactions as most assets abroad have become inaccessible due to sanctions. The government expanded cash transfers and subsidies to mitigate the impact of high inflation on welfare, but this also added to fiscal pressures as most interventions were not sufficiently targeted.

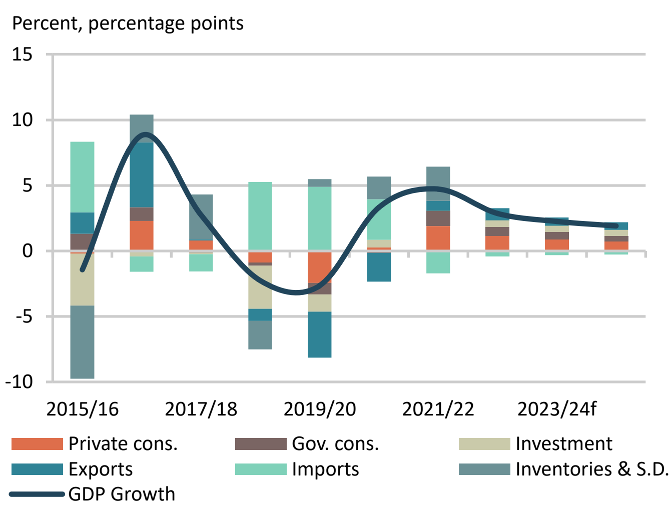
Iran also faces intensified climate change challenges, including severe droughts, which are restricting agricultural production at a time when global food prices and food insecurity are on the rise. While higher oil prices, due to a recovery in global demand and the war in Ukraine, have raised oil export revenues, higher prices of other commodities, including food items, have significantly increased the import bill. This increase poses additional strain on government finances as direct food price subsidies stood at 5 percent of GDP even before the recent price surge.

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

Recent developments

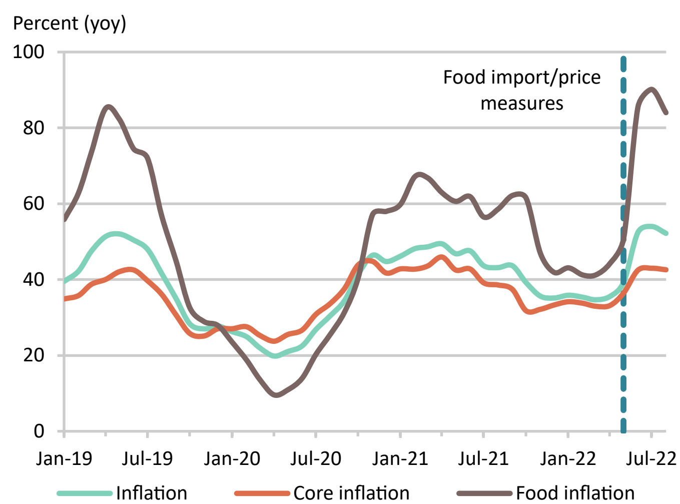
The economy continued to rebound in 2021/22, growing by 4.4 percent at constant factor prices. Non-oil GDP growth of 3.9 percent was driven by growth in services (6.5 percent), as economic activity returned to almost pre-pandemic levels. The recovery in global demand increased oil GDP by 10 percent. Non-oil industrial activity grew modestly by 1.1 percent, impacted by high input costs, energy outages, and low domestic purchasing power. Agriculture production contracted by 2.6 percent due to severe

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



Sources: CBI and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Consumer price inflation



Sources: SCI and World Bank staff calculations.

droughts. On the demand side, government consumption expanded by 8.3 percent owing to higher oil proceeds, and private consumption grew by 3.9 percent. A significant expansion in imports (24.1 percent) outweighed a 5.2 percent increase in exports, and investment stagnated.

Despite the recent GDP growth, employment remained below its pre-pandemic level with fewer women and youth in the labor market. The reduction in the labor force participation rate by 3.8 percentage points compared to the pre-pandemic rate Q1-19/20 (April to June 2019) lowered the unemployment rate to 9.2 percent in Q1-22/23.

While improved oil revenues helped ease fiscal pressures in 2021/22, the fiscal deficit remained significant in 2022/23, despite a less accommodative budget law. In the first four months of 2022/23 (April to July 2022), oil revenues grew by over 400 percent, albeit from a low base. Despite this strong increase, oil revenue reached only 61 percent of the target in the budget and the realization of total tax revenues was only 81 percent; this highlights the government's additional financing needs. A higher wage bill as well as adjustments to pensions and other transfers to mitigate the effect of high inflation are further weighing on the budget deficit.

In May 2022, the government responded to the recent surge in food import costs by eliminated subsidized exchange rates for wheat imports, raised the administered prices of other staples, and provided additional cash transfers. These measures added to existing inflationary pressures and drove overall consumer prices and food prices to surge by 12.2 and 26.9 percent (MoM), respectively in June. Since then, headline and core inflation have risen to 52.2 percent and 42.6 percent (YoY), respectively in August 2022. Inflation was especially higher in rural areas (58.4 percent) and for lower income deciles.

Spurred primarily by higher global commodity prices, non-oil exports (more than half of which consist of petrochemicals and minerals) and imports expanded by 22 percent and 17 percent (YoY) in nominal terms, respectively in April to July 2022, reaching US$17.2 billion each.

Outlook

In the medium term, GDP growth is expected to be modest if economic sanctions remain in place. Weaker global demand and new competition from Russian discounted oil exports to China are expected to moderate Iran's oil sector expansion. Domestic demand will also be affected by the negative impact of high inflation on consumption and investment. The current account balance is forecast to remain in surplus over the outlook period, supported by oil prices averaging US$90/bbl and higher non-oil exports; a more costly import bill due to higher import prices will nevertheless limit the surplus. The fiscal balance is projected to benefit from the gradual upward trend in oil exports, but the budget deficit is expected to remain above pre-sanctions levels. Inflationary expectations, foreign exchange pressures, and deficit monetization are expected to keep inflation elevated, albeit gradually declining over the outlook period.

Risks to Iran's economic outlook remain significant. Intensified climate change challenges such as more frequent floods, droughts, and dust storms, as well as energy shortages could significantly impact the economic outlook. These challenges coupled with the recent inflationary pressures could add to pressures on the most vulnerable and pose a potential for social tensions, particularly since modest growth is only expected to generate limited job opportunities. Other downside risks relate to renewed COVID-19 outbreaks, further deceleration in global demand, and increasing geopolitical tensions if the JCPOA Vienna talks were to fail. On the upside, the projected growth outlook could be significantly stronger if economic sanctions were to be removed. Higher oil prices could also improve fiscal and external balances further.

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

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	-2.7	3.3	4.7	2.9	2.2	1.9
Private Consumption	-4.8	0.5	3.9	2.4	1.8	1.5
Government Consumption	-5.8	-0.9	8.3	4.4	3.7	2.7
Gross Fixed Capital Investment	-7.0	3.2	0.0	3.1	2.8	2.6
Exports, Goods and Services	-17.3	-12.8	5.2	6.4	4.3	3.8
Imports, Goods and Services	-32.5	-29.7	24.1	5.0	3.8	3.3
Real GDP growth, at constant factor prices	-2.4	4.1	4.4	2.9	2.2	1.9
Agriculture	9.2	3.2	-2.6	1.4	1.2	1.1
Industry	-9.7	7.8	3.2	3.6	2.3	2.1
Services	-0.2	2.2	6.5	2.7	2.4	2.0
Inflation (Consumer Price Index)	41.2	47.1	40.2	54.8	44.2	39.0
Current Account Balance (% of GDP)	-0.5	-0.4	3.5	3.8	2.8	2.6
Fiscal Balance (% of GDP)	-4.5	-5.8	-5.3	-4.5	-4.7	-5.0
Gross Public Debt (% of GDP)	42.7	44.7	40.8	39.2	39.8	40.3
Primary Balance (% of GDP)	-4.0	-5.3	-4.8	-3.8	-3.8	-4.0
GHG emissions growth (mtCO2e)	-3.4	-4.2	3.3	2.2	1.7	1.5
Energy related GHG emissions (% of total)	65.9	65.6	66.5	66.8	67.1	67.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

REPUBLIC OF IRAQ

Table 1	2021
Population, million	41.2
GDP, current US$ billion	197.5
GDP per capita, current US$	4796.2
Lower middle-income poverty rate ($3.65)[a]	2.4
Upper middle-income poverty rate ($6.85)[a]	24.7
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	70.7
Total GHG emissions (mtCO2e)	239.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2007); Life expectancy (2020).

GDP growth is rebounding after the pandemic. Higher oil prices have strengthened the fiscal and external balances to strong surpluses. However, the lack of an approved budget for 2022 has constrained the utilization of the oil windfall. Growth in the medium-term is projected to be driven by the oil sector. Further delays in forming a government, heightened security tensions, and worsening climate challenges pose significant risks to Iraq's economic outlook.

Key conditions and challenges

GDP continues to rebound as services expand with stronger demand and a return to a new post-pandemic normal. Oil production has also steadily increased as OPEC+ production cuts were tapered to meet global oil market demand. Higher government oil revenues, driven by increased export price and quantities, have significantly strengthened the fiscal position and international reserves.

However, a broad-based economic recovery has not materialized in part due to intensified political fragilities. Almost one year after the parliamentary elections in October 2021, the political impasse in forming a government has only intensified. The lack of a budget for 2022 has limited spending for essential current expenditures to levels of the previous year, and new investment projects have been put on hold. Legal and political challenges have barred the caretaker government from passing new legislation.

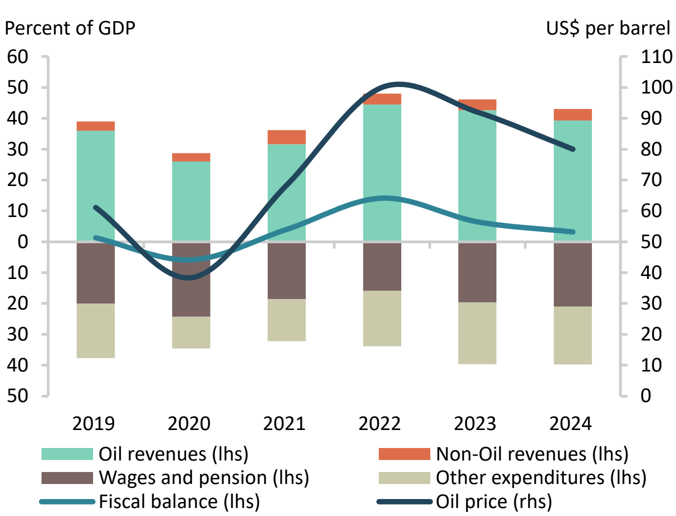
Economic diversification and longstanding structural challenges remain largely unaddressed. Despite several reform initiatives, Iraq remains one of the most oil-dependent countries in the world. High dependence on oil, pro-cyclical fiscal policy, and insufficient oil revenue management have left Iraq vulnerable to commodity price volatility. Even though oil generates most of the government revenue, the oil sector employs less than one percent of the Iraqi workforce. The public sector is the largest formal employer, accounting for 37.9 percent of the workforce. The private sector, mostly dominated by the poor and vulnerable segments of the workforce, remains largely informal and stunted; a legacy of conflict, political instability, and weak governance providing further disincentives for private sector investment and growth.

Food insecurity and heightened unemployment pose further risk for poverty and inequality. Severe droughts and rising temperatures have severely affected food production and agricultural employment (20 percent of total employment). The ongoing Russia-Ukraine war and the resulting surge in global commodity prices have exacerbated food security risks. The recent rebound in GDP growth has been insufficient to create new jobs and. unemployment remains high at 16.5 percent. Unemployment is disproportionately higher among women and youth, at 28.2 percent and 35.8 percent, respectively. Iraq has one of the lowest female labor force participation rates in the world (10.6 percent) and more than a third of youth are neither in employment nor education or training.

Recent developments

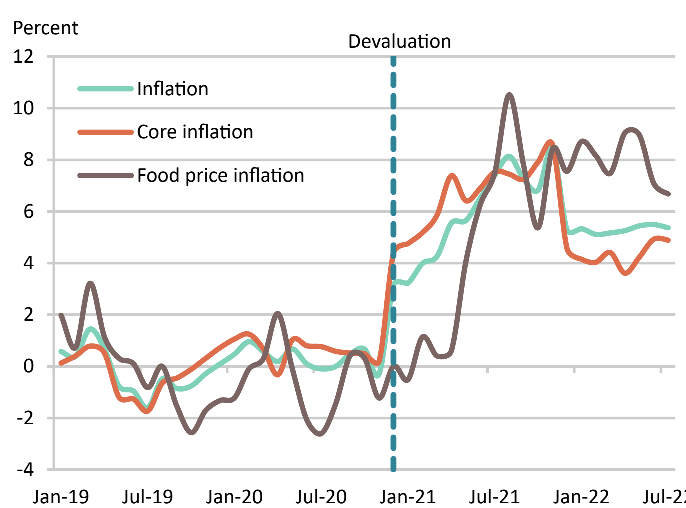
After 2.8 percent growth in 2021, real GDP growth increased to 7.2 percent y/y in Q1-2022, driven primarily by a strong rebound of the oil sector (+9 percent), in line with the increase in the OPEC production quota. Non-oil GDP also grew by 4.7 percent y/y, supported by a strong expansion

FIGURE 1 Republic of Iraq / Fiscal account outlook



Sources: Iraq MoF, MoO, and World Bank staff calculations.

FIGURE 2 Republic of Iraq / Consumer price inflation



Sources: Iraq CSO and World Bank staff calculations.

of the services sector (8.2 percent y/y), supported by a revival in domestic demand and religious tourism. However, agricultural and manufacturing sectors contracted by 14 percent and 15 percent, respectively, due to severe droughts, frequent energy outages, and rising global input prices.

Inflation has remained elevated since the devaluation of the dinar in December 2020, fueled by increased demand pressures and high global commodity prices. Headline and core inflation reached 5.3 and 4.3 percent in January to July 2022 y/y, respectively, with food prices rising by 8 percent. The Emergency Law for Food Security and Development, passed in June, allowed the government to mitigate inflationary pressures by allocating US$17.2 billion in funds to food and energy imports, social security transfers, and essential development projects.

In the first half of 2022, government revenues increased by 90 percent y/y as average oil export prices rose to US$103/barrel. Expenditures grew by 25 percent, restricted in the absence of a budget to 1/12 of previous year's spending per month. As a result, the overall fiscal balance recorded a surplus of nearly 8 percent of GDP (cash basis), up from 1.6 percent of GDP in the same period in 2021.

Higher oil exports also significantly improved the external position. The current account recorded a surplus of 4.5 percent of GDP in Q1-2022 as crude oil exports grew by 95 percent. As a result, gross official reserves increased from US$64 billion at end-2021 to US$78 billion (15 months of imports) in July 2022, providing a significant buffer for rising import costs and future shocks.

Outlook

The economic outlook has improved with high oil prices. GDP growth is expected to accelerate to 8.2 percent in 2022 due to strong oil GDP growth of 13 percent, based on the assumption of no significant cuts to OPEC production quotas. Growth is expected to gradually ease over the medium-term as oil production is constrained by production capacity and global demand. Non-oil GDP growth is forecast to remain under 3 percent on average in 2022-24, supported by a rebound in religious tourism but restricted by the water and electricity shortages, and softening demand. With oil prices projected at around US$90 per barrel, strong oil exports are expected to keep the fiscal balance in surplus over the medium term while the debt-to-GDP ratio is also expected to improve.

Downside risks to the outlook relate to heightened insecurity and political instability, weaker global demand, an intensification of climate change shocks, and further inflationary pressures. Rising food prices exacerbate pre-existing poverty trends and increase food security risks. Risks of social unrest would be compounded by any further erosion of purchasing power due to inflation and continued electricity and water shortages. Safeguarding part of the oil windfall for future downturns and investing some of the additional revenue to enhance the productive capacity and promote economic diversification are critical for sustainable and inclusive growth. There is a risk, however, that higher oil prices may lower the domestic drive for reform which would deepen Iraq's structural economic challenges.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.8	-8.6	2.8	8.2	4.3	2.5
Private Consumption	1.5	3.1	4.5	3.0	2.8	2.6
Government Consumption	25.2	-9.5	5.6	5.8	3.0	3.0
Gross Fixed Capital Investment	47.2	-67.0	17.9	10.8	9.0	8.6
Exports, Goods and Services	4.6	-10.1	-0.7	13.1	5.9	2.6
Imports, Goods and Services	28.4	-23.9	4.2	8.5	6.0	5.0
Real GDP growth, at constant factor prices	5.5	-11.3	2.8	8.2	4.3	2.5
Agriculture	46.2	22.5	-17.5	1.0	1.5	1.5
Industry	7.4	-15.2	-1.1	12.0	5.6	2.4
Services	-1.8	-6.3	14.4	2.0	2.0	2.7
Inflation (Consumer Price Index)	-0.2	0.6	6.0	5.8	4.5	3.0
Current Account Balance (% of GDP)[a]	5.8	-4.0	12.0	14.6	10.4	7.0
Net Foreign Direct Investment Inflow (% of GDP)[a]	-1.6	-1.6	-1.3	-1.3	-1.3	-1.4
Fiscal Balance (% of GDP)[a]	1.3	-5.8	4.0	14.1	6.5	3.2
Debt (% of GDP)[a]	44.7	64.7	53.2	38.0	34.6	33.9
Primary Balance (% of GDP)[a]	2.4	-4.8	4.5	14.8	7.1	3.7
GHG emissions growth (mtCO2e)	11.4	-2.6	4.5	17.1	13.4	11.0
Energy related GHG emissions (% of total)	72.5	73.8	74.7	77.6	79.6	81.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Share of factor cost GDP.

JORDAN

Table 1	2021
Population, million	10.3
GDP, current US$ billion	45.3
GDP per capita, current US$	4412.1
National poverty rate[a]	15.7
School enrollment, primary (% gross)[b]	80.4
Life expectancy at birth, years[b]	74.7
Total GHG emissions (mtCO2e)	35.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017/8).
b/ Most recent WDI value (2020).

Jordan's economic growth rebounded in early 2022, boosted by a recovery in key services sectors, notably tourism. Merchandise exports are witnessing robust growth, but the global food and energy crisis is weighing on domestic prices via the import bill. Fiscal adjustments are on track, but pressures from the broader public sector are likely to intensify and trigger an increase in public debt. High unemployment is a chronic challenge, and the difficult business environment remains unfavorable for job creation.

Key conditions and challenges

Jordan's economy was affected by multiple external shocks during the past decade. Regional conflicts triggered a large refugee influx and disrupted trade routes and key export markets, while the economic slowdown in the GCC countries reduced foreign capital inflows. With the rapid growth in population, per capita real GDP growth remained mostly negative during the past decade. A weak business environment and job market regulations limit the private sector's capability to generate sufficient jobs for a rapidly growing labor force, leading to a chronic employment crisis.

An unfavorable global context and domestic constraints pose significant challenges to Jordan's recovery. Exports and incoming tourism are negatively impacted by the slowdown in major trading partners (the US and Europe), while food security and imports are vulnerable to the potential intensification of the global food and energy crisis. Inflation is rising amid persistently high unemployment, and monetary tightening has increased the borrowing costs for consumers, businesses, and the government in a context of an already challenging business environment and elevated public debt. The fiscal space to continue with measures to support poor and vulnerable households remains limited, with additional pressures from the loss-making state-owned electricity and water companies. Moreover, water scarcity is a significant risk for Jordan, which is further threatened by climate conditions, notably lower precipitation and rising temperatures, as well as subsidized pricing favoring over-consumption.

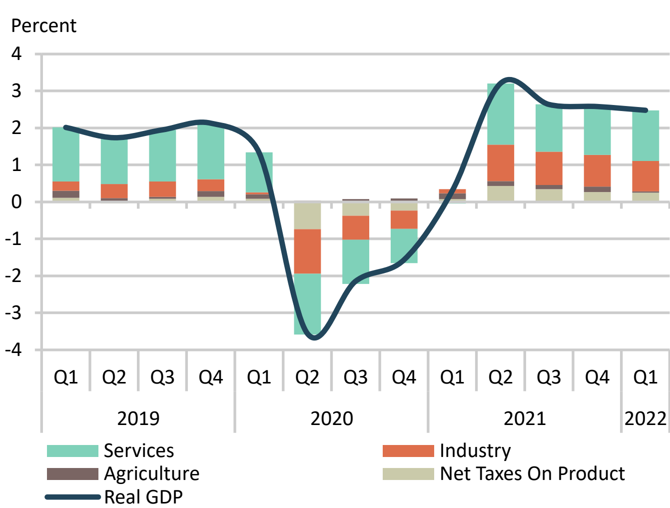
Recent developments

Growth rebounded to 2.5 percent in Q1-2022, supported by the reopening of the economy and the recovery of contact-intensive services (transport, retail, and personal services) to pre-pandemic levels. However, higher global commodity prices led to an acceleration in headline inflation, which averaged 3.6 percent during the 6M-2022. The Central Bank of Jordan reacted by raising its policy rate four times during 2022, moving it to 4.50 percent in end-July.

The Central Government (CG) fiscal deficit (including grants) declined to 1.7 percent of GDP during 5M-2022, from 2 percent in 5M-2021. Public spending increased by 5.4 percent, including from the re-introduction of temporary oil subsidies (0.3 of GDP). Domestic revenues grew by 10 percent, driven by higher taxes on income and profits from companies. The ratio of public and publicly--guaranteed debt-to-GDP stood at 113.7 percent at end-2021 and reached JD 37.1 billion in May 2022 (a 1.5 percent nominal growth).

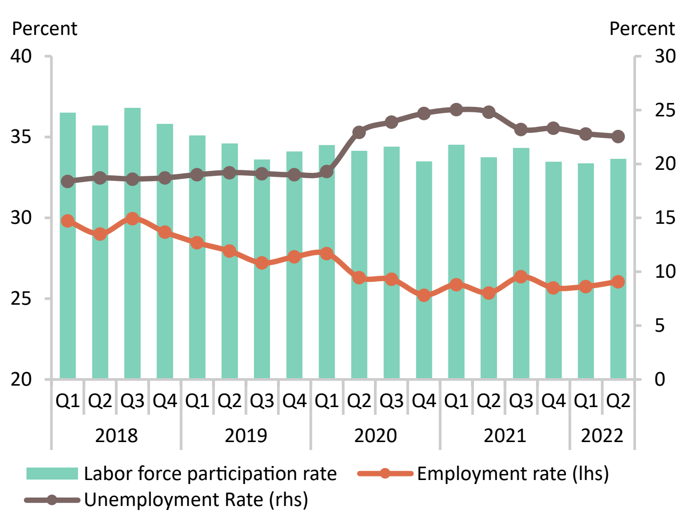
The current account deficit (CAD,) widened to 2.8 percent of GDP in Q1-2022, up from 2.6 percent in Q1-2021, driven by a significant increase in the imports bill. The deterioration happened despite the robust

FIGURE 1 Jordan / Real GDP growth and sectoral contributions to real GDP growth



Sources: Department of Statistics and World Bank staff calculations.

FIGURE 2 Jordan / Labor market indicators



Sources: Department of Statistics and World Bank staff calculations.

export growth of 40 percent, helped by the spike in potash and phosphates global prices and the solid rebound in travel receipts (251 percent). FDI increased by 0.7 percent in Q1-2022 up from 0.2 percent, yet the BOP registered a deficit of 0.4 percent of GDP (compared to a surplus of 0.2 percent of GDP in Q1-2021). Gross foreign reserves declined by USD 1.3 billion, reaching US$17.8 billion in end-June 2022.

Labor market conditions remain the most significant threat to households' welfare. The latest available data from 2018 indicate a national poverty rate of 15.7 percent, and the labor market conditions suggest that households' welfare may have not fully recovered from the pandemic shock. Despite the growth rebound, labor force participation (33.5 percent in Q2-2022 and 14.2 percent for women—one of the lowest in the world) and the employment rate (26.0 percent in Q2-2022) are persistently low. Unemployment is still above pre-pandemic levels (22.6 percent in Q2-2022), especially among women (29.4 percent) and the youth (46.1 percent among those under 25 years old). Recent price increases are expected to further affect the poorest households since they spend a greater share of their income on food and have become increasingly vulnerable to these types of shocks.

Outlook

With the full reopening of the economy, tourism and other services are expected to further rebound. However, increasing consumer prices, monetary tightening, and the retraction of government spending may weigh on aggregate demand, with growth projected to slightly slow to 2.1 percent. Over the medium-term, growth is expected to marginally pick up, but a significant upside exists should the implementation of structural reforms accelerate.

The fiscal deficit is projected to narrow to 5.2 percent of GDP in 2022, down from 6.4 percent in 2021. On the revenue side, grants will remain stable at 10 percent of revenues, but the termination of real estate registration tax exemptions and higher receipts from corporate income taxes are expected to offset the decline triggered by customs reform. Expenditure-to-GDP is expected to slightly decrease, with the retraction of COVID-related spending and lower public investment – and despite the higher fuel and wheat subsidies and additional cash transfers. However, fiscal pressures from the loss-making electricity and water sector are estimated to increase public and publicly guaranteed gross debt to 115.8 percent of GDP (with debt net of Social Security Investment Fund holdings at around 92.8 percent).

On the external front, the trade balance is expected to deteriorate despite the expected increase in export - but the services balance will benefit from recovering tourism, projected to reach 90 percent of pre-pandemic levels. Hence, the CAD is projected to narrow to 7.1 percent of GDP in 2022 and will continue to do so over the medium term as commodity prices subside and tourism fully recovers.

Household welfare is expected to slightly improve with the recovery in tourism and other services, which provide income for many poor households. This recovery is, nonetheless, limited by an unfavorable environment for private-sector job creation and constrained labor productivity. Short of a revival of growth beyond the low 2 percent, welfare improvements are not expected to be significant and could be reversed by shocks given limited household buffers.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.0	-1.6	2.2	2.1	2.3	2.3
Private Consumption	-1.3	3.4	3.6	2.1	1.9	1.6
Government Consumption	2.1	5.2	5.2	-0.5	1.8	0.5
Gross Fixed Capital Investment	-6.9	-4.9	9.9	-1.9	1.8	3.1
Exports, Goods and Services	6.5	-35.3	30.6	23.1	5.9	3.8
Imports, Goods and Services	-3.1	-17.2	25.5	12.6	3.7	1.8
Real GDP growth, at constant factor prices	2.2	-1.4	2.2	2.1	2.3	2.3
Agriculture	2.6	1.6	2.8	2.1	2.2	2.5
Industry	1.4	-2.4	3.0	2.2	1.9	1.5
Services	2.4	-1.2	1.8	2.1	2.5	2.6
Inflation (Consumer Price Index)	0.8	0.3	1.3	4.0	3.0	2.5
Current Account Balance (% of GDP)	-1.7	-5.7	-8.9	-7.1	-5.1	-4.4
Net Foreign Direct Investment Inflow (% of GDP)	1.5	1.7	1.3	1.5	2.3	2.6
Fiscal Balance (% of GDP)[a]	-4.9	-7.3	-6.4	-5.2	-5.0	-4.6
Debt (% of GDP)[b]	97.4	109.0	113.7	115.6	116.9	117.9
Debt, net of SSIF (% of GDP)[b]	78.0	88.0	91.9	92.6	92.6	91.8
Primary Balance (% of GDP)[a]	-1.3	-3.1	-2.0	-1.3	-0.8	-0.3
GHG emissions growth (mtCO2e)	1.0	-3.3	1.4	2.2	1.9	2.0
Energy related GHG emissions (% of total)	63.2	62.2	62.4	62.4	62.2	61.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ CG fiscal balance incl. grants, use of cash and unident. measures as per IMF-EFF (Jul 2022) of 0.2% of GDP in 2023, and 0.6% of GDP in 2024.
b/ Government and guaranteed gross debt. Includes securitization of domestic arrears in 2019-21.

KUWAIT

Table 1	2021
Population, million	4.3
GDP, current US$ billion	133.1
GDP per capita, current US$	30699.0
School enrollment, primary (% gross)[a]	87.3
Life expectancy at birth, years[a]	75.6
Total GHG emissions (mtCO2e)	131.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

Kuwait's economy is expected to recover to its pre-pandemic level in 2022, supported by the easing of COVID-19 restrictions, a significant increase in oil exports, and a rebound in credit to households and the private sector. Consequently, fiscal and external surpluses are projected to improve significantly in 2022. However, economic recovery will moderate in the medium term as oil prices taper. Downside risks to the outlook include emerging coronavirus variants, volatile oil prices, and continued political deadlock over key reforms.

Key conditions and challenges

Kuwait's long-term economic challenges are linked to its dependency on oil, domestic consumption as key driver for growth, and slow implementation of the diversification agenda. Nonetheless, sizable foreign assets continue to underpin Kuwait's economic resilience; however, these assets cannot mitigate the risk of low future oil demand, which necessitates fiscal and structural reforms. Moreover, progress on the diversification agenda has been slow, resulting in credit agencies downgrading Kuwait's sovereign rating in 2022 due to political stalemate which is hindering economic reform implementation.

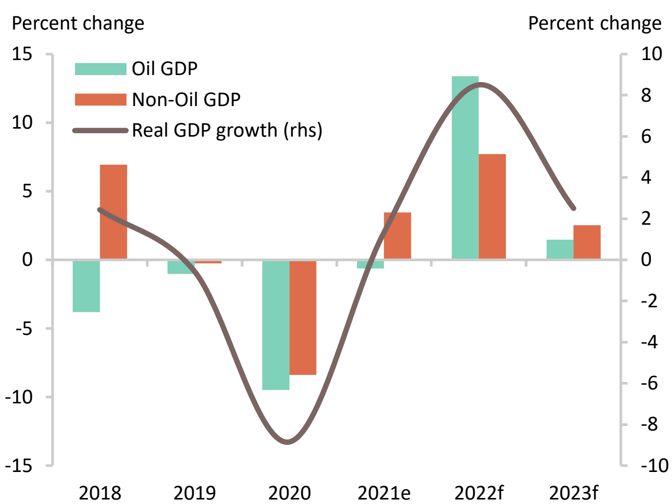
Furthermore, declining productivity presents another long-term growth challenge for Kuwait. In 2021, many expatriates permanently relocated, following a trend exacerbated by the pandemic. The government has been accelerating its Kuwaitisation policy—replacing foreign workers with Kuwaitis in the private and public sectors. The exodus of foreign workers has resulted in labor shortages, which risk hampering growth in the oil and non-oil sectors. Structural reforms targeting sustained, inclusive, and greener growth are urgently needed.

Key short- and medium-term risks include uncertainty over new COVID-19 variants, oil market volatility and structural reform delays. Inversely, continued high oil prices represent a favorable upside risk for Kuwait and provide an opportunity for policymakers to address medium-to-long-term challenges. The newly elected Parliament will offer an opportunity to resolve political constraints and leverage higher oil prices toward implementing urgently needed structural reforms articulated in Vision 2035 and the Government Work Program. Moreover, government may support fiscal sustainability endogenously by containing the public wage bill, gradual phasing out of subsidies consistent with fiscal sustainability objectives within the government work program, and moving ahead with the VAT.

Recent developments

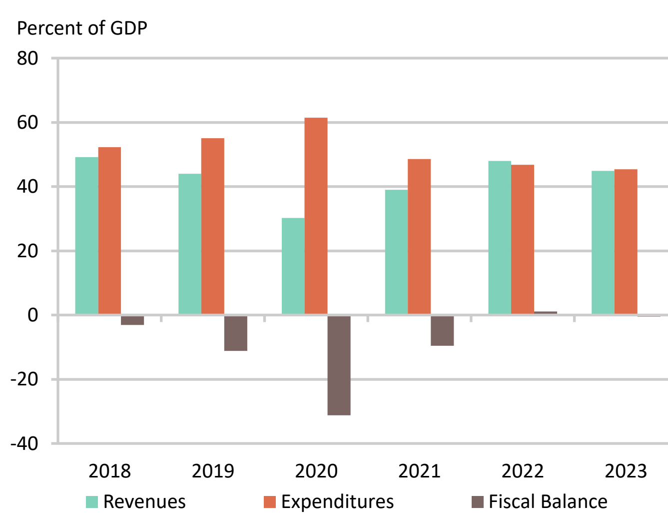
Kuwait's economy is set to continue recovering from the contraction brought fore by the pandemic in 2020. Developments in the oil economy have supported the recovery, with Kuwait's oil price and production levels increasing by 59.3 and 13.5 percent, respectively, during the first seven months of 2022. Oil exports rose by 81 percent during Q1 2022, prompting a 270 percent widening of the current account surplus which is estimated to reach 28.5 percent of GDP during the same period. Growth is further bolstered by non-oil economic activity as mobility restrictions eased following Kuwait's largest COVID-19 outbreak during Q1 2022. High-frequency data suggest a strong rebound in private consumption and investments, with credit to households expanding by 5.5 percent during the first seven months of

FIGURE 1 Kuwait / Growth: Real GDP, real oil, and real non-oil sectors



Sources: Kuwait CSB and World Bank, Macroeconomics, Trade and Investment Global Practice.

FIGURE 2 Kuwait / General government operations



Sources: World Bank, Macroeconomics, Trade and Investment Global Practice and IMF WEO. Notes: Based on fiscal year cycle (April to March 31).

2022. Non-financial private sector activity was reinforced by a 5.2 percent year-to-date increase in credit facilities from local banks; concentrated in trade, real estate, and construction.

Kuwait registered the highest inflation rate among other GCC countries, averaging 4.4 percent during the 7-months of 2022 and driven mainly by food, education, and apparel. Food constitutes the highest share of merchandise imports in Kuwait compared to other GCC countries, which adds pressure to the high inflation rates. Accordingly, the Central Bank of Kuwait continued tighter monetary conditions in line with the FED's policy; nonetheless, non-performing loans remain low and the local financial sector remains well-provisioned to address headwinds.

On the fiscal front, higher oil prices supported a narrower fiscal deficit during FY2021/22. However, continued political tensions and the dissolution of the National Assembly prevented the approval of FY2022/23 proposed budget. Owing to higher oil prices, FY2022/23 budget sets a path for a fiscal surplus (excluding investment income and including FGF transfers) which will help rebuild fiscal buffers depleted during the pandemic-induced oil price shock.

Kuwait's labor market is highly segmented. According to the 2016-17 Labor Force Survey, nine out of ten employed Kuwaitis work in the public sector and thus were protected from pandemic-related restrictions on economic activity. By contrast, migrant workers are employed mainly in the private sector (64.3 percent) or as domestic workers (31 percent). The ILO estimates a complete rebound in the labor force in 2022 relative to pre-pandemic levels, which follows the partial rebound in 2021 (4.1 percent). This is primarily driven by increased public sector employment among Kuwaitis in 2021, compensating for the decline in migrant workers therein. The ILO estimates that unemployment rates for women and men will decline modestly in 2022 to 8.5 and 1.8 percent, respectively, though they both remain higher relative to 2019.

Outlook

Economic growth is forecasted to accelerate in 2022 to 8.5 percent before moderating to 2.5 percent in 2023 and 2024, respectively. After growing by 13.4 percent in 2022, the oil sector will continue supporting growth as more capacity from the Al Zour refinery comes online in 2023 despite signals for a more cautious approach of OPEC+ scheduled production. Likewise, the non-oil sector is anticipated to continue expanding in 2023 following a 7.7 percent uptick in 2022. More robust demand will be translated into additional upward inflationary pressures, though monetary tightening and decreasing global food prices will moderate inflation in the medium term.

The fiscal balance is anticipated to register a surplus of 1.1 percent of GDP in 2022 supported by stronger oil revenues and lower spending. Oil revenues are projected to increase by 9 percentage points of GDP while expenditures are estimated to drop by 1.5 percentage points of GDP with capital expenditures bearing the brunt of this cut. Fiscal surplus in 2022 might widen even further (5.9 percent of GDP) if the newly elected Parliament approves government's proposal to suspend FGF transfer during this FY. Nonetheless, a negative oil price outlook will narrow fiscal surpluses and revive deficit risks in the medium run. Implementing the economic diversification program and introducing the VAT, in line with other GCC peers, will enable Kuwait to diversify revenues and enhance fiscal sustainability.

Higher oil receipts are expected to more than compensate for the larger imports bill resulting in a significant external balance surplus of 28.6 percent of GDP in 2022. The surplus is expected to continue but narrow over the medium term to an average of 21.4 percent of GDP.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-0.6	-8.9	1.3	8.5	2.5	2.5
Private Consumption	2.3	-4.5	3.2	3.0	3.0	3.0
Government Consumption	7.7	0.0	1.1	7.0	2.4	-1.3
Gross Fixed Capital Investment	-2.6	-4.6	3.9	21.2	10.0	-2.4
Exports, Goods and Services	-10.0	-13.3	2.2	10.3	-0.5	4.5
Imports, Goods and Services	-10.4	-4.0	5.7	12.8	3.7	0.1
Real GDP growth, at constant factor prices	-0.6	-8.9	1.4	10.5	2.0	2.1
Agriculture	-4.6	-3.8	0.5	0.8	0.0	1.0
Industry	-1.0	-12.2	2.2	17.7	3.7	4.6
Services	-0.1	-3.6	0.3	-0.6	-1.0	-2.4
Inflation (Consumer Price Index)	1.1	2.1	3.4	4.0	2.5	2.5
Current Account Balance (% of GDP)	12.5	3.2	16.4	28.6	23.6	19.3
Fiscal Balance (% of GDP)[a]	-11.1	-31.2	-9.6	1.1	-0.5	-4.0
GHG emissions growth (mtCO2e)	2.1	-7.4	3.7	10.5	4.7	3.7
Energy related GHG emissions (% of total)	65.9	63.7	62.9	63.5	62.2	60.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal balances are reported in fiscal years (April 1st -March 31st). Balances exclude investment income and include transfers to FGF.

LEBANON

Table 1	2021
Population, million	6.8
GDP, current US$ billion	23.1
GDP per capita, current US$	3417.3
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	79.0
Total GHG emissions (mtCO2e)	26.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ Most recent WDI value (2020).

For three years, Lebanon has been impacted by the most devastating multi-pronged crisis in its modern history. A steep decline in disposable income and an unwavering inflation-depreciation spiral have severely eroded purchasing power with poverty affecting half of the population in 2021. Policy makers have yet to agree on a comprehensive recovery plan. In the continued absence of reforms, real GDP is projected to further contract by 5.4 percent in 2022, while inflation is expected to average 186 percent, one of the highest rates globally.

Key conditions and challenges

Lebanon's economic and financial crisis ranks among the worst crises globally since the mid-nineteenth century. Nominal GDP plummeted from close to US$52 billion in 2019 to an estimated US$23.1 billion in 2021. The central bank's gross foreign reserves have declined by approximately US$20 billion since the onset of the crisis. The gradual depletion of FX reserves has driven a dramatic collapse in basic services. Severe shortages of fuel items resulted in the national electric grid experiencing more than eight rolling blackouts as public electricity supply averages two hours per day. Fuel shortages have also hindered access to healthcare and clean water, while food supply shops, transport service providers, and telecom network operators face severe disruptions to their supply chains.

The protracted economic contraction has led to a marked decline in disposable income. GDP per capita dropped by 36.5 percent between 2019 and 2021, and Lebanon was reclassified by the World Bank as a lower middle-income country, down from upper middle-income status in July 2022. The decline in average income coupled with triple-digit inflation and severe currency depreciation are immensely curtailing purchasing power. The bulk of the economic adjustment is being borne by the most vulnerable segments of society. The newly launched 2019 Lebanon Multidimensional poverty index (MPI) finds that, during the period [2018-2019] preceding the crisis, 53 percent of all residents in Lebanon were multidimensionally poor, while 16 percent of the population were extremely poor, with the largest contributor to national MPI-poverty being the health dimension (30 percent). The multi-pronged crisis has certainly compounded poverty rates and further worsened living conditions.

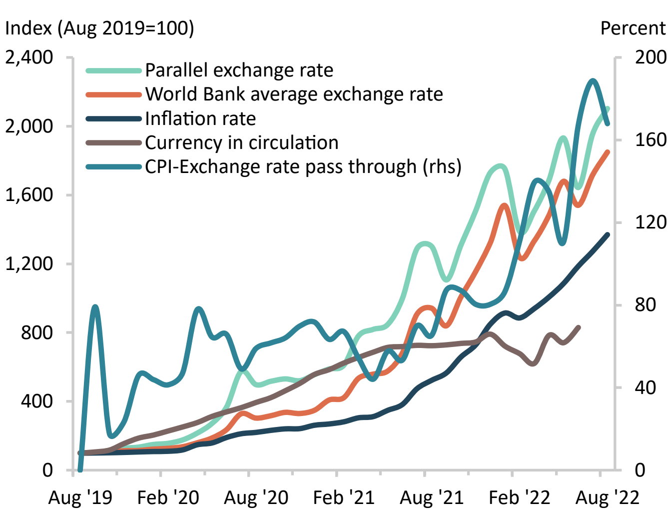
Recent developments

Real GDP is projected to have declined by 7 percent in 2021, after contracting by 21.4 percent in 2020. Tourist arrivals have risen by 132 percent (yoy), up from a Covid-induced low base, while the BLOM-PMI index, which captures private sector activity, averaged 46 in 2021, compared to 40.2 in 2020; a PMI index below 50 represents a contraction.

Public finances improved in 2021 as spending collapsed faster than revenue generation. Revenues are estimated to have declined from an already low 13.1 percent of GDP in 2020 to 6.6 percent of GDP in 2021, one of the lowest rates globally. This was more than offset by a larger decrease in total expenditures, which declined by 10.5 percentage points (yoy) in 2021 to 5.9 percent of GDP. The overall fiscal balance is estimated to have recorded a surplus of 0.7 percent of GDP for the first time in decades.

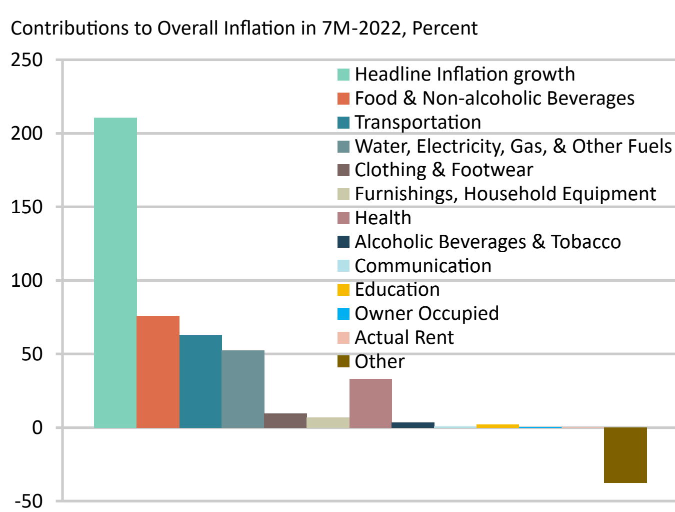
The World Bank-estimated Average Exchange Rate (AER) of the Lebanese Pound

FIGURE 1 Lebanon / Exchange rate depreciation along with surging inflation



Sources: Lebanese authorities and World Bank staff calculations.

FIGURE 2 Lebanon / Inflation in basic items has been a key driver of overall inflation, hurting the poor and the middle class



Sources: Lebanese authorities and World Bank staff calculations.

depreciated by 219 percent in 2021, compared to a 137 percent depreciation in 2020 (Figure 1). The BNR (i.e., the "Bureau" Rate) averaged 20,700 LBP/US$ in H2-2021, primarily driven by the disorderly rationing of the foreign exchange subsidy provided by BdL, the central bank, to fuel importers. Despite BdL's FX interventions to attempt to stabilize the BNR using its gross reserves starting in December 2021, the LBP has continued to steadily depreciate.

Inflation averaged 150 percent in 2021 and reached a high of 240 percent (yoy) in January 2022, primarily driven by an increase in the exchange rate pass-through. Lebanon was the country worst hit by food price inflation since the onset of the Ukraine war, which reached 332 percent (YoY) in June 2022. Overall inflation averaged a record 218 percent (yoy) in H1-2022.

Unemployment increased from 11.4 percent in 2018-19 to 29.6 percent in 2022. The female labor participation in Lebanon is very low (25 percent in 2019), representing a third of the male labor force participation rate, and compounding structural gender inequality.

A staff-level agreement with the IMF has been reached on a $3 billion, 46-months lending program (Extended Fund Facility), subject to the timely implementation of eight prior actions and confirmation of international partners' financial support. To date, limited progress has been made in meeting the prior actions.

Outlook

Real GDP is projected to contract by a further 5.4 percent in 2022 assuming continued political paralysis and no implementation of an adequate macroeconomic recovery strategy and comprehensive reforms. Inflation is expected to average 186 percent in 2022, amongst the highest rates globally, despite narrow money supply growth averaging 11 percent in 2022. This is primarily due to a change in the dynamic relationship between inflation and depreciation: the CPI exchange rate pass-through has averaged 134 percent for 6M-2021, up from an average of 75 percent since the onset of the crisis (Figure 1), mainly on account of the reduced share of goods imported at BdL subsidized exchange rates.

Parliamentary elections on May 15 resulted in a hung parliament and a government has yet to be formed. Prime Minister Mikati, whose government went into caretaker mode upon parliamentary elections, was reappointed as prime minister-designate. Governmental vacuum, coupled with the risk of presidential vacuum as the presidential election deadline approaches (October 31st), will likely further delay any agreement on crisis resolution and much-needed reforms, further worsening socio-economic outcomes.

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

	2019	2020	2021	2022e
Real GDP growth, at constant market prices	-7.2	-21.4	-7.0	-5.4
Private Consumption	-5.9	-15.3	-2.8	-3.3
Government Consumption	6.2	-53.7	-76.0	-80.1
Gross Fixed Capital Investment	-40.7	-55.4	-68.1	-5.0
Exports, Goods and Services	-1.7	-53.7	13.1	-1.8
Imports, Goods and Services	-13.0	-46.0	-12.2	-1.9
Real GDP growth, at constant factor prices	-5.9	-16.2	-5.3	-5.1
Agriculture	6.1	-5.3	-7.1	-7.5
Industry	-17.6	-5.8	-6.9	-7.3
Services	-4.7	-18.5	-4.9	-4.6
Inflation (Consumer Price Index)	2.9	84.3	150.0	186.0
Current Account Balance (% of GDP)	-21.9	-9.3	-12.5	-14.2
Net Foreign Direct Investment Inflow (% of GDP)	2.0	4.1	2.1	2.3
Fiscal Balance (% of GDP)	-10.5	-3.3	0.7	0.5
Debt (% of GDP)	171.1	179.2	172.5	180.7
Primary Balance (% of GDP)	-0.5	-0.8	1.7	1.1
GHG emissions growth (mtCO2e)	1.5	-19.4	-7.1	-5.0
Energy related GHG emissions (% of total)	73.6	72.4	74.3	74.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

LIBYA

Table 1	2021
Population, million	7.0
GDP, current US$ billion	41.6
GDP per capita, current US$	5977.9
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	73.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

The political and security situation remained fragile and undermines the adequate functioning of institutions. Armed clashes, protests, and inadequate maintenance have disrupted oil production and export amid rising global prices. Higher food prices due to the impacts of the war in Ukraine have increased pressures on vulnerable households already strained by the conflict and COVID-19 containment measures. Social protests have recently erupted across the country as citizens voiced frustrations over the deteriorating political and economic conditions.

Key conditions and challenges

The political and security condition remained fragile. Competition between rival governments led to armed clashes in the capital. Incidents of social protests occurred as citizens protested the deteriorating political and economic conditions.

The fragmented and volatile political and security situation undermines the adequate functioning of institutions and policymaking. Without an approved budget for 2022, the Government of National Unity (GNU) has continued to spend on essential line items, excluding capital spending, following the 1/12 rule.[1] In June 2022, the House of Representatives approved the 2022 National budget of the Government of National Stability (GNS) and requested the Central Bank (CBL) to finance it. The blockade of oil facilities by protesters brought production to two third of its potential during the second quarter of 2021.

Higher food prices due to the impacts of the war in Ukraine are increasing pressures on vulnerable households already strained by the conflict and COVID-19 containment measures.

1/ The 1/12 rule allows the government to make current spending. This spending is cut at the average monthly spending of the previous year.

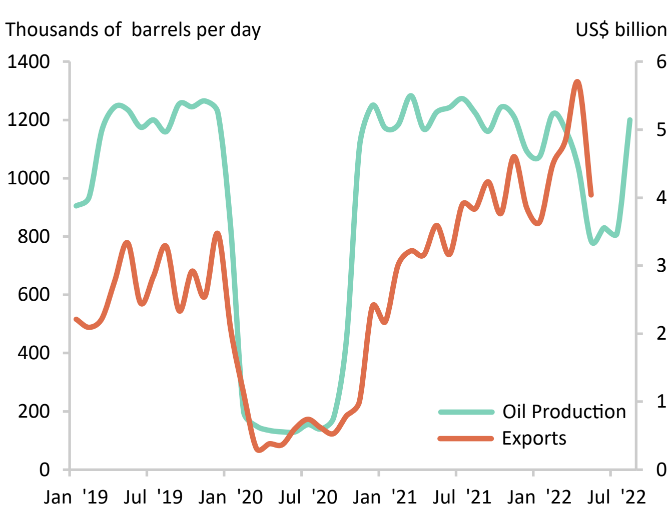
Recent developments

Following the end of the UN-backed transitional period and the formation of the GNS in March 2022, political and security tensions heightened leading to blockades and shutdowns of oil facilities by politically motivated armed groups. Starting in April 2022, oil production declined to 0.88 million barrels per day (mb/d) during the second quarter, 33 percent less than during the first quarter of 2022. Foregone oil export revenues since the beginning of the partial cutoff in April 2022 amounted to over USD 3.9 billion (9 percent of 2021 GDP). Oil production resumed to 1 mb/d in July-August with the easing of disruptions to oil production.

The impacts of the war in Ukraine have fueled inflationary pressures. The cost of the Minimum Expenditure Basket (MEB) and its food portion rose, respectively, by 37 and 41 percent year-on-year in April 2022 only or 13 and 15 percent compared to their pre-war level (February 2022). Inflationary pressures have been higher in the Western part of Libya. Food price inflation remained high in June despite authorities' decision to tighten price controls, ban basic food exports and create a strategic cereal reserve.

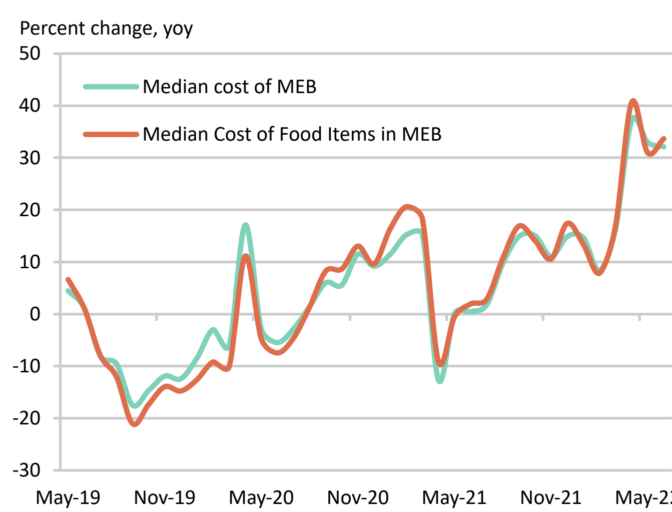
Key informant interviews conducted by the REACH humanitarian initiative in October-November 2021 found that high food prices and low income were the main drivers of food insecurity in Libya. According to REACH's Multi-Sectoral Needs Assessment, 27 percent of Libyans earned less

FIGURE 1 Libya / Oil production and exports



Sources: Organization of the Petroleum Exporting Countries (oil production) and IMF Direction of Trade Statistics (exports).

FIGURE 2 Libya / Median cost of Minimum Expenditure Basket (MEB) and its food portion



Sources: REACH and World Bank staff estimates.

than needed to afford a basic expenditure basket, with a higher incidence in the southern part of the country.

The GNU's fiscal surplus, excluding National Oil Corporation's (NOC) spending, reached LYD 25 billion (13 percent of 2021 GDP) by the end of August 2022, compared to LYD 13 billion (7 percent of 2021 GDP) during the same period in 2021, driven by improved oil revenues and freezing of capital spending. Government revenues reached LYD 67 billion or 36 percent of GDP, 98 percent of which are generated by the hydrocarbon sector, lower than LYD 70 billion or 37 percent of GDP last year. Government expenditure, excluding NOC, topped LYD 41 billion with wages and salaries and subsidies, and social transfers accounting for close to 86 percent of spending. Including NOC's spending, the GNU would register a surplus of LYD 10 billion.

Data for the first 5 months of 2022 reveal a trade surplus of USD 14 billion growing by 72 percent in nominal USD terms compared to the same period in 2021. Exports grew by 50 percent driven by rising oil prices while imports grew by 24 percent due to higher food prices.

As of August 2022, the official exchange rate depreciated by 6.6 percent compared to January 2022 and 9.8 percent since January 2021 due to political and security tensions and associated oil production and export disruptions. The ratio between the parallel and official exchange rate narrowed slightly from 1.07 to 1.04, much lower than before the devaluation in December 2020 when it stood at 4.26.

Outlook

It is impossible to forecast economic outcomes with any degree of confidence due to the high level of uncertainty surrounding political and security developments. If Libya could sustain current levels of oil production and exports without major extended disruptions, the country would benefit from soaring global oil prices which would translate into higher fiscal revenues and an inflow of hard currency. This would positively affect the trade, current account, and fiscal balances. However, the war in Ukraine may lead to further supply chain disruptions and sharper-than-expected agricultural product price increases and in turn higher inflation and lower consumption.

Downside risks to the outlook are elevated. Political tensions relating to national elections and rival governments are high, which raises the specter of a potential backslide into violence. Competition between the rival governments will likely continue to impact the functioning of state institutions impeding the state's ability to deliver public services. A sharper-than-expected slowdown in global growth could reduce global oil demand, thereby translating into reduced exports and government revenues for Libya, with knock-on effects on economic growth, fiscal and current account balances, and foreign reserves.

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

	2018	2019	2020	2021e	2022e
Real GDP growth, at constant factor prices	15.1	2.5	-31.3	99.3	3.4
Hydrocarbon GDP	35.9	4.3	-52.3	203.9	2.0
Non-Hydrocarbon GDP	1.8	1.0	-12.8	48.7	3.8
Exchange Rate (USD/LYD)	1.4	1.4	1.4	4.5	4.7
Current Account Balance (% of GDP)	21.4	11.6	-34.8	23.4	27.9
Fiscal Balance (% of GDP)	-7.0	1.7	-64.4	10.6	25.8
Crude oil production (million barrels per day)	1.0	1.2	0.4	1.2	1.2

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

MOROCCO

Table 1	2021
Population, million	37.3
GDP, current US$ billion	142.5
GDP per capita, current US$	3816.9
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.65)[a]	9.8
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	115.2
Life expectancy at birth, years[b]	76.9
Total GHG emissions (mtCO2e)	93.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014).
b/ Most recent WDI value (2020).

After a solid recovery in 2021, the Moroccan economy has abruptly slowed amidst a string of adverse shocks. A severe drought is resulting in a sharp contraction of agricultural output while rising prices are hampering private consumption and investment. The government has engaged in an ambitious reform agenda centered so far on the health, education, and social protection systems. Its success will be crucial to foster social inclusion, at a time when progress toward poverty reduction and inequality is threatened.

Key conditions and challenges

The liberalization process launched at the turn of the Century and a large State-led investment effort paved the way for a sustained economic expansion and poverty reduction that lasted until the COVID-19 shock. However, potential growth had been on a declining trend even before the pandemic due to the presence of various structural bottlenecks, including a human capital deficit, very low female labor force participation (FLFP), and weak competition.

Morocco has embarked on an ambitious effort to accelerate growth and foster social inclusion. The New Development Model unveiled in 2021 highlights the reforms needed to reach these objectives. So far, the authorities have focused on the universalization of access to public health, education, and social protection systems. Private sector development is another priority, and Morocco has initiated its SOE reform, which could help level the playing field for private operators. By 2035, Morocco intends to bring FLFP from close to 23 percent in 2018 to 45 percent.

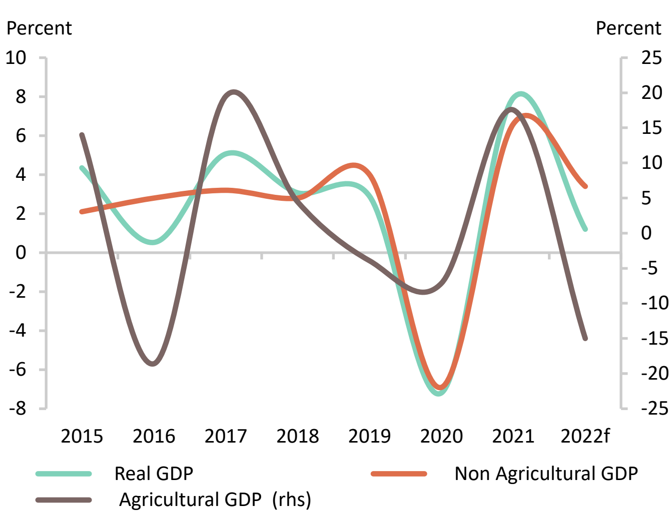
The impacts of the COVID-19 pandemic, the recent surge in commodity prices, and increasingly frequent climate-related shocks highlight the importance of strengthening the resilience of the Moroccan economy and households. The authorities' proactive approach has been effective to manage and mitigate these shocks but has eroded fiscal space. Rebuilding Morocco's fiscal buffers will be needed over the medium term to fund ongoing reforms and improve resilience.

Although Morocco has made important progress in poverty reduction, its underperforming labor market remains a major structural driver of social exclusion, especially for women and the youth. In addition, large spatial inequalities persist across regions and between urban and rural areas, with a high share of agricultural workers (close to a third of the labor force) still lacking access to key services and disproportionately affected by the impacts of climate change.

Recent developments

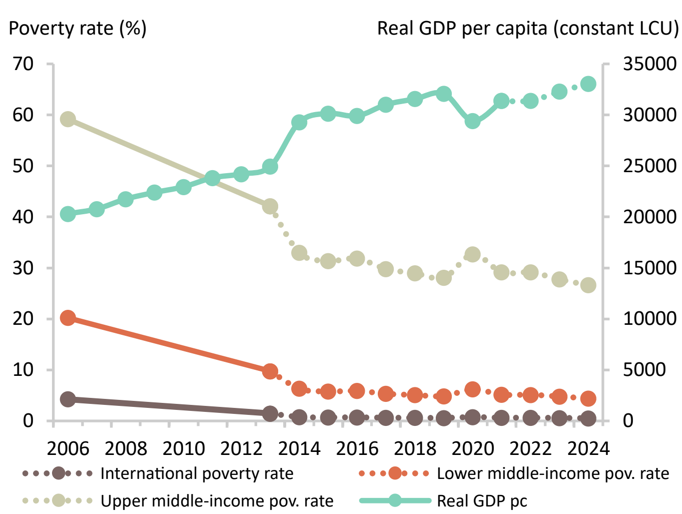
Morocco's post-COVID rebound has stalled amid headwinds emanating from abnormally low precipitations and a deterioration of global conditions. Real GDP expanded by 7.9 percent in 2021, enabling the country to recover the output losses during the first year of the pandemic. However, a new string of shocks dragged overall GDP growth down to 0.3 percent y-o-y in Q1-2022. After a strong agricultural campaign in 2020-21, Morocco is going through another severe drought which is leading to a sharp contraction of agricultural GDP (-14.3 percent in Q1-2022). Rising prices and deteriorating market sentiment are adversely impacting private consumption and investment, which declined by 1.1 percent and 0.7 percent respectively in Q1-2022.

FIGURE 1 Morocco / Growth rate volatility 2014-2022



Sources: HCP and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

On the other hand, Morocco´s sizeable tourism sector is finally staging a strong recovery, as travel restrictions have been relaxed and ferry connections with Europe reopened.

The inflationary pressures that emerged towards the end of 2021 have intensified following the war in Ukraine. The CPI reached 8 percent y-o-y at the end of August (core inflation at 6.5 percent) forcing the central bank to raise the policy rate by 50 basis points to 2 percent. Price pressures have been driven mainly by food items (+12 percent) and transport (+18.3 percent). The dirham has depreciated vis-à-vis the dollar, with minor movements vis-à-vis the euro. On the external side, the commodity price shock is fueling the merchandise trade deficit (+48.7 percent in H1-2022), although the impact on the current account is softened by rising tourism revenues (+27.9 percent) and resilient remittances (+6.1 percent).

The government has maintained pre-existing price subsidies on energy (butane gas and electricity) and food (flour and sugar) to mitigate the impact of the shock on households' purchasing power. This is resulting in additional pressures on public spending, up by 11.4 percent y-o-y in 2022-H1. Total subsidies are projected to reach 2.6 percent of GDP in 2022, up by 60.7 percent from 2021 levels. However, the deficit declined by 37.8 percent in 2022-H1 owing to a rebound in tax revenues that is partly linked to the strong performance of the economy in 2021 (CIT, +57.3) and rising import prices (VAT on imports, + 33.3; customs duties, +23.9).

Inflation likely resulted into an important deterioration of welfare, disproportionately concentrated in the bottom of the distribution and rural areas. Importantly, these impacts could have been twice as big without the current subsidy system.

Outlook

GDP growth is expected to decelerate to 1.2 percent in 2022, driven mainly by a sharp contraction of agricultural output in the context of the current drought. Non-agricultural GDP should be more resilient, sustained by the good performance of services led by the tourism sector. The economic slowdown in Europe and rising inputs' prices, instead, will result in a deceleration of the manufacturing sector (+2 percent). On the demand side, inflationary pressures and heightened uncertainty will continue to feed a slowdown in private consumption and investment, only partly offset by still robust growth in public spending.

Growth is expected to increase to 4 percent in 2023 under the assumption that agricultural output recovers and that inflationary pressures gradually subside. However, risks remain tilted to the downside as water scarcity and price pressures could be more persistent than currently anticipated, continuing to erode households' purchasing power and potentially forcing the central bank to continue tightening monetary policy; as the slowdown in European markets could intensify in the context of a protracted war and of a further tightening of global financial conditions.

Despite the spending pressures exerted by subsidies and ongoing reforms, the solid recovery of tax revenues and the windfall profits obtained by the national phosphate company (OCP) should result in a slight reduction of the budget deficit to 5.5 percent of GDP in 2022. The current account deficit, instead, is projected to widen to 4.9 percent of GDP due to the rising import bill.

After the improvement in living conditions in 2021, the bad performance of the agricultural sector has negatively affected rural labor income. While distributionally neutral GDP-based projections suggest poverty has stagnated in 2022, it has more likely worsened in rural areas and among agricultural workers, already among the poorest and vulnerable to climatic shocks.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.9	-7.2	7.9	1.2	4.0	3.5
Private Consumption	2.2	-5.6	8.2	1.6	3.0	3.4
Government Consumption	4.8	-0.5	5.6	5.4	4.7	3.7
Gross Fixed Capital Investment	1.7	-10.0	9.3	2.7	4.8	4.8
Exports, Goods and Services	5.1	-15.0	8.7	9.1	9.3	9.6
Imports, Goods and Services	2.1	-11.9	11.8	11.7	7.2	8.4
Real GDP growth, at constant factor prices	3.0	-7.0	7.8	1.2	4.0	3.5
Agriculture	-3.9	-7.1	17.6	-15.0	12.8	3.8
Industry	4.1	-5.2	6.8	2.0	3.3	3.4
Services	3.9	-7.9	6.4	4.3	2.8	3.5
Inflation (Consumer Price Index)	0.2	0.7	1.4	5.3	2.6	2.0
Current Account Balance (% of GDP)	-3.4	-1.2	-2.3	-4.9	-4.2	-3.7
Net Foreign Direct Investment Inflow (% of GDP)	0.6	0.8	1.2	1.4	1.4	1.4
Fiscal Balance (% of GDP)	-3.7	-7.1	-5.9	-5.5	-5.4	-4.8
Debt (% of GDP)	60.3	72.2	68.9	71.0	72.9	72.7
Primary Balance (% of GDP)	-1.3	-4.6	-3.8	-3.4	-3.4	-2.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.6	0.7	0.6	0.6	0.6	0.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.9	6.2	5.1	5.1	4.7	4.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	28.1	32.7	29.1	29.1	27.8	26.6
GHG emissions growth (mtCO2e)	7.4	-2.1	4.5	16.3	3.1	4.1
Energy related GHG emissions (% of total)	73.4	73.0	74.0	77.4	77.5	77.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2013) with pass-through = 0,87 (Med (0.87)) based on GDP per capita in constant LCU.

OMAN

Table 1	2021
Population, million	5.2
GDP, current US$ billion	85.9
GDP per capita, current US$	16440.5
School enrollment, primary (% gross)[a]	104.5
Life expectancy at birth, years[a]	78.1
Total GHG emissions (mtCO2e)	102.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

Oman's economic growth is strengthening thanks to increased hydrocarbon output and continued rebound in non-oil activities. Higher hydrocarbon prices and continued fiscal consolidation measures are helping both fiscal and external balances to return to surplus in 2022, placing the debt trajectory on a downward path. Key risks arise from uncertainty surrounding the global oil market, renewed COVID-19 infections, and increased inflationary pressures, which would undermine growth potential and fiscal adjustment efforts.

Key conditions and challenges

Oman's economy remains highly dependent on oil and natural gas. Despite diversification efforts, hydrocarbon revenues continue to account for about 80 percent of total budget revenues. As such, the Sultanate suffered from the pandemic-induced recession and the collapse of oil prices, which amplified fiscal and external vulnerabilities. These have added to the pre-existing upward trend of debt accumulation. Recognizing the severity of the crisis, the government announced the Medium-Term Fiscal Balance Plan (MTFP) 2020-24 in 2020 with several fiscal adjustment reforms aiming at boosting non-hydrocarbon revenues, rationalizing expenditures, and placing public debt on a sustainable path. A new economic stimulus plan was later announced in March 2021 to address the continued economic decline and promote diversification, including the strengthening of the business and investment environment.

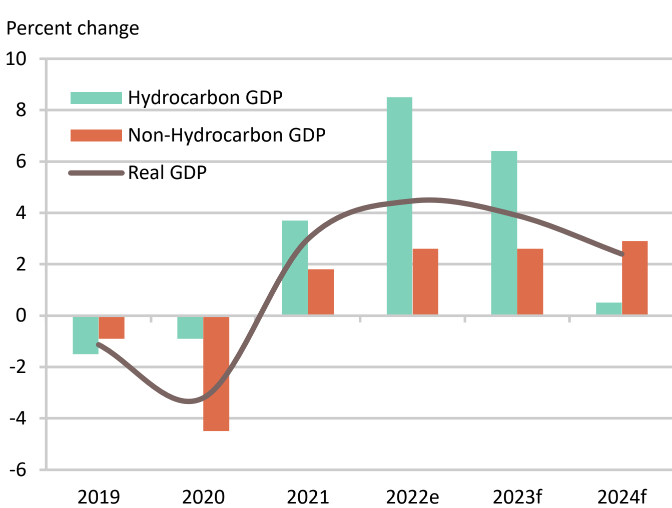
Higher oil and gas production, the lifting of all pandemic restrictions, and ongoing efforts to diversify the economy away from the hydrocarbon sector will strengthen growth potential. Diversification efforts include, but are not limited to, streamlining the wage bill, targeting subsidies, and fostering a friendly business environment. The windfall from higher hydrocarbon prices supported by fiscal adjustment measures is expected to significantly improve fiscal and external balances, turning them into surpluses from 2022 through the forecast horizon and leading to a sharp fall in the debt-to-GDP ratio.

While Oman's economic outlook is encouraging, challenges remain. These include uncertainties surrounding new COVID-19 variants, intensification of climate change shocks, and macroeconomic volatility. Downside risks stem from unfavorable oil prices, tightening of global financial conditions, and increased inflationary pressures from higher global commodities prices, which could reintroduce financing challenges. On the upside, longer-than-forecast high oil prices accompanied with steadfast implementation of the MTFP would materially improve the outlook and support advancing climate change agenda, digitalization, and spur a strong, inclusive, and green recovery.

Recent developments

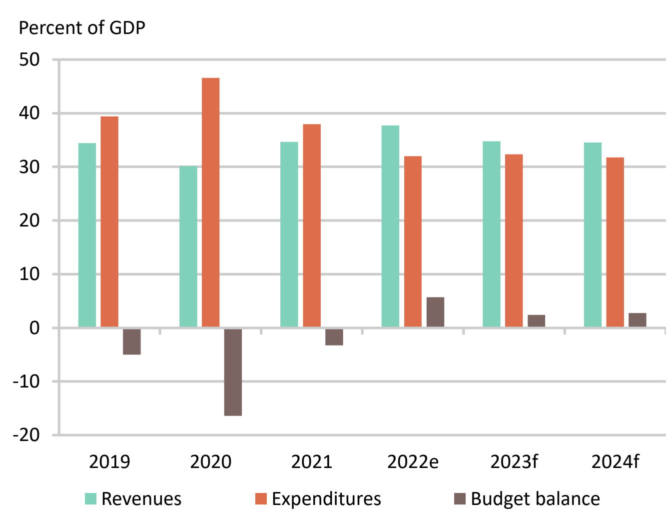
Oman's economy is gradually strengthening largely driven by the buoyant hydrocarbon sector and continued recovery in non-hydrocarbon activities. Official data reveals that the real economy grew by 2.1 percent in the Q1 2022 supported by strong performance in the hydrocarbon sector, which grew by 8 percent. In contrast, the non-hydrocarbon economy contracted by 0.4 percent due to a sharp drop in the agricultural sector (driven by droughts) and the contraction in non-oil industry, (mainly in the construction sector as a result of higher input prices).

FIGURE 1 Oman / Real annual GDP growth



Sources: Oman authorities, IMF, and World Bank staff projections.

FIGURE 2 Oman / General government operations



Sources: Oman authorities and World Bank staff projections.

Inflation picked up to an average of 3.2 percent in the first 7 months of 2022 reflecting the recovery of domestic demand and rising global food and commodities prices.

Public finance data reveals a substantial increase in budgetary revenues (almost 54 percent) during the first seven months of 2022 (7M-22) mainly driven by higher hydrocarbon receipts and higher non-hydrocarbon revenues. On the expenditures side, the government continued the implementation of fiscal discipline measures by introducing public wage bill reforms and rationalizing subsidies and transfers. As a result, Oman's fiscal position shifted to a US$2.7 billion surplus (nearly 2.4 percent of GDP) during 7M-22, against a US$3.1 billion deficit (3.7 percent of GDP) in 7M-21.

The trade balance surplus widened in the first 5 months of 2022 to US$10 billion (9 percent of GDP) compared to US$3.4 billion (4 percent of GDP) during the same period of last year. The surplus is driven by higher merchandised exports, of which 78 percent is hydrocarbon-based. This significantly pushed foreign reserves up (to US$17 billion in June 2022).

The performance of the labor market is mixed. While the unemployment rate in Oman improved sharply (1.9 percent in July 2022 compared to 3.2 percent in July 2021), unemployment is significantly higher among the young population (aged 15 to 24: 10.8 percent) and among women, (5.8 percent). The number of Omanis employed in the private sector increased by 9.7 percent between July 2021 and July 2022. This is considerably below the increase in the number of expatriates working in the private and family sectors, which increased by 15 percent and 14 percent, respectively. By contrast, expatriates working in government dropped by 24.3 percent. The new labor law, under discussion, is expected to increase female labor force participation, encourage private sector jobs for Omani nationals, and raise competitiveness.

Outlook

The economy is projected to continue its recovery and strengthen over the medium-term driven by robust energy prices, expansion of oil and gas production, and wide-ranging structural reforms. The hydrocarbon sector will remain the driving force of the economy, which is projected to grow by over 8 percent in 2022 and to remain strong during 2023-24. The non-oil economy is anticipated to continue its recovery trajectory and grow by 3 percent annually during the period 2022-24 supported by stronger exports and logistics sectors, increased industrial capacity from renewable energy, and the resurgence in tourism. Against this background, GDP growth is forecast to exceed 4 percent in 2022 before moderating to an average of 3 percent in 2023-24. Inflation is forecast to pick up to 3.2 percent in 2022 to reflect domestic demand recovery and higher prices of imports but to moderate in the following years.

Public finances are forecast to gradually improve supported by higher hydrocarbon receipts and the implementation of fiscal consolidation measures under the MTFP. As a result, the overall fiscal deficit is expected to turn into a surplus of nearly 6 percent of GDP in 2022—the first surplus in almost a decade—reducing gross financing needs. The budget surplus is forecast to average almost 3 percent in the medium term supported by continued fiscal reforms. Accordingly, the public debt-to-GDP ratio is anticipated to significantly decline to an average of 44 percent in 2022-24 from 63 percent in 2021.

The external balance is swinging back into surplus (6 of GDP in 2022)—the first surplus in 7 years—on the back of higher oil receipts and recovery in non-oil exports. Gross foreign reserves are estimated to surge to over US$24 billion (over 6 months of imports) in 2022 and to remain elevated over the medium-term supported by more favorable terms of trade.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-1.1	-3.2	3.0	4.5	3.9	2.4
Private Consumption	-3.8	-4.2	2.3	4.3	3.7	2.5
Government Consumption	2.5	-6.5	-1.2	2.4	2.0	1.2
Gross Fixed Capital Investment	-10.4	-8.2	3.4	4.2	5.6	3.4
Exports, Goods and Services	1.9	-25.9	5.7	8.9	6.0	5.0
Imports, Goods and Services	-3.4	-16.5	4.5	6.5	5.3	5.0
Real GDP growth, at constant factor prices	-1.1	-3.2	3.0	4.5	3.9	2.4
Agriculture	4.3	14.3	4.2	0.8	3.0	3.1
Industry	-2.3	-2.9	2.7	5.1	3.7	3.2
Services	0.1	-4.4	3.2	4.1	4.2	1.5
Inflation (Consumer Price Index)	0.1	-0.9	1.5	3.2	1.8	2.0
Current Account Balance (% of GDP)	-4.8	-11.7	-6.0	6.4	3.8	2.7
Fiscal Balance (% of GDP)	-5.0	-16.4	-3.3	5.7	2.4	2.8
Debt (% of GDP)	53.3	71.0	63.2	47.0	43.4	41.4
GHG emissions growth (mtCO2e)	2.7	-0.3	21.1	13.0	10.0	-17.9
Energy related GHG emissions (% of total)	84.1	84.0	85.3	86.1	86.5	83.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

PALESTINIAN TERRITORIES

Table 1	2021
Population, million	4.9
GDP, current US$ billion	18.0
GDP per capita, current US$	3664.0
Upper middle-income poverty rate ($6.85)[a]	20.5
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	96.4
Life expectancy at birth, years[b]	74.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ Most recent WDI value (2020).

The recovery of the Palestinian economy from the COVID-19 shock has continued through 2022, albeit at a slower rate than the 2021 initial rebound. Despite improving revenue outturns, the fiscal situation has reached a critical level, in 2022, in a context of very low external aid. This forced the Palestinian Authority to accrue large arrears to the private sector and public pension fund, and to pay partial salaries to public employees. The outlook remains precarious and subject to political stability, security, and health-related downside risks.

Key conditions and challenges

Already dire socio-economic conditions in the Palestinian territories have been exacerbated by the COVID-19 breakout and the war in Ukraine. The Palestinian economy remained stagnant for years prior, due to restrictions by Israel (on trade, movement, and access of people and goods),[1] recurrent hostilities, the internal divide between the West Bank and Gaza, a weak business environment, and falling aid inflows. During 2017-19, annual GDP growth averaged 1.3 percent, driven by factor accumulation rather than by improvements in productivity, and growing slower than the population, resulting in decreasing per capita incomes and increasing poverty. Over the last 5 years, gross investment has been robust, averaging 25 percent of GDP, though the bulk of it has been channeled into nontradable activities rather than sectors that could help boost growth through job creation. The combination of sluggish productivity and the complexity of political, security, and health risks have inhibited investment attraction, with negative net FDI levels in the last 5 years.

Subnational trends paint a highly heterogeneous picture, where the West Bank and Gaza display substantial disparities in economic activity and income per capita levels. In 2021, GDP per capita in Gaza was estimated at US$1,440 - around a quarter of the West Bank's, where it exceeded US$5,300. In 2016/17, around 20.5 percent of Palestinians lived below the upper-middle income poverty line ($6.85 2017 PPP a day), according to the latest national household survey. Poverty is significantly more prevalent in Gaza, with almost half of the population living below the poverty line in 2016/17, compared to less than 10 percent in the West Bank.

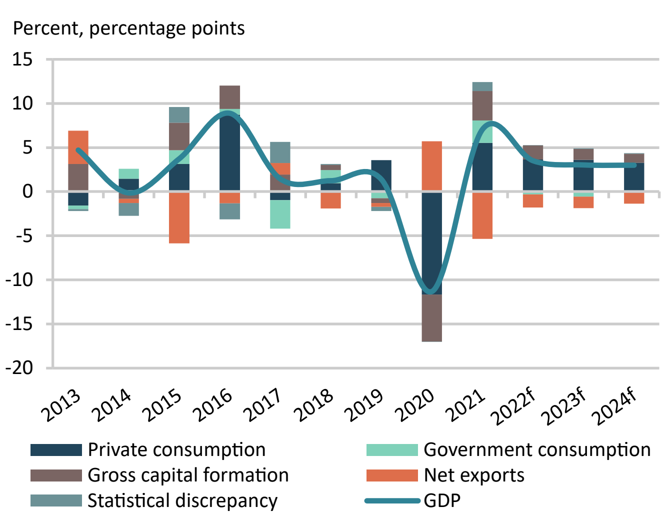
1/ According to the Government of Israel these restrictions are in place to protect Israeli citizens.

Recent developments

The ease in lockdowns and the pickup in the vaccination campaign in 2021 had a positive impact on consumer confidence, consumption, and business activity boosting growth by 7.1 percent, in real terms. The Palestinian economy continued its recovery in the first months of 2022, although at a slower rate, with real GDP growth reaching 5.7 percent, year-on-year (y-o-y) in Q1. The increase in the number of Palestinians working in Israel and the settlements aided the recovery, as the average daily wage of these workers is more than twice the average daily wage in the Palestinian territories. Despite this positive trajectory, the economy has not yet reached its pre-pandemic levels.

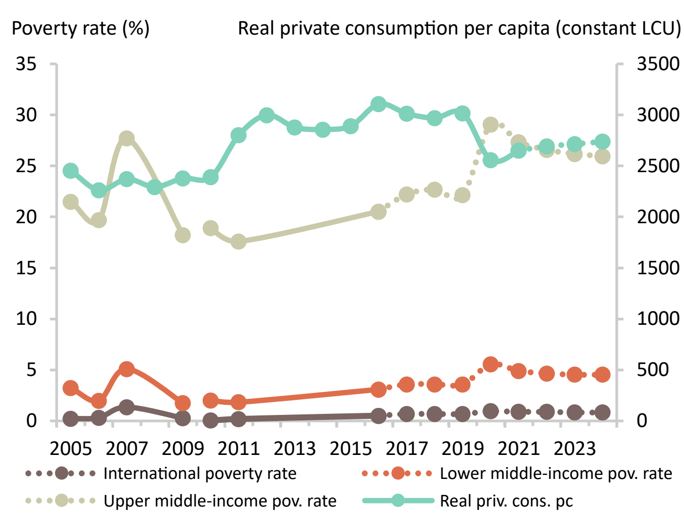
Stronger aggregate demand, coupled with rising global commodity prices and the supply-side shocks determined by the Ukrainian war, generated an inflationary push that brought the CPI up to 3.6 percent (y-o-y) in the first seven months of 2022,

FIGURE 1 Palestinian territories / Real GDP growth and contributions to real GDP growth



Sources: Palestinian Central Bureau of Statistics and World Bank estimates.

FIGURE 2 Palestinian territories / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see Table 2.

from negative territory in 2020. On the other hand, the appreciation of the Israeli Shekel (i.e. the main currency in circulation in the Palestinian territories) contributed to mitigating inflation, in comparison to other MENA countries.

The economic recovery supported revenue mobilization, while the authorities kept public expenditure contained by reducing transfers. Thus, in H1 2022, the overall fiscal deficit (after grants) improved by 80 percent y-o-y, in nominal terms, albeit suffering from the deductions made by Israel from VAT and import taxes collected on behalf of the PA (i.e. clearance revenues). The resulting deficit has been largely financed by the accumulation of arrears to the private sector and the public pension fund. Since November 2021, the PA has also been paying 80 percent of public sector salaries, while protecting the lowest earners.

Unemployment remained high in Q2 2022, at 24.2 percent, despite marginal improvements from 2021. This overall rate, however, masks wide regional divergences between the West Bank, where unemployment stood at 13.8 percent in Q2 2022, and Gaza where it reached 44.1 percent, reflecting the devastating implications of the movement and access restrictions on the Strip that have created a nearly closed economy in Gaza.

Based on GDP per capita growth trends, it is estimated that the poverty rate spiked to 29.1 percent in 2020, an increase of over 8 percentage points from 2016 (the latest available official data). As the impact of the pandemic receded, over the course of 2021, the poverty rate is estimated to have declined to 27.3 percent. These rates represent a population of approximately 1.5 million people who are deemed poor.

Outlook

Full-year growth in 2022 is estimated at 3.5 percent, as the COVID-19-related lockdown measures are expected to remain lifted and the number of Palestinians working in Israel and the settlements increase. Under a baseline scenario that assumes i) a continuation of the restrictions enforced by Israel, ii) persistence of the internal divide and iii) stagnating aid levels, growth is expected to hover around 3 percentover the forecast period. Consequently, the poverty rate is projected to decline to 26.6 percent in 2022, and then to further gradually decrease to 26 percent by 2024.

On the fiscal front, revenues are projected to increase driven by the PA's efforts to enhance the revenue task force and place a renewed focus on large taxpayers. Total public expenditures are expected to decline, on account of reduced transfers - reflecting delays in funding the National Cash Transfer Program. The overall fiscal deficit, including grants and the deductions from clearance revenues, is thus expected to narrow to 3.3 percent of GDP in 2022, down from 5.7 percent in 2021.

Downside risks remain elevated. As a net oil and food importer – the Palestinian economy would suffer significant additional pressure should the war in Ukraine extend. In this context, any escalations in the clashes between Palestinians and the Israeli forces in the West Bank and Gaza, or any restrictions on the movement of Palestinian workers to Israel, would leave little-to-no room to absorb any external shocks, with potentially severe consequences on growth and poverty reduction outcomes.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.4	-11.3	7.1	3.5	3.0	3.0
Private Consumption	4.1	-13.1	6.3	4.2	4.1	3.7
Government Consumption	-3.5	0.3	11.1	-1.4	-2.5	-0.2
Gross Fixed Capital Investment	-2.6	-20.9	14.7	6.4	5.0	4.0
Exports, Goods and Services	2.0	-11.2	18.8	4.2	3.8	3.8
Imports, Goods and Services	1.4	-14.2	16.6	4.0	3.6	3.6
Real GDP growth, at constant factor prices	1.3	-12.0	6.3	3.5	3.0	3.0
Agriculture	0.9	-9.1	-2.3	3.0	3.0	3.0
Industry	-0.5	-19.4	6.2	3.3	2.9	2.9
Services	2.0	-10.0	7.3	3.6	3.0	3.0
Inflation (Consumer Price Index)	1.6	-0.7	1.2	3.8	1.6	1.2
Current Account Balance (% of GDP)	-10.4	-12.3	-8.2	-8.3	-8.7	-9.4
Net Foreign Direct Investment Inflow (% of GDP)	1.1	0.9	1.0	1.0	1.0	1.0
Fiscal Balance (% of GDP)	-7.5	-7.5	-5.7	-3.3	-2.7	-2.3
Debt (% of GDP)	39.5	53.9	54.9	54.3	54.8	55.2
Primary Balance (% of GDP)	-7.2	-7.1	-5.1	-2.7	-2.1	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	1.0	0.9	0.9	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.6	5.6	4.9	4.7	4.5	4.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	22.1	29.1	27.3	26.6	26.2	26.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2016-PECS. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

QATAR

Table 1	2021
Population, million	2.9
GDP, current US$ billion	166.6
GDP per capita, current US$	56829.4
School enrollment, primary (% gross)[a]	103.9
Life expectancy at birth, years[a]	80.4
Total GHG emissions (mtCO2e)	117.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

Higher energy prices from the Russia-Ukraine war are favorable for Qatar, on balance. The country will also be hosting the FIFA World Cup starting in November of this year. Large surpluses on the current account and fiscal balance are set to remain in place for the next several years. The country will become the world's largest producer of LNG by mid-decade as production from the North Field kicks in. Higher interest rates to tame inflation, however, have weakened credit demand and private sector consumption growth that will be partly compensated by stronger government expenditures. Introduction of VAT may be placed on hold until inflationary pressures ease.

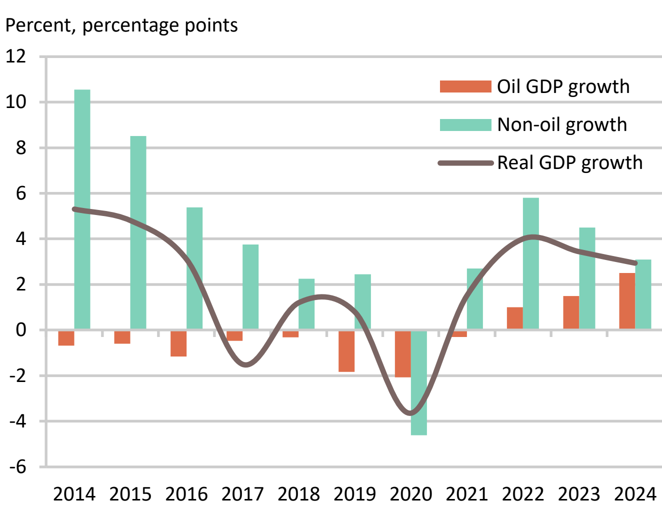
Key conditions and challenges

The war in Ukraine has raised energy and food prices globally. On balance, this is economically favorable for Qatar, which is the world's largest LNG (Liquified Natural Gas) exporter and third largest producer.
Continuing waves of Covid-19 have sparked new outbreaks of infection in Qatar where more than 90 percent of the population has been vaccinated. But unlike previous episodes, the death rate has been nearly nil during this latest wave, attesting to the weakened lethality of new Covid-19 strains. Preparations for the FIFA World Cup have also been completed and the games will begin in November bringing in an expected flock of tourists.
In the medium term the greatest challenge that the country faces will be how to continue to diversify away from hydrocarbons. In the last ten years, the size of the oil economy in relation to total GDP has declined significantly from 50 percent to approximately 38 percent. But investments expanding LNG capacity over the next five years will intensify dependence on hydrocarbons. The country must continue to pursue reforms in order to further diversify the economy.

Recent developments

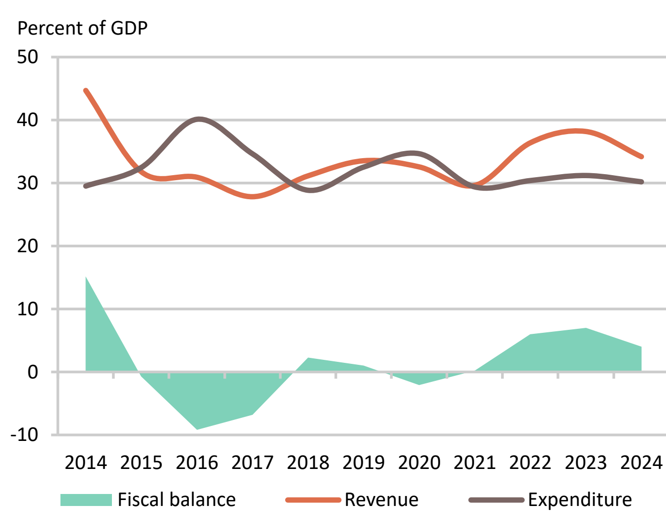
In the last several months, booming energy prices resulting from the war in Ukraine have propelled a number of major oil companies to bid and be selected for partnering with Qatar Energy (the State-owned hydrocarbon company) to expand production in the North Field East gas field in the Persian Gulf. Together with the southern sector, the North Field is the largest natural gas reserve in the world. Accordingly, Qatar has implemented the first phase of raising production of liquefied natural gas to 110 million tons by 2025, a 43 percent increase. The second phase of expansion in the southern sector of the North Field is set to begin in 2023, and it aims to increase the capacity of LNG by a further 15 percent for a total production of 126 million tons per year by 2027. This would make the country the largest producer of LNG in the world (currently behind the United States and Australia).
Inflation has risen in Qatar following a bout of deflation on the heels of Covid restrictions in 2020 but remains moderate compared to the US and the EU. Inflation climbed to 6.4 percent on an annual basis at the end of last year. Nonetheless, it has eased somewhat during the current year to 5.4 percent (June), despite the continuing war in Europe, as rising interest rates and a strong currency (pegged to the US dollar) have eased the pass-through of higher imported prices onto consumers.
Nonetheless, higher interest rates have been accompanied by a steep deceleration in credit growth which had been growing at approximately 14 percent in mid-2021 to currently below 2 percent. Publicly funded forbearance during the height of the Covid-19 pandemic has kept a lid on NPL (Non-Performing Loans) which are still below 2.5 percent at the end of 2021. Despite

FIGURE 1 Qatar / Real GDP growth



Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

FIGURE 2 Qatar / Fiscal balance



Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

weakening credit demand, economic activity has remained quite strong with the Purchasing Manager Index (PMI) at 61 percent (above 50 implies expansion) as of June 2022, though off the highs registered a few months ago which peaked at 67.5. Similarly, the annualized first-quarter real GDP growth rate of this year came in at a relatively subdued 2.5 percent.

Recently adopted labor market reforms have included dismantling the kafala sponsorship system and implementing a minimum wage with the objective of reducing migrants' poverty. Qatar is the first country among the GCC to achieve the abolition of the kafala system. The non-discriminatory minimum wage reform in Qatar applies to all workers of all nationalities, in all sectors, including domestic workers. A grievance mechanism has also been introduced that provides a unified platform for complaints and disputes, which allows all members of society to submit reports against violations of the labor law and their employers. However, questions have been raised by international human rights organizations about the implementation of the reforms and actual improvement of labor conditions.

Outlook

Real GDP is estimated to rise to 4.0 percent in 2022 with exports (5.4 percent) and government consumption (4.8 percent) leading on the demand side. Growth in private consumption may be slightly below 4.5 percent, driven by higher interest rates and prices. Consumer prices are projected to average 4.6 percent this year and to remain a full percentage point above levels recorded last year as far out as 2024.

Both the current account and fiscal balance surpluses are projected to widen significantly in 2022 given their dependence on booming hydrocarbon prices. While we note that there has been an intensification of the bidding process related to the first phase of the expansion of the North Field, there is no evidence that investments have been accelerated beyond what had been planned prior to the war in Ukraine which should see LNG production increase by 60 percent by 2027. Accordingly, the bulk of higher LNG prices recorded this year will feed directly into the current account surplus (20.1 percent growth in relation to GDP) and should remain in double-digit surpluses in the next few years if oil and gas prices remain high. Similarly, the fiscal balance will remain strongly in surplus in the coming years.

The continuation of high oil prices with a premium expected for natural gas in Europe from geopolitical tensions, combined with the EU's recent classification of this hydrocarbon feedstock as a green target investment, bodes well for Qatar. The expansion of LNG production by 2027 should boost overall GDP by at least 20 percent. While the authorities are committed to VAT, the introduction may be delayed given the high current CPI inflation.

With regard to Green House Gas emissions, the forecast is for a decrease from 6.4 kilotons of carbon dioxide (ktCO2) in 2022 to 5.2 in 2024.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.8	-3.6	1.5	4.0	3.4	2.9
Private Consumption	3.5	-5.6	3.4	4.5	3.0	2.6
Government Consumption	2.5	10.3	2.8	4.6	3.4	2.6
Gross Fixed Capital Investment	2.5	-3.1	2.3	2.8	2.4	2.1
Exports, Goods and Services	1.1	-6.8	2.4	5.4	5.3	5.6
Imports, Goods and Services	6.0	-2.7	4.7	6.0	6.1	6.1
Real GDP growth, at constant factor prices	0.8	-3.6	1.5	3.9	3.4	2.8
Agriculture	2.9	18.5	0.5	5.4	3.0	3.0
Industry	-1.4	-3.2	0.7	3.2	3.9	3.0
Services	5.6	-4.4	3.1	5.4	2.4	2.4
Inflation (Consumer Price Index)	-0.7	-2.7	2.3	4.6	4.0	3.3
Current Account Balance (% of GDP)	2.4	-2.5	14.6	20.1	16.2	11.0
Fiscal Balance (% of GDP)	1.0	-2.1	0.2	6.0	7.0	4.0
Primary Balance (% of GDP)	2.7	-0.3	1.9	7.3	8.2	5.0
GHG emissions growth (mtCO2e)	5.1	-1.2	3.6	6.3	5.4	5.2
Energy related GHG emissions (% of total)	76.1	75.5	76.2	77.4	78.4	79.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

SAUDI ARABIA

Table 1	2021
Population, million	34.1
GDP, current US$ billion	841.1
GDP per capita, current US$	24666.9
School enrollment, primary (% gross)[a]	100.2
Life expectancy at birth, years[a]	75.3
Total GHG emissions (mtCO2e)	711.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

The Saudi Arabian economy is on an accelerated growth path in 2022; driven by higher oil and non-oil activities as the oil sector strengthens and pandemic pressures fade. Inflation remains contained with a low passthrough of higher international prices reducing future inflationary pressures. Direct trade flows with Russia and Ukraine are limited; however, higher oil prices as a result of the conflict have strengthened the medium-term fiscal and external outlook. A breakout of new COVID-19 variants, tighter global financial conditions, and volatile oil prices are key risks to the outlook.

Key conditions and challenges

Direct impacts of a prolonged war in Ukraine on Saudi Arabia's economy are limited due to weak trade and investment flows with Ukraine and Russia. However, further sanctions and disruptions to supply chains could adversely affect the Kingdom through slower-than-anticipated global growth and higher import prices. On the upside, higher energy prices and output would further strengthen external and fiscal positions.

Risks to the non-oil sector recovery remain. Especially, those originating from an outbreak of new COVID-19 variants that are vaccine-resistant which would risk movement restrictions and delay recovery. Furthermore, domestic monetary policy is set to tighten further in line with the US monetary policy, which might dampen recovery and job creation. Finally, delays or digressions in implementing structural reforms highlighted in the Vision 2030, perhaps due to international shocks or because of the foreseen comfortable twin-balance surpluses, would reduce prospects for stronger long-term growth and employment.

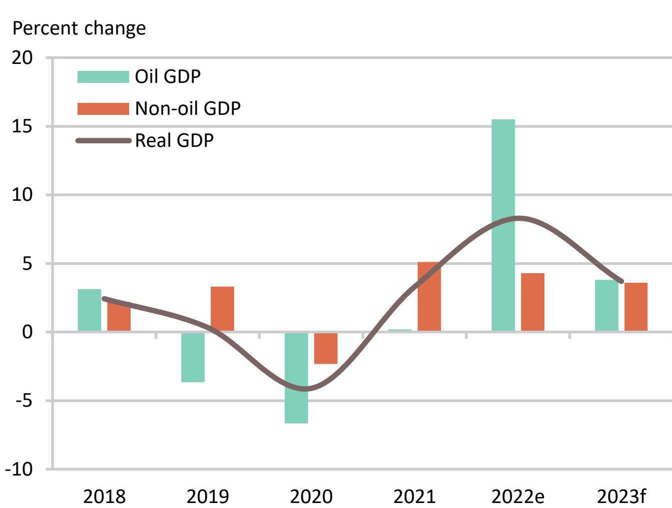
Recent developments

Supported by high vaccination rates and swift COVID-19 response policies, Saudi Arabia continues to recover strongly from the pandemic-induced recession during H1 2022. Furthermore, spillovers of the war in Ukraine via energy markets have benefited Saudi Arabia with oil production increasing faster than originally planned and in line with OPEC+ raising output quotas by 50 percent in July and August 2022.

The latest official data suggest that the economy grew by 11 percent during H1 2022—the fastest growth pace since 2011. This record growth was mainly driven by the oil sector, which registered a rapid 21.6 percent growth rate, reflecting a favorable base effect of the voluntary 1 mbpd output cut initiated by the Kingdom during February and April 2021. Saudi Arabia continued to raise oil production with output estimated to average 10.7 mbpd in July 2022. The non-oil sector also continued recovery registering a 6 percent growth during H1 2022. Recent PMI data suggests that non-oil activity lost some steam in July 2022; however, it continues to be strong and within the expansionary range (50+ mark). Despite increased international commodity prices, headline inflation is contained, averaging 2.1 percent during the first 7 months of 2022. Low passthrough of international prices due to subsidies, e.g. capping of local gasoline prices since July 2021; appreciation of the US dollar; as well as stable housing rents (21 percent of CPI basket), have kept inflation rates at low levels.

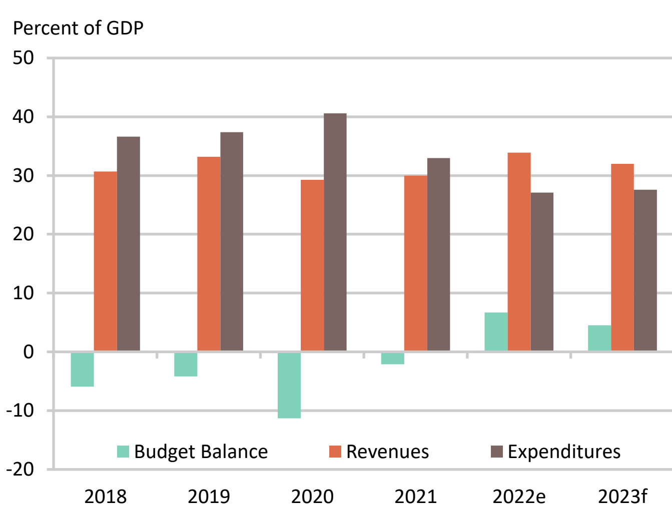
Higher oil revenues and fiscal consolidation measures have shifted the fiscal balance from a deficit of SAR 73 billion (2.4 percent of GDP) in 2021 to a surplus of SAR 135 billion (6.8 percent of GDP) during H1 2022.

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and World Bank staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



Source: World Bank, Macroeconomics, Trade, & Investment Global Practice.

Thus far, the government refrained from moving towards a looser fiscal stance; with one exception of announcing the relief package of SAR 20 billion (0.5 percent of GDP) to ease pressure on households from inflationary pressures. Public debt remains low and is expected to stay constant in nominal terms as the government plans to refinance the existing debt instead of using the large fiscal surplus to repay it.

Driven by higher oil export receipts and the recovery of religious tourism, the current account remains firmly in surplus registering SAR 131 billion (6.6 percent of GDP) during H1 2022, raising net foreign assets.

There is no publicly available information on official poverty rates in Saudi Arabia and access to microdata from household surveys is limited. The effort to increase the number of Saudis working in the private sector continued to pay off. According to administrative data, the number of Saudi nationals employed in the private sector in Q4 2021 reached 1.91 million, up from 1.8 million in Q1 2021 and 1.72 million in Q1 2020. By contrast, the number of non-Saudi nationals employed in the private sector decreased to 6.17 million in Q4 2021 from 6.67 million in Q1 2020.

Labor force participation of Saudi women continued to increase from 26 percent in Q1 2020 (and 32 percent in Q1 2021) to 34 percent in Q1 2022. Overall, unemployment among Saudi nationals stood at 10 percent in Q1 2022, down from 11.7 percent in Q1 2021. Official estimates from the Labor Force Survey (LFS) show a decrease in average wages between Q1 2021 and Q1 2022 (-2.6 percent in real terms). The decrease was higher among Saudi nationals (-8.9 percent) than among non-Saudis (-2.2 percent). Wage disparities by gender and nationality persist; the average wage of Saudi men is 41 percent higher than among Saudi women, 145 percent higher than among non-Saudi men, and 328 percent higher than among non-Saudi women.

Outlook

Growth is expected to accelerate to 8.3 percent in 2022 before moderating to 3.7 and 2.3 percent in 2023 and 2024, respectively. In spite of recent signals for a more cautious approach to OPEC+ planned production, the oil sector will remain the main driver behind this growth with output estimated to grow by 15.5 percent in 2022. The non-oil sector is expected to continue its growth trajectory, estimated at 4.3 percent in 2022 supported by the economic relief package before moderating to 3.4 percent in coming years. Despite headwinds from tighter fiscal and monetary policies in the medium term, stronger private consumption, an increase in religious tourism, and higher domestic capital spending—signaled through the PIF and other state agencies—are anticipated. Headline inflation is expected to stay subdued during 2022 and hover around 2.5 percent as a result of a stronger US dollar, subsidies and price controls, and stable rents. Inflation is expected to average 2.3 percent in the medium term.

The budget balance should register a surplus of 6.8 percent of GDP in 2022—the first surplus in nine years—driven by higher oil receipts. Fiscal performance in the medium term is underpinned by the authorities' commitment to compress expenditures and build credible fiscal frameworks. With most capital spending channeled through the PIF, the overall fiscal stance is more expansionary than officially reported by the budget.

Higher oil receipts are expected to more than compensate for the larger imports bill resulting in a significant external balance surplus of 18.8 percent of GDP in 2022. The surplus is expected to continue, but narrow, over the medium term to an average of 13.1 percent of GDP.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.3	-4.1	3.2	8.3	3.7	2.3
Private Consumption	4.5	-6.3	9.7	3.0	3.1	2.8
Government Consumption	-3.2	4.1	-0.2	0.0	0.3	3.5
Gross Fixed Capital Investment	0.7	-11.7	10.1	6.4	7.2	3.3
Exports, Goods and Services	-5.0	-10.2	2.0	18.3	5.1	2.0
Imports, Goods and Services	9.6	-19.8	3.3	7.6	5.4	4.3
Real GDP growth, at constant factor prices	0.3	-4.1	3.3	8.2	3.7	2.3
Agriculture	1.2	-1.7	2.6	3.0	2.0	2.0
Industry	-2.2	-6.0	1.7	10.4	2.8	0.9
Services	3.9	-1.7	5.3	5.9	4.9	4.1
Inflation (Consumer Price Index)	-1.2	3.4	3.1	2.5	2.5	2.0
Current Account Balance (% of GDP)	5.0	-3.3	5.3	18.8	15.6	10.5
Fiscal Balance (% of GDP)	-4.6	-11.5	-2.4	6.8	4.5	2.5
Debt (% of GDP)	23.0	34.0	30.8	23.7	23.6	23.0
Primary Balance (% of GDP)	-3.9	-10.5	-1.5	7.7	5.4	3.4
GHG emissions growth (mtCO2e)	1.1	-2.7	1.0	2.9	1.6	0.9
Energy related GHG emissions (% of total)	69.1	69.2	69.5	69.4	69.4	69.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

SYRIAN ARAB REPUBLIC

Table 1	2021
Population, million	21.3
GDP, current US$ billion	11.4
GDP per capita, current US$	534.3
School enrollment, primary (% gross)[a]	81.7
Life expectancy at birth, years[a]	73.7
Total GHG emissions (mtCO2e)	44.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

As a net importer of food and fuel, soaring commodity prices triggered by the war in Ukraine have adversely affected Syria's fiscal and external balances, inflation, and international reserves. Food insecurity - already severe prior to the war in Ukraine - has worsened further due to prolonged armed conflict, soaring food prices, diminished subsidies, and low crop production. Uncertainty surrounding the pandemic and climatic shocks may further weaken already dire socioeconomic conditions.

Key conditions and challenges

A decade-long conflict has had devastating socioeconomic consequences. Although the intensity of the conflict has declined from a peak in the mid-2010s, Syria continues to rank amongst the top countries in terms of violent deaths. Close to two-fifths of facilities remain either partially damaged or destroyed in certain conflict-affected cities, according to the latest damage assessment of the World Bank in late 2021. More than half of Syria's pre-conflict population remains displaced, including 6.8 million internally displaced persons (IDPs) and 6.9 million refugees abroad. The destruction of physical capital, casualties, forced displacement, and the breakup of economic networks have halved the size of the economy compared to 2010. The dramatic decline in Gross National Income per capita prompted the World Bank to reclassify Syria as a low-income country since 2018.

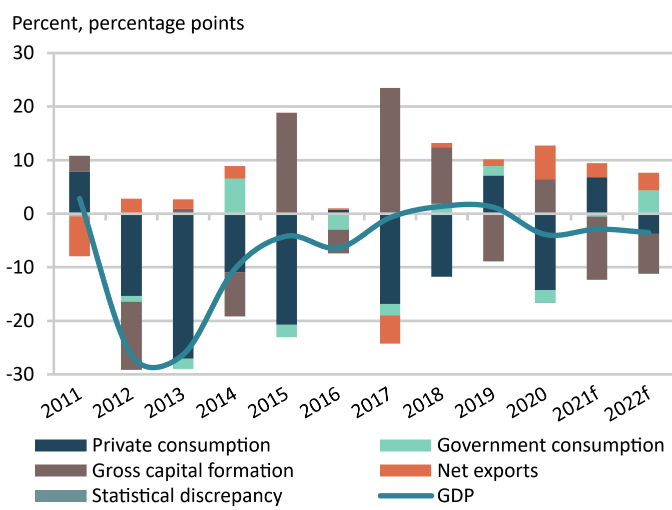
Conflict, displacement, and the collapse of economic activity have all contributed to the decline in household welfare. Extreme poverty has consistently risen since the onset of the conflict, reflecting deteriorating livelihood opportunities and a progressive depletion of household coping capacity. Access to shelter, health, education, water, and sanitation have all worsened dramatically with the conflict. The Human Development Index (HDI) positioned Syria as 150th out of 190 countries globally in 2021, down from 110th out of 169 countries in 2010.

In recent years, multiple regional and global shocks have further aggravated the humanitarian and economic crisis. External economic ties have been severely restrained by the deepening crisis in neighboring Lebanon and Turkey and the introduction of new US sanctions under the Caesar Act, which caused shortages of essential goods and rapid currency depreciation. The market exchange rate of the Syrian pound against the US dollar weakened by 26 percent year-on-year (yoy) in 2021, after a 224 percent (yoy) depreciation in 2020. With a severely degraded healthcare system, COVID-19 has exacerbated the vulnerable situation. Since early 2022, soaring commodity prices triggered by the war in Ukraine have adversely affected Syria's position as a net food and fuel importer.

Recent developments

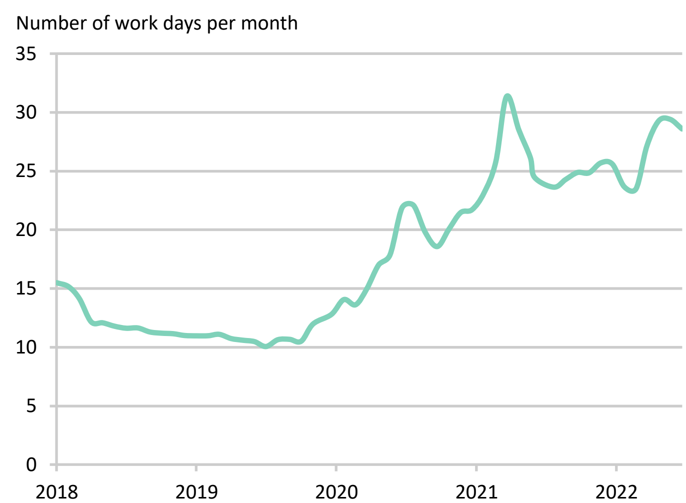
Socioeconomic conditions continue to deteriorate in 2022. Following a record-low crop production in 2021, wheat yield in 2022 remains low due to drought conditions and shortages of agricultural inputs. Consequently, acute food insecurity has worsened in recent months. According to the World Food Program (WFP), nearly 9.5 million Syrians were severely food insecure in June 2022, with an additional 2.5 million at risk of falling into food insecurity. Syria ranks among the ten most food-insecure countries globally.

FIGURE 1 Syrian Arab Republic / Real GDP growth and contributions to real GDP growth



Sources: Central Bureau of Statistics of Syria and World Bank estimates.

FIGURE 2 Syrian Arab Republic / Work days per month needed to afford minimum food basket



Sources: WFP Market Price Market Price Watch Bulletin and World Bank estimates.

Inflation is on the rise. By July 2022, the WFP minimum food basket has increased by 33 percent since the beginning of the war in Ukraine, up 87 percent compared to the same time last year. The Syrian pound has depreciated by about 10 percent against the US dollar since the war in Ukraine, contributing to high inflation. Rising prices have also eroded real wages. It is estimated that a low-skilled worker needs to work on average 28 days per month to afford the minimum food basket in June 2022. In addition, fuel prices have been raised several times in 2022, further reducing the purchasing power of vulnerable households.

Higher costs of essential goods triggered by the war in Ukraine have made fiscal policies more restrictive. Immediately after the start of the war, authorities announced a limit on public spending to cover only priorities over the next months. Some construction projects have reportedly been suspended. Authorities also tightened the supply of essential food and fuel commodities to ensure that supply can be sustained for a longer period. For instance, the authorities cut the heating oil and gasoline allocation per family by half.

Outlook

Subject to extraordinarily high uncertainty, real GDP is projected to contract by 3.5 percent in 2022, after declining by 2.9 percent in 2021. Private consumption will remain subdued with continued erosion of purchasing power amid rising prices and currency depreciation. Private investment is projected to remain weak as the security situation is assumed to remain volatile, and economic and policy uncertainties persist. Government spending, especially capital expenditures, will continue to be constrained by low revenues and lack of access to financing.

Inflation is projected to decline but remains substantial in 2022, due to the pass-through effects of currency depreciation, persistent food and fuel shortages, and price increases of subsidized goods and services. The fiscal deficit is expected to widen further in 2022, as efforts to tighten fiscal policy are projected to only partly offset the cost-driven increase in expenditures. A more costly import bill is expected to increase the current account deficit. Persistent twin deficits are projected to further drain foreign exchange reserves, increasing depreciation pressures.

Risks to the growth outlook are significant and tilted to the downside. In the event of more contagious and deadly COVID-19 variants in Syria, slow vaccination rollouts and inadequate health facilities will exacerbate its impact. A prolonged war in Ukraine and recurring climate shocks could further exacerbate inflationary pressures, which are likely to hurt the poor more. As donors prioritize funding for Ukraine, some aid might be diverted away from Syria, exacerbating the already acute food insecurity. On the upside, foreign investment restrictions in northwest Syria were eased, and non-governmental organizations (NGOs) were permitted to extend operations in early 2022. These measures may potentially facilitate trade, investment, and humanitarian operations.

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

	2019	2020	2021	2022e
Real GDP growth, at constant market prices[a]	1.2	-3.9	-2.9	-3.5
Inflation (Consumer Price Index)	13.4	114.2	89.6	42.8
Current Account Balance (% of GDP)	-4.1	-4.0	-3.9	-4.5
Fiscal Balance (% of GDP)	-8.1	-8.4	-7.5	-9.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Projections based on nighttime light data.

TUNISIA

Table 1	2021
Population, million	11.9
GDP, current US$ billion	45.3
GDP per capita, current US$	3794.4
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.65)[a]	2.2
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	113.4
Life expectancy at birth, years[b]	76.9
Total GHG emissions (mtCO2e)	34.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015).
b/ Most recent WDI value (2020).

Tunisia's economic outlook remains highly uncertain. After a moderate economic rebound in 2021, the economy slowed down in the first semester of 2022 amid rising global energy and food prices. The price rally has aggravated the fiscal and current account deficit linked to generous consumer subsidies. This exacerbates the already significant debt sustainability concerns and financing needs. Accelerating the recovery and stabilizing the economy will require speedy implementation of structural reforms.

Key conditions and challenges

A decade after the Jasmin revolution, Tunisia faces increasingly difficult economic conditions. Weak reform implementation has left the economy inefficiently closed to investment and trade and ill-equipped to exploit opportunities in the global economy. As growth and private job creation stagnated, the State stepped in as an employer of last resort and price stabilizer through subsidies. This has caused a deterioration of the fiscal situation under the weight of a large public sector wage bill, higher energy and food subsidies, and underperforming state-owned enterprises. The COVID-19 pandemic first and the Ukraine war more recently have exacerbated these weaknesses.

Tunisia's growth prospects hinge critically on timely and decisive structural reforms to address economic distortions and fiscal pressures. The government aims to advance some key reforms including: (i) eliminating business entry permits and unnecessary licenses, (ii) gradually phasing out controls to capital outflows; (iii) reducing consumer subsidies while compensating vulnerable households; (iv) improving the performance of state-owned enterprises; (v) making the tax system fairer; and (vi) reducing the public sector wage bill. Progress in these reforms is critical to stabilize the macroeconomic situation and to secure a new IMF program which is essential to mobilize multilateral and bilateral financing and regain access to international financial markets.

Recent developments

After the moderate rebound in 2021, when GDP grew by an estimated 3.3 percent (following an 8.7 percent drop in 2020), the economy has grown 2.8 percent in the first semester of 2022 relatively to the same period in 2021. The mild slowdown was driven by the slow Q2 growth, a likely sign of the fallout of the Ukraine war including the increase in global energy and food prices.

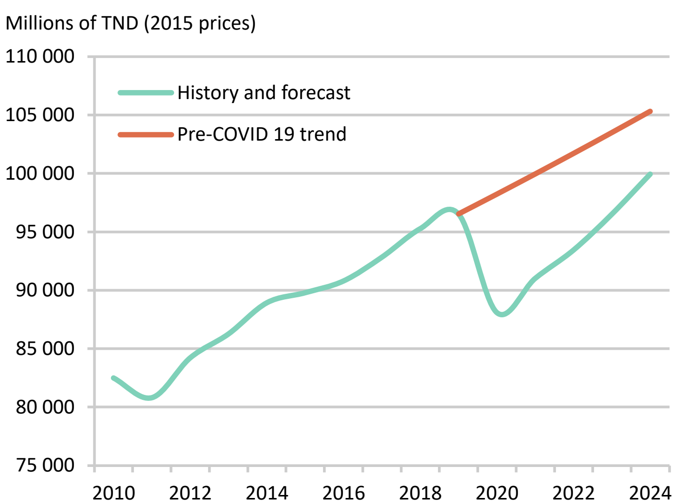
The commodity price hike has caused the trade deficit to widen by 56 percent year-on-year in the first six months of 2022, reaching 8.1 percent of GDP (compared to 7.5 percent in 2017-19). The increase was in spite of the encouraging trends in remittances and tourism receipts (reaching 3.8 percent of GDP compared to 3.2 percent in 2017-19).

The increase in global commodity prices has also created additional pressures on public finances, mainly through the energy and food subsidy bill. This translates into further pressure on public debt, which between 2017 and 2021 had already increased from 66.9 to 82.4 percent of GDP (without including government guarantees and SOE debts). This is well above the emerging market debt burden benchmark of 70 percent of GDP.

Banks' liquidity needs to be increased during the first half of the year, largely driven by the financing needs of the sovereign and also reflecting a renewed, albeit moderate, growth of credits to the economy.

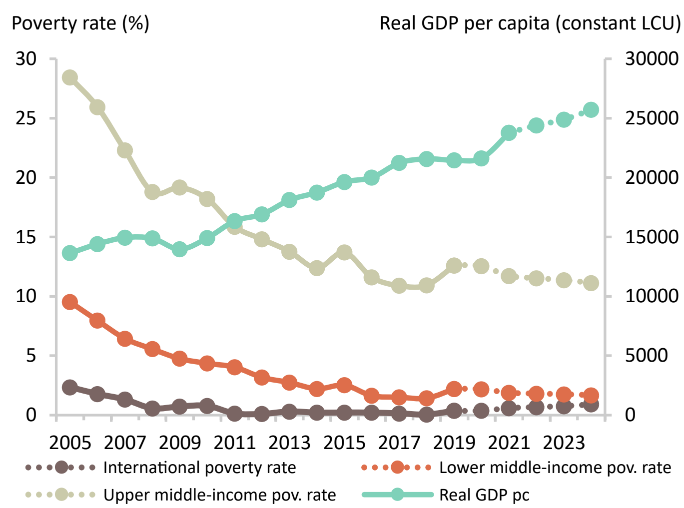
Inflation is also on the rise amid rising global prices and a weakening of the Dinar

FIGURE 1 Tunisia / Real GDP: Actual, forecast and pre-COVID-19 trend



Sources: National Institute of Statistics and World Bank.
Note: Projection using neutral distribution (2015) with pass-through = 0.7 (Low) based on GDP per capita in constant LCU.

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



Source: World Bank. Notes: see Table 2.

vis-à-vis the US Dollar (-11 percent in January-August 2022). In August 2022, consumer prices increased for the 12th consecutive month to 8.6 percent, up from 6.7 percent in January and 6.4 percent in July 2021. Rising inflation pushed the Central Bank to raise its policy rate by 75 basis points in May 2022, the first increase since October 2020. However, the real interest rate remains negative which leaves further room for maneuvering.

Even with moderate economic growth, the unemployment rate declined to 15.3 percent in Q2 2022 from 16.2 percent in Q1 2022 and 17.9 percent a year ago; and it returned close to pre-pandemic levels (15.1 percent in Q2 2019). This is still one of the highest rates in the region – and it is particularly high among youth and women - and it is associated with a slight year-on-year reduction in labor force participation (from 47 in Q2 2021 to 46 percent in Q2 2022).

Outlook

With a projected growth rate of 2.7 percent in 2022, the economy appears to be slowing down relatively to the trend in 2021, reflecting the challenging global environment and the lack of structural reforms. With this growth rate, real GDP at the end of 2022 would still be 3.2 percent below 2019 levels. Growth is expected to eventually gain ground, but it remains modest at around 3.6 percent a year over the medium term, dragged by pre-existing structural weaknesses and the economic consequences of and uncertainty around the Russian invasion of Ukraine.

Tunisia's public finance and external account will remain precarious in the absence of an IMF program and uncertain global conditions. Although preparation has progressed, the timing of a new program with the IMF remains uncertain. The budget deficit is expected to rise to 9.3 percent of GDP in 2022 (compared to 7.4 percent of GDP in 2021), driven by increasing subsidy expenditures linked to the commodity price hike (subsidies are expected to grow from 4.2 percent of GDP in 2021 to 7.3 percent of GDP in 2022). Gross public financing needs are projected at around 14.7 percent of GDP, half of which is for external amortization. Similarly, the current account deficit (CAD) is projected to widen significantly to 10.3 percent of GDP in 2022, driven by surging energy and food prices and mitigated by rebounding tourism and strong remittances. With FDI projected to be relatively stable and with minimal portfolio investments, foreign lending would have to shoulder much of the financing of the widening CAD. The economic consequences of the Russian-Ukrainian war and associated sanctions pose significant downside risks to the Tunisian economy. As a net commodity importer, continued upsurges in energy and food prices would add further pressure on Tunisia's external account through higher import bills, while higher subsidy costs could weigh heavily on the fiscal position. Inflationary pressures, stemming from rising commodity prices, may lead to additional interest rate hikes and limit the scope for large-scale debt monetization.

Poverty using the US$3.65/person/day line (in 2017 PPP term) is projected to decline to 2.4 percent in 2022 and 2.3 percent in 2023. The share of poor and vulnerable at the upper-middle income country poverty line $6.85 line (US$6.85/person/day in 2017PPP) is projected to decline from 19.6 percent in 2021 to 19.1 percent in 2022 and 18.3 percent in 2023 and is expected to return to pre-Covid levels in 2024.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.3	-8.8	3.4	2.7	3.3	3.6
Private Consumption	2.3	-7.0	0.1	3.4	3.7	5.4
Government Consumption	1.4	-4.2	-3.0	-1.5	-5.2	-3.0
Gross Fixed Capital Investment	0.5	-30.0	-0.3	-6.1	-0.6	-1.3
Exports, Goods and Services	-4.2	-20.2	10.3	8.8	8.5	8.0
Imports, Goods and Services	-8.4	-16.7	8.0	4.5	4.5	7.1
Real GDP growth, at constant factor prices	1.3	-8.8	3.4	2.7	3.3	3.6
Agriculture	5.2	1.3	-4.6	1.5	4.0	4.0
Industry	-1.2	-9.2	8.1	3.2	3.2	3.5
Services	1.7	-10.0	2.9	2.7	3.2	3.5
Inflation (Consumer Price Index)	6.7	5.6	6.5	8.0	7.0	6.0
Current Account Balance (% of GDP)	-8.1	-6.0	-6.3	-10.3	-8.5	-8.3
Fiscal Balance (% of GDP)	-2.8	-8.6	-7.2	-9.3	-6.1	-5.2
Debt (% of GDP)	68.0	77.8	82.4	78.1	81.5	81.4
Primary Balance (% of GDP)	-0.2	-5.4	-4.4	-6.2	-3.1	-2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.1	0.2	0.2	0.2	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.1	2.8	2.6	2.4	2.3	2.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	17.0	20.5	19.6	19.1	18.3	17.3
GHG emissions growth (mtCO2e)	0.5	-8.3	-1.1	1.8	3.7	2.7
Energy related GHG emissions (% of total)	70.6	69.3	68.8	68.7	68.9	68.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2015-NSHBCSL. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2021
Population, million	9.6
GDP, current US$ billion	466.0
GDP per capita, current US$	48743.6
School enrollment, primary (% gross)[a]	115.4
Life expectancy at birth, years[a]	78.1
Total GHG emissions (mtCO2e)	261.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

The UAE's recovery from the pandemic-induced recession is aided by supportive economic policies, a strong vaccination program, and an easing of global travel restrictions. However, the booming oil sector will ultimately drive GDP growth in 2022, while a healthy non-oil sector will add further impetus to the recovery. Growth will be moderated by rising international commodity prices and higher competition from regional peers. A breakout of new COVID-19 variants, tighter global financial conditions, and volatile oil prices are key risks to the outlook.

Key conditions and challenges

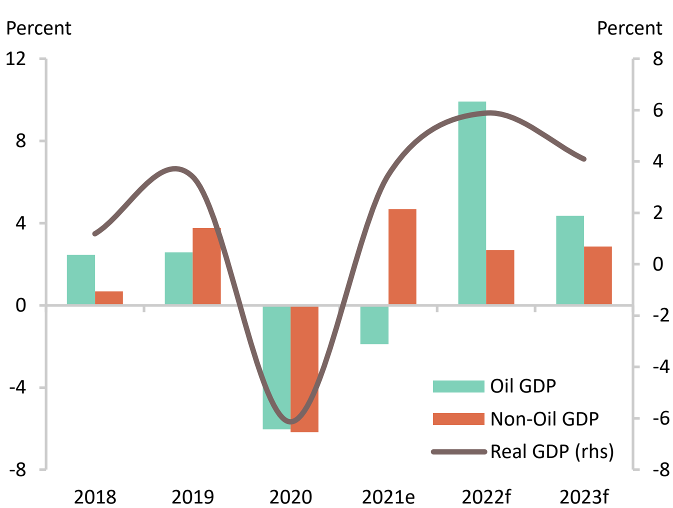
Over the past decade, authorities made progress to diversify the economy away from hydrocarbons, successfully positioning the UAE as the region's trade, financial, and travel hub. However, the UAE will increasingly face greater regional competition for foreign investment, especially from Saudi Arabia and Qatar as they adopt economic plans similar to Abu Dhabi's Economic and Environment Vision 2030 and Dubai's Industrial Strategy 2030. While the non-hydrocarbon sector accounts for two-thirds of UAE's GDP, their economy continues to rely on hydrocarbon activity as the main source of government revenue and engine for growth. Steps towards diversifying public revenues are underway with the recent introduction of a corporate income tax (CIT) effective in 2023, representing a major shift for the country noted for historically low taxation rates on businesses.

While UAE's economic outlook is encouraging, challenges remain. Direct spillovers of a prolonged war in Ukraine on UAE's economy are limited due to weak trade and investment flows with Ukraine and Russia. However, the main impact of a dragging war will be through oil price volatility and shocks to the tourism sector. Despite revival in tourism sector in late 2021 and early 2022 on the back of Dubai Expo and easing of COVID-19 restrictions, tourist numbers remain well below pre-pandemic levels. On the upside, higher energy prices and output would further strengthen external and fiscal positions, providing financial buffers for a protracted non-oil recovery. Risks to the non-oil sector recovery also remain. Especially, those originating from an outbreak of new COVID-19 variants that are vaccine-resistant which would risk movement restrictions and delay recovery. Furthermore, domestic monetary policy is set to tighten further in line with the FED's policy, which might dampen recovery and job creation. Finally, delays or digressions in implementing structural reforms would reduce prospects for stronger long-term growth and employment.

Recent developments

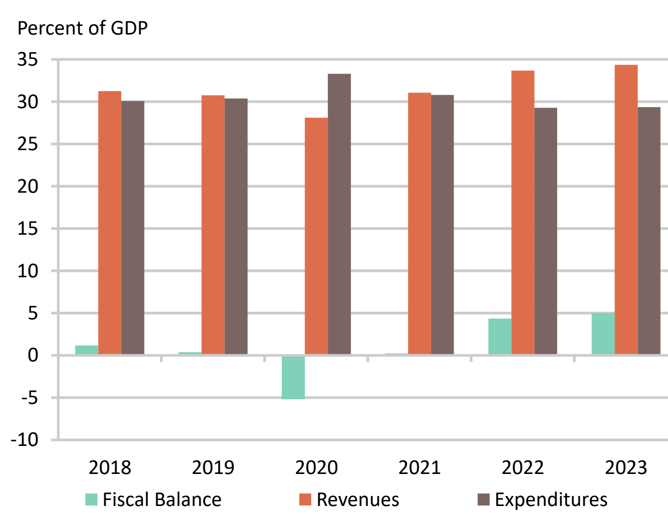
Following the pandemic-induced recession, the UAE's counter-cyclical economic policies and a highly advanced vaccination program continue to push the economy toward recovery. The Central Bank of UAE reported growth during the first quarter of 2022 at 8.2 percent year-on-year, driven by a sharp increase in oil production and an improvement in non-oil GDP. Higher oil prices and a loosening of OPEC+ quotas pushed oil production to an average of 3 mbpd in the first half of 2022, representing an increase of 14.3 percent (y/y). Recent official data on non-oil sector estimate growth at 6.1 percent (y/y) during the first quarter of 2022. High-frequency data confirm that the non-oil sector continues growing at a

FIGURE 1 United Arab Emirates / Annual GDP growth rate



Sources: UAE authorities, IMF, and World Bank staff estimates.

FIGURE 2 United Arab Emirates / Public finances



Sources: UAE authorities, IMF, and World Bank staff estimates.

faster pace with the Purchasers Managers Index (PMI) reaching above its historical long-term average as businesses recover from COVID-related restrictions and benefit from higher oil liquidity spillovers.

Official data estimate inflation at 3.4 percent during the first quarter of 2022, generally in line with global rates. However, more timely data for Dubai show inflation reaching 7.1 percent in July, mainly driven by higher transport costs as well as housing and utilities. Moving in line with the Fed's tighter monetary policy, the Central Bank of UAE has been hiking interest rates, bringing it up to 2.9 percent in July to maintain the currency peg with the US dollar.

The spike in oil prices will bolster fiscal revenue, offsetting the negative effects of rising inflation and monetary tightening has on economic activity. The government's fiscal balance largely follows oil market developments, as the authorities continue to rely heavily on hydrocarbon revenue to push economic reform agenda forward. Hydrocarbon revenue rose strongly in 2022, thereby pushing the fiscal balance to comfortable positions. Higher oil and non-oil exports continue to position the current account balance firmly in surplus as the signing of recent free-trade agreements strengthens non-oil activity and re-exports to large Asian markets.

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. According to the Central Bank of UAE, employment in March 2021 remained at the same level of December 2020, while salaries paid in Q1 2021 were higher than at the end of 2020 and higher than in February 2020 (the last pre-crisis month), as per the Central Bank's Wage Protection System.

Outlook

Higher oil export volumes coupled with a revival in non-oil demand will support strong economic growth in 2022. This is further supported by a favorable business environment and world-class infrastructure. Real GDP is expected to grow by 5.9 percent in 2022 before moderating to 4.1 percent in 2023 as slower global demand dampens growth due to tightening financial conditions.

Oil GDP is projected to grow by 9.9 percent and 4.4 percent in 2022 and 2023, respectively; depending largely on the evolution of the war in Ukraine and its impact on global oil markets. Due to sanctions on Russia, exports from OPEC+ members will likely accelerate, although many members already have limited spare production capacity. In this context, UAE is one of the few countries within this group that could increase oil production and fill some of this gap. As for the non-oil sector, slower global demand will dampen growth, as we expect the non-oil economy to grow by 3.6 and 3.7 percent in 2022 and 2023, respectively.

Higher oil receipts supplemented with a gradual non-oil recovery will bolster fiscal revenue. Fiscal surplus, which is estimated to hover around 4.4 percent of GDP in 2022 and 5.0 in 2023, may be lower than previously anticipated as the UAE aims to mitigate the impacts of higher inflation by doubling support to low-income households. With a pegged exchange rate, monetary policy will continue to track US Federal Reserve's tighter policy by raising future interest rates. Headline inflation is expected to reach 4.0 percent in 2022 before trending downwards to 2.8 percent in 2023 as oil prices decline and monetary tightening effects channel into the economy.

Recent bilateral free trade agreements with Asian partners will open major markets, e.g. India, boosting non-oil exports and acting as a counterbalance to global headwinds and tightening financial conditions. This will help place the current account balance at 11.2 and 11.9 percent of GDP in 2022 and 2023; respectively, keeping the external account in a comfortable position as oil prices moderate.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.4	-6.1	3.5	5.9	4.1	2.3
Private Consumption	10.0	-12.5	5.0	4.9	3.8	3.1
Government Consumption	10.0	0.7	1.4	2.9	3.3	2.0
Gross Fixed Capital Investment	0.0	5.8	5.4	5.1	3.7	3.6
Exports, Goods and Services	-1.3	-7.0	6.7	6.8	5.1	4.0
Imports, Goods and Services	-5.5	-6.4	8.8	6.2	4.6	3.9
Real GDP growth, at constant factor prices	3.4	-6.1	3.5	5.9	4.1	2.3
Agriculture	3.8	6.9	3.8	3.4	4.0	4.8
Industry	2.6	-5.5	1.3	8.4	4.2	2.9
Services	4.2	-6.9	5.6	3.6	4.1	1.6
Inflation (Consumer Price Index)	-1.9	-2.1	0.2	4.0	2.8	2.0
Current Account Balance (% of GDP)	8.9	5.9	10.5	11.2	11.9	12.5
Fiscal Balance (% of GDP)[a]	0.4	-5.2	0.3	4.4	5.0	2.7
GHG emissions growth (mtCO2e)	6.2	-2.5	10.0	6.6	1.6	2.0
Energy related GHG emissions (% of total)	73.6	72.9	74.6	75.8	76.0	76.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Consolidated fiscal balance.

REPUBLIC OF YEMEN

Table 1	2021
Population, million	30.5
GDP, current US$ billion	19.9
GDP per capita, current US$	653.0
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	66.2
Total GHG emissions (mtCO2e)	23.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2016); Life expectancy (2020).

Economic conditions remain highly fragile in Yemen. Humanitarian needs have worsened due to compounding crises, including the recent Ukrainian war. Glimmers of hope are offered by a combination of extraordinary financial support announced by bilateral partners, geopolitical conditions that may be conducive to redeveloping the hydrocarbon sector, and some timid progress on the de-escalation process, as demonstrated by an extended truce. However, the already dire socio-economic conditions of the country keep being challenged by poor institutional capacity, uncoordinated policy decisions, and administrative bifurcation.

Key conditions and challenges

After eight years of military conflict, which prompted an unprecedented economic and humanitarian crisis, several developments during 2022 have generated cautious optimism about Yemen's peace and growth prospects. On the domestic front, an UN-sponsored truce has been extended since April 2022. Days after announcing the truce, President Hadi transferred authority to a "Presidential Leadership Council" on the last day of GCC-sponsored peace consultations. Only hours later, the KSA and UAE announced a US$3.3b financing package. These positive developments were supplemented by an almost complete halt of monetary financing, which significantly curbed inflationary trends. Moreover, oil exports recently recovered to around 2014 levels, in terms of GDP, due to both quantity and price effects.

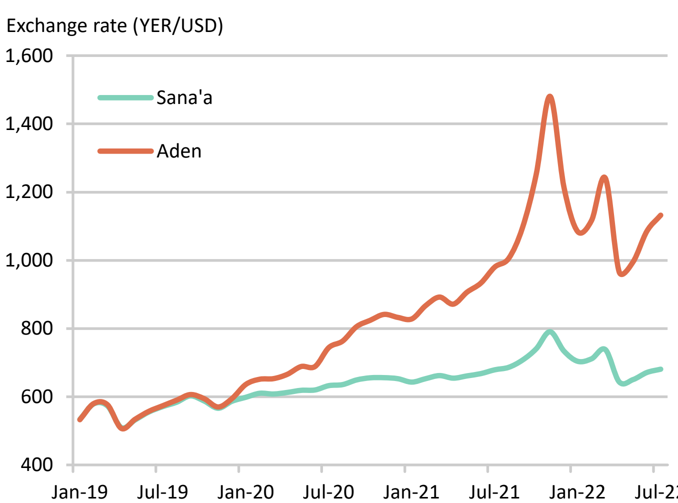
Despite encouraging developments, Yemen's external financing challenges remain substantially unaltered. While the announced CBY deposit can meaningfully mitigate risks, the timeline associated with its implementation remains unclear. On the other hand, oil sector growth remains heavily contingent on Yemen's capability to attract foreign investment, which – in turn – is tightly dependent on security and peace conditions. Non-oil activity continues to suffer from essential services interruptions and acute input shortages, compounded by double taxation, pervasive corruption practices, market distortions triggered by uncoordinated policy approaches, and the multiplicity of Yemen's institutions.

Despite cautious optimism for growth, any trickle-down effects on Yemeni households remain doubtful. Yemen's economy is mainly informal; households cannot meet basic needs without external support, and recent food assistance reductions are likely to affect living conditions severely. A large portion of Yemenis is currently reliant on (decreasing) remittances and aid flows. Recent floods have further compounded the precarity of socio-economic conditions, particularly for those living in and around displacement sites. Additionally, Yemen is one of the countries with the lowest COVID-19 vaccination rates: as of July 2022, the rollout reached only 1.4% of the population. After the collapse of the oil sector and inconsistent payments to public sector employees (the largest source of employment pre-conflict), agriculture – primarily of subsistence nature – dominates the real economy while being highly exposed to increasing climate, environmental and pest-related disruptive events.

Recent developments

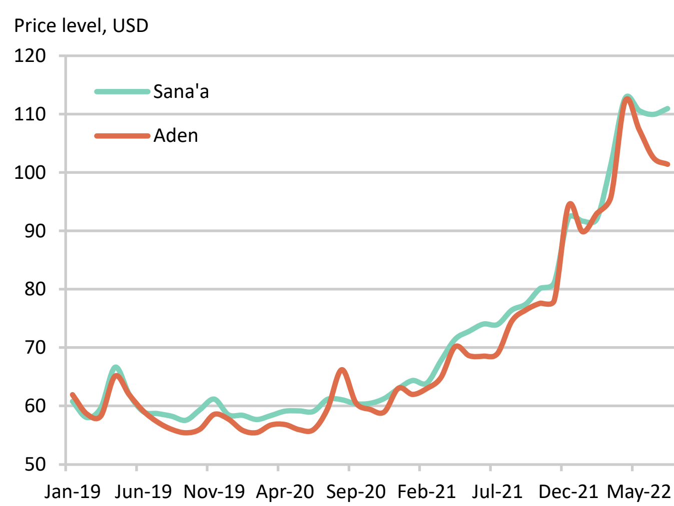
Yemen's GDP is expected to grow, in real terms, by 2 percent in 2022, after a 2-year-long recession. The rebound has been preliminarily driven by the oil sector: real oil GDP is predicted to expand

FIGURE 1 Republic of Yemen / Exchange rate trend: Sana'a and Aden



Sources: WFP and World Bank staff calculations.

FIGURE 2 Republic of Yemen / Survival and minimum expenditure basket price



Sources: WFP and World Bank staff calculations.

by 15.5 percent due to an uptick in output and higher oil prices. On the other hand, a relatively more stable currency, slower inflation, and a drastic decline in hostile activities support private sector activity; thus, non-oil GDP is estimated to grow by 0.6 percent.

On the fiscal side, the Internationally Recognized Government's (IRG) total public revenues are expected to increase, supported by a rise in hydrocarbon revenues, which not only reflects rising fuel exports but also MoF's decision to account for hydrocarbon revenues at the markets exchange rate. Total public expenditure has also recently grown, relative to 2021. The expansion is mainly caused by inflationary pressures, the resumption of debt servicing payments (following the suspension of DSSI and CCRT), and a sizable real increase in government consumption – concentrated on current expenditures. Overall, the IRG's fiscal deficit is moving on a declining trend for the 4th year in a row, and we expect it to close the year at -1.9 percent of GDP. Fiscal deficit financing sources are assumed to include elements of monetization – albeit significantly less than in the past – and some degree of arrears on lower-priority expenses.

Monetary conditions have tightened during 2022, as CBY drastically reduced fiscal deficit monetization to levels complying with its stated money supply growth targets. Moreover, CBY's hard currency auction mechanism proved relevant in supporting exchange rate stability. As a result, inflation declined from the double-digits of 2021, despite specific commodity prices still registering an inflation rate of around 30 percent (particularly in the food sector), negatively impacting households' purchasing power and consumption capacity. In a context where the macroeconomic fundamentals, the political context, and other structural factors affecting exchange rate dynamics have remained substantially unaltered, the exchange rate fluctuations appear to be highly responsive to sentiment and psychological factors. For instance, the exchange rate spread between Aden and Sanaa drastically shrank at the announcement of foreign assistance packages, to then gradually return to hovering around 600 pp as of September 2022.

Yemen's current account deficit has been widening and is expected to grow 3-fold in nominal US$ terms by the end of 2022 (or 2-fold relative to GDP). Declining official development assistance and remittance receipts – as neighboring countries apply more protectionist labor policies – have offset the predicted increase in oil exports. Considering CBY's reserve position, Yemen's difficulties in financing its external deficit remain significant; to date, the country has relied on successfully liquidating previously frozen foreign currency deposits. However, should the announced foreign-financed assistance fail to materialize (or materialize with delay), the level of foreign currency reserves could slip under one month worth of imports.

Outlook

Economic conditions in 2023 and beyond remain highly uncertain and continue to be a function of three major factors: conflict resolution, commodity market developments, and the availability of external financing options. Economic expansion over the medium term is conditional on prudent policy-making and a robust reform effort. Assuming the conflict is resolved, hydrocarbon prices remain at current levels, and the announced financial assistance initiatives materialize, Yemen's economy could – from a macroeconomic standpoint – register more sustained growth. Nevertheless, economic stability will remain dependent on predictable and sustainable hard currency inflows and – further upstream – from a resolution of the conflict. Other risks to the outlook include unexpected terms of trade shocks, as well as a resurgence in hostile activities caused by regional or domestic tensions. Policy inaction is also one of the most significant risks to Yemen's outlook. While favorable energy commodity price conditions and CBY's prudence lay the ground for potentially more pronounced economic optimism, there is no substitute for structural reforms, which are a conditio-sine-qua-non to maximize the inclusiveness of any growth outturns, and to reinforce the resilience, private initiative, and resourcefulness for which the Yemenis are renowned.

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

	2019	2020	2021	2022e	2023f
Real GDP growth, at constant market prices	1.4	-8.5	-1.0	2.0	3.3
Inflation (Consumer Price Index)[a]	10.0	35.0	58.5	29.2	7.7
Current Account Balance (% of GDP)	-3.8	-5.9	-5.1	-11.5	-7.3
Fiscal Balance (% of GDP)	-5.9	-4.8	-2.2	-1.9	-1.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Inflation rates refer to end-of-period figures.

Macro Poverty Outlook

10/
2022

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