Middle East and North Africa

Macro Poverty Outlook

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

Annual Meetings 2023

WORLD BANK GROUP
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Middle East and North Africa

Annual Meetings 2023

Algeria	Kuwait	Saudi Arabia
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Egypt, Arab Republic	Morocco	United Arab Emirates
Iran, Islamic Republic	Oman	Yemen, Republic
Iraq, Republic	Palestinian Territories	
Jordan	Qatar	

ALGERIA

Table 1	2022
Population, million	45.7
GDP, current US$ billion	195.0
GDP per capita, current US$	4265.6
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]	76.4
Total GHG emissions (mtCO2e)	281.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ WDI for School enrollment (2020); Life expectancy (2021).

Despite continued nonhydrocarbon dynamism, Algeria's GDP growth moderated in early 2023, while high inflation persisted. Recent swings in oil and gas prices highlight the challenges that hydrocarbon dependence poses for macroeconomic stability. Amid declining oil and gas export prices, the current account surplus is shrinking after peaking in 2022, and the fiscal deficit is expected to widen. Priority reforms include strengthening the macroeconomic policy framework, opening more space for the private sector, and improving public service delivery.

Key conditions and challenges

Algeria's economy is dependent on oil and gas which account for a fifth of GDP, four-fifths of exports, and two-fifths of budget revenues. Double-digit fiscal and current account deficits persisted before the pandemic, eroding foreign exchange reserves, and causing fast debt accumulation and large-scale monetization while leading to currency depreciation and import reduction policies.

The Russian Federation's invasion of Ukraine and Europe's efforts to shift away from Russian gas supply have raised oil and gas export prices, generated record trade surpluses for Algeria, and reduced the budget deficit despite a steep rise in current spending. It also presented opportunities for reviving foreign energy investment in Algeria, after years of declining export capacity amidst stagnating production and rising domestic consumption. However, more private investment outside the hydrocarbon sector is needed to foster faster, inclusive, and sustainable growth.

The Algerian economy recovered to pre-COVID-19 levels in 2022, but growth had been slowing down before the pandemic, reaching 1.2 percent in 2017-2019, causing GDP per capita to contract to its 2014 level and unemployment to remain elevated, especially among youth. Non-monetary poverty declined between 2013 and 2019, amid improvements in education, health, and living standards, but it remains elevated for Algeria's level of income, while spatial inequalities persist.

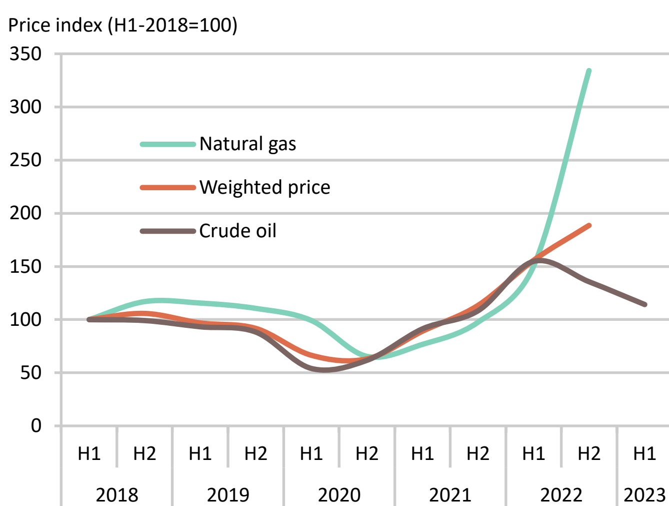
The COVID-induced recession was compounded by a surge in inflation working against poverty reduction, to which the authorities responded through a rise in public spending on wages and social transfers. The September 2021 Government Action Plan (GAP) set as developmental priorities the transition to a private sector-led growth and job creation model and a stronger macroeconomic framework. Efforts to encourage foreign and domestic investment have since accelerated, including through the 2022 Investment Law. Continued reform implementation, notably to improve the business environment, will be key to fostering growth in the nonhydrocarbon private sector.

Recent developments

GDP growth slowed moderately in Q1-2023 (+3.0 percent y-o-y), dragged by low hydrocarbon GDP growth amidst the reduction in crude oil production quotas and despite natural gas output growth. On the other hand, dynamic nonhydrocarbon GDP growth in 2022 extended in Q1-2023 (+4.0 percent y-o-y), with accelerating public consumption growth making up for slower private consumption, and strong investment growth stimulating the construction and industrial sectors. Agriculture output slowed down markedly, however, amid a severe drought episode.

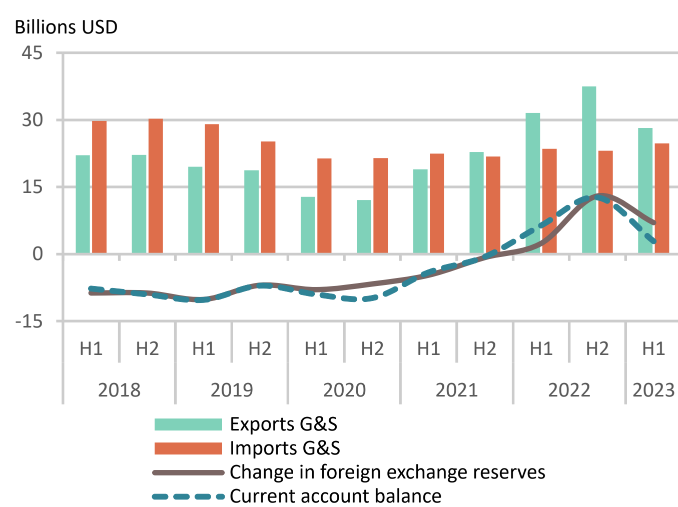
The current account surplus shrank from a record US$11.8 billion in H2-2022 to

FIGURE 1 Algeria / Hydrocarbon export prices



Sources: Algerian authorities and World Bank staff estimates.

FIGURE 2 Algeria / Current account, exports, imports and changes in international reserves



Sources: Algerian authorities and World Bank staff estimates.

US$2.9 billion in H1-2023, as falling oil and gas export prices and volumes led to a US$8.9 billion decline in exports and strong investment growth raised equipment imports. Reserve accumulation therefore continued, reaching US$68.8 billion at end-June 2023, or about 17.2 months of imports of goods and services.

After declining from 7.2 to 2.9 percent of GDP in 2022, the overall budget deficit is expected to have risen again in H1-2023, dragged by the decline in hydrocarbon export revenues and rising public sector wages, and despite an increase in tax revenues supported by rising wages, prices, investment, and imports. After declining to 55.6 percent of GDP at end-2022, public debt increased by 4.3 percent in nominal terms in H1-2023, financed by regular Treasury issuances. It remained overwhelmingly domestically held, at long-term maturities and negative real interest rates.

Inflation remained elevated, reaching 9.7 percent y-o-y in H1-2023 up from 9.3 percent in 2022, fueled by fresh agricultural products, hurting vulnerable Algerians disproportionately as food accounts for over half of the spending for the bottom 40 percent of the population. To try to curb inflationary pressures, the Bank of Algeria supported an appreciation of the dinar in H2-2022 (+6 percent relative to the US dollar) and increased the reserve requirement rate in April 2023 from 2 to 3 percent, its pre-pandemic level.

Outlook

Growth is expected to decelerate in 2023, with lower hydrocarbon output amidst rising domestic consumption and a decline in exports. Nonhydrocarbon GDP would slow down moderately, as private consumption tapers and rising investment is met through increasing imports. Agricultural output would contract, in contrast to more dynamic construction, industrial, and service activity. GDP growth would accelerate in 2024 and 2025, as agricultural output recovers and crude oil production tracks recovering OPEC quotas.

The current account is expected to come close to balance in 2023, as higher imports compound the steep decline in hydrocarbon export prices. Export and import levels would stabilize in 2024-25, as would the level of foreign exchange reserves. Lower hydrocarbon revenues amidst higher budget spending would cause the overall budget deficit to expand in 2023 before a slowdown in public spending reduces it moderately by 2025. The debt-to-GDP ratio would increase slightly, with Treasury savings accumulated in 2022 partially financing fiscal deficits. Inflation is expected to decline gradually, fueled by rising money supply and public spending but dampened by the delayed effects of the dinar's appreciation and tapering food prices.

The fragility of the global outlook and developments in Russia's war on Ukraine could have significant consequences for volatile oil prices, OPEC quotas, hydrocarbon exports and, as a result, the trajectory of Algeria's external and budget balances. Financing budget deficits through the domestic banking sector and maintaining import reduction policies could also weigh on growth and inflation, as would new episodes of disappointing rainfall and agricultural output. On the other hand, successful efforts in attracting large investments, notably in Algeria's hydrocarbon and mining sectors, amidst Europe's efforts to diversify its energy supply, could support higher growth.

Ultimately, structural reforms that improve the business environment, foster private sector-led diversification, improve the efficiency of public spending, and raise human capital will be key to decreasing the country's dependence on hydrocarbons and fostering sustainable economic growth and job creation.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-5.1	3.4	3.2	2.1	2.5	2.5
Private consumption	-3.0	3.7	2.9	2.6	2.4	2.2
Government consumption	-0.1	1.2	2.2	2.2	2.0	1.9
Gross fixed capital investment	-5.2	5.8	2.4	4.3	3.7	3.2
Exports, goods and services	-11.3	13.4	-0.1	-2.3	-0.8	-0.3
Imports, goods and services	-16.0	-4.1	0.0	3.9	1.3	0.5
Real GDP growth, at constant factor prices	-4.5	4.0	3.3	2.1	2.5	2.5
Agriculture	1.7	-1.9	5.8	-3.0	3.1	2.0
Industry	-6.8	7.7	1.5	2.1	2.0	2.3
Services	-4.3	2.7	4.2	3.7	2.9	2.9
Inflation (consumer price index)	2.4	7.2	9.3	9.3	8.6	7.9
Current account balance (% of GDP)	-12.5	-2.8	9.4	1.9	0.3	-0.8
Fiscal balance (% of GDP)	-11.9	-7.2	-2.9	-6.8	-6.8	-6.4
Revenues (% of GDP)	30.5	29.9	34.2	32.4	30.8	29.9
Debt (% of GDP)	51.8	62.9	55.6	56.9	57.0	57.8
Primary balance (% of GDP)	-11.0	-6.5	-1.4	-5.3	-5.4	-4.9
GHG emissions growth (mtCO2e)	-2.7	-0.9	3.4	1.7	1.8	2.1
Energy related GHG emissions (% of total)	49.8	49.2	50.3	50.7	50.9	51.2

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	2022
Population, million	1.5
GDP, current US$ billion	44.4
GDP per capita, current US$	30152.1
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	78.8
Total GHG emissions (mtCO2e)	53.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2019); Life expectancy (2021).

Economic growth will moderate this year on the soft performance of the hydrocarbon sector, with non-hydrocarbon activity remaining the growth engine for the economy. Despite softening oil prices, the fiscal deficit is anticipated to narrow, supported by ongoing fiscal reforms, while the external balance surplus is maintained. Larger than forecasted drop in oil prices and weaker global demand, potential delays in implementing advanced fiscal reforms, rising global inflation, and climate change pose significant risks to Bahrain's economic outlook.

Key conditions and challenges

Bahrain experienced strong economic growth in 2022, the fastest pace in a decade, boosted by growing non-hydrocarbon sectors including government services, finance, manufacturing, and the upturn in hospitality-oriented sectors. The strong commitment to the fiscal and structural reform agenda, identified in the Fiscal Balance Program (FBP) and Economic Recovery Plan (ERP), supported by favorable oil prices, has significantly narrowed the overall fiscal deficit. On the other hand, a new National Labor Market Plan (NLMP) was approved on July 23 to encourage Bahraini employment in the private sector and reduce public sector fiscal pressures.

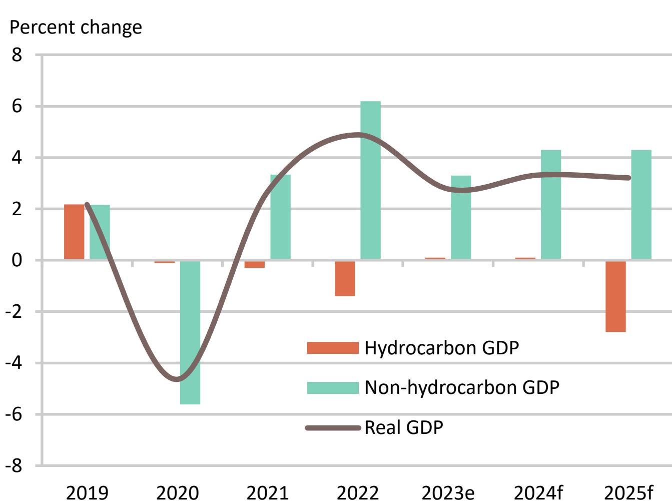
However, challenges remain. Bahrain is considered the most diversified economy in the GCC yet hydrocarbon revenues account for more than 63 percent of total budget revenues which exposes the economy to extreme vulnerabilities stemming from the volatile nature of energy prices. Point in case, despite the recent reforms and high oil prices which improved fiscal and external balances, the public debt remains stubbornly high. Notwithstanding the strong commitment to the reform agenda, falling oil prices will constrain Bahrain from balancing its budget by 2024, while extra-budgetary spending could impede reform implementation efforts. Other challenges in the form of high youth unemployment and the depletion of underground water resources will have serious long-term growth implications.

Downside risks to the outlook are mostly linked to a sizeable drop in hydrocarbon prices, which could renew financing challenges, delay implementation of fiscal reforms, reduce investor confidence, and lead to higher external financing costs. Other risks are related to climate vulnerability to increasing heat and sea level rise, which could have negative impacts on water supply and natural environment. On the upside, higher oil prices provide an opportunity to advance the ambitious reform agenda to contain external borrowing and put debt on a firm downward path, while rebuilding fiscal buffers. Advancing structural reforms including those related to transition towards a low carbon economy and increase employment opportunities among youth, would ensure a private sector-led inclusive recovery. Creating additional fiscal space for renewable energy investment would facilitate Bahrain's climate transition, which is expected to have a positive impact on growth.

Recent developments

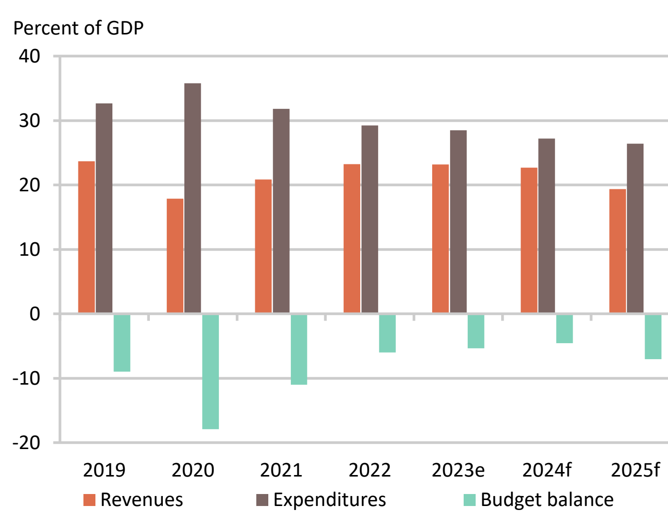
After a solid 2022 performance, Bahrain's economic growth is projected to moderate. Preliminary official data reveals that the economy grew by 2 percent during Q1 2023 driven primarily by the non-oil sectors which grew by 3.5 percent. The transportation and communications, real estate, and financial sectors were among the key

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.

contributors to this steady recovery in non-oil activities, which outpaced the contraction in the oil sector activities (falling by 6 percent) due to seasonal operational maintenance. Average inflation contracted by 0.1 percent in July 2023 y/y, reversing from a 0.4 percent y/y rise in June, driven by lower transport, housing and utilities, and clothing and footwear prices, and as the impact of doubling VAT on prices dissipated.

Official fiscal data for 2023 have not been released yet. However, the government succeeded in concluding the state budget for 2023-24, which placed controlling of public spending and diversifying revenue sources at the heart of the medium-term plan.

Despite lower exports' value in Q1 2023, reflecting softening commodity prices and subdued global demand, the current account balance posted a small surplus of US$0.6 billion (5.7 percent of GDP). This was mainly driven by the decline in imports, down by 8.4 percent, to reflect easing international prices. As a result, official reserve assets accumulated and reached US$3.6 billion in Q1 2023—an increase of US$251 million compared to Q1 2022.

In July 2023, the Ministry of Labor issued the National Labor Market Plan 2023-2026. The plan aims to create high-quality job opportunities for Bahrainis, including by encouraging the private sector to expand flexible options for employment. It also seeks to strengthen the integration of women into the labor market, noting that women constitute 76 percent of job seekers. To better equip the national workforce for the future needs of the labor market, the plan aims to better align higher education pathways with the needs of the labor market and strengthen the technical and vocational education sector. It also intends to strengthen partnerships with the private sector and improve oversight of the labor market.

According to the most recent available ILO estimates, Bahrain's labor market is continuing to recover from the impact of the COVID-19 pandemic but has not yet rebounded fully. The labor force participation rate and employment-to-population ratio were projected to reach 71.9 percent and 70.8 percent respectively in 2023, each still a little below its level in 2019. In 2023, the employment-to-population ratio is estimated at 86.3 percent among men and at 42.8 percent among women (ILO estimates). The unemployment rate was expected to hold steady around 1.4 percent in 2023, 0.2 percentage points above the 2019 rate. The gradual decline in the unemployment rate since the height of the pandemic has been slower among women than among men, with the unemployment rate among women expected to increase slightly again in 2023.

Outlook

Bahrain's economic outlook hangs on oil market prospects and the accelerated implementation of structural reforms. Growth is estimated to moderate to 2.8 percent in 2023 capped by a soft performance of the oil sector while the non-oil sector remains the key driver for growth. The hydrocarbon sector is expected to register small growth of 0.1 percent during 2023-24 while the non-hydrocarbon sectors will continue expanding at nearly 4 percent supported by the recovery in the tourism, service sectors, and the continuation of infrastructure projects. The economy is forecast to rebound in the medium-term supported by stronger non-oil sector performance as the impact of structural reforms trickle into the economy. The easing of global commodity prices and the fading effects of doubling VAT rate are projected to keep inflation subdued at 2.2 percent during the medium term.

With the commitment to mobilize higher non-oil revenues and implement additional fiscal measures, the budget deficit is anticipated to continue its narrowing path to reach 5.3 and 4.5 percent of GDP during 2023 and 2024, respectively. However, public debt will remain elevated in the medium term—exceeding 120 percent of GDP—requiring deeper fiscal consolidation measures.

After widening sharply in 2022, the current account surplus is forecast to narrow in 2023 on softening oil export prices but would remain in surplus during 2024-25 in line with the current oil price outlook. The comfortable external position will boost foreign reserves and strengthen forbearance against future external shocks.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.6	2.7	4.9	2.8	3.3	3.2
Private consumption	-4.4	18.9	5.0	2.7	2.5	2.4
Government consumption	-2.5	6.5	2.4	2.0	1.6	1.4
Gross fixed capital investment	-3.8	-4.2	2.3	3.0	3.3	3.4
Exports, goods and services	-2.5	29.5	4.9	3.2	3.3	3.4
Imports, goods and services	-0.7	15.2	5.0	3.7	3.0	3.2
Real GDP growth, at constant factor prices	-4.5	2.4	3.3	2.8	3.3	3.2
Agriculture	0.2	7.2	4.4	0.3	3.0	1.8
Industry	-0.9	0.5	1.2	3.6	3.4	3.1
Services	-7.1	3.9	4.9	2.2	3.2	3.3
Inflation (consumer price index)	-2.3	-0.6	3.6	2.3	2.2	2.1
Current account balance (% of GDP)	-9.4	6.6	15.4	7.8	6.6	5.9
Net foreign direct investment inflow (% of GDP)	-3.5	-4.4	0.0	-2.6	-2.6	-2.7
Fiscal balance (% of GDP)	-17.9	-11.0	-6.0	-5.3	-4.5	-7.0
Revenues (% of GDP)	17.9	20.8	23.3	23.2	22.7	19.4
Debt (% of GDP)	129.7	127.2	117.4	120.9	120.6	122.7
Primary balance (% of GDP)	-12.8	-6.3	-1.6	-0.8	0.1	-2.4
GHG emissions growth (mtCO2e)	3.9	-5.6	0.8	7.2	4.0	0.7
Energy related GHG emissions (% of total)	60.8	58.6	58.4	60.2	60.8	60.3

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	**2022**
Population, million	1.1
GDP, current US$ billion	3.5
GDP per capita, current US$	3136.1
International poverty rate ($2.15)[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]	62.3
Total GHG emissions (mtCO2e)	1.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ Most recent WDI value (2021).

Djibouti's economy is recovering, largely driven by renewed trade with Ethiopia after a 2022 peace agreement. GDP growth is estimated to reach 4.7 percent compared to 3.1 percent in 2022. Medium-term growth is promising, supported by domestic development projects, and expected stability in Ethiopia, but fiscal vulnerabilities remain. Poverty, projected to stand at 15.7 percent in 2023 (at the international poverty line), is expected to follow a downward trend, reflecting sustained economic recovery.

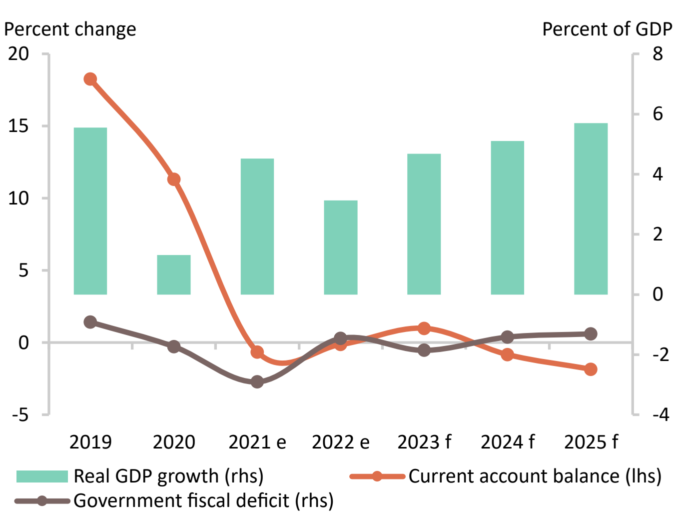
Key conditions and challenges

Djibouti's macro-fiscal vulnerabilities have been exacerbated by a series of exogenous shocks (COVID-19 pandemic, conflict in Ethiopia, and Russian invasion in Ukraine) since 2020. These shocks have strained government finances, led to inflation, jeopardized food security, and slowed poverty reduction efforts. Climatic changes, including drought and floods, also pose an increasing threat to households and businesses, which may be disproportionally felt in poorer regions of the country. Poverty rates, which stood at 19 percent in 2017 at the international poverty line, are estimated to have decreased at a slower rate in recent years, than previously anticipated, to around 15.7 percent in 2023, reflecting COVID-19 effects as well as the economic and social impact of regional instability and accelerating food and energy price inflation up to 2022. Continued efforts by country authorities to promote more inclusive and resilient growth will be critical. This will include improving the business environment and improving SOE governance to attract private investment and lower costs of key services to the economy, improving revenue mobilization to restore fiscal sustainability, and rationalizing untargeted subsidies to create space for higher social spending.

Recent developments

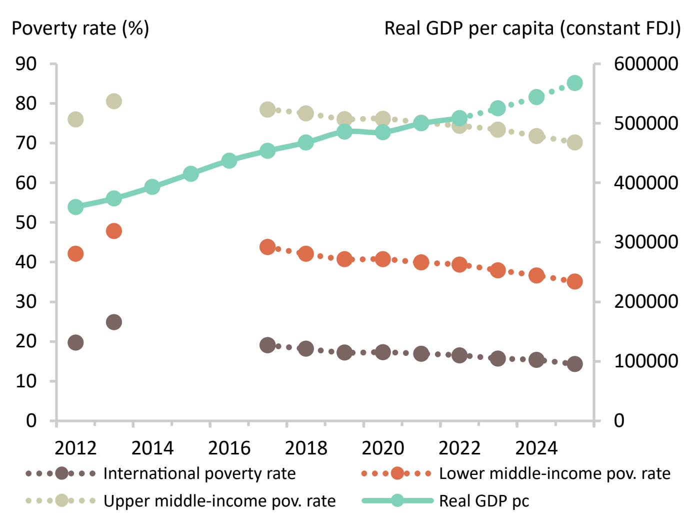
Djibouti's economic activity shows signs of recovery as of June 2023 after the decline observed in 2022. The rebound is mostly driven by renewed trade and logistics demand from its key trade partner, Ethiopia following the signing of a peace agreement between the Ethiopian federal government and the Tigray Rebel movement in November 2022. GDP growth is estimated to rise by 4.7 percent from 3.1 percent in 2022. The year-on-year inflation which reached a peak of 11 percent in July 2022, declined by 1.2 percent in July 2023 mainly due to a slowdown in global food product prices and administrative measures implemented by the government to protect the purchasing power of consumers. On the fiscal side, the budget remains under pressure from lower tax collection performance and rising debt service. Domestic revenue is estimated to fall by 0.6 percent of GDP to about 17.9 percent of GDP in 2023. To ease cash flow pressures, the government renewed in the 2023 budget the main expenditure reduction measures adopted in 2022, including the freezing of promotions for vacant posts. As a result, total expenditure is estimated to fall to 19.7 percent of GDP in 2023, 0.3 percent of GDP down from the level of 2022. In such a context, the budget deficit is expected to deteriorate slightly to 1.9 percent of GDP at the end of 2023. Public external debt stock is estimated to increase to

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.

75 percent of GDP in 2023 following the signature of two new loan agreements in July 2023 with AFREXIMBANK and a local commercial bank (US$155 million) and the European Investment Bank (US$87 million). Djibouti's stock of public debt external arrears also further increased, reaching US$212.6 million (5 percent of GDP) in March 2023. Arrears were mainly accumulated on the railway and water pipeline loans financed by EXIM BANK China. Talks are ongoing with EXIMBANK China to restructure these two loans. On the external account side, the current account balance is expected to turn from a small deficit in 2022 into a 1 percent of GDP surplus following the rebound in Ethiopian demand for logistics services and reexport activities. As a result, the foreign reserve coverage ratio of the money supply under the currency board would remain comfortable above 100 percent and gross official reserves are expected to reach 5 months of prospective imports. Despite multiple shocks in 2022, the banking sector remains generally stable. However, the solvency ratio dipped below the regulatory threshold.

Outlook

Medium-term growth prospects for Djibouti are positive, largely due to expected stability in Ethiopia benefiting its ports. However, failure to reach a debt restructuring agreement with EXIMBANK China for the Djibouti-Ethiopia railway and water pipeline projects would escalate liquidity pressures and increase debt arrears. Domestic development projects including the development of the Damerjog Industrial Park Project, the development of the Doraleh Desalination Plant, and infrastructure programs to be undertaken as part of the implementation of the National Development Plan (NDP) would push Gross Fixed Capital Investment upward. Decelerating energy and food price inflation in 2023 should provide a lift to households' real income and boost private consumption.GDP growth is, therefore, projected to accelerate to 5.1 percent in 2024, and to 5.7 percent in 2025. Critical fiscal consolidation measures, including the reprioritization of central government investment spending, the freeze on new civil service recruitment, improvements in fiscal management, and tax administration and collection, should help gradually reduce the budget deficit, which is expected to drop to 1.3 percent of GDP by 2025. It is projected that 15.7 percent of the population will continue living under the international poverty line in 2023 and that this rate will decrease to 15.4 percent and 14.3 percent respectively in 2024 and 2025. A more recent household survey remains pending which would allow more accurate and up-to-date poverty estimates. Despite this, risks remain. They include the deterioration in the fiscal situation resulting from a continued accumulation of public debt, a stagnation or decline in revenues, and increased tax exemptions, which could prove a source of vulnerability in 2024-25. Potential new shocks in the global transport and logistics value chains, regional tensions, Russia's withdrawal from the Black Sea grain deal, and climatic shocks, including drought and floods represent additional downside risks to Djibouti's baseline outlook.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	1.3	4.5	3.1	4.7	5.1	5.7
Private consumption	9.9	9.6	-1.2	5.0	5.0	5.0
Government consumption	1.6	-2.5	-14.8	2.0	6.2	5.6
Gross fixed capital investment	1.0	4.9	2.2	7.0	7.0	7.1
Exports, goods and services	-29.7	29.5	-13.0	9.0	9.0	10.0
Imports, goods and services	-29.5	18.2	-6.8	11.0	11.0	11.3
Real GDP growth, at constant factor prices	2.1	4.1	3.6	4.7	5.1	5.7
Agriculture	11.5	16.5	-3.2	3.2	3.6	3.9
Industry	-3.7	11.4	-0.4	6.1	6.2	6.3
Services	3.1	2.5	4.5	4.5	5.0	5.7
Inflation (consumer price index)	1.0	1.5	5.1	2.0	2.0	2.0
Current account balance (% of GDP)	11.3	-0.7	-0.1	1.0	-0.8	-1.8
Fiscal balance (% of GDP)	-1.7	-2.9	-1.5	-1.9	-1.4	-1.3
Revenues (% of GDP)	23.4	20.0	18.5	17.9	18.4	18.4
Debt (% of GDP)	75.8	73.8	71.8	75.0	73.4	71.0
Primary balance (% of GDP)	-1.6	-2.7	-0.6	-1.0	-0.6	-0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	17.3	16.9	16.5	15.7	15.4	14.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	40.8	39.9	39.4	38.0	36.7	35.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	76.2	75.2	74.3	73.4	71.8	70.2
GHG emissions growth (mtCO2e)	-0.1	0.9	0.5	0.8	0.7	0.7
Energy related GHG emissions (% of total)	25.3	25.4	25.6	25.7	25.9	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.
a/ Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
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	2022
Population, million	103.4
GDP, current US$ billion	476.7
GDP per capita, current US$	4610.7
Lower middle-income poverty rate ($3.65)[a]	17.6
National poverty rate[b]	29.7
Gini index[a]	31.9
School enrollment, primary (% gross)[c]	106.4
Life expectancy at birth, years[c]	70.2
Total GHG emissions (mtCO2e)	361.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent value (2019).
c/ WDI for School enrollment (2019); Life expectancy (2021).

Egypt's macroeconomic and structural challenges intersected with global shocks causing a foreign exchange crisis, high inflation and pressures on medium-term debt sustainability. Growth is projected to decline from 4.2 percent in FY23 to 3.7 percent in FY24. Fiscal (including off-budget) consolidation, mobilizing foreign flows, and reforms to enable the private sector are key to stabilize the economy and break the potential depreciation-inflation spiral. Importantly, targeted social protection is crucial to shield the vulnerable.

Key conditions and challenges

Egypt continues to face a foreign exchange crisis, historically high inflation, and a sharp rise in borrowing costs. While triggered by overlapping global shocks, rising macroeconomic imbalances also reflect pre-existing domestic vulnerabilities and challenges, including the sluggish non-oil exports and FDI, constrained private sector activity and job creation, as well as the elevated and rising government debt, driven by budgetary and off-budget transactions.

The latest estimates (for 2019) show that the national poverty rate reached 29.7 percent. COVID19 and accelerating inflation in 2022 and 2023 are expected to have increased poverty rates substantially. Notwithstanding the recent downtick in the unemployment rate to 7.0 percent in Q4-FY23 (April—June 2023), the broader labor market indicators reflect structural challenges, as captured by the below-potential labor force participation and employment rates (at 43.0 percent and 40.0 percent of the working-age population). Furthermore, relatively low revenue mobilization (tax revenues at 12.4 percent of GDP in FY23) and the high and increasing debt service (interest payments at 7.6 percent of GDP in FY23) pose risks to fiscal sustainability and are limiting the space to advance human capital for the rapidly growing population which exceeds 105 million in FY23.

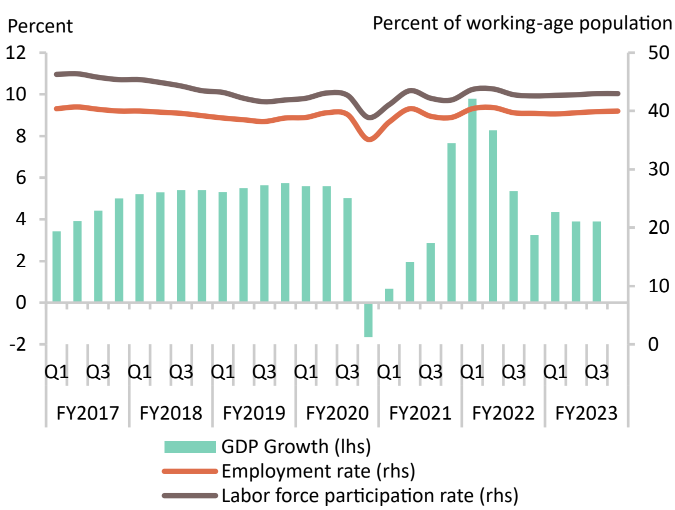
In response, the authorities undertook a series of policy adjustments since March 2022. These include raising policy rates by 1,100 basis points (to 19.25 percent and 20.25 percent for overnight deposit and lending transactions as of August 2023), allowing the exchange rate to depreciate by more than 97 percent (to LE30.8/US$), and introducing social mitigation packages (including the expansion of cash transfer programs). These adjustments were supported by the 46-month IMF Extended Fund Facility (EFF), approved in December 2022. However, the first EFF review is still pending. In addition, transformative measures to improve the business environment are yet to be implemented.

Recent developments

Economic activity has been adversely impacted by the overlapping global shocks. Growth declined to 4.2 percent during FY23 (July 2022—June 2023) from 6.6 percent a year earlier. Lingering de facto import restrictions continue to adversely impact economic activity, due to the difficulty of accessing inputs for production and exports (with backlogs in ports last reported at US$5.5 billion at end-May 2023 from US$3.9 billion two months earlier).

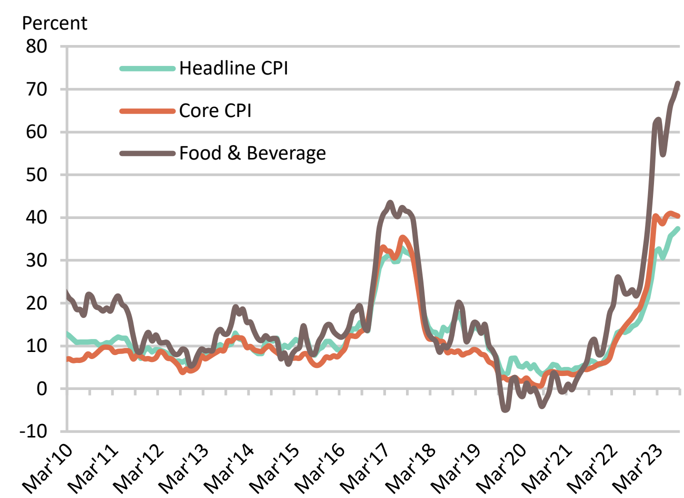
Annual urban inflation has been in the double-digits since March 2022, accelerating to an average of 24.1 percent in FY23 (37.4 percent, with food inflation at 71.7 percent in August 2023), exceeding the peak reached during the 2017 inflation episode. Cost-push factors have been the

FIGURE 1 Arab Republic of Egypt / Real GDP growth, employment and labor force participation rates



Sources: World Bank estimates based on Central Agency for Public Mobilization and Statistics (CAPMAS) and Ministry of Planning and Economic Development.

FIGURE 2 Arab Republic of Egypt / Annual inflation rates



Sources: Central Bank of Egypt (CBE) and CAPMAS.

predominant contributors to this recent inflation wave, but relatively loose domestic liquidity conditions (mainly driven by credit extended to the public sector) also indicate that excess demand remains another contributor to inflationary pressures. Official reserves (Tier 1 reserves) and other foreign currency assets (Tier 2 reserves) increased gradually over recent months, jointly reaching US$42.9 billion at end-August 2023. These, however, remain around US$12 billion (21 percent) below their level prior to March 2022. The Balance of Payments outturns indicate that improvements in the services balance (tourism and the Suez Canal), along with FDI have supported reserves. Authorities are also generating receipts from the sales of assets (at US$2.5 billion during 2023). Nevertheless, shortage of hard currency remains a challenge. This is evidenced by the banking system's deeply negative net foreign assets position [-LE812.4 billion (US$26.3 billion) at end-July 2023] which has been deteriorating even prior to the escalation of the global shocks.

Outlook

Growth is forecast to decline to 3.7 percent in FY24 (from 4.2 percent in FY23) as households' purchasing power and firms' activity are constrained by higher costs because of the depreciation, exchange and import restrictions, imported inflation, domestic supply bottlenecks, and costlier access to finance. The recent electricity cuts (caused by a combination of a downtick in natural gas production and increased consumption during the heat wave) may further contribute to lower economic activity. Going forward, growth is projected to gradually rise to 4.0 percent by FY25, benefitting from favorable base effects, and the contained imports growth associated with the depreciation, under a baseline scenario envisaging a resumption of macro stabilization and continued structural reforms.

The budget deficit is forecast to widen from 6.0 percent in FY23 to 7.1 percent in FY24, as subsidies and interest payments are driven up by the social mitigation measures and monetary tightening. The government debt-to-GDP ratio is also estimated to have increased from 88.3 percent at end-FY22 to 95.6 percent at end-FY23, and is projected to rise further to 96.9 percent by end-FY24, in large part driven by valuation effects of foreign currency-denominated debt (estimated at 27.8 percent of total debt at end-FY22), which is more than offsetting the negative real interest rates.

The current account deficit is forecast to decline in FY23-24 (from 3.5 percent of GDP in FY22) supported by continued improvements in services exports as well as compressed imports. The projected moderation, however, is expected to be partially counterbalanced by the still-elevated imports costs, downtick in remittances, and the pay down of import backlogs/suppliers' credit. The capital and financial account is expected to remain under pressure, with mitigation coming from international financing and sales of assets.

Risks to the outlook stem from a prolonged delay of macro stabilization and the potentially scarring effects of expanding untargeted subsidies and tax exemptions, in addition to the government debt maturity, its currency structure, as well as the financial interlinkages with extra-budgetary entities. High inflation, especially for food, remains a source of concern for poverty reduction efforts. This highlights the importance of upscaling targeted social protection. Pursuing tight fiscal and monetary policies, while addressing foreign exchange distortions and mobilizing international financing will be key to restoring macroeconomic stability. Strengthening the role of the State as a regulator, while streamlining its presence in the economy and enabling a more competitive private sector will be critical to unleash the economy's potential in higher value-added export-oriented activities.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	3.6	3.3	6.6	4.2	3.7	4.0
Private consumption	7.4	6.2	2.8	3.6	2.8	3.1
Government consumption	7.9	3.4	4.9	4.2	4.3	3.8
Gross fixed capital investment	-21.1	-3.2	18.5	-0.1	2.3	4.0
Exports, goods and services	-23.7	-13.9	57.4	35.0	25.0	16.0
Imports, goods and services	-18.7	0.5	24.3	20.0	16.5	11.0
Real GDP growth, at constant factor prices	2.5	2.0	6.2	3.9	3.6	3.9
Agriculture	3.4	3.8	4.0	4.5	3.5	3.3
Industry	0.6	-1.2	6.9	2.0	1.4	2.6
Services	3.6	3.7	6.2	5.0	5.0	4.8
Inflation (consumer price index)	5.7	4.5	8.5	24.1	26.7	15.9
Current account balance (% of GDP)	-2.9	-4.3	-3.5	-2.8	-2.8	-2.9
Net foreign direct investment inflow (% of GDP)	1.9	1.1	1.8	1.9	2.0	1.9
Fiscal balance (% of GDP)	-7.5	-7.1	-6.2	-6.0	-7.1	-7.0
Revenues (% of GDP)	15.9	16.6	17.2	15.4	16.0	16.2
Debt (% of GDP)	82.8	87.9	88.3	95.6	96.9	94.0
Primary balance (% of GDP)	1.7	1.4	1.3	1.6	2.0	2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.7	1.7	1.7	2.4	2.3	2.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	20.0	19.8	19.2	24.3	24.1	23.8
GHG emissions growth (mtCO2e)	1.3	-0.6	1.9	1.8	1.6	1.9
Energy related GHG emissions (% of total)	64.6	64.3	64.3	64.2	64.2	65.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2010-HIECS, 2015-HIECS, and 2019-HIECS. Actual data: 2019. Nowcast: 2020-2022. Forecasts: 2023-2025.
b/ Projection based on microsimulations for 2020 and 2023, for the other years it is using annualized elasticity (2010-2015) with pass-through = 0.02 based on GDP per capita in constant LCU.

IRAN, ISLAMIC REPUBLIC

Table 1	2022
Population, million	84.7
GDP, current US$ billion	413.5
GDP per capita, current US$	4881.9
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]	73.9
Total GHG emissions (mtCO2e)	947.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

Iran's economy is set to grow for a fourth consecutive year, buoyed by the oil sector. However, persistent high inflation and scarce job opportunities compound labor market challenges. Oil-driven growth is non-inclusive; an estimated 28.1 percent of Iranians are poor, and two fifths of households are vulnerable to falling into poverty. The economic outlook is projected to remain constrained by sanctions, adverse climate change impacts, electricity and gas shortages, and weakened global demand.

Key conditions and challenges

Despite maintaining sustained moderate growth in 2022/23 - the Iranian year starts on March 20 - the economy faces entrenched structural challenges. Sluggish and jobless long-term growth, low productivity, high inflation, and imbalances in the banking and pension systems persist. These challenges have compounded longstanding socio-economic grievances that have triggered recent protests. Ongoing economic sanctions and a dominant public sector hinder the full utilization of Iran's economic potential, including leveraging a highly educated young population, to further diversify the economy towards non-oil industries and services such as tourism.

High inflation and insufficient job creation disproportionately impact lower-income households. Years of high inflation have negatively impacted poor households and eroded the real value of social assistance transfers. With only around one-third of the population employed and limited job prospects, particularly for the young and female population, labor market challenges persist; this exacerbates inequalities and contributes to a high poverty rate. Inadequate job creation has driven many Iranians, particularly women, out of the job market, resulting in a lost window of opportunity for growth. The gradual aging of the population, a notable rate of emigration of the highly skilled workforce, and a declining birth rate not only weigh on growth prospects but also pose a challenge for an already struggling pension system.

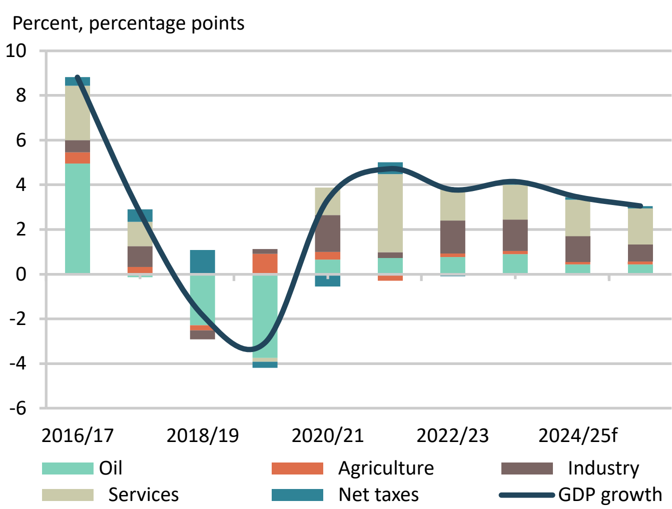
Urgent economic reforms are crucial to address critical structural issues. Priority reforms include restoring price and financial system stability, market-based lending, and minimizing unnecessary market interventions and price controls. Implementing a counter-cyclical fiscal policy would help curb budget deficits and promote investments in productive capacity, renewable energy, and economic diversification. Improved targeting of cash transfers will create fiscal space, while indexing the cash transfers for a targeted pool of eligible beneficiaries will help protect them from inflation.

Recent developments

Iran's economy maintained a moderate growth rate of 3.8 percent in 2022/23, driven by services and manufacturing. The oil industry also grew with tighter global oil markets. Private consumption served as the primary driver of GDP growth, while government consumption contracted in real terms to address the budget deficit. Both exports and imports expanded, and robust investment in machinery drove investment. Despite growing by 0.7 million year-on-year (Y-o-Y) in Q1-2023/24, employment still lags the economic expansion of the past three years.

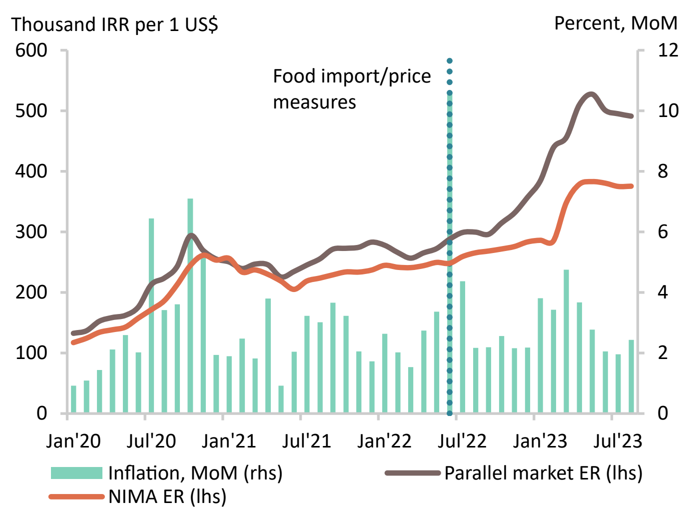
Elevated food prices and housing costs drove consumer price inflation

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



Sources: Central Bank of Iran (CBI) and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Improved inflationary expectations have eased price pressures



Sources: CBI, Statistical Center of Iran, and World Bank staff calculations.
Note: NIMA is the CBI-administered foreign exchange auction system that facilitates transactions between exporters and importers.

to 46.7 percent (Y-o-Y) in the first five months of 2023/24. However, lower inflation expectations and the stabilization of the exchange rate helped decelerate monthly inflation, following the continuation of nuclear talks and improved access to frozen funds abroad that helped partially ease exchange rate pressures.

The recent increase in oil exports is helping to mitigate the budget deficit and improve the current account. In 2022/23 and Q1-2023/24, the government budget was constrained by lower than budgeted oil revenues in response to which the government reprioritized expenditures. Since Q2-2023/24, oil exports have recorded their highest level since the reimposition of US sanctions in 2018/19. Despite rising imports, higher oil exports in 2022/23 drove a current account surplus (US$14.4 billion), offset by a net capital account deficit (US$14.6 billion), marking the seventh consecutive year of net capital outflows. Improved oil exports in the first half of 2023/24 are estimated to have maintained the overall trade surplus, despite a non-oil trade deficit.

Outlook

GDP growth is forecast to maintain a modest pace in the medium term. Higher projected oil production and export volumes are expected to offset lower oil prices as well as China's economic slowdown in 2023/24, and to drive an oil-based growth. Non-oil growth is projected to remain constrained by ongoing sanctions, energy shortages, liquidity constraints, underinvestment, and economic uncertainty. Inadequate agricultural production, worsened by droughts and water scarcity, disproportionally harms the poor, jeopardizes food security, and drives migration to cities, increasing rural-urban disparities.

Anticipated higher oil exports and partial access to frozen funds are expected to alleviate fiscal and external pressures. Government expenditures for 2023/24 to 2025/26 are projected to outpace revenues, leading to a fiscal deficit, albeit a smaller one as a share of GDP considering the higher projected oil revenues. While the government plans to cover most of the deficit through asset sales, this is projected to partially cover the funding gap, thereby keeping the inflationary pressures from the budget deficit financing in place. On the external front, the current account is expected to remain in surplus as higher crude oil exports are expected to offset the decline in oil prices as well as rising imports. Access to frozen funds would help alleviate exchange rate pressures and inflationary expectations. High inflation and limited job creation will continue to place pressure on household welfare and challenge poverty reduction.

The economic outlook is subject to heightened risks. Downside risks include further water and energy shortages, intensification of climate change shocks, and a re-escalation of social tensions. Further sanctions and stricter enforcement of restrictions may disrupt trade and fuel further inflationary expectations. A substantial sanctions relief or an interim agreement related to nuclear negotiations could significantly improve the economic outlook.

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

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	3.3	4.7	3.8	4.1	3.5	3.1
Private consumption	0.5	3.9	8.7	2.2	2.1	1.9
Government consumption	-0.9	8.3	-3.6	3.5	3.4	3.2
Gross fixed capital investment	3.2	0.0	6.6	5.9	5.5	5.4
Exports, goods and services	-12.8	5.2	8.2	15.4	7.9	5.6
Imports, goods and services	-29.7	24.1	7.5	8.7	4.1	3.0
Real GDP growth, at constant factor prices	4.1	4.4	4.0	4.1	3.5	3.1
Agriculture	3.2	-2.6	1.1	1.1	1.0	1.0
Industry	7.8	3.2	7.4	7.3	4.9	3.7
Services	2.2	6.5	2.7	2.9	3.0	3.0
Inflation (consumer price index)	47.1	46.2	46.5	42.6	35.8	32.3
Current account balance (% of GDP)	-0.3	3.1	3.5	4.8	3.5	2.7
Fiscal balance (% of GDP)	-5.8	-3.2	-1.9	-1.6	-2.1	-2.2
Revenues (% of GDP)	7.3	11.0	12.1	12.1	12.0	12.1
Gross Public Debt (% of GDP)	41.4	42.4	30.1	30.7	32.5	34.0
Primary balance (% of GDP)	-5.3	-2.7	-1.4	-1.3	-1.7	-1.9
GHG emissions growth (mtCO2e)	-2.4	5.7	2.7	2.8	2.4	2.2
Energy related GHG emissions (% of total)	66.2	67.6	67.5	67.4	67.2	66.9

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	2022
Population, million	44.5
GDP, current US$ billion	241.7
GDP per capita, current US$	5430.8
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]	70.4
Total GHG emissions (mtCO2e)	309.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2007); Life expectancy (2021).

The economy enjoyed an oil-driven recovery in 2022 but is projected to slow down significantly in 2023. GDP is contracting following oil market developments and the new OPEC+ production cuts. Lower oil exports and the sharp fiscal expansion are weighing on fiscal and external balances, and fiscal risks could reemerge without more reforms. Downside risks to the outlook include oil market volatility, climate change risks, and a return to instability.

Key conditions and challenges

Iraq's economy is showing signs of a slowdown as GDP growth continues to track the developments in the oil sector. GDP growth is decelerating, reflecting extended oil production cuts by OPEC+ and the ongoing halting of oil exports from the northern oil pipeline, following the international arbitration case with Türkiye. Lower oil export quantities will decrease oil revenues, weighing on the fiscal position and international reserves.

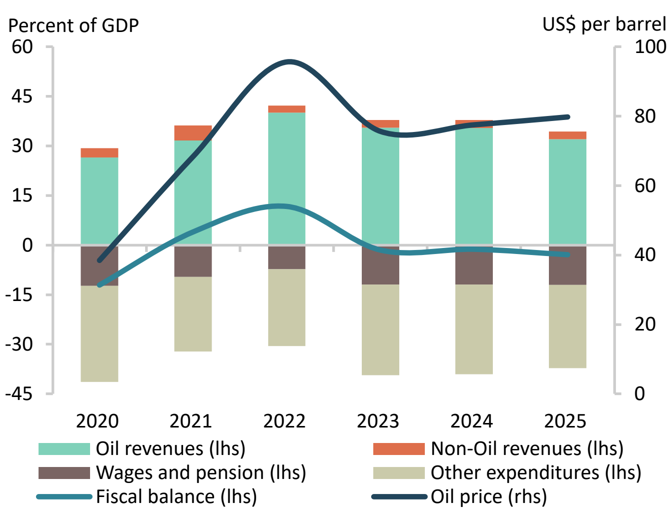
The approved budget law for 2023 to 2025 envisages a fiscal expansion that does not address structural vulnerabilities, at a time of weaker global growth and heightened oil market uncertainty. The budget, if fully implemented, will result in a large fiscal deficit, which would require a sizeable financing need and deplete the buffers accumulated during the previous year's oil windfall. The composition of the budget for 2023, notably the sharp increase in the wage bill, could have a long-term impact by further aggravating budget rigidities; this would then leave little fiscal space for growth-enhancing programs in human and physical capital.

Despite several reform efforts, Iraq's economic model remains oil-dependent and dominated by the public sector, negatively impacting growth prospects. Over-reliance on oil and the implicit social contract reduce incentives to diversify the economy and government revenues. Despite the vast oil wealth, public service delivery remains poor, due to poor public investment management, productive and allocative inefficiencies, and corruption. A large public sector (representing about 39% of total employment) and an unconducive business environment limit opportunities in the private sector which remains largely informal with low social status and low economic returns. Most of the poor and vulnerable Iraqis are employed in the informal sector. Climate change challenges, including extreme heat events, water scarcity and desertification, increase food insecurity and reliance on food imports, hamper economic activities, re-enforce rural-urban migration, and negatively impact physical and mental health. In the absence of economic reforms, these challenges are set to weigh on growth and increase pressures on the most vulnerable Iraqis and heighten social tensions.

Recent developments

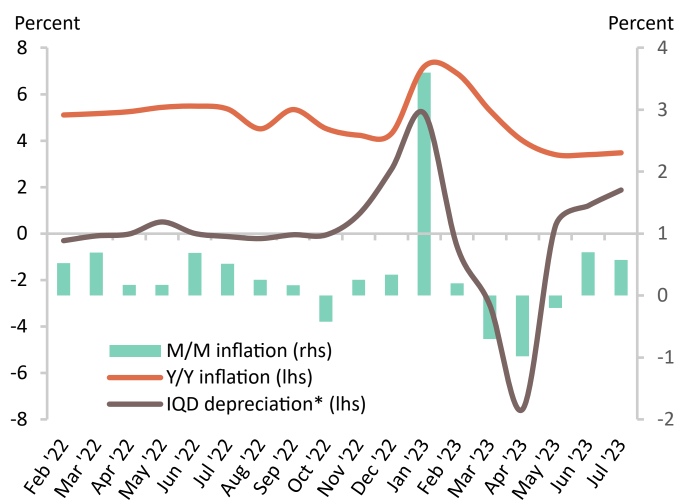
GDP growth is decelerating due to declining oil output. Following a rapid expansion in 2022, real GDP growth moderated to 2.6 percent year-on-year (y-o-y) in Q1-2023 as oil production was constrained by the extended OPEC+ production quota. Crude oil production was below Iraq's agreed quota between April and August 2023 in part due to halting of exports from the Kurdistan Region of Iraq. Non-oil GDP grew by 4.7 percent y-o-y in Q1-23 owing to a rebound in non-oil industries (particularly construction), supported by the CBI

FIGURE 1 Republic of Iraq / Fiscal account outlook



Sources: Iraq's Ministry of Finance, Ministry of Oil, and World Bank staff calculations.

FIGURE 2 Republic of Iraq / Consumer price inflation and parallel market pressures



Sources: Iraq's Central Statistical Organization, Central Bank of Iraq, media, and World Bank staff calculations. Note: *Positive values show dinar's depreciation against the dollar in the parallel market.

lending initiative, and agriculture due to a better rainfall season.

While inflation has eased since the FX-related spike in prices at the beginning of the year, pressures in the parallel market persist. Following the closer enforcement of due diligence measures in the CBI dollar auctions since November 2022, the re-channeling of demand to the parallel market drove a depreciation of the dinar and a surge in inflation to 7.0 percent y-o-y in January-February 2023. However, inflationary pressures have since started to moderate, supported by the CBI decision to revalue the dinar against the dollar by 10.3 percent in Feb 2023 and by moderating global commodity prices. Average headline and core inflation eased to 3.9 and 3.4 during March to July period y-o-y, respectively. However, pressures in the parallel exchange market remain elevated and the gap with the official rate was over 19 percent in mid-September 2023, reflecting continued FX demand in the parallel market.

Lower oil prices and export volumes have started to weigh on government finances and on the external account. Government revenues, heavily dependent on oil, declined by 28.2 percent y-o-y in the first half of 2023 (H1-2023). Expenditures declined by 2.4 percent due to the delay in ratification budget law 2023, which partly curbed the procyclicality of fiscal policy. As a result, the fiscal account recorded a surplus of 2.9 percent of GDP (cash basis), down from a surplus of 7.8 percent of GDP in H1-2022. On the external account, higher imports and lower exports almost halved the current account surplus to 5.7 percent of GDP in H1-2023. The accumulation of gross official reserves (excluding gold) started to decelerate in early 2023 and declined in July 2023 to US$95 billion from over US$101 billion in June.

Outlook

The economic outlook is expected to weaken due to less favorable oil market prospects. GDP growth is forecast to contract by 2.3 percent in 2023 as OPEC+ oil production cuts agreed in June 2023 will lead to lower production and exports from the Kurdistan Region remain constrained due to the oil pipeline dispute. Non-oil GDP is estimated to grow by 4.5 percent in 2023, assisted by the fiscal expansion in the second half of the year. For 2024-25, a gradual rebound in overall GDP growth is forecasted under the assumption that oil production will start to increase again from mid-2024, reaching its historical peak by end-2024 and gradually growing thereafter. The easing of global commodity prices, revaluation of the dinar, and continued price subsidies are projected to keep inflation in check. With the projected decline in oil prices and the expansionary fiscal policy stance, the fiscal balance is forecast to return to a deficit and the debt-to-GDP ratio increase. An expected influx of imports driven by the dinar revaluation and the significant increase in government expenditures will further weigh on the current account surplus, which at a projected average oil price of US$78.7/bbl from 2023 to 2025, is forecast to narrow in 2025.

Downside risks to the outlook stem from geopolitical developments, along with fluctuations in commodity prices and exacerbated vulnerabilities due to climate change. A potential resurgence in food prices, contingent on the evolution of Russia's invasion of Ukraine and the coming El Niño, could fuel inflationary pressures. Food price surges, coupled with intensified climate change shocks could amplify existing poverty trends and heighten food insecurity, which add to the existing public grievances and social tensions. The Iraqi economy's overreliance on oil leaves it susceptible to market volatility, global demand fluctuations, and heightened risks amid the global transition towards a decarbonized world.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-9.4	-2.1	7.0	-2.3	4.3	2.9
Private consumption	-5.5	2.6	3.5	7.7	4.5	4.0
Government consumption	-9.5	4.7	8.2	18.0	8.5	4.7
Gross fixed capital investment	-65.4	7.8	10.4	21.2	26.6	9.9
Exports, goods and services	-10.1	-13.3	16.4	-6.7	4.8	2.8
Imports, goods and services	-23.9	7.7	20.0	20.5	13.7	7.0
Real GDP growth, at constant factor prices	-12.0	1.6	7.0	-2.3	4.3	2.9
Agriculture	22.5	-20.6	-10.6	3.5	3.0	3.0
Industry	-16.4	-0.7	11.2	-5.6	4.7	2.9
Services	-5.8	9.8	1.2	3.8	3.5	2.8
Inflation (consumer price index)	0.6	6.0	5.0	4.8	4.0	3.8
Current Account Balance (% of GDP)[a]	-4.0	12.0	20.7	4.6	4.9	3.7
Net Foreign Direct Investment Inflow (% of GDP)[a]	-1.7	-1.3	-0.9	-0.8	-0.8	-0.8
Fiscal Balance (% of GDP)[a]	-12.1	4.0	11.7	-1.5	-1.2	-2.0
Revenues (% of GDP)	29.3	36.2	42.2	37.9	37.8	36.2
Debt (% of GDP)[a]	78.8	58.8	40.8	44.3	46.1	46.6
Primary Balance (% of GDP)[a]	-11.0	4.5	12.6	-0.9	-0.6	-1.5
GHG emissions growth (mtCO2e)	-9.7	-2.1	9.1	-3.9	3.7	1.9
Energy related GHG emissions (% of total)	43.0	42.6	43.3	43.1	43.6	43.8

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	2022
Population, million	11.3
GDP, current US$ billion	47.5
GDP per capita, current US$	4210.4
National poverty rate[a]	15.7
School enrollment, primary (% gross)[b]	80.0
Life expectancy at birth, years[b]	74.3
Total GHG emissions (mtCO2e)	37.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017/8).
b/ Most recent WDI value (2021).

Jordan has prudently navigated difficult times, showing resilience in the face of major external crises. However, key structural constraints remain firmly entrenched, notably those related to the labor market, the business environment, and fiscal sustainability. Additionally, Jordan is highly vulnerable to climate shocks, underscoring its need to address water, energy, and food security concerns. A reaffirmed commitment to reform implementation, progress monitoring and course adjustment when needed can help spur growth and improve the wellbeing of the Jordanian population.

Key conditions and challenges

Jordan's geopolitical role in the MENA region, its exposure to regional conflicts, and the associated spillover of refugees have historically made security and stability the foremost concerns of policymaking. The impact of these external shocks is compounded by domestic constraints, with the lack of structural transformation resulting in a low-growth equilibrium, persistent weak labor market outcomes, and a challenging business and socioeconomic context. In the face of crises, Jordan has adopted an accommodative but prudent monetary and fiscal policy mix focused on fiscal consolidation and maintaining the pegged exchange rate. Implementation of the new Economic Modernization Vision 2033 is essential to spur productivity and investment, address the job market woes, and improve the standard of living.

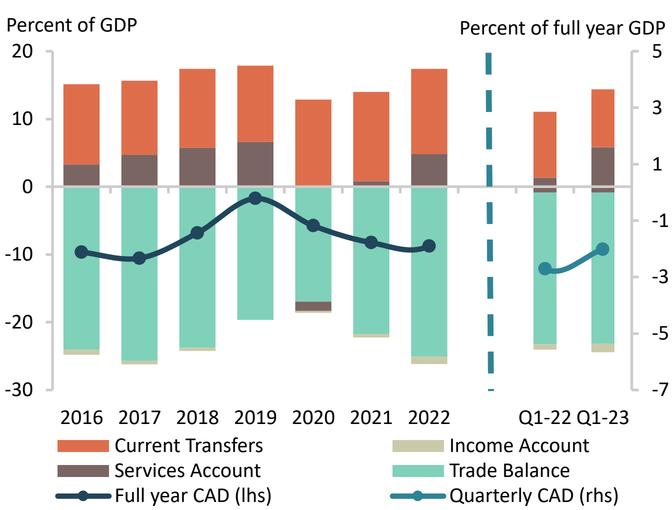
While no new official poverty rate has been released since 2018 it is likely that food price increases in 2022 have adversely affected the poorest and most vulnerable households. Further, recent cutbacks to humanitarian assistance for Syrian refugees are likely to have adverse welfare consequences, as these households are disproportionally likely to be poor and dependent on cash-assistance to supplement their livelihoods.

Risks from the global economy - including tighter financial conditions, a slowdown in trading partners' growth, continued geopolitical tensions and the associated impact on commodity prices – pose significant challenges for Jordan. Meanwhile, water and electricity sectors' financial sustainability remain a concern, and the country remains highly susceptible to extreme weather conditions, including rising temperatures and lower precipitation, which could aggravate water scarcity and food security risks.

Recent developments

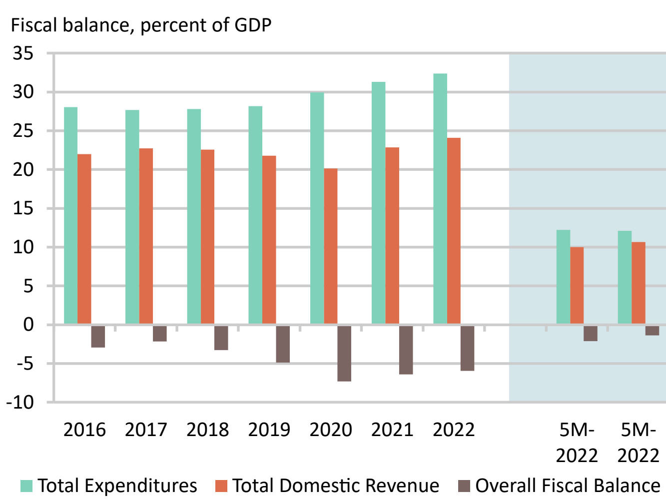
Growth reached 2.5 percent in 2022 and increased to 2.8 percent (y-o-y) during Q1-2023, yet labor market indicators remain weak. Growth was driven by services (transport and communications, finance and insurance, and wholesale and retail trade), a rebound in agriculture, and a robust contribution from manufacturing and mining. The restaurants and hotels sector grew by 5.6 percent in Q1, but its contribution to overall growth remains marginal (0.1 ppts) given its low weight in the economy (1.5 percent of GDP). Inflation decelerated to 2.5 percent on average in 8M-2023, reflecting the Central Bank of Jordan's monetary tightening and lower global commodity prices. Poor labor market indicators continue to constrain economic potential, with a low 33.3 percent labor force participation rate in Q1-2023 (13.7 percent for women). Unemployment has only slightly declined to 21.9 percent (from 22.8 percent in Q12022), with youth (46.1 percent) and women (30.7 percent) being the most affected.

FIGURE 1 Jordan / External accounts are boosted by travel receipts, but the trade balance remains largely in deficit



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

FIGURE 2 Jordan / Fiscal performance benefited from higher revenue and phasing out of fuel subsidies



Sources: Ministry of Finance and World Bank staff calculations.

The Central Government fiscal deficit reached 5.8 percent in 2022, supported by revenue-enhancing reforms, while total expenditure grew at a slower pace. It continued to improve in H1-2023, narrowing by 0.5 percent of GDP compared to H1-2022, and showing a primary surplus of 0.4 percent for the first time since 2017. This was driven by an increase in revenue and lower subsidy spending in H1-2023. Capital expenditures witnessed a marked increase of 0.4 ppts of GDP. Government and guaranteed debt reached JD39.7 billion in June, compared to JD38.49 billion (114.2 percent of GDP) at end-2022, or 91.0 percent net of SSIF holdings (i.e., general government coverage).

The BOP registered a deficit of 1.6 percent of GDP in 2022, compared to a 5.3 percent surplus in 2021, impacted by the large increase in the current account deficit. The CAD reached 8.7 percent of GDP in 2022, but improved in Q1-2023 (down to 2.0 percent of GDP, from 2.7 percent), helped by a marked pickup in travel receipts. The trade deficit narrowed during H1-2023, mainly driven by a 4.8 percent contraction in imports. With the decline in FDI (from 0.8 percent of GDP to 0.5 percent in Q1) and other investments (from 1.3 percent of GDP to 0.9 percent), the BOP registered a deficit of 1.5 percent of GDP compared to 0.4 percent of GDP in Q1-2022.

Outlook

Growth is expected to inch up to 2.6 percent in 2023, supported by a strong contribution from services. Without a strong reform momentum, growth is expected to settle at around 2.5 percent starting 2024, as base effects from post-pandemic recovery fade away. Headline inflation is anticipated to be contained at 2.4 percent in 2023, supported by favorable base effects, lower imported commodity prices, and muted core inflation.

While the recovery of tourism and other services is expected to support wage incomes, large socioeconomic vulnerabilities persist. Limited private sector job creation, segmented labor markets, high informality, and low labor productivity continue to suppress households' real income growth. Moreover, cuts in cash transfers to refugees due to declining foreign assistance are likely to have an adverse impact on poverty, food security, and indebtedness levels.

Fiscal consolidation is expected to continue in 2023, supported by the decline in subsidies and the growing domestic revenues. Together with the containment of public wage bill growth, this will offset the impact of higher interest payments and capital expenditures. Nevertheless, fiscal pressures from the water and electricity sectors are expected to increase public debt to 116.0 percent of GDP (equivalent to 91.1 percent of GDP after excluding SSIF holdings) at end-2023.

On the external front, the CAD is expected to narrow to 7.6 percent of GDP in 2023, driven by an improved trade balance partly due to lower commodity prices and increased tourism receipts. These will more than offset the impact of lower grants, the slowdown of remittances growth, and higher primary income payments.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-1.6	2.2	2.5	2.6	2.5	2.5
Real GDP growth, at constant factor prices	-1.3	2.2	2.5	2.7	2.5	2.5
Agriculture	1.3	2.8	3.3	3.7	2.4	2.4
Industry	-2.1	3.1	3.3	3.1	2.2	1.5
Services	-1.2	1.8	2.2	2.4	2.7	3.0
Inflation (consumer price index)	0.3	1.3	4.2	2.4	2.4	2.4
Current account balance (% of GDP)	-5.7	-8.2	-8.7	-7.6	-5.9	-5.1
Net foreign direct investment inflow (% of GDP)	1.7	1.3	2.4	2.2	2.4	2.8
Fiscal Balance (% of GDP)[a]	-7.1	-6.4	-5.8	-5.1	-5.0	-4.8
Revenues (% of GDP)	22.7	25.4	26.5	26.6	26.7	26.8
Debt (% of GDP)[b]	106.8	111.7	114.2	116.0	117.1	118.2
Debt, net of SSIF (% of GDP)[b]	87.0	89.8	91.0	91.1	90.8	90.3
Primary Balance (% of GDP)[a]	-3.1	-2.0	-1.6	-0.6	-0.1	0.2
GHG emissions growth (mtCO2e)	-3.7	3.2	3.3	3.1	2.4	2.8
Energy related GHG emissions (% of total)	62.4	62.1	61.3	60.9	60.7	60.4

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 and adjustment on receivables and payables (use of cash) as per IMF Country Report No. 23/49.
b/ Government and guaranteed gross debt. Includes securitization of domestic arrears in 2019-21.

KUWAIT

Table 1	2022
Population, million	4.3
GDP, current US$ billion	168.7
GDP per capita, current US$	39527.0
School enrollment, primary (% gross)[a]	82.6
Life expectancy at birth, years[a]	78.7
Total GHG emissions (mtCO2e)	155.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Kuwait's economy is expected to slow down sharply in 2023, after performing strongly in 2022, and stabilize over the medium term. The projected economic slowdown is driven by the sluggish global economic activity and OPEC+ cautious production schedule. Lower energy prices and fiscal expansion will narrow fiscal balance. Fiscal support measures, tight monetary policy, and falling import prices will keep inflation subdued. Key downside risks to the outlook include global uncertainty, oil price volatility, and continued political deadlock over key reforms.

Key conditions and challenges

Kuwait's long-term economic challenges are linked to its heavy oil dependence, domestic consumption as a main growth driver, and a slow pace in diversification and structural reforms. Meanwhile, the nation's economic resilience is anchored by significant foreign assets in its sovereign wealth fund (KIA), ranking among the world's largest. Nevertheless, these assets cannot shield against the potential decline in future oil demand. Addressing this risk requires comprehensive fiscal and structural reforms. Resolving political deadlock between Parliament and government, coupled with ensuring governance stability may expedite economic diversification and timely reform implementation. Anticipated robust oil prices over the medium-term could still play a key role in financing economic transition and foster sustainable, inclusive, and green growth.

Key risks include oil production and oil price volatility, global economic slowdown, monetary tightening, geopolitical uncertainty, and climate change. Delays in fiscal and structural reforms, along with slow progress towards diversifying the economy, could slow up growth in both the oil and non-oil sectors and significantly affect fiscal and external balances. Direct adverse economic spillovers from the Russian invasion of Ukraine have been contained in Kuwait due to limited financial linkages and trade flows between the two countries.

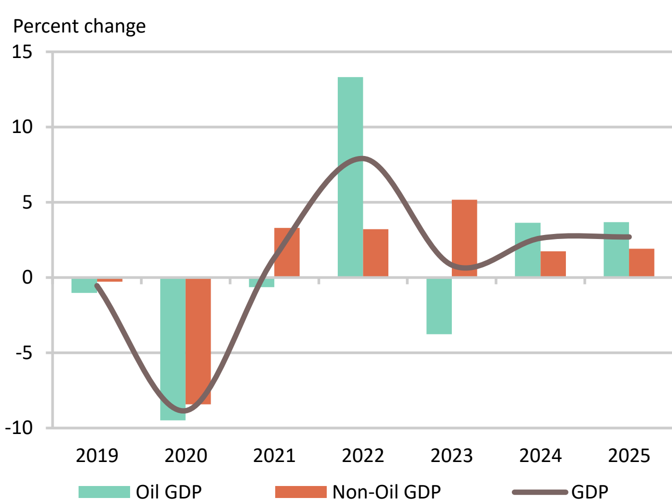
Recent developments

After strong economic performance of 7.9 percent in 2022, driven by robust oil sector performance (13.3 percent), Kuwait's economic growth declined sharply. During H1-2023, economic growth slowed mainly due OPEC+'s agreement of cutting production quotas, higher interest rates, and global uncertainties. In June 2023, oil sector output declined to its lowest level in the past 18 months. Non-oil sector sustained its growth during H1-2023 supported by domestic and external demand, elevated oil prices, high government spending, and restoration of pandemic-disrupted projects. Although private sector credit experienced the fastest growth in 7 years at 7.7 percent during 2022, credit growth for households and businesses slowed in H1-2023 to reflect rising borrowing costs. To resolve the chronic housing problem, the government introduced measures that include a four-year action plan for lot distribution and building permits.

Monetary policy tightening, along with generous government subsidies on food and energy, eased inflationary pressures during 2023, reaching 3.8 percent during Q2-2023.

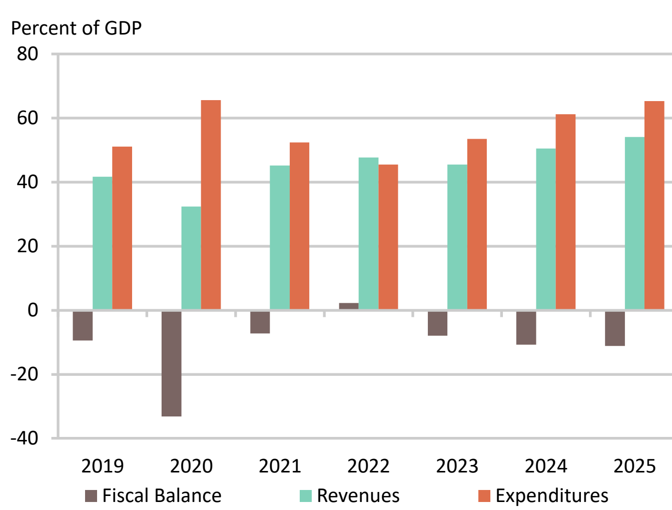
In 2022, supported by robust oil production and prices, the fiscal balance registered a surplus of 2.2 percent of GDP. However, the FY23/24 budget, approved

FIGURE 1 Kuwait / Annual real GDP growth



Sources: Kuwait CSB, IMF WEO, and World Bank staff estimates.

FIGURE 2 Kuwait / Public finance



Sources: World Bank, MTI Global Practice, and IMF WEO.
Notes: Based on the fiscal year cycle (April to March 31). Fiscal balances exclude investment income and FGF transfers.

by Parliament in August 2023 based on an oil price assumption of US$70 per barrel and 2.68 million barrels per day production, projects KWD 6.8 billion deficit. Expenditure increase is due to past one-off arrears settlement and higher wage and social security allocations, is partially offset by the new "income generated by GREs" revenue item. To improve fiscal sustainability, the government renewed Vision 2035 objectives, revealing a medium-term strategy in 2023, and pursued enhanced public financial management measures.

The banking system remain well capitalized and liquid. Overall financial stability is maintained as nonperforming loans remain low (1.6 percent in Q2-2023) while credit growth continues to be strong despite early signs of slowing down. Following global monetary tightening, the Central Bank of Kuwait raised policy rates multiple times, reaching 4.25 percent in July 2023, with official reserve assets continuing to stay at their comfortable levels. The current account surplus, which registered 26.3 percent of GDP in 2022, narrowed during H1-2023 at the back of softening oil receipts and easing global demand.

Kuwait's labor market continues to recover from the impact of the pandemic, although many indicators have not yet rebounded to their pre-pandemic levels. The labor force participation rate was projected to increase slightly to 71.7 percent in 2023 (ILO) but remains about 1.3 percentage points lower than in 2019. The employment-to-population ratio in 2023 was also expected to increase slightly to 69.9 percent overall and to 45 percent among females, remaining about 1.6 and 0.7 percentage points lower than in 2019, respectively. Unemployment rates were projected to remain relatively steady in 2023 at 1.2 percent among men and 6.4 percent among women, still higher than the 2019 rates by 0.2 and 0.6 percentage points, respectively. Unemployment has been especially high among young women (aged 15-24), estimated at 29.4 percent for 2023.

Outlook

Economic growth is projected to decelerate sharply to 0.8 percent in 2023 due to a decrease in oil output, monetary tightening, and sluggish global economic activity. Following tighter OPEC+ production quotas and reduced global demand, oil GDP growth is expected to decline by 3.8 percent in 2023 but is anticipated to recover in 2024 as production quotas are relaxed—supported by higher activity from the Al Zour refinery. Considering recent developments, it is anticipated that political uncertainties will persist, potentially delaying the rollout of new infrastructure projects and further advancement of the reform agenda. Non-oil sector is projected to grow by 5.2 percent supported by private consumption and loose fiscal policy. High subsidies, tighter monetary policy, and declining global commodity prices will keep inflation contained at 3.3 and 2.4 percent in 2023 and 2024, respectively. Monetary policy is expected to maintain a close alignment with the US Federal Reserve, considering the predominant role of the US dollar in the Kuwaiti Dinar's pegged basket. Concurrently, domestic credit growth is projected to moderate reflecting the higher costs of borrowing.

In 2023, lower oil revenue and loose fiscal policy will result in a fiscal deficit of 8 percent of GDP (excluding investment income and FGF transfers). This trend is likely to persist in the medium term given the ongoing expansionary fiscal policy. The implementation of the economic diversification program, alongside the introduction of VAT, in line with other GCC countries, and timely fiscal consolidation measures, could help diversify revenues and strengthen fiscal sustainability. Lower oil revenues and import prices are anticipated to narrow current account surplus in 2023 and in the medium term.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-8.9	1.3	7.9	0.8	2.6	2.7
Private consumption	-4.5	3.2	4.8	2.7	2.5	2.3
Government consumption	0.0	1.1	2.0	2.2	2.6	2.3
Gross fixed capital investment	-4.6	3.9	4.4	2.1	2.5	2.9
Exports, goods and services	-13.3	2.2	12.0	0.8	2.8	3.1
Imports, goods and services	-4.0	5.7	5.3	4.1	2.7	2.9
Real GDP growth, at constant factor prices	-8.9	1.4	7.9	0.8	2.6	2.7
Agriculture	-3.8	0.5	1.1	0.8	1.3	1.3
Industry	-12.2	2.2	8.3	1.3	3.3	3.3
Services	-4.2	0.4	7.3	0.1	1.6	1.9
Inflation (consumer price index)	2.1	3.4	4.3	3.3	2.4	2.1
Current account balance (% of GDP)	3.2	16.0	26.3	23.1	19.1	15.2
Fiscal Balance (% of GDP)[a]	-33.2	-7.3	2.2	-8.0	-10.7	-11.2
GHG emissions growth (mtCO2e)	5.0	0.0	8.2	3.4	4.8	6.4
Energy related GHG emissions (% of total)	65.7	64.8	64.2	62.0	60.1	58.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Based on fiscal year cycle (April to March 31). Fiscal balances exclude investment income and FGF transfers.

LEBANON

Table 1	2022
Population, million	5.5
GDP, current US$ billion	21.0
GDP per capita, current US$	3823.9
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	75.0
Total GHG emissions (mtCO2e)	24.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011).
b/ Most recent WDI value (2021).

Eleven months into a Presidential vacuum and with a caretaker government and acting central bank governor in place, progress towards a comprehensive crisis resolution plan has been limited. The contraction in real GDP in 2022 is estimated to have narrowed to 0.6 percent amid signs of stabilization in private sector activity and better-than-expected real activity indicators. Triple digit inflation and currency depreciation show no sign of abating, inducing a pervasive and growing dollarized cash-based economy. Inflation averaged 171.2 percent in 2022 and is projected to reach about 231 percent in 2023. Subject to uncertainty, real GDP is projected to exhibit a tepid growth of 0.2 percent in 2023.

Key conditions and challenges

Lebanon's protracted crisis will likely have a long-lasting effect on potential growth. The scale and scope of the financial crisis is reducing Lebanon's potential for growth as the country's physical, human, social, and institutional capital are being rapidly, and potentially, irreparably depleted. A highly polarized political landscape, a caretaker government with restricted executive powers, an interim central bank governor (the first deputy governor of the Central Bank) in the absence of a successor to the former Central Bank governor following the end of his 30-year tenure, and limited legislative action by parliament have all markedly slowed the progress needed for a comprehensive crisis resolution plan.

Foreign currency reserves at the central bank are steadily depleting. The insolvency of the banking sector and its inability to extend credit have rendered the Banque du Liban (BdL) the main financier of external and fiscal deficits in the past four years. Usable gross foreign exchange reserves at BdL currently stand at US$8,573 mln and have declined by US$22.4 bn since the onset of the crisis in October 2019. Lebanon has also relied on limited external financing and the 2021 IMF SDR allocation to finance critical imports such as medicine and wheat.

Lebanon topped the list of countries that are hardest hit by nominal food price inflation in the first quarter of 2023. Nominal food price inflation stood at 350 percent over the period of January to April 2023. Soaring food prices following the Russian invasion of Ukraine are forcing households to adopt extreme livelihood coping measures and exacerbating the precarity of the conditions among the poorest and most vulnerable segments of society.

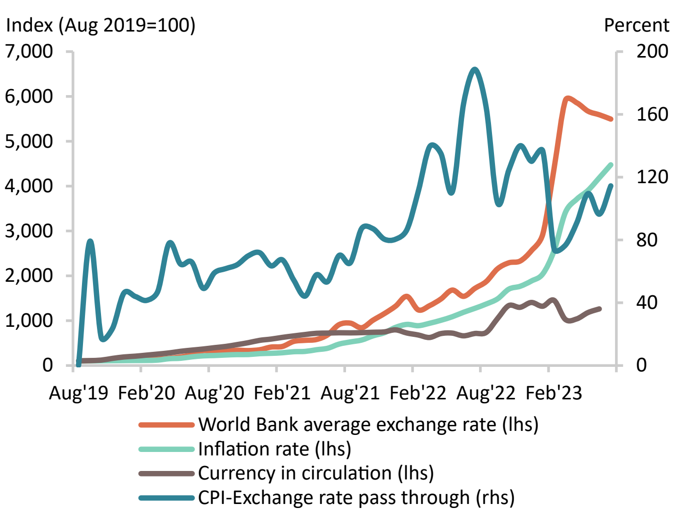
Preliminary data from the 2022-2023 Lebanon Household Survey (LHS) suggests that poverty continues to rise and household living conditions continue to deteriorate. The LHS is ongoing, with over 5,200 households interviewed to date. Around three out of every five households considered themselves to be poor or very poor. Households that do not receive any form of private remittances are even more likely to feel impoverished.

Recent developments

Real GDP contraction is estimated to have narrowed to 0.6 percent in 2022 (up from a previous estimate of 2.6 percent owing to better-than-expected recent high frequency indicators data). Tourism receipts and remittances, which form a de facto safety net, supported domestic consumption in 2022. The growth in consumption coupled with signs of stabilization in private sector activity are the main drivers of the narrowing contraction in economic activity.

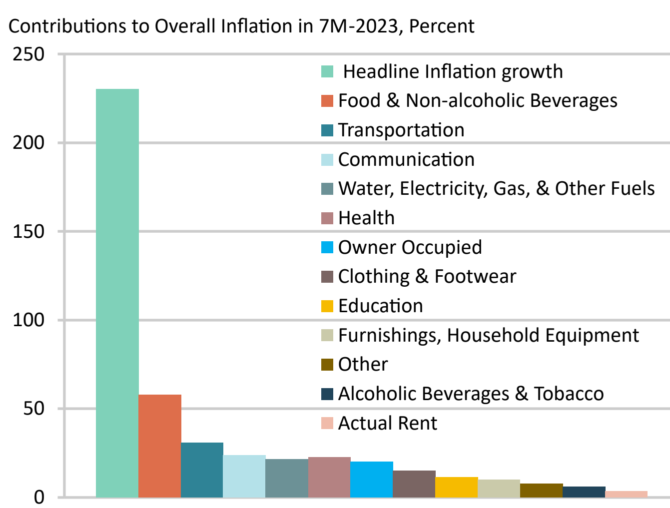
The fiscal deficit stood at 2.9 percent of GDP in 2022. Revenues are estimated to have declined from an already low

FIGURE 1 Lebanon / Exchange rate depreciation drives the surge in 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.

13.1 percent of GDP in 2020 to 6.1 percent of GDP in 2022, one of the lowest rates globally. Revenues were more than offset by an increase in total expenditures (including off-budget spending) that is driven by a slight increase in personnel costs owing to the social assistance schemes for public sector employees, transfers to Électricité du Liban, and other current expenditures, including the wheat subsidy. The new interim governor of the Central Bank has also announced that the Central Bank will no longer finance the fiscal deficit in the absence of a legal framework. If implemented, the halt of BDL financing of the fiscal deficit, along with the implementation of planned revenue mobilization measures (correcting the mis-valuation in the exchange rate for customs and taxes) are likely to narrow the overall fiscal and primary deficits in 2023.

The pace of the exchange rate depreciation has moderated due to BdL's foreign exchange rate interventions coupled with an increase in foreign exchange inflows from tourism services and remittances. The exchange rate has now stabilized at around 90,000 LBP/US$ since July 2023, however, the currency lost more than 98.3 percent of its pre-crisis value by July 2023. The depletion in gross foreign currency reserves implies that the scope for further foreign exchange intervention by BdL is limited and that any exchange rate stability may be short-lived.

Inflationary pressures have not abated, averaging 171.2 percent in 2022, one of the highest rates globally, primarily due to the depreciation of the LBP. Year-on-year inflation stood at 251.5 percent in July 2023 with food and alcoholic beverages as the largest contributor to headline inflation in 7M-2023.

The current account deficit is estimated to have reached a staggering 32.7 percent of GDP on the back of higher imports and falling exports. Imports reached pre-crisis levels in 2022, at a record US$19 billion, growing by close to 40 percent in 2022 (y-o-y). The current account deficit continues to be financed, for the most part, by the remaining usable gross reserves of BdL and a pervasive cash-based economy. The quality of BoP data in Lebanon remains historically weak. Nonetheless, the current account deficit is expected to narrow in 2023, owing to an anticipated decrease in imports of goods and services, and the planned halt of BDLs financing of the fiscal deficit, which is expected to reduce the drain on the balance of payments and BdL's remaining gross reserves.

Outlook

Subject to extraordinarily high uncertainty and assuming a continuation of political paralysis in 2023, real GDP is projected, for the first time in 5 years, to expand with a tepid growth of 0.2 percent in 2023. Growth in consumption supported by tourism, remittances and a stabilization in private sector activity will underpin modest growth in 2023. Inflation, however, is expected to remain in triple digits, accelerating to 231.3 percent in 2023.

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

	2020	2021	2022	2023e
Real GDP growth, at constant market prices	-21.4	-7.0	-0.6	0.2
Private consumption	-14.0	2.1	2.3	0.3
Government consumption	-53.7	-76.0	34.9	-19.3
Gross fixed capital investment	-53.0	-67.6	-88.6	-59.4
Exports, goods and services	-53.7	13.1	0.3	4.1
Imports, goods and services	-46.0	-12.2	3.5	-0.3
Real GDP growth, at constant factor prices	-15.9	-5.3	-0.6	0.2
Agriculture	0.6	-7.1	-0.8	0.2
Industry	-6.5	-6.9	-0.6	0.2
Services	-18.3	-4.9	-0.6	0.2
Inflation (consumer price index)	84.3	150.0	171.2	231.3
Current account balance (% of GDP)	-9.3	-12.5	-32.7	-12.8
Net foreign direct investment inflow (% of GDP)	4.1	2.1	7.6	2.6
Fiscal balance (% of GDP)	-3.3	1.0	-2.9	-1.3
Revenues (% of GDP)	13.1	7.5	6.1	8.8
Debt (% of GDP)	179.2	172.5	179.7	181.3
Primary balance (% of GDP)	-0.8	1.9	-2.1	-0.3
GHG emissions growth (mtCO2e)	-19.4	-7.1	-8.2	-3.3
Energy related GHG emissions (% of total)	72.4	74.3	73.7	73.3

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	2022
Population, million	6.8
GDP, current US$ billion	45.8
GDP per capita, current US$	6725.0
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	71.9
Total GHG emissions (mtCO2e)	123.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2006); Life expectancy (2021).

Although high oil prices have provided an economic relief; conflict and political divisions continue to negatively affect Libya's economy and society. Libya's key socio-economic challenges are economic diversification, inclusion, improved wealth sharing, and addressing the underpinning factors of the country's fragility and fragmentation. The recent floods that devastated cities and communities in the Green Mountain area of the country threaten to accentuate these challenges and call for a strong response from Libyan institutions and their international partners.

Key conditions and challenges

The security situation has improved but remains uncertain, with sporadic, and in part strong clashes, between armed groups in various regions, including Tripoli in August 2023. The formation of the Government of National Unity (GNU) in 2021 was seen as a step towards political resolution. However, the absence of national elections and the creation of the competing Government of National Stability (GNS) in 2022, accentuated divisions. UN-mediated efforts to reach political consensus on an electoral roadmap have yet to yield the desired results.

Libya faces significant structural economic challenges that extend beyond its current political situation. The Libyan economy is dominated by the oil sector and undiversified. The private sector remains underdeveloped - accounting for only 4 to 15 percent of GDP - and employing just 15 percent of the workforce. The IMF concluded article IV in June 2023, thereby resuming its engagement on macroeconomic and structural policies after ten years of interruption.

Social conditions have deteriorated due to high unemployment, regional income disparities, and poor basic infrastructure and services. The unemployment rate has risen steadily since 2012 to 20.5 percent in 2023, according to modeled estimates, with higher rates among women (26.7 percent vs. 17 percent men) and youth (51 percent). About 4 percent of the population needed humanitarian assistance before the devastating floods of September 10, 2023.

Recent developments

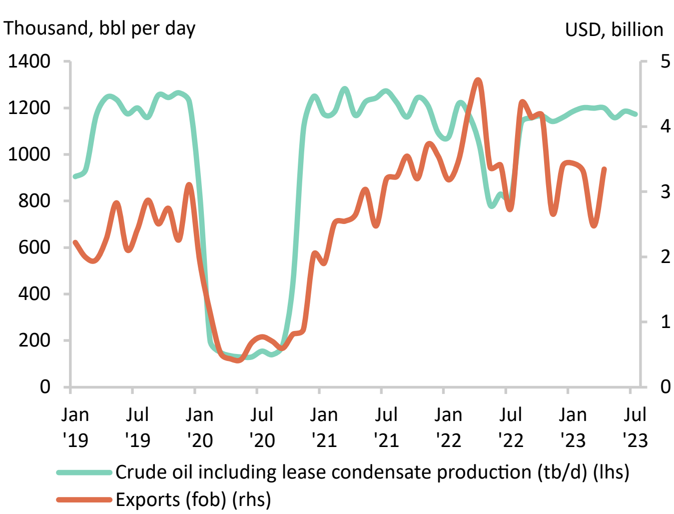
During the first semester 2023, oil production increased by 12 percent on an annual basis to 1.19 million bpd but remained below the 2010 level (1.71 million bpd). Following the authorities' call, three large oil companies which had suspended their activities due to security reasons resumed production in August 2023.

Libya's trade surplus during the initial four months of 2023 has contracted by 40.3 percent in nominal terms compared to the same period in 2022. This is due to lower international oil prices, which led to a 20 percent reduction in export revenues. On the other hand, imports grew by 6.4 percent driven by the recovery of domestic demand.

The CBL announced the institutional reunification of all branches in August 2023. The CBL branch in the eastern part of the country has been operating independently since 2014, providing financing to the administration in the East. However, only the CBL branch in Tripoli could provide letters of credit throughout this period.

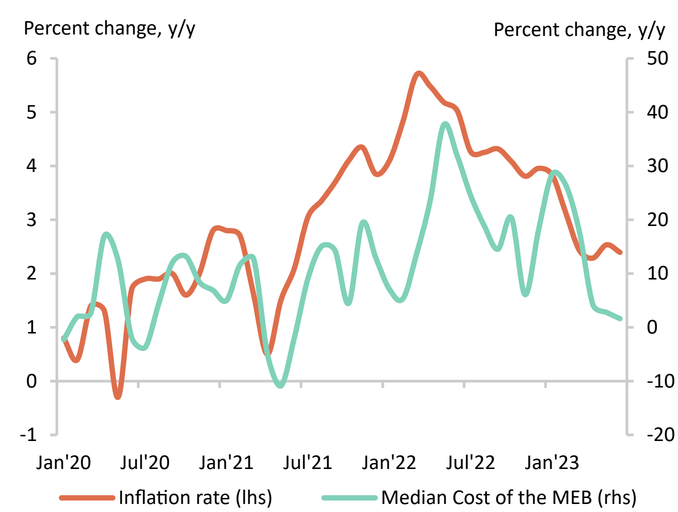
Inflation decelerated from the peak of 5.7 percent in March 2022 to 2.4 percent in June 2023 thanks to the stabilization of international food prices and the exchange rate. The gap between the black market and official rates narrowed to only

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 / The median cost of minimum expenditure basket (MEB) and official inflation rate in the region of Tripoli



Sources: Central Bank of Libya, REACH, and World Bank staff calculations.

7 percent compared to 325 percent before the devaluation of the dinar in 2021.

The fiscal surplus of the GNU stood at 3.7 percent of GDP during the first eight months of 2023 compared to 9.6 percent of GDP during the same period in 2022. Lower capital spending (-18 percent) limited the impact of the 54 percent increase in public wages. Low public investment is a key challenge for the reconstruction and maintenance of public infrastructure and services. While the House of Representatives approved a budget to benefit the Benghazi-based GNS in September 2023, the implementation process is unclear since the GNS does not have access to the government accounts at the CBL.

In the night from September 10 to September 11, 2023, two dams in the eastern part of Libya collapsed after a severe storm. This released millions of cubic meters of water downstream causing extensive flooding, with the city of Derna being most severely affected. The UN estimates that as of September 20, up to 3,958 people have died and 9,000 persons are missing; other sources estimate casualties as high as 20.000. Derna is one of the poorest regions in Libya highlighting the risks of increased poverty and vulnerability.

Outlook

Assuming that the relative stability is maintained in 2023, growth is projected to rebound to 14.1 percent as strong hydrocarbon production pulls industrial activity (+11.3 percent). On the demand side, growth is driven by an increase in government wages that stimulate services growth (+18.7 percent).

In the short- and medium-term, the stabilization of oil production, still high oil prices, and possible reunification of the CBL are expected to boost growth. The economy is expected to grow at a steady pace of 4.7 percent in 2024 and 4.8 percent in 2025.

Inflation is projected to continue to moderate thanks to a stable exchange rate and less volatile global commodity prices.

The fiscal surplus in 2023 is estimated to reach 14.4 percent of GDP assuming that the revenue and spending dynamics in the first half of the year are maintained. Over 2024-2025, the fiscal surplus is projected to decline in line with oil prices and the possible increase of public investment.

The current account surplus is projected to decline from 21 percent of GDP in 2022 to 7.8 and 3.9 percent of GDP in 2023 and 2024 due to lower oil prices and strong imports driven by rebounding public investment.

This outlook is subject to substantial uncertainty and downside risks. On the security front, recent clashes in Tripoli underscore the fragility of the situation. Further heightening the landscape of risks is the potential deceleration of the Chinese economy, which carries with it consequential ramifications for the global oil market.

These projections do not take account of the impacts of the recent Derna flooding. Given preliminary information, the catastrophe is expected to have significant socio-economic implications. It caused extensive damage to infrastructure, impacting the supply of essential goods and services, and potentially leading to increased diseases and food insecurity. However, hydrocarbon production was not affected as oil fields are far from the affected areas and exporting ports reopened after a brief closure. Although the agricultural sector, accounts for a small part of the GDP, the loss of arable land and water resources is expected to affect the local population, and potentially migrants, and refugees. The government quickly announced an allocation of LYD 2 billion for reconstruction and an emergency cash transfer program is under consideration.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-29.8	31.4	-1.2	14.1	4.1	4.3
Real GDP growth, at constant factor prices	-29.8	31.4	-1.2	14.1	4.7	4.8
Agriculture	-30.1	31.4	10.0	6.8	5.9	6.7
Industry	-34.6	45.0	-9.9	11.3	0.6	0.6
Services	-21.1	11.1	15.0	18.7	10.5	10.2
Inflation (consumer price index)	1.4	2.8	4.6	2.4	2.4	2.4
Current account balance (% of GDP)	-9.8	13.9	21.0	7.8	3.6	3.9
Fiscal balance (% of GDP)	-35.2	11.0	2.5	14.4	7.2	-1.5
Revenues (% of GDP)	35.4	58.8	59.0	43.9	40.7	37.4
Debt (% of GDP)	238.2	87.0	70.4	54.7	51.2	55.0
Primary balance (% of GDP)	-35.2	11.0	2.5	14.4	7.2	-1.5
GHG emissions growth (mtCO2e)	-11.0	14.4	-4.2	0.8	2.6	2.4
Energy related GHG emissions (% of total)	28.0	36.0	31.8	31.2	32.4	33.3

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

MOROCCO

Table 1	2022
Population, million	37.5
GDP, current US$ billion	130.9
GDP per capita, current US$	3494.9
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]	113.4
Life expectancy at birth, years[b]	74.0
Total GHG emissions (mtCO2e)	96.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014).
b/ Most recent WDI value (2021).

Economic activity is recovering as recent shocks dissipate. Growth is projected to accelerate further in 2024 as inflation declines and domestic demand recovers. Preliminary information suggests that despite the dramatic consequences of the September 8th earthquake on the lives and livelihoods of the affected population, its macroeconomic effects are unlikely to be major if impacts on tourism are temporary. Moroccan households continue to face high food inflation, rural employment has not fully recovered from the drought, and confidence levels are low.

Key conditions and challenges

Morocco´s external resiliency has been relatively strong in the face of multiple global disturbances such as the COVID-19 pandemic and the war in Ukraine. The country has sustained a stable currency, reinforced its external liquidity buffers, maintained good access to international financial markets, and continued to attract large volumes of FDI. It has also had remarkable success in tradeable sectors, including the rapid growth of its automotive industry, the consolidation of the Tangier port as a leading logistical hub, or the transformation of the phosphate sector into a major provider of fertilizers for Africa.

And yet, the performance of the Moroccan economy has been undermined by structural weaknesses. GDP growth has been volatile and followed an overall declining trend, aggravated by the increasing frequency of severe droughts. Private investment has yet to return to pre-pandemic levels, and the public sector remains the dominant investor in the economy. The recent earthquake highlights the persistence of pockets of poverty and exclusion, partly fueled by a labor market that is not creating enough jobs for women and the youth. The government is engaged in an ambitious reform program to address some of these challenges. It aims at reinforcing human capital by universalizing access to health and social protection and improving the quality of education. The new Mohamed VI investment fund and the recently approved investment charter aim at supporting a private sector-led, job-creating growth model. The SOE governance reforms are aimed at improving the strategic management and performance of the public sector. The successful implementation of these reforms will be crucial to place Morocco on a stronger and more inclusive growth path.

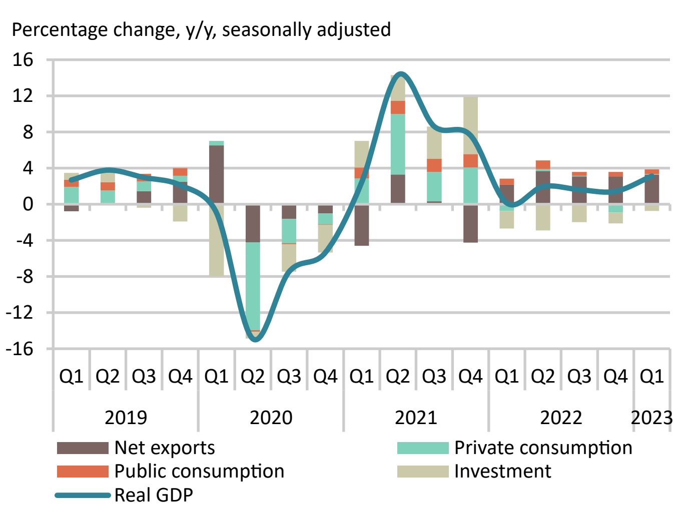
Recent developments

After a sharp deceleration in 2022, Morocco's real GDP expanded by 3.5 percent in the first quarter of 2023. This was partly due to a base effect, as agricultural output began to recover from last year's drought. It is also explained by the 5.4 percent expansion of the services sector, boosted by a rebound in tourism. On the demand side, net exports have become the main contributor to growth despite a weakening global economy. Together with strong workers' remittances, this resulted in a small current account surplus in the first quarter of 2023, after last year's deficit of 3.5 percent of GDP.

After peaking at 10.1 percent in February, annual inflation has declined to 4.9 percent in July, mostly due to lower fuel prices. The central bank has hence decided to pause the monetary policy tightening cycle after three hikes starting in September 2022 for a cumulative 150 basis points, up to 3 percent. With two-year inflation expectations at 4.7 percent, the policy rate remains negative in real terms.

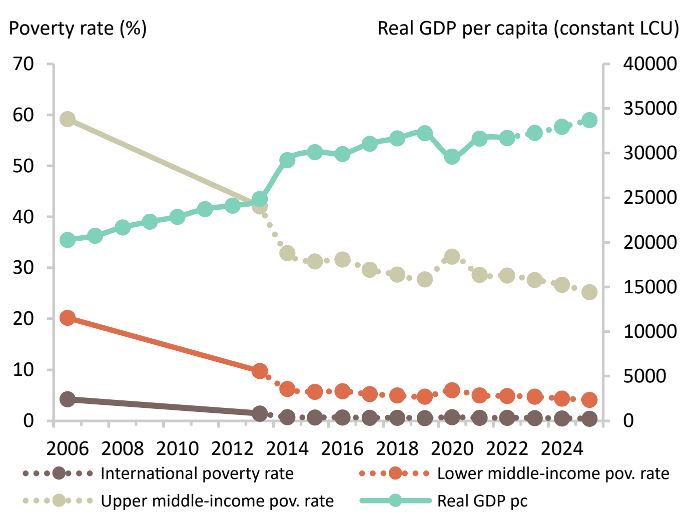
Public revenues have continued to grow steadily, while subsidies have mechanically

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



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.

declined together with butane gas prices. This windfall has not yet reduced the deficit in 2023, up by 9 percent in the first seven months of the year compared with the same period of 2022, reflecting strong spending as the government rolls out key reforms, injects liquidity in SOEs, and addresses the water crisis.

Despite the acceleration of growth, recent shocks continue to have pronounced impacts on welfare. At 11.7 percent, food inflation remains high, disproportionately affecting the poor. Household consumption contracted by 0.6 percent in 2022 and stagnated in the first quarter of 2023. Net job creation is negative in rural areas, where poverty levels are higher. The HCP household confidence index is at its lowest level since it began being produced in 2008. Approximately 250 thousand people reside in the areas that are most affected by the earthquake, mostly in rural and impoverished mountainous villages. The earthquake claimed close to 3,000 lives.

Outlook

GDP growth is expected to accelerate to 2.8 percent in 2023 and to firm up to 3.3 percent in 2024. A full assessment of impacts was not available at the time of writing to incorporate the effects of the recent earthquake into these projections. However, preliminary information suggest that macroeconomic impacts will be moderate, channeled mostly through tourism, which could reduce GDP growth by up to 0.3 percentage points in 2023. The agricultural sector should contribute to the acceleration, as key crops gradually recover from last year´s drought and return to average levels in 2024. Services will remain a major contributor to growth on the back of a buoyant tourism sector, expected to recover relatively fast from the impact of the earthquake. The performance of the manufacturing sector will be tempered by weak global conditions and a construction slowdown. Domestic demand is forecasted to begin recovering from recent shocks, supported by an improvement in labor market conditions, remittances, and the gradual moderation of inflation.

Together with the fading terms-of-trade shock related to the war in Ukraine, growing tourism and remittances inflows will also contribute to reduce the current account deficit to 1.3 percent of GDP in 2023, which would widen to 2.6 percent of GDP in 2024 as domestic demand recovers.

Despite its temporary increase in the first months of 2023, the budget deficit is projected to moderately decline to 4.6 percent of GDP this year thanks to solid revenue collection. The new family allowances program to be deployed at the end of this year will exert pressure on public spending in 2024, but the envisaged price subsidy reform and the government´s asset monetization operations should keep the deficit on a downward path, stabilizing the debt ratio below 69 percent of GDP.

After years of deterioration and more recently, stagnation, extreme and moderate poverty are projected to resume their slow decline in 2023, returning to their pre-pandemic level. However, distribution neutral projections probably underestimate the welfare impact of inflation, which disproportionally hits the bottom of the distribution, as did the earthquake. More realistically, poverty may have increased in rural areas, also affected by continued job losses. With inflation receding, the gradual rollout of the social protection reform, and the announced temporary cash transfer targeted to the victims of the earthquake, poverty is expected to decrease more decisively starting in 2024.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.2	8.0	1.3	2.8	3.1	3.3
Private consumption	-5.6	6.9	-0.7	1.0	2.1	2.7
Government consumption	-0.6	7.2	3.3	3.4	3.6	3.3
Gross fixed capital investment	-10.0	7.6	-2.2	1.6	2.0	2.4
Exports, goods and services	-15.0	7.9	20.4	10.8	6.9	10.9
Imports, goods and services	-11.9	10.4	9.0	6.4	4.8	8.4
Real GDP growth, at constant factor prices	-7.0	7.8	1.0	2.8	3.1	3.3
Agriculture	-7.1	19.0	-12.7	1.5	5.7	3.1
Industry	-5.2	7.1	-1.7	0.3	2.0	2.5
Services	-7.9	5.8	5.4	4.0	3.1	3.5
Inflation (consumer price index)	0.7	1.4	6.6	6.2	3.8	2.8
Current account balance (% of GDP)	-1.2	-2.3	-3.5	-1.3	-2.6	-2.2
Net foreign direct investment inflow (% of GDP)	0.8	1.1	1.2	1.5	1.5	1.4
Fiscal balance (% of GDP)	-7.1	-6.0	-5.2	-4.6	-4.1	-3.6
Revenues (% of GDP)	27.0	25.3	27.0	27.6	27.4	27.0
Debt (% of GDP)	72.2	69.5	71.6	69.7	69.0	68.5
Primary balance (% of GDP)	-4.7	-3.7	-3.0	-1.9	-1.5	-1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.6	0.6	0.6	0.5	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	6.0	5.0	4.9	4.7	4.4	4.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.2	28.7	28.5	27.6	26.7	25.2
GHG emissions growth (mtCO2e)	-4.1	5.1	4.8	3.5	2.7	2.8
Energy related GHG emissions (% of total)	72.8	73.9	75.2	76.0	76.5	76.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2022. Forecasts are from 2023 to 2025.
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	2022
Population, million	4.6
GDP, current US$ billion	114.7
GDP per capita, current US$	25056.7
School enrollment, primary (% gross)[a]	104.1
Life expectancy at birth, years[a]	72.5
Total GHG emissions (mtCO2e)	119.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Following a strong 2022 performance, Oman's economic growth is set to slowdown this year reflecting OPEC+ output cut and moderation in non-hydrocarbon activities. Despite this downturn, the outlook continues to be encouraging driven by increased production capacity and accelerated implementation of structural reforms. Thus, fiscal and external balances are projected to remain in surplus but to moderate in the medium term. Tighter global financial conditions and fluctuating energy prices remain key risks to the outlook.

Key conditions and challenges

Oman's economy continues to perform well supported by high oil prices and fiscal consolidation under the authorities' Medium-Term Fiscal Plan (MTFP) and Vision 2040. Higher than expected hydrocarbon windfalls and fiscal measures have boosted fiscal and external positions. The authorities succeeded in utilizing the hydrocarbon windfalls to reduce government debt to less than 42 percent of GDP in 2022—from over 61 percent of GDP in 2021. State-Owned Enterprises (SOEs) debt has markedly declined by 12 percentage points of GDP in 2022 (IMF), with risks mitigated by the considerable assets under Oman Investment Authority (OIA) and advancing governance and efficiency reforms.

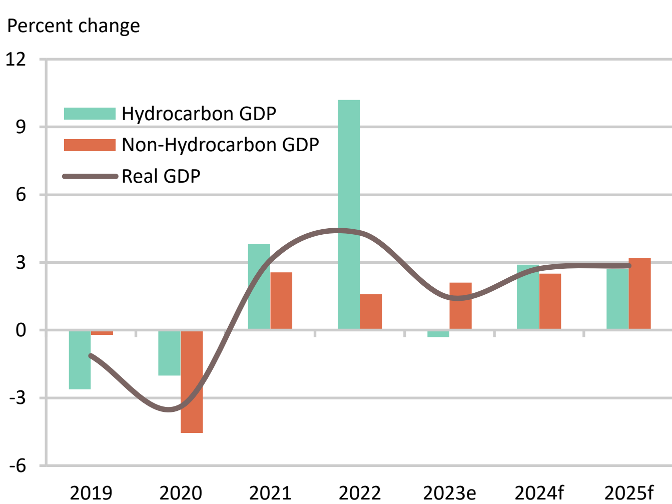
The government continues to reveal plans to boost the economy including setting up Oman Future Fund of OMR2 billion (US$5.2 billion) in May 2023, allocating a percentage of its capital to bolster investments in small, medium, and emerging businesses. Furthermore, Oman is also prioritizing investments in renewable energy and green hydrogen projects with aim to derive 30 percent of electricity from renewable sources by 2030, from 5.5 percent currently. In June 2023, the government signed three agreements worth US$20 billion to develop green hydrogen with the aim of becoming a global hub for green hydrogen production. Two more deals were signed in late August 2023 to supply 0.8 million metric tons of liquefied natural gas (LNG), which will further support economic activity and mitigate the impact of declining oil prices on fiscal and external balances.

However, challenges remain. Despite several reform initiatives, the economy remains dependent on the hydrocarbon sector which contributes heavily to both fiscal and export revenues. Volatility and unpredictability of oil prices could pose significant fiscal challenges, increase gross financing needs, and disrupt the government's reform program. Key risks to the outlook arise from the uncertainty surrounding the energy market, lower demand for hydrocarbons due to the global energy transition, and pressures to spend oil windfall, which could delay the implementation of fiscal adjustment and heighten financing risks in the medium term. On the upside, additional fiscal and diversification measures, accelerating production at the Duqm refinery project and increased foreign direct investments from regional partners, would spur growth and strengthen fiscal and external positions. A new labor law enacted in July 2023 is expected to increase Omani's employment in the private sector and help resolve the high youth unemployment challenge.

Recent developments

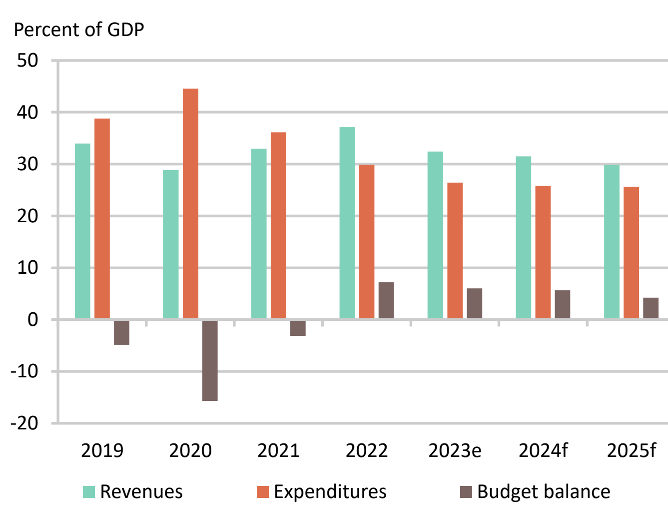
The real economy grew by 4.7 percent during Q1 2023 supported by the

FIGURE 1 Oman / Real annual GDP growth



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

FIGURE 2 Oman / General government operations



Sources: Oman authorities and World Bank staff projections.

non-hydrocarbon sector, which registered growth of 4.6 percent, to reflect the strong performance of industrial and services sectors. Meanwhile, the hydrocarbon sector grew by 3.5 percent as a result of significant natural gas activity. Average headline inflation eased from 2.8 percent in 2022 to 1.2 percent during the first eight months of 2023 y/y to reflect the drag from lower transportation and communication prices.

Public finance data reveals a decline in budgetary revenues, down by 6 percent during H1-2023, as a result of moderating global energy prices. In parallel, public spending declined by 4 percent during the same period, to reflect a drop in public debt service costs together with lower electricity and fuel subsidies. Accordingly, Oman's overall fiscal position shifted into a surplus of US$1.7 billion (nearly 1.6 percent of GDP) during H1-2023. The lower hydrocarbon revenues are estimated to limit the scope for larger declines in the debt-to-GDP ratio, but it remains much lower than the peak of 61 percent in 2021.

The trade balance surplus narrowed to US$7.6 billion (7 percent of GDP) by the end of May 2023, compared to US$10.6 billion (9.2 percent of GDP) during the same period last year, as hydrocarbon exports contracted by 13.2 percent. As a result, gross foreign assets marginally increased (by US$160 million) in May 2023 to reach US$17.6 billion by the end of May 2023.

Based on the latest International Labor Organization (ILO) estimates, Oman's labor market continues a slow recovery from the impact of the pandemic but was not expected to fully rebound by 2023. The labor force participation rate and employment-to-population ratio were projected to reach 68.2 percent and 66.5 percent respectively in 2023, still around two percentage points below their 2019 levels.The unemployment rate was expected by the ILO to remain elevated around 2.5 percent, with recovery slower among women than among men. Unemployment rates continue to be higher among young adults, with the highest rates among young women. According to the most recent monthly statistical bulletin, the rate of job seekers among women aged 25-29 was 25.9 percent in July 2023, while the rate of job seekers among men aged 25-29 in that same period was 2.4 percent.

Oman issued both a new Social Protection Law and a new Labor Law in July 2023. The former undertakes a comprehensive reform of the social protection system that integrates contributory and non-contributory frameworks for lifecycle coverage, better support for labor market transitions, and a more sustainable financing model. The latter, among its provisions, addresses working hours, leave allowances, contract terms and termination, dispute resolution, and Omanisation measures.

Outlook

Oman's economy is estimated to slowdown in 2023 capped by OPEC+ production cuts and slower global economic activity. However, the economy is anticipated to strengthen over the medium-term driven by higher energy production and wide-ranging structural reforms. Overall growth is projected to decelerate to 1.4 percent in 2023, as oil output falls, while nonoil sectors are expected to support growth, rising by over 2 percent, driven by the rebound in construction, investments in renewable energy, and tourism sectors. Inflation is forecast to slow to 1.3 percent reflecting dampening private consumption as a result of tightening monetary policy.

Despite relatively moderate hydrocarbon prices during the forecast period, Oman's overall fiscal balance is expected to remain in surplus exceeding 5 percent of GDP in 2023-25 supported by ongoing fiscal adjustment measures under the MTFP. Accordingly, public debt is expected to continue its downward trajectory in the medium term.

Similarly, the current account is projected to remain in surplus over the medium term as higher liquified natural gas exports will partially compensate the decline in hydrocarbon prices. This will help Oman to rebuild its foreign reserves, which is projected to exceed US$22 billion in 2023-25, and improve the country's resilience against external shocks.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.4	3.1	4.3	1.4	2.7	2.9
Private consumption	9.6	6.8	4.0	3.0	3.4	3.3
Government consumption	-14.0	0.9	3.1	2.7	2.5	2.8
Gross fixed capital investment	1.8	-1.5	4.0	3.0	3.6	3.4
Exports, goods and services	-14.6	14.2	12.3	1.8	3.4	3.5
Imports, goods and services	-8.9	2.7	6.2	5.7	5.3	5.0
Real GDP growth, at constant factor prices	-3.6	3.1	4.4	1.4	2.7	2.9
Agriculture	14.3	9.0	-9.7	2.7	1.1	1.5
Industry	0.0	1.1	5.1	1.2	2.5	1.5
Services	-8.4	5.4	4.4	1.7	3.1	4.6
Inflation (consumer price index)	-0.9	1.5	2.8	1.3	1.8	2.0
Current account balance (% of GDP)	-16.2	-4.9	6.2	5.0	5.1	2.2
Net foreign direct investment inflow (% of GDP)	4.7	5.0	-1.9	-1.0	-0.5	-0.1
Fiscal balance (% of GDP)	-15.7	-3.2	7.2	6.0	5.7	4.2
Revenues (% of GDP)	28.9	33.0	37.1	32.4	31.5	29.8
Debt (% of GDP)	69.5	61.4	41.8	38.4	34.4	31.9
Primary balance (% of GDP)	-12.6	0.0	9.9	9.0	8.2	6.7
GHG emissions growth (mtCO2e)	7.5	4.1	6.6	5.0	3.5	4.3
Energy related GHG emissions (% of total)	70.9	71.5	72.6	73.3	73.7	74.5

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	2022
Population, million	5.0
GDP, current US$ billion	19.1
GDP per capita, current US$	3789.3
Upper middle-income poverty rate ($6.85)[a]	20.5
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	94.0
Life expectancy at birth, years[b]	73.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ Most recent WDI value (2021).

The Palestinian economy slowed in early 2023 reflecting the waning of the post-pandemic rebound and increased Israeli restrictions on Gaza. Despite strong revenue outturn, the fiscal situation is expected to worsen in 2023 due to an unsustainable wage bill, larger Israeli deductions and low aid. Lacking other financing options, the PA is expected to continue accruing arrears to the private sector and public pension fund and paying partial salaries to public employees. The outlook remains precarious and subject to security and political stability.

Key conditions and challenges

From 2017 to 2022, the Palestinian economy advanced on a near-stagnant trajectory, with an average annual GDP growth of 0.6 percent. Economic activity has been curtailed by a combination of continued Israeli restrictions[1], sluggish and/or fragmentary reform efforts by the Palestinian Authority (PA), episodes of violence, the internal divide between the West Bank and Gaza (WB&G), and depressed aid inflows. The economy has been driven by factor accumulation rather than improvements in productivity, and growing slower than the population, resulting in decreasing per capita incomes and rising poverty. The bulk of gross investment has been channeled into non-tradable activities rather than sectors that could help boost more inclusive growth and job creation.

Subnational trends paint a highly divergent picture. In 2022, the GDP per capita in Gaza was estimated at US$1,257, which is approximately a quarter of the West Bank's GDP per capita, at US$4,458. In 2016/17, one Palestinian out of five 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, where almost half of the population lives below this poverty line (2016/17), compared to less than 10 percent in the West Bank.

1/ According to the Government of Israel, these restrictions are in place for security reasons.

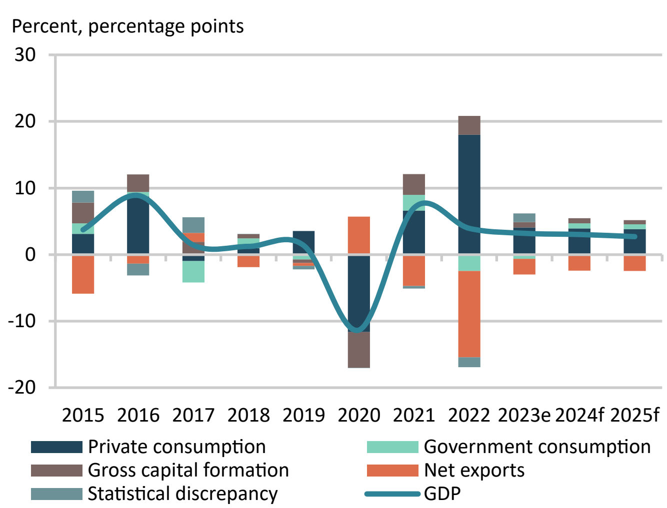
Recent developments

The Palestinian economy slowed to a 3.1 percent growth rate in the first quarter (Q1) of 2023, year-on-year (y/y), down from 3.9 percent in 2022, as the post-pandemic rebound dissipates. Growth was largely driven by the West Bank (4.3 percent y/y), reflecting continued buoyancy of private consumption which in turn supported the wholesale and retail trade and services sectors. Meanwhile, the near-total blockade imposed by the Government of Israel (GoI) on Gaza continues to hinder economic expansion, where the economy contracted by 2.6 percent in Q1 2023. This was due to a rapid worsening of the agricultural, forestry, and fishing sectors, following the introduction of new regulations by GoI restricting fish sales from Gaza into the West Bank, since August 2022.

During 2022, CPI in the Palestinian territories remained relatively contained – compared to the rest of the world – reflecting the inflation experience of the Israeli New Shekel, at 3.7 percent (y/y, 2022), although up from negative territory in 2020. It has since remained relatively stable, reaching 3.8 percent in Q1 2023. In Gaza, the inflation rate was just 1.8 percent in the first half of 2023 reflecting lower import prices from Egypt, while in the West Bank it reached 4.4 percent.

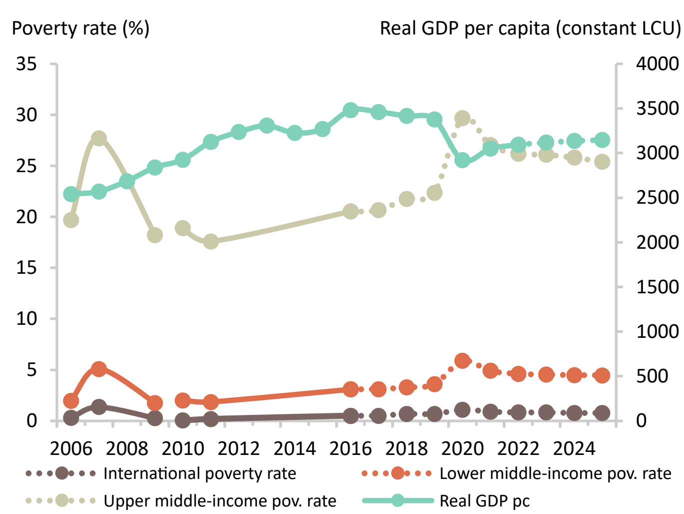
On the fiscal front, targeted government reforms supported revenue mobilization

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 GDP per capita



Source: World Bank. Notes: see Table 2.

in Q1 2023. However, expenditure also grew, mainly driven by the wage bill resulting from partial implementation of agreements with the labor unions on salary increases. In Q1 2023, the overall fiscal deficit, after accounting for grants and for deductions made by Israel, reached US$83 million, or 0.8 percent of GDP, and was largely financed by arrears and partial public salaries payment (80-85 percent), since November 2021.

Since 2022, overall unemployment rose by 0.3 percentage points to 24.7 percent in Q2 2023. The increase was driven by a rise in Gaza's unemployment (from 45.3 to 46.4 percent) reflecting the contraction in economic activity. In the West Bank, unemployment remained almost constant, nearing 13 percent.

Based on GDP per capita growth trends, it is estimated that the poverty rate spiked by 6 percentage points between 2016 and 2020, reaching 26.5 percent. As the impact of the pandemic softened during 2021, the poverty rate is deemed to have declined to 24.3 percent, by 2022, representing roughly 1.25 million people who live in poverty.

Outlook

In the absence of distinct policy change, the Palestinian territories are expected to continue facing a combination of slow growth and high poverty rates, in a context of elevated risks. Under a baseline scenario, the Palestinian economy is expected to continue languishing under the multi-layered system of Israeli restrictions and sluggish reform progress on the PA side. These constraints will continue to hinder economic activity and discourage private-sector development, preventing the Palestinian economy from reaching its full potential. Under this scenario, economic growth is expected to decelerate to 2.7 percent by 2025, and due to the rate of population growth, the average real income per capita is expected to continue stagnating. Consequently, the poverty rate is expected to remain sticky at a little over 24 percent until 2025.

On the fiscal front, revenues are expected to grow by 6 percent in nominal terms y/y by end-2023, and amount to around 24 percent of GDP, reflecting rising tax efforts and continued economic growth in the West Bank. Expenditures are projected to increase by 2.5 percent and reach 26.5 percent of GDP in 2023, mostly driven by an increasing wage bill. The overall fiscal deficit, including grants and the deductions from clearance revenues, is thus expected to reach US$493 million, or 2.5 percent of GDP by end-2023 and is expected to remain constant in relative terms over the medium-term forecast period.

Downside risks remain elevated. An escalation of Russia's invasion of Ukraine could further strain global supply chains and increase pressure on food and energy prices, slowing the growth of the Palestinian economy. Meanwhile, renewed clashes between Palestinians and Israeli forces in WB&G could increase economic uncertainty and further limit Palestinian workers' access to the Israeli labor market. The PA has little fiscal scope to counter such shocks, and uncertainty on the political front in Israel could contribute to exacerbating the macroeconomic and fiscal risks facing the West Bank and Gaza.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-11.3	7.0	3.9	3.2	3.0	2.7
Private consumption	-13.1	7.5	20.5	4.0	3.8	3.7
Government consumption	0.3	10.3	-10.5	-3.0	4.0	3.7
Gross fixed capital investment	-20.9	13.7	11.8	3.0	2.8	2.2
Exports, goods and services	-11.2	17.3	6.2	5.0	5.0	5.0
Imports, goods and services	-14.2	14.8	25.7	5.0	5.0	5.0
Real GDP growth, at constant factor prices	-12.0	6.2	1.3	3.2	3.0	2.7
Agriculture	-9.1	-0.7	-5.7	-1.0	-1.0	-1.0
Industry	-19.4	4.5	3.4	3.2	3.0	2.8
Services	-10.0	7.5	1.5	3.6	3.4	3.0
Inflation (consumer price index)	-0.7	1.2	3.7	3.8	3.0	2.7
Current account balance (% of GDP)	-12.3	-9.8	-15.0	-13.8	-13.2	-12.7
Net foreign direct investment inflow (% of GDP)	0.9	1.6	1.3	1.3	1.3	1.3
Fiscal balance (% of GDP)	-7.5	-5.8	-1.8	-2.5	-2.5	-2.5
Revenues (% of GDP)	25.7	25.0	27.3	24.1	24.1	24.1
Debt (% of GDP)	55.1	56.0	53.2	53.1	53.2	53.3
Primary balance (% of GDP)	-7.1	-5.1	-1.1	-1.8	-1.8	-1.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.1	0.9	0.8	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.9	4.9	4.6	4.5	4.5	4.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	29.7	27.0	26.2	26.1	25.8	25.4
CO2 emissions growth (mtCO2e)	-27.5	6.2	-0.6	-1.5	-1.9	-2.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2016-PECS. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2016) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

QATAR

Table 1	2022
Population, million	2.9
GDP, current US$ billion	237.4
GDP per capita, current US$	80974.8
School enrollment, primary (% gross)[a]	102.2
Life expectancy at birth, years[a]	79.3
Total GHG emissions (mtCO2e)	128.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Economic growth is projected to moderate in 2023 as the boost from the 2022 World Cup on non- hydrocarbon sectors diminishes. Nevertheless, the rise in tourism, business activities, and ongoing energy sector investment offers support. External and fiscal twin surpluses are anticipated to continue in the medium term supported by the development of the North Field LNG expansion project. Key risks include tighter global financial conditions and fluctuating energy prices. The primary challenge for the economy remains diversification away from the hydrocarbon sector.

Key conditions and challenges

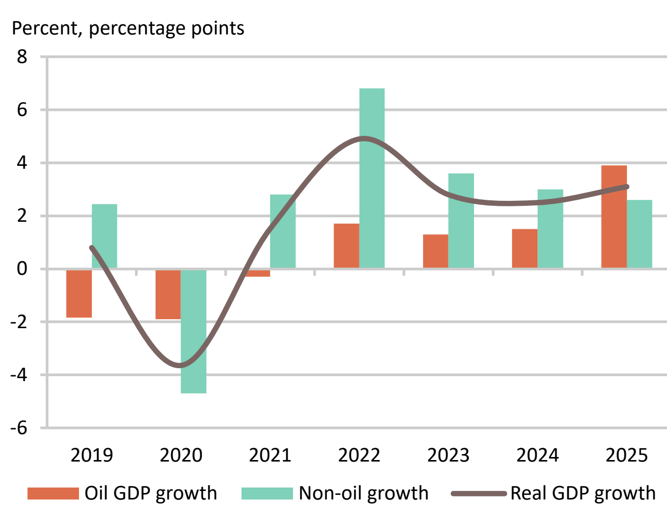
Qatar's economic conditions in 2022 were marked by strong growth driven by the FIFA World Cup. This event boosted various sectors of the economy, including tourism, hospitality, and construction. In the upcoming 2023-2027 period, Qatar's policy direction will be guided by the Qatar National Vision 2030, a cornerstone of the government's strategy for economic diversification, environmental management, and social advancement. The vision aims to create a conducive business environment to encourage higher investment and employment. The primary economic driver will continue to be the expansion of the North Field Liquified Natural Gas (LNG) project. Over the forecast period, investment spending on this project will support overall economic growth. LNG production in 2026 and 2027 will rise substantially supporting industrial output and boosting exports.

The economy presents a range of opportunities and challenges. On the positive side, vast hydrocarbon reserves, robust government net asset position with substantial sovereign net foreign assets (SNFA), and a flexible public finance structure favor economic growth. Conversely, volatile hydrocarbon prices and tighter global financial conditions remain the main risks to Qatar’s outlook and may extend for longer than initially forecast. Moreover, challenges persist in the form of necessary public sector reforms to enhance expenditure management, service delivery, and diversification away from the hydrocarbon sector.

Recent developments

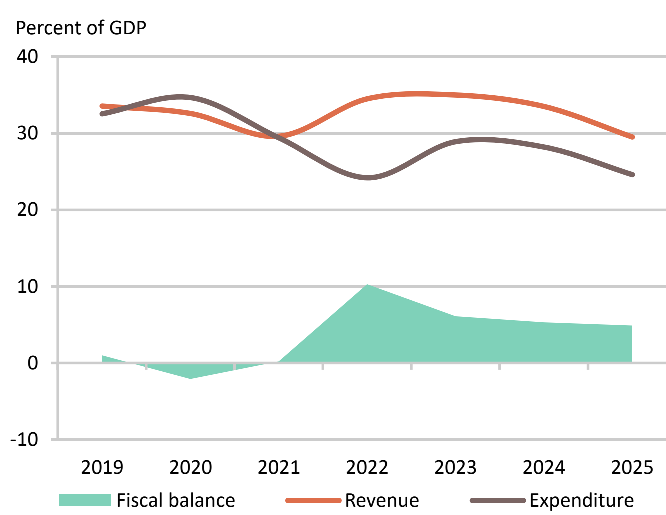
Following a remarkable 4.9 percent growth in 2022, driven primarily by hosting the FIFA World Cup, the economy has exhibited modest growth this year. However, the growth still surpasses pre-pandemic levels, which is at 2.7 percent in Q1 2023, supported by the tourism sector and ongoing energy investments. PMI indicators highlight a solid expansion in the non-hydrocarbon private sector during H1 2023 supported by a thriving tourism sector. Notably, Qatar welcomed more than 2.56 million visitors from January until August 2023, exceeding the full-year arrival figures for 2022. In the hydrocarbon sector, QatarEnergy signed a 1.8m t/year LNG contract with Bangladesh earlier in June. Later in the month, Qatar also finalized a long-term gas supply deal with a Chinese state-controlled company, mirroring a previous agreement made last November. This has driven a 45 percent surge in Qatari-Chinese trade, reaching US$26.3 billion. These developments augur well for Qatar's extended energy export prospects, with the likelihood of unveiling further energy contracts across Asia and Europe in the coming months. Inflationary pressures have eased since a notable acceleration in 2022 due to lower commodity prices and the conclusion of heightened demand

FIGURE 1 Qatar / Annual real GDP growth



Source: World Bank.

FIGURE 2 Qatar / Fiscal balance



Source: World Bank.

caused by the World Cup—reaching 3.5 percent during H1 2023. In July, the Qatar Central Bank (QCB) raised its key policy interest rate by 25 basis points to a record high of 6 percent following the US Federal Reserve's policy hike. While the US authorities contemplate additional monetary tightening, QCB is expected to retain the current policy rate due to persistently low and diminishing inflation coupled with a slowdown in economic activity.

The overall fiscal balance registered a surplus of 5.3 percent of GDP during Q1 2023 as a result of elevated hydrocarbon prices and a fall in public spending after the 2022 World Cup. Despite decreasing imports and exports of goods, the large influx of tourists continues to boost services export revenues, resulting in a strong current account surplus, reached 21 percent of GDP in Q1 2023. As a result, international reserves and foreign currency liquidity witnessed its highest growth, reaching QAR 241.6 billion (US$66.4 billion) in July 2023.

According to the latest ILO estimates, key labor market indicators were expected to remain stable through 2023. The labor force participation rate was projected to remain at 88.3 percent in 2023, and the employment-to-population ratio was expected to stay slightly lower at 88.2 percent for the year. The unemployment rate was projected to remain stable at 0.1 percent in 2023, with higher rates among women and among young people. Women aged 15-24 were estimated to experience the highest unemployment rate, around 0.9 percent in 2023.

Outlook

Real GDP growth is estimated to slow down to 2.8 percent in 2023 and continue at this rate in the medium term. Despite the weakening of the construction sector and tighter monetary policy, robust growth is anticipated in the non-hydrocarbon sectors, reaching 3.6 percent, propelled by thriving tourist arrivals and large events. Qatar's standing as a global sporting hub will be further reinforced by an additional 14 major sporting events during 2023, including Formula 1 motor racing. Meanwhile, the hydrocarbon sector is estimated to grow by 1.3 percent in 2023 on account of weaker global energy demand. The North Field expansion project is expected to boost the hydrocarbon sector in the medium term once the field enters commercial operation. Consumer prices are projected to decelerate, averaging 2.6 percent in 2023-24, on the back of tightening global financial conditions and declining international commodity prices.

Despite a further moderation in global energy prices, the twin-balances are projected to be in surplus for the coming years. The fiscal balance surplus is anticipated to reach 5.7 percent of GDP in 2023-24 due to comparatively strong hydrocarbons revenue. The much-delayed introduction of value-added tax (VAT), now expected to come into effect during 2024, will offset some of the declines in hydrocarbon revenue and support the budget balance.

The current account surplus is expected to narrow but remain large during 2023-24. The strength of Qatar's hydrocarbon sector (currently the largest LNG exporter and third largest producer) underpins the strong performance of the economy. Despite rising expenditure on imports, international reserves will be sufficient to sustain imports for the coming months.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.6	1.5	4.9	2.8	2.5	3.1
Private consumption	-5.6	3.4	5.2	3.4	3.0	2.6
Government consumption	10.3	2.8	4.1	3.0	2.5	2.8
Gross fixed capital investment	-3.1	2.3	3.7	2.2	2.6	2.3
Exports, goods and services	-6.8	2.4	5.4	3.7	3.1	4.2
Imports, goods and services	-2.7	4.7	6.5	5.5	4.7	4.0
Real GDP growth, at constant factor prices	-3.6	1.5	4.9	2.8	2.5	3.1
Agriculture	18.5	0.5	7.7	2.4	2.1	2.9
Industry	-3.2	0.7	5.2	3.1	3.2	3.1
Services	-4.6	3.2	4.4	2.2	1.0	3.2
Inflation (consumer price index)	-2.7	2.3	5.0	3.0	2.2	1.8
Current account balance (% of GDP)	-2.5	14.7	26.6	16.1	13.3	12.3
Net foreign direct investment inflow (% of GDP)	-1.0	-0.1	-1.0	-0.5	-0.7	-0.6
Fiscal balance (% of GDP)	-2.1	0.2	10.3	6.1	5.3	4.9
Revenues (% of GDP)	32.6	29.6	34.5	35.0	33.5	29.5
Debt (% of GDP)	72.6	58.4	45.3	45.5	42.9	41.4
Primary balance (% of GDP)	-0.3	1.9	11.6	7.2	6.6	6.1
GHG emissions growth (mtCO2e)	-0.4	4.0	7.6	4.4	3.8	4.9
Energy related GHG emissions (% of total)	75.9	76.7	78.2	78.9	79.6	80.4

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	2022
Population, million	32.2
GDP, current US$ billion	1110.0
GDP per capita, current US$	34497.9
School enrollment, primary (% gross)[a]	102.1
Life expectancy at birth, years[a]	76.9
Total GHG emissions (mtCO2e)	756.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Following the strong performance in 2022, the economy is expected to report a contraction in 2023 fueled by OPEC+ consecutive decisions of oil production cuts to support price stability. Lower oil receipts as a result of contracting oil production levels and subdued prices will place the fiscal balance in deficit and narrow current account surplus. Inflation remains muted. A prolonged war in Ukraine, volatile oil prices, and tighter-than-needed global financial conditions are key risks to the outlook.

Key conditions and challenges

To realize many of the objectives formulated in the long-term diversification plan (Vision 2030), Saudi Arabia have set forward an ambiguous investment plan to promote sustained, inclusive, greener, and private sector-led growth. With weak foreign direct investment pouring into Saudi Arabia for several years now, still less than 1 percent of GDP, the Public Investment Fund (PIF) has taken on a larger developmental role in the domestic economy through funding many giga-projects and investments related to the Vision 2030. Despite overture to Western investors, Saudi Arabia might attract new investments from BRICS members since it formally joined the economic bloc.

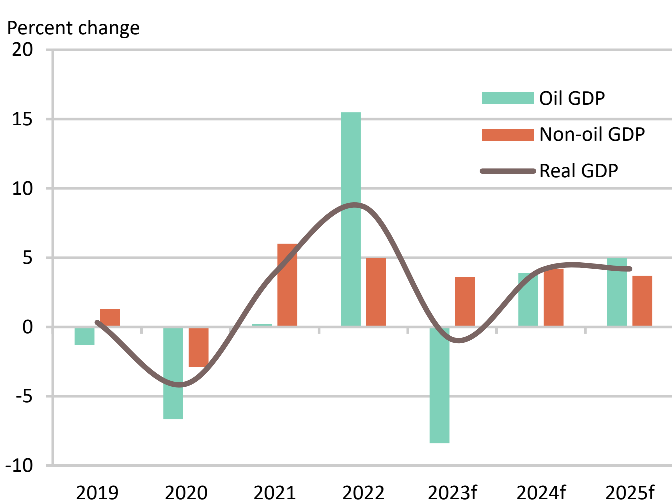
Downside risks and uncertainties to the outlook are numerous. These include downward pressures on oil prices because of tensions among OPEC+ members on production quotas which could result in members leaving the alliance and increasing global supply. Furthermore, downward revisions of China's growth prospects will have adverse impact on Saudi Arabia's main export market. Other risks to the outlook include lower global activity linked to new developments around Russia's invasion of Ukraine, and tighter-than-needed global financial conditions. Delays or digressions in implementing diversification structural reforms highlighted in the Vision 2030, perhaps due to international shocks or because of the uncomfortable fiscal position, would reduce prospects for stronger long-term growth and employment.

Recent developments

After a stellar performance in 2022, Saudi Arabia is experiencing an economic downturn which is fueled by OPEC+ consecutive decisions of oil production cuts to support price stability. Latest official data for Q2-2023 showed that the economy contracted by 0.1 percent q/q after a 1.4 percent q/q decline in Q1-2023. This translates to annual growth easing from 3.8 percent in Q1-2023 to 1.1 percent in Q2-2023. The strong performance of private non-oil activities during Q1 and Q2-2023 fell short of compensating for the decline in oil activities. Furthermore, the recent decision by Saudi Arabia to voluntarily cut oil production by an additional 1 mbpd during H2-2023 will exert a further drag on economic activity. High frequency data suggests that the non-oil sector is also losing steam with August's PMI recording 56.6—still expansionary but nonetheless the lowest reading in 8 months—while weaker private sector credit growth indicate dampening consumption on the back of tighter monetary conditions.

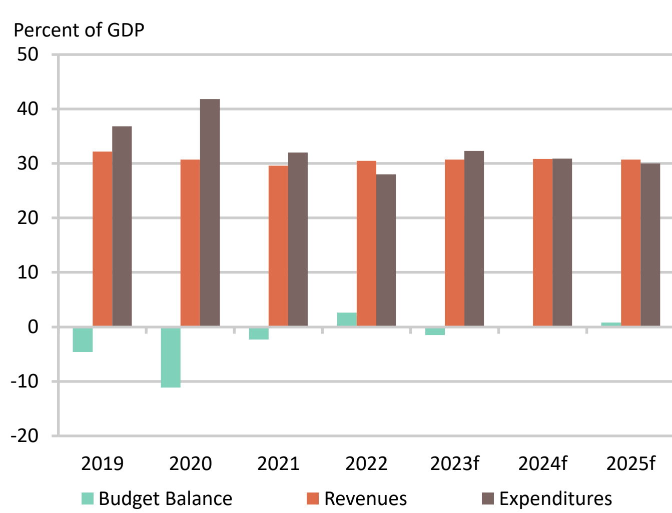
Lower oil revenues, as a result of lower prices and production levels, coupled with looser fiscal policy (up by 18 percent y/y) widened the fiscal deficit from SAR 2.9 billion to SAR 5.3 billion during Q1 and Q2-2023, respectively. Financing needs are

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.

covered by issuing a US$10 billion sovereign bond while state oil firm Aramco introduced a performance-linked dividend, on top of its annual base dividend, to shore up budgetary funds. Furthermore, reports suggest more Aramco share sales by the end of this year similar to the 2019 IPO.

The Q1-2023 balance of payments data shows the current account surplus narrowing to US$17.7 billion (down from US$39.6 billion one year ago) driven primarily by a 14.6 percent fall in oil receipts. Further surplus narrowing is anticipated during this year with even lower oil revenues. The Saudi Central Bank's (SAMA) foreign reserves reached US$407 billion in July 2023, the lowest in 14 years, suggesting that oil revenues are being channeled to PIF to finance its larger investment role in the local economy.

The number of Saudis working in the private sector continues to increase. According to administrative data, the number of Saudi nationals employed in the private sector in Q1 2023 reached 2.6 million, whereas the number of non-Saudi nationals in the private sector increased to 7.8 million. The overall labor force participation rate and the employment-to-population ratio increased during the past year from Q1-2023, and the unemployment rate decreased over the same period. These changes in labor market indicators were primarily driven by improvements among Saudis, except for the unemployment rate that declined more rapidly among non-nationals. The labor force participation rate among Saudis increased from 50.1 percent to 52.4 percent and the employment-to-population ratio among Saudis increased from 45.1 percent to 48 percent. The labor force participation rate and employment-to-population ratio also continue to increase for Saudi women, and it does more rapidly than for Saudi men, reaching 36 percent and 30.2 percent, respectively, in Q1 2023.

Outlook

The oil sector is expected to contract by 8.4 percent during 2023 to reflect oil production curbs agreed within the OPEC+ alliance. Meanwhile, non-oil sectors are expected to cushion the contraction, growing at 3.6 percent, supported by looser fiscal policy, robust private consumption, and public investment drive. As a result, overall GDP will show a contraction of 0.9 percent in 2023 before reporting a recovery of 4.1 percent in 2024 to reflect expansions of oil and non-oil sectors. A relatively strong US dollar, restrictive monetary policy, and a cap on domestic fuel prices will curb any upward pressure on prices; keeping the inflation rate hovering around 2.4 percent in the medium term.

The continued loose fiscal spending and the significant reduction in oil receipts during 2023 are expected to flip the fiscal balance into a deficit of 1.5 percent of GDP. Aramco's distribution of performance-linked dividends starting Q3-2023 for six quarters should improve the fiscal position in the medium term—supported by the recovery in oil production levels. As budgetary financing needs grow, the debt-to-GDP ratio is expected to rise to 24.8 percent in 2023 before moderating to 23.8 percent in the medium term. The off-budget capital spending by PIF will continue to remain substantial.

Even with the anticipated fall in oil export receipts in 2023, exports will continue to surpass imports. As a result, the current account surplus is expected to continue, yet narrow significantly from last year, to reach 5.6 percent of GDP in 2023.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.3	3.9	8.7	-0.9	4.1	4.2
Private consumption	-8.1	9.4	4.8	4.2	3.5	3.0
Government consumption	3.3	0.8	6.7	6.0	3.0	3.0
Gross fixed capital investment	-10.4	10.1	24.1	7.5	4.0	3.3
Exports, goods and services	-10.6	1.0	18.7	-8.3	5.3	6.4
Imports, goods and services	-19.8	8.3	12.0	5.4	4.3	4.3
Real GDP growth, at constant factor prices	-4.3	3.9	8.7	-0.9	4.1	4.2
Agriculture	-1.7	2.6	3.9	2.0	2.0	2.0
Industry	-6.0	1.7	13.2	-5.3	2.8	3.5
Services	-2.2	6.7	3.5	4.9	5.7	5.0
Inflation (consumer price index)	3.4	3.1	2.5	2.6	2.3	2.2
Current account balance (% of GDP)	-3.1	5.1	13.6	5.6	5.7	6.8
Net foreign direct investment inflow (% of GDP)	0.1	-0.6	-1.0	-0.8	-0.9	-1.0
Fiscal balance (% of GDP)	-11.1	-2.3	2.6	-1.5	-0.1	0.8
Revenues (% of GDP)	30.7	29.6	30.5	30.4	30.8	31.0
Debt (% of GDP)	33.7	28.8	23.7	24.8	24.4	23.2
Primary balance (% of GDP)	-10.1	-1.4	3.3	-0.5	0.9	1.7
GHG emissions growth (mtCO2e)	-1.2	2.8	3.0	0.0	2.6	3.0
Energy related GHG emissions (% of total)	69.6	70.5	70.3	69.9	70.2	70.6

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	2022
Population, million	22.1
GDP, current US$ billion	12.4
GDP per capita, current US$	561.3
School enrollment, primary (% gross)[a]	81.7
Life expectancy at birth, years[a]	72.1
Total GHG emissions (mtCO2e)	49.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2013); Life expectancy (2021).

Socioeconomic conditions in Syria have continued to deteriorate due to a combination of shocks from the prolonged armed conflict and the February earthquakes. Real GDP is projected to contract by 5.5 percent in 2023, exceeding a 3.5 percent decline last year. The economy may contract even further if conflict escalates and reconstruction efforts fall short of expectations. Conflict, displacement, and the collapse of economic activities and social services have all contributed to a decline in welfare.

Key conditions and challenges

A decade of conflict has led to devastating socioeconomic consequences. Despite a 2020 ceasefire that halted major hostilities, insecurity and violence persist across many parts of Syria, which still ranked 10th globally in conflict-related fatalities in 2022. More than half of Syria's pre-conflict population remains displaced, including 6.8 million Internally Displaced Persons (IDPs) and 6.7 million refugees abroad. Between 2010 and 2021, GDP shrank by more than half. The decline in Gross National Income per capita led the World Bank to re-classify Syria as a low-income country in 2018.

In February 2023, a series of earthquakes severely hit northern and western Syria, where a large share of its population and economic activity were located. The 7.6 Richter scale shock was the deadliest in Syria since the one that hit Aleppo in 1822. The areas that experienced strong or higher levels of impact from the earthquake were home to 6.6 million Syrians, representing around 31 percent of the total population and about 17 percent of GDP in 2022 (estimated using nighttime illumination). Of the 6.6 million Syrians affected, 4.6 million (70 percent) live in areas outside of Syrian government control. The affected areas also hosted approximately 3 million IDPs, or 46 percent of all IDPs in Syria. The earthquake severely hit the area that has been most intensely contested among the warring parties of the more than decade-old civil war.

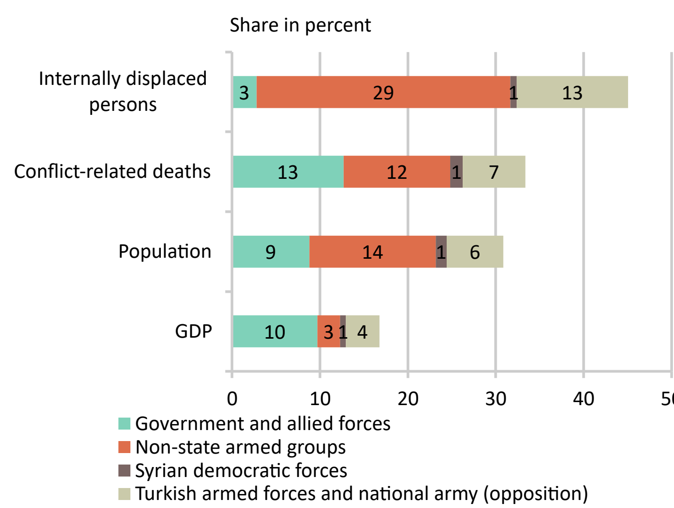
The earthquake caused massive human suffering and damages, resulting in approximately 6,000 fatalities, 12,000 injuries, and the displacement of roughly 600,000 individuals in Syria. In terms of physical impacts, the World Bank published a Rapid Damage and Needs Assessment (RDNA) that estimates the earthquake caused physical damages and losses across the six most affected governorates that amount to about 10 percent of Syria's GDP.

Recent developments

The earthquake caused temporary but widespread economic and trade disruptions. Alternative data tracking mobile device activity and nighttime illumination trends revealed a decline in mobility and a nationwide contraction in economic output in the aftermath of the disaster. Nighttime illumination data tracking gas flaring showed a contraction in oil production. Damage to roads and maritime facilities halted shipping and cargo arrivals following the earthquake, as indicated by shipping-position data. In addition, the destruction of roads connecting Antakya in Türkiye with the Bab al Hawa caused delays in delivering cross-border humanitarian assistance.

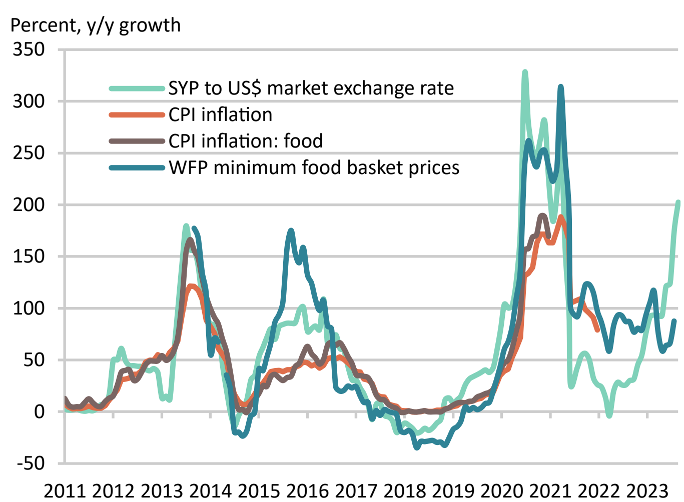
Currency depreciation and consumer price inflation accelerated after the earthquake. Since February 2023, the Syrian pound (SYP) lost about half of its value against

FIGURE 1 Syrian Arab Republic / Displaced persons are over-represented in earthquake-affected areas



Sources: Satellite images; USGS ShakeMap, Humanitarian Needs Assessment Programme (HNAP), Armed Conflict Location & Event Data Project, and World Bank staff estimates.

FIGURE 2 Syrian Arab Republic / Inflation and exchange rates



Sources: Syrian Pound Today, WFP Syria Price Database, Central Bureau of Statistics of Syria, and World Bank staff estimates.

the United States dollar (US$), reaching around SYP 14,000/US$ in the parallel foreign exchange market in early September. From February to July 2023, inflation, as proxied by the World Food Program (WFP) minimum food basket price index, rose by 27 percent, driven by reduced access to goods, disrupted supply chains, and heightened logistics costs, all of which exerted upward pressure on prices.

The pre-existing vulnerability of Syrian households has left many ill-equipped to cope with the lingering economic impact of the earthquake. Survey results from the REACH humanitarian situation overview in Syria, encompassing non-government-controlled areas of both the northwestern and northeastern regions, indicate that the adoption of coping strategies, such as selling household items and productive assets, has increased in earthquake-affected areas. Meanwhile, access to health services and sanitation continues to deteriorate.

The Syrian government further reduced subsidies through price hikes on essential goods and limited purchase quantities, exacerbating already dire living conditions. In August 2023, the government substantially increased the prices of subsidized gasoline and petroleum, in addition to a 50 percent hike in pharmaceutical prices, placing an additional burden on Syrians. Rising prices sparked massive demonstrations in southern Syria, non-regime-held northwest territories, and the northeastern governorates of Deir ez-Zor, Raqqa, and Hasakeh.

Outlook

Real GDP is projected to contract by 5.5 percent in 2023, extending the 3.5 percent decline last year. The earthquake has reduced the country's productive capacity, mainly by damaging physical capital and disrupting trade networks. Oil production is anticipated to remain low in 2023, with adverse effects on the industry. Crop production is expected to rebound from the near-historical lows observed in 2022, partly due to greater precipitation this year. On the consumption side, rising inflation, which is projected to increase from 44 percent to 62 percent, is set to lower real incomes and worsen household welfare throughout the country.

The earthquake by itself is expected to place only a small additional strain on public finances, assuming foreign aid largely addresses post-earthquake needs. However, the fiscal deficit is expected to remain large at 8.4 percent of GDP in 2023, as efforts to tighten fiscal subsidies are projected to only partly offset the cost-driven increase in expenditures.

Risks to the growth outlook are significant and tilted to the downside. The economy may contract more if earthquake-related reconstruction efforts fall short of expectations. The risk is heightened by a lack of public resources, low levels of private investment, and a combination of physical obstacles and security challenges that prevent humanitarian assistance from reaching some of the affected areas. Both, conflicts and earthquakes, destroy fixed capital and degrade human capital through disruptions in education services and psychological trauma; this is expected to produce large, sustained negative effects on productivity in the longer run.

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

	2020	2021	2022	2023e
Real GDP growth, at constant market prices[a]	-0.2	1.3	-3.5	-5.5
Inflation (consumer price index)	114.2	118.8	60.6	62.1
Fiscal balance (% of GDP)	-8.4	-9.5	-8.4	-8.4

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	2022
Population, million	12.4
GDP, current US$ billion	46.4
GDP per capita, current US$	3756.7
National poverty rate[a]	16.6
Lower middle-income poverty rate ($3.65)[b]	2.2
Gini index[b]	32.8
School enrollment, primary (% gross)[c]	112.3
Life expectancy at birth, years[c]	73.8
Total GHG emissions (mtCO2e)	39.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021).
b/ Most recent value (2015), 2017 PPPs.
c/ Most recent WDI value (2021).

Tunisia's economic outlook remains highly uncertain. After a moderate economic rebound in 2021, the economy slowed down in 2022 and further decelerated in the first half of 2023 amid a severe drought and uncertain financing conditions. The weak recovery complicates financing the large public debt and external needs, which remain elevated—in spite of an improving current account balance—due to the heavy debt service. Accelerating the recovery and stabilizing the economy will require the speedy implementation of fiscal and structural reforms.

Key conditions and challenges

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 and the current account deficits under the weight of a large public sector wage bill, higher consumer subsidies, and underperforming state-owned enterprises. The COVID-19 pandemic and Russia's invasion on Ukraine have exacerbated these long-standing weaknesses.

Tunisia's growth prospects hinge on decisive structural reforms to address economic distortions and fiscal pressures. These include: (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. Progress in these reforms is critical to stabilize the macroeconomic situation, accelerate the recovery, and lay the foundation for more sustainable economic growth.

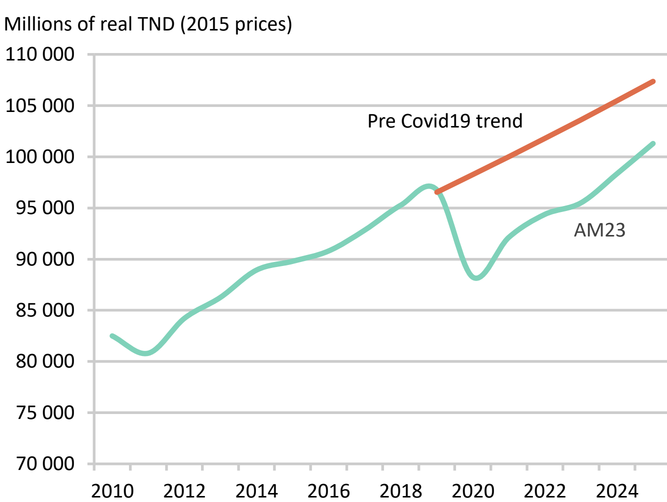
Recent developments

Economic recovery has been modest in real terms since the sharp contraction in 2020 due to COVID-19 (-8.8 percent). After a moderate rebound in 2021 (4.4 percent), the economy only expanded by 2.4 percent in 2022 and by 1.2 percent in the first half of 2023. The latest economic slowdown reflects the severe drought in the first half of 2023 (with agriculture declining by 9 percent in real terms) and the uncertain financing conditions.

The merchandise trade deficit declined in the first half of 2023 to 4.4 percent of GDP down from 7 percent in 2022 amidst robust manufacturing exports and more benign commodity prices. As a result, the current account deficit (CAD) fell from 4.1 to 1.5 percent of GDP over the same period, also helped by robust tourism receipts. While the decline in commodity prices and the energy and food subsidy bill provide some respite, the pressure on public finances remains elevated as public expenditure reforms continue to falter amid weak growth. This contributes to the challenges in financing the public debt, which between 2019 and 2022 increased from 67.8 to 79.8 percent of GDP (without including government guarantees and SOE debts).

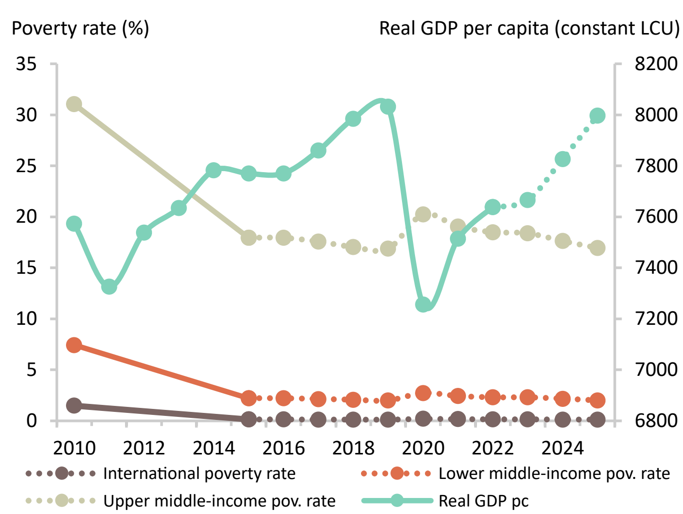
With limited access to international financing, the need to finance the sovereign continues to put pressure on banks' liquidity needs, which increased to TD15.6 billion in June 2023 from TD10.4 billion a year before.

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



Sources: World Bank estimates and National Institute of Statistics.

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



Source: World Bank. Notes: see Table 2.

After 18 consecutive months of increase, inflation started to moderate since February 2023, declining from 10.4 percent to 9.3 percent in August. The decline appears to be driven by lower global prices and weak domestic demand. However, inflation remains well above both the 2021-2022 average (7 percent) and food inflation is higher (15.3 percent), which presents a particular challenge for lower income households. Real interest rates remain negative as the Central Bank maintained the policy rate at 8 percent in 2023 after increasing it by 175 basis points in March-December 2022.

With weak economic growth, the unemployment rate increased slightly to 15.6 percent in Q2 2023 from 15.3 percent a year ago. This is one of the highest rates in the region and it is associated with a slight year-on-year increase in labor force participation. Hence, net job creation during the period has been low with only 3,500 jobs being created and a net loss of 15,500 jobs for female workers.

Outlook

With a projected growth rate of 1.2 percent in 2023, the economy appears to be significantly slowing down relative to the trend in 2021 and 2022. This reflects the challenging conditions linked to the drought, particularly for agriculture, the uncertainty around debt financing, and the weak momentum on structural reforms. With this growth rate, real GDP in 2023 would still be 1.3 percent below its pre-Covid 19 level. Assuming more stable financing conditions and a moderation of the ongoing drought, growth is expected to eventually gain some ground, reaching 3.0 percent in 2024 and 2025. This slight rebound would allow the economy to achieve a 2.4 percent annual growth over the post-Covid period. This appears to be the modest structural growth rate of an economy dragged by pre-existing structural weaknesses and the uncertainty around financing conditions.

Tunisia's public finance and external account will remain precarious in the absence of an IMF program and external financing, and uncertain global conditions. The budget deficit is expected to decline somewhat to 5.6 percent of GDP in 2023 (compared to 6.6 percent of GDP in 2022). That is mainly driven by lower energy subsidies, a lower wage bill in real terms, and an increase in tax revenues. Gross financing needs are expected to rise further at 16.0 percent of GDP in 2023 (from 12.6 percent in 2022) due to significant external debt amortization. The CAD is projected to moderate to 4.0 percent of GDP in 2023 thanks to strong travel exports and improved terms of trade. With FDI projected to be relatively stable and minimal portfolio investments, foreign lending would still have to shoulder the financing of the CAD. The 2023-24 growth forecast is subject to significant downside risks. Growth projections would be even lower should Tunisia not implement decisive fiscal and pro-competition reforms and/or should available financing not be sufficient to cover Tunisia's external needs. If these conditions occur, it may be challenging to secure sufficient foreign currency in the economy, which could lead to pressures on exchange rates and prices, exerting a negative impact on economic activity and employment. In addition should the drought conditions persist beyond this year, the 2024 projections could be revised downwards given the negative impact on agriculture and the trade balance.

Poverty using the Lower Middle Income Poverty Line (US$3.65/person/day line in 2017 PPP term) is projected to remain stable at 2.3 percent in 2022-23 and eventually decline to 2.0 percent by 2025. The share of poor and vulnerable at the upper-middle income country poverty line (US$6.85/person/day in 2017 PPP) is projected to return to pre-Covid levels at 17.0 percent by 2025.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-8.8	4.4	2.4	1.2	3.0	3.0
Private consumption	-2.1	2.4	2.2	2.7	3.8	4.5
Government consumption	-1.0	1.5	-1.2	-2.9	-0.5	-0.5
Gross fixed capital investment	-19.9	3.3	1.3	-7.3	2.9	5.0
Exports, goods and services	-20.0	11.8	15.2	9.4	5.1	3.3
Imports, goods and services	-16.6	10.9	9.3	8.6	4.8	5.1
Real GDP growth, at constant factor prices	-8.7	4.5	2.6	1.2	3.0	3.0
Agriculture	0.4	-2.7	0.7	-8.0	3.0	2.1
Industry	-10.1	8.7	-0.3	0.7	2.1	2.5
Services	-9.6	4.1	4.0	2.8	3.3	3.3
Inflation (consumer price index)	5.6	5.7	8.3	9.2	8.0	7.0
Current account balance (% of GDP)	-6.0	-6.0	-8.6	-4.0	-4.6	-5.5
Net foreign direct investment inflow (% of GDP)	-1.4	-1.1	-1.4	-1.3	-1.4	-1.4
Fiscal balance (% of GDP)	-8.7	-7.6	-6.6	-5.6	-3.6	-3.1
Revenues (% of GDP)	25.5	25.7	28.5	27.7	28.3	28.2
Debt (% of GDP)	77.8	79.9	79.8	77.9	75.9	73.8
Primary balance (% of GDP)	-5.6	-4.7	-3.4	-2.3	-0.2	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.2	0.2	0.2	0.1	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.7	2.4	2.3	2.3	2.2	2.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.2	19.1	18.5	18.4	17.6	17.0
GHG emissions growth (mtCO2e)	-3.7	3.6	3.4	2.7	2.5	2.0
Energy related GHG emissions (% of total)	70.6	71.2	71.6	72.0	72.4	72.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2015-NSHBCSL. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
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	2022
Population, million	9.6
GDP, current US$ billion	486.1
GDP per capita, current US$	50859.1
School enrollment, primary (% gross)[a]	115.4
Life expectancy at birth, years[a]	78.7
Total GHG emissions (mtCO2e)	268.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2021).

UAE's economy is expected to slow down, after the expansion of 2022, driven primarily by OPEC+ production cuts and global economic downturn. Despite easing oil prices and production levels, twin-balance surpluses are anticipated during 2023 and continue in the medium term. Tight monetary policy and cooling economic activity will keep inflation subdued. Key risks to the outlook include global uncertainty, financial tightening, oil price volatility, and climate change.

Key conditions and challenges

The UAE maintains its role as the regional center for trade, finance, and travel, bolstered by advances in economic diversification and reduced hydrocarbon dependency. However, intensifying regional competition, particularly from Saudi Arabia and Qatar, poses a challenge as these nations adopt strategies akin to Abu Dhabi's Economic and Environment Vision 2030 and Dubai's Industrial Strategy 2030.

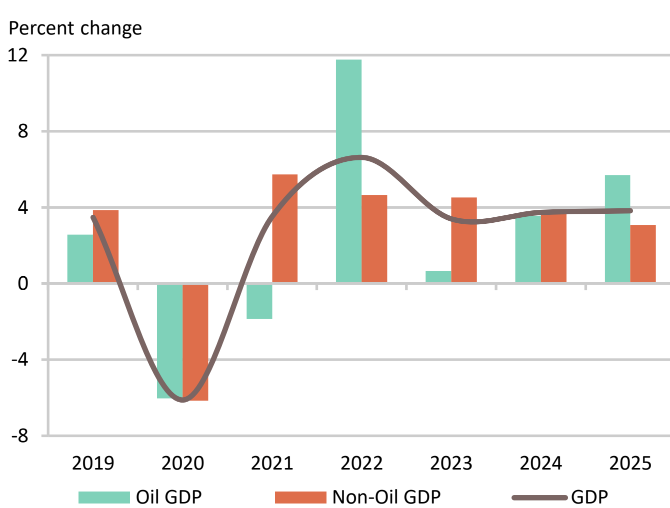
While hydrocarbon activity remains the primary source of government revenue, steps to diversify public revenues are continuing and include introducing VAT and CIT, coupled with a phased exit from the business fee structure. In addition, the UAE's 2050 strategies focus on enhancing trade, FDI, digital and AI investments, and renewable energy investment to address economic diversification and energy transition challenges. The outlook for the non-oil sector is strong while elevated energy prices are expected to continue strengthening external and fiscal positions.

The main impact of Russia's invasion of Ukraine on the UAE economy will be oil price volatility, global inflation, and tourism shocks. Domestic monetary policy will tighten in line with US Federal Reserve policy, possibly dampening economic growth and job creation. Key risks to UAE growth include global uncertainty and geopolitical developments, tighter financial conditions, and OPEC+ quota disagreements. However, increased Russian migration and capital inflows to the UAE over the past year have posed a potential upside risk, affecting the real estate sector and potentially enhancing economic activity. Enhanced UAE reform efforts offer upside risks to medium-term growth, but delays or digressions in structural reforms could weaken long-term growth and employment.

Recent developments

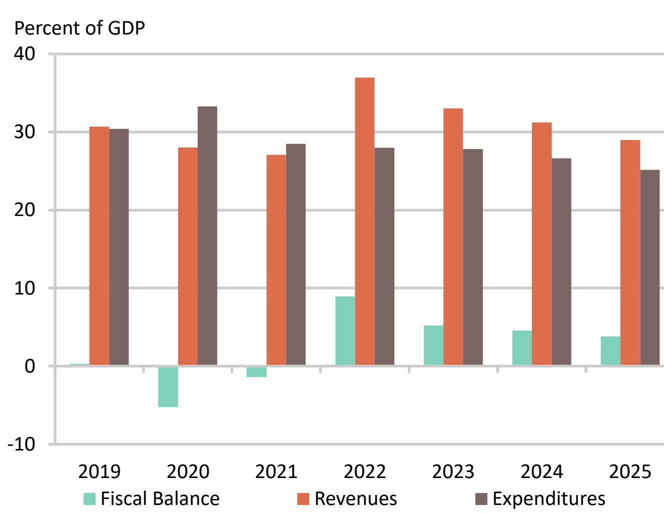
The UAE's economy grew by 6.6 percent in 2022 driven by increased oil production and strong performance of the non-oil sectors, especially construction and tourism. Effective management of the COVID-19 crisis, coupled with supportive fiscal measures and pro-business and social reforms, have helped strengthen economic development. During H1-2023, economic growth decelerated, driven primarily by developments in the oil sector as OPEC+ continued to cut oil production quotas; concurrently, the non-oil sector maintained robust growth supported by loose fiscal policy. Business sentiment continues to be positive in 2023 confirming strong non-oil performance. Improved operating conditions in the non-oil private sector, fueled by increased new orders, especially from international demand, drove the Purchasing Managers' Index (PMI) to 56.9 in June 2023, its highest level since June 2019. Meanwhile, oil production during H1 2023 fell to 2.9 million bpd in line with the OPEC+ agreements. Headline inflation

FIGURE 1 United Arab Emirates / Annual real GDP growth



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

FIGURE 2 United Arab Emirates / Public finances



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

reached 4.8 percent in 2022 and eased during the H1-2023 to reflect economic slowdown and easing price pressures in food and transport.
Following the US Federal Reserve's monetary tightening and maintaining the pegged exchange rate, the Central Bank of the UAE undertook multiple policy rate adjustments, pushing the base rate to 5.4 percent by July 2023. Despite rising rates, the non-performing loans ratio dropped to 6.4 percent and private sector credit grew to 6 percent in Q1 2023, signaling strong economic recovery. Overall, banks remain well-capitalized and liquid. The regulatory framework continues to strengthen, driven by progresses in the National AML/CFT Strategy and enhanced monitoring per Financial Action Task Force guidelines.
After registering a strong fiscal surplus in 2022, the fiscal balance narrowed during H1-2023 to reflect easing oil prices and oil production level. Meanwhile, high oil receipts and increasing non-oil exports have improved the current account balance which is estimated to reach 12.4 percent of GDP. Additionally, the signing of free-trade agreements with significant Asian and African markets is expected to continue enhancing non-oil exports and further support the external balance surplus.
Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. According to the most recent available ILO estimates, the labor force participation rate was expected to reach 82.7 percent in 2023, slightly above its 2019 level. Employment rebounded in 2022 to pre-pandemic levels and was expected to continue to increase in 2023. The employment-to-population ratio in 2023 is estimated at 80.4 percent among men and at 52.5 percent among women (ILO estimates). The unemployment rate was projected to be 2.7 percent for 2023, a decrease from the height of the pandemic but still not back to 2019 rates. Unemployment rates remain substantially higher among young adults ages 15-24 than among adults ages 25 and over. The gap is especially wide among women, with projected rates of 18.6 percent and 5.5 percent respectively for 2023.

Outlook

Economic activity is anticipated to slowdown in 2023 to 3.4 percent due to weaker global activity, stagnant oil output, and tighter financial conditions. Following tighter OPEC+ production quotas, oil GDP growth is projected at 0.7 percent in 2023 but expected to recover strongly in 2024 as production quotas are relaxed. On the other hand, non-oil output is forecast to support economic activity in 2023, growing at 4.5 percent, with the strong performance in tourism, real estate, construction, transportation, and manufacturing and a surge in capital expenditure. The introduction of mandatory unemployment benefits in 2023 should further bolster private consumption and support overall domestic demand.
Tight monetary policy, a strong US dollar, and a slowdown in economic activity will keep inflation rates subdued—hovering around 3.3 percent in 2023 and decreasing to 2.2 percent in 2024. Robust oil revenues, supported by strong performance of non-oil sectors, will maintain the fiscal balance surplus at 5.2 percent of GDP in 2023. Implementation of fiscal revenue reforms, e.g. introduction of CIT, and maintaining prudent and well-coordinated emirate-specific fiscal anchors and rules should improve fiscal buffers and overall fiscal sustainability. Non-oil exports, aided by bilateral trade agreements and the opening of new markets, will grow as imports slow to 4.4 percent in 2024, narrowing the current account to 11.8 percent of GDP.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.1	3.5	6.6	3.4	3.7	3.8
Private consumption	-12.5	5.0	5.5	4.4	4.1	4.0
Government consumption	0.6	1.4	3.5	2.6	2.3	2.1
Gross fixed capital investment	5.8	5.4	5.8	4.6	3.6	3.5
Exports, goods and services	-7.0	6.8	8.4	4.2	4.4	4.3
Imports, goods and services	-6.4	8.8	7.4	5.0	4.4	4.1
Real GDP growth, at constant factor prices	-6.1	3.5	6.6	3.4	3.7	3.8
Agriculture	6.9	3.8	3.4	3.5	3.5	3.0
Industry	-5.5	1.3	8.8	3.1	2.6	3.8
Services	-6.9	5.7	4.6	3.6	4.9	3.9
Inflation (consumer price index)	-2.1	-0.1	4.8	3.3	2.2	2.0
Current account balance (% of GDP)	6.0	10.6	13.8	12.4	11.8	11.6
Fiscal Balance (% of GDP)[a]	-5.2	-1.4	9.0	5.2	4.6	3.8
Revenues (% of GDP)	28.0	27.1	37.0	33.0	31.2	29.0
Debt (% of GDP)	40.0	32.0	31.3	27.8	23.4	20.1
Primary balance (% of GDP)	-4.9	-1.1	9.2	5.4	4.7	3.9
GHG emissions growth (mtCO2e)	-4.1	7.3	7.0	-1.3	3.0	2.6
Energy related GHG emissions (% of total)	72.6	73.6	74.9	74.4	74.7	75.1

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	2022
Population, million	33.7
GDP, current US$ billion	21.9
GDP per capita, current US$	650.3
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	63.8
Total GHG emissions (mtCO2e)	19.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2016); Life expectancy (2021).

Economic conditions in Yemen have significantly deteriorated since the formal UN-brokered truce expired in October 2022. The ongoing Houthi oil export blockade has further strained Yemen's fragile economy, leading to mounting challenges, including inflation, currency depreciation, and policy divergence. Downside risks include conflict-related developments, new adverse terms of trade shocks, and natural disasters posing a significant threat to Yemen's stability.

Key conditions and challenges

Yemen's humanitarian crisis is deeply rooted in its conflict and complex political and economic landscape. Between 2015 and 2022, the country has experienced a staggering 52 percent contraction in real GDP per capita, leaving two-thirds of the population, approximately 21.6 million individuals, in need of humanitarian assistance. Moreover, the ongoing conflict has intensified the fragmentation of the country into two distinct economic zones, each governed by its unique set of institutions and policies, resulting in an increasing disparity despite the evident interconnections.

During 2022, Yemen's economy showed improvement, supported by a truce that brought a glimmer of hope, albeit without the parties reaching a permanent political settlement. The two-month UN-brokered truce between the Internationally Recognized Government (IRG) of Yemen and the Houthis, starting in April 2022 and extended twice, temporarily halted offensive hostilities, providing some relief for civilians, and allowing for limited economic recovery. The truce expired in October 2022 and, although an informal truce remained in place, the situation worsened as a result of a Houthi-imposed blockade on IRG's oil exports.

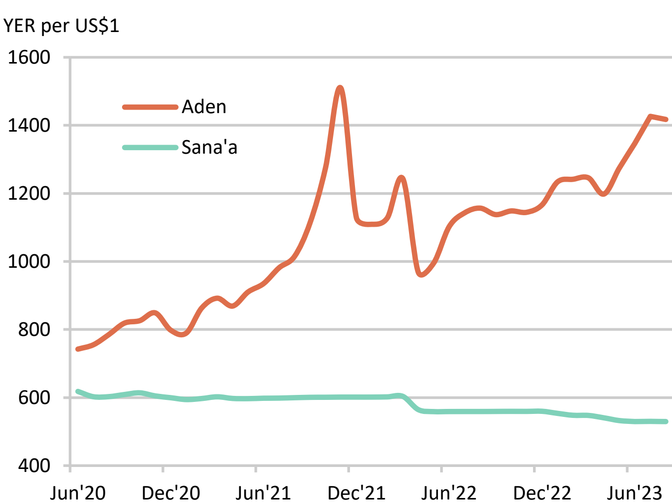
Yemen continues to face deep structural challenges. Growth in the oil sector depends on Yemen's ability to attract foreign investment, which remains contingent on improving security and achieving peace. Non-oil activity continues to be constrained by interruptions in essential service delivery, acute input shortages, double taxation, widespread corruption, market distortions from uncoordinated policies, and the multiplicity of Yemen's institutions. Moreover, reliance on remittances and aid flows, coupled with climate change vulnerability, leaves Yemen exposed to external factors.

As a result, amid rising poverty and food insecurity, many households, having exhausted traditional safety nets, now resort to dire measures like child labor or high-risk jobs. To deal with widespread poverty and food insecurity, some households, particularly the better-off, can sell assets or use savings. But many more households have already exhausted these usual coping strategies and are adopting last-resort coping strategies with long-term destructive consequences.

Recent developments

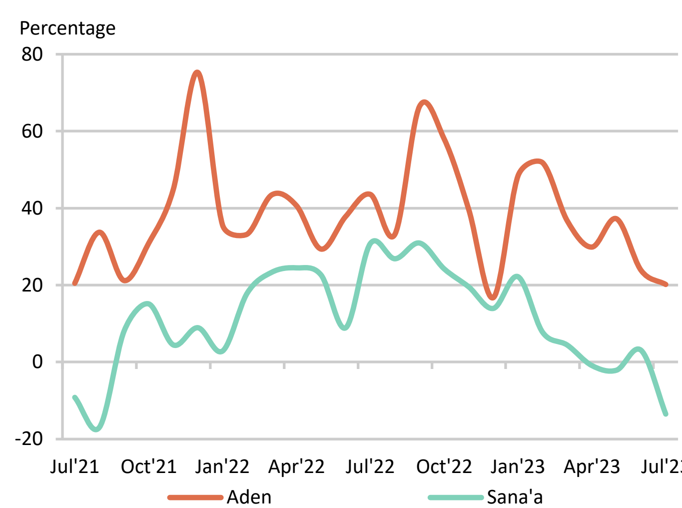
The truce's expiration triggered a series of adverse economic events that negatively impacted Yemen in 2023. Overall, GDP is projected to decrease, in reals terms, by 0.5 percent in 2023, after rebounding by 1.5 percent in 2022. The most impactful event was the Houthi blockade on IRG's oil exports, resulting in a sharp projected decline in oil production. At the same time, a relatively more volatile currency on the Aden foreign exchange market, high inflation, and an increase in

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



Sources: Telegram Exchange Market Group and World Bank staff calculations.

FIGURE 2 Republic of Yemen / Inflation rate: Sana'a and Aden



Sources: Reach Joint Market Monitoring Initiative and World Bank staff calculations.

hostile activities have weighed on the private sector non-oil activity.

The expiration of the truce resulted in tightened fiscal conditions. Data from the Aden MOF shows a significant decline of more than 40 percent in IRG revenues, mainly due to a sharp reduction in oil exports. In response, IRG implemented drastic cuts in expenditures, including electricity subsidies and goods and services spending. Despite these cuts, the fiscal deficit (on a cash basis) is expected to remain around 2.9 percent of GDP in 2023. The recent announcement of US$1.2 billion in Saudi budget support - with a recent deposit of US$250 million as the first tranche -, could ease some pressure, helping cover key expenses such as public sector salaries and electricity subsidies.

The halting of oil exports has increased external pressures and eroded confidence in the currency on the Aden market. The current account deficit is forecasted to reach 21.8 percent in 2023. In addition, gross liquid FX reserves are now below one month's worth of imports. As a result, confidence in the currency has been eroding since May on the Aden market. As of end-August 2023, the YER had depreciated to YER 1,418 per US$1 on the Aden market, returning to end-2021 levels; meanwhile, the YER appreciated slightly on the Sana'a market over the same period. Along with securing further assistance, replenishing reserves will be critical to maintain Yemen's economic stability and safeguard hard-won reforms.

Inflationary dynamics have continued to diverge significantly across regions in 2023. Sana'a has witnessed a sharp reduction in consumer price inflation during the first seven months of 2023, averaging 2.2 percent, compared to 20.5 percent in 2022. This reduction can be attributed to a relatively steady money supply and the base effects of the commodity price shock in 2022. Conversely, inflation in Aden has remained elevated, reaching around 34.7 percent during the first seven months of 2023, compared to an average of 39.2 percent in 2022.

Outlook

The macroeconomic outlook for 2024 remains highly uncertain, contingent on the resumption of oil exports and ongoing truce negotiations. Economic stability in the short run hinges heavily on predictable and sustainable hard currency inflows and political/military developments. Assuming oil exports resume in 2024 to 2022 levels, we project real GDP growth of 2.0 percent in 2024. However, if a lasting truce or peace agreement is achieved, Yemen's economy could see more sustained growth within months, driven by an expected rapid rebound in transport, trade, financial flows, and reconstruction financing. Over the medium term, growth is conditional on a peace agreement, prudent policies, and robust reform and recovery efforts backed by international donors. Ensuring that this growth trickles down to the most vulnerable will require sustained investments in human capital that have been severely impacted by many years of protracted conflict.

Despite some positive developments, risks to the economic outlook remain high. The recent rapprochement between regional powers marks a significant step towards alleviating longstanding regional tensions that have hindered Yemen's development prospects. Additionally, the ongoing negotiations between KSA and the Houthis could change the dynamics on the ground. However, risks persist, including the resurgence of hostile activities triggered by regional or domestic tensions, new adverse terms of trade shocks, and new natural disasters posing a significant threat to Yemen's fragile economy. Most significantly, the reduction in humanitarian aid will result in significant increases in the prevalence of the food poor. Moreover, policy inaction due to political gridlock remains a paramount risk. It could potentially yield adverse repercussions on the fiscal front, particularly considering the sluggish momentum of reforms. Such inaction might lead to an escalation in monetary financing, exacerbating inflationary pressures. Nevertheless, maintaining a sustained focus on monetary and macroeconomic stability while strengthening policy and institutional capacity can help improve the immediate macroeconomic prospects.

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

	2020	2021	2022	2023e	2024f
Real GDP growth, at constant market prices	-8.5	-1.0	1.5	-0.5	2.0
Inflation (Consumer Price Index)[a]	21.7	31.5	29.5	14.9	17.3
Current account balance (% of GDP)	-14.1	-17.3	-16.5	-21.8	-13.5
Net foreign direct investment inflow (% of GDP)	-0.3	3.5	0.9	0.7	0.7
Fiscal balance (% of GDP)	-4.8	-1.0	-2.8	-2.9	0.0
Revenues (% of GDP)	6.7	7.8	10.3	5.3	8.8

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/
2023

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