Middle East and North Africa

Macro Poverty Outlook

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

Spring Meetings 2020

WORLD BANK GROUP
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Poverty & Equity

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Middle East and North Africa

Spring Meetings 2020

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Foreword

The projections contained in this volume are the joint product of the Macroeconomics, Trade and Investment, and the Poverty and Equity Global Practices of the World Bank. They were produced by a team of macroeconomic and poverty economists spanning the globe. These projections were produced while the COVID-19 pandemic was expanding rapidly, and the physical distancing and economic policy responses to it were in constant flux. As a result, the level of uncertainty over future events was particularly high. While we recognize that these projections will inevitably be revised as new information becomes available, we hope that sharing them at this time will make a positive contribution to policymakers' struggle to respond to this generational challenge.

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ALGERIA

Table 1	2019
Population, million	42.7
GDP, current US$ billion	206.3
GDP per capita, current US$	4834
National poverty rate[a]	5.5
International poverty rate ($ 1.9)[a]	0.5
Lower middle-income poverty rate ($ 3.2)[a]	3.9
Gini index[b]	27.6
School enrollment, primary (% gross)[c]	111.8
Life expectancy at birth, years[c]	76.5

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

Following a year of political uncertainty and social unrest leading to the deceleration of economic activity, Abdelmadjid Tebboune won the December 2019 Presidential election. In 2020, the COVID-19 outbreak will slow down consumption and investment, while falling oil prices will cut into fiscal and export revenues. The new Government has the difficult task to maintain macroeconomic stability, respond to the public health crisis and pursue structural reforms.

Recent developments

GDP growth moderated to 0.9 percent in 2019, compared to 1.4 percent during the previous year. The oil sector has shown a lower average contraction in the first nine months of 2019 compared to the previous year (-4.3 percent against -6.4 percent in 2018). Meanwhile, non-hydrocarbon activity grew by 2.6 percent over the same period, down from 3.3 percent in 2018.

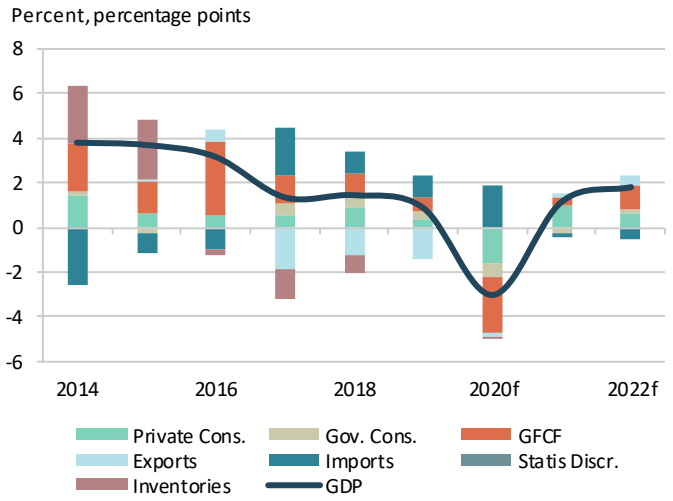
On the demand side, higher public investment and public consumption supported economic activity, but social unrest and political uncertainty hampered private consumption growth, which reached 1 percent on average during Q1-Q3 2019, down from 1.4 percent in 2018. These evolutions were mirrored on the supply side, with growth moderating in construction, agriculture and commercial services.

On the external front, product imports declined by 9.5 percent in 2019 to reach 24.3 percent of GDP, in line with the decline in domestic consumption and import restriction policies. Product exports fell early in the year before recovering, tracking international oil prices. As export revenues declined by 13.4 percent, to 20.6 percent of GDP, but from a lower base, the trade deficit in goods narrowed to 3.5 percent of GDP, compared to 4.4 percent in 2018. The current account deficit is expected to reach 10.2 percent of GDP, from 9.8 percent in 2018, and was covered primarily by further drawing down on international reserves, which have dropped to US$ 61.5 billion at end-2019 (12.9 months of imports), down from US$ 79 billion the year before.

Based on the Government's Action Plan, the overall budget deficit increased to 11.5 percent of GDP, up from 9.7 percent in 2018. Despite a stable fiscal balance, a transfer to the pension fund worth 3.2 percent of GDP sharply increased below the line operations (+83 percent). Increased spending (+6.1 percent in 2019, to 39.6 percent of GDP) otherwise compensated the increase in revenues (+7.1 percent, to 32.7 percent of GDP). Both current and capital expenditures grew, at rates of 6.6 and 5.4 percent, respectively. Oil revenues improved compared to 2018, while tax revenues stabilized. Most of the deficit was financed through the banking system, however more than 70 percent of public debt is owed to the Central Bank, in the context of monetary financing operations carried out between 2017 and 2019. Public debt rose markedly to 45.8 percent of GDP, from 37 percent in 2018. Nonetheless, inflation moderated to 2.7 percent in 2019, against 4.3 percent in 2018, led by a low increase in the price of food products, accommodation as well as transports and communication.

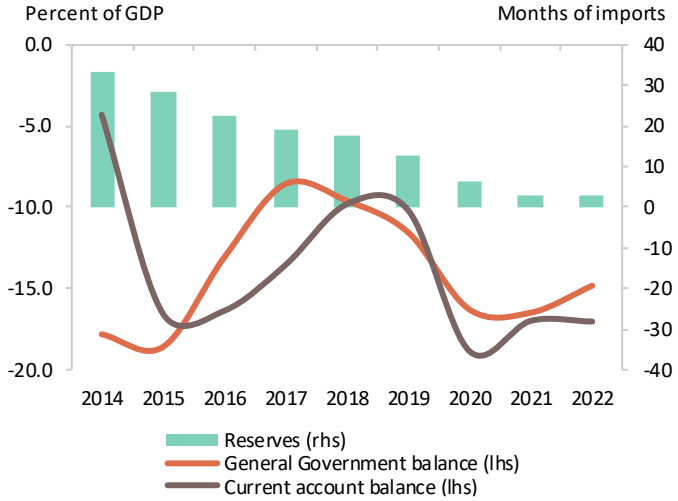
The unemployment rate stabilized, reaching 11.4 percent in May 2019. Women and youth still endure higher rates, of 20.4 percent and 26.9 percent, respectively. Recent estimates of official poverty rates are not available, yet the latest estimates from 2010/11 show that 5.5 percent of the population was considered poor, with the Sahara and Steppe regions having two and three times the national poverty rate, respectively.

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



Sources: Algerian authorities, World Bank staff estimates.

FIGURE 2 Algeria / Twin deficits and international reserves



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

Outlook

Algeria is facing a combined shock from halving oil prices, a public health crisis and the consequences of global economic disruptions following the COVID-19 outbreak. An oil price at US$ 30/barrel in 2020 would decrease Algeria's total fiscal revenues by 21.2 percent. Despite cuts to public investment (-9.7 percent) and public consumption (-1.6 percent) envisaged by the 2020 Finance Law, the fiscal deficit would increase to 16.3 percent of GDP.

Meanwhile, the sharp decline in export revenues (-51 percent) will lead the trade deficit to expand to 18.2 percent of GDP and the current account deficit to peak at 18.8 percent of GDP in 2020, despite efforts to contain imports and weak domestic demand. Without further measures, reserves would fall to US$ 24.2 billion or around 6.1 months of imports at end-2020.

GDP is currently projected to contract by 3 percent, in line with contracting private consumption and investment, as well as falling public investment, which represents 44 percent of total investment. COVID-19 containment measures such as restriction on movement and gatherings, compounded by high economic uncertainty, will discourage private consumption and investment. The demand for services, non-essential consumption goods and private investment will fall, while supply disruptions might arise.

Data unavailability precludes the preparation of poverty forecasts. Nonetheless, the economy's potential for poverty reduction is limited amid negative per capita growth and chronic unemployment. Inflation would increase to 4 percent in 2020. Supply disruptions from China and Europe as a result of the COVID-19 outbreak, which account for over 80 percent of Algerian imports, could cause delays and increase import prices. Meanwhile, subsidy reforms are likely to be delayed.

Risks and challenges

High and rapidly expanding fiscal and current account deficits require urgent action as public debt is rising, reserves should be exhausted in 2021, and contingent liabilities loom. Past and present policy measures to address the twin deficits, such as import restrictions or monetary financing, provide short term fixes which would need to be complemented by reforms addressing structural weaknesses in the economy. Exchange rate devaluation could provide further breathing space.

Lower than projected oil prices could aggravate fiscal and current account deficits and accelerate international reserve loss. Amid limited expected borrowing internationally, domestic borrowing will rise, just as borrowing costs increase. Resorting to additional monetary financing could generate inflationary risks.

Faster domestic spread of the COVID-19 virus could lower private consumption and investment further. It would increase public health expenditures and lower non-oil fiscal revenues, aggravating the deficit. The expected Amended Finance Law for 2020 should align with Government priorities and tackle the current crisis. Although delaying fiscal consolidation increases the risk of a sharper adjustment down the road, large cuts in investment could suffocate non-oil growth. Meanwhile, mounting contingent liabilities arising from public banks with exposure to struggling SOEs will add to fiscal risks.

Efforts to boost private investment such as the withdrawal of 51/49 law in non-strategic sectors will be hampered by domestic and global uncertainties. Nonetheless, in the medium term, significant improvements to the business environment will be key to incentivize private sector investment, encouraging diversification, while building resilience and fostering growth.

TABLE 2 **Algeria** / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.3	1.4	0.9	-3.0	1.1	1.8
Private Consumption	1.8	2.8	1.2	-5.0	3.0	2.0
Government Consumption	2.8	2.3	2.0	-3.1	-1.2	1.0
Gross Fixed Capital Investment	3.4	3.0	1.5	-6.6	1.2	3.1
Exports, Goods and Services	-6.1	-4.3	-5.3	-1.0	0.7	1.4
Imports, Goods and Services	-7.1	-3.6	-3.7	-7.3	0.8	2.2
Real GDP growth, at constant factor prices	1.4	1.4	0.9	-3.0	1.1	1.8
Agriculture	1.0	5.0	0.5	2.0	1.0	1.0
Industry	4.6	4.8	3.8	-5.1	0.3	0.5
Services	0.5	0.1	0.0	-2.7	1.4	2.2
Inflation (Consumer Price Index)	5.6	4.3	2.7	4.0	3.0	3.0
Current Account Balance (% of GDP)	-13.5	-9.8	-10.2	-18.8	-17.0	-17.0
Fiscal Balance (% of GDP)	-8.5	-9.6	-11.5	-16.3	-16.5	-14.8
Debt (% of GDP)	27.0	38.2	45.9	56.2	67.1	75.7
Primary Balance (% of GDP)	-7.6	-9.1	-11.0	-15.3	-14.6	-13.0

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

The cut-off date for information in this MPO was April 02, 2020.

BAHRAIN

Table 1	2019
Population, million	1.5
GDP, current US$ billion	37.9
GDP per capita, current US$	25257
School enrollment, primary (% gross)[a]	101.2
Life expectancy at birth, years[a]	77.0

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

Overall economic growth is expected to contract this year as economic disruption associated with COVID-19 will weaken oil demand and weigh heavily on non-oil activity. The fiscal and external deficits are expected to reverse the narrowing path observed in 2019. Then the budget deficit is projected to only gradually narrow, given lower oil revenues and the large off-budget spending. A key source of stress is large interest payments on the external debt, intensifying pressure on reserves. Downside risks arise from the twin crises for the Gulf of continued plunge in oil prices and COVID-19 escalation.

Recent developments

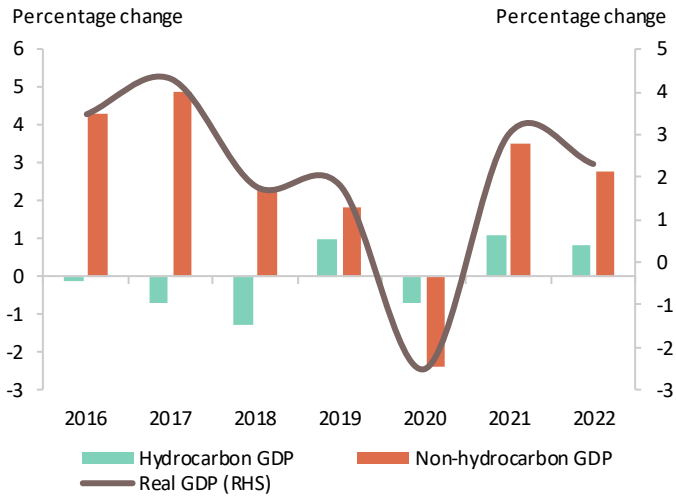
Overall growth is estimated to have remained flat at 1.8 percent in 2019 due to drag from fiscal consolidation measures. Non-oil sector growth is estimated to have remained around 2 percent, sustained by gains in finance, construction and hospitality, against the significant declines in other sectors including manufacturing and real estate. Oil GDP growth is estimated to have returned to positive figure-rising to 1 percent, following a 1.3 percent contraction in 2018, driven by slightly better crude oil production, while capped by the now-lapsed OPEC+ output cut agreement. Inflation has weakened at an average of 1 percent in 2019 despite the introduction of VAT in January 2019, reflecting weak domestic demand.

While narrowing, the fiscal deficit is estimated to have remained sizeable. The Fiscal Balance Program (FBP) aims to achieve a balanced budget by 2022 supported by US$10 billion in financing from other GCC countries. While declining under the FBP, the budget deficit is estimated to have remained in double-digit exceeding 10 percent of GDP in 2019 due to lower oil prices and extra-budgetary spending, which makes the prospect of achieving a balanced budget by 2022 most unlikely. The new VAT is estimated to have boosted non-oil revenue by 2.4 percentage points of non-oil GDP in 2019 compared to 2018. However, in January 2020, the cabinet agreed to waive VAT on utility bills, reflecting the visibility of this charge despite the modest level of the tax.

Despite weaker oil prices, the current account deficit is estimated to have narrowed to 3 percent of GDP, from almost 6 percent of GDP at end-2018, driven by non-oil trade dynamics and smaller outflows of remittances. Foreign reserves are estimated to have recovered by a US$1.5 billion increase in 2019 to reach US$3.7 billion (or 2.8 months of non-oil imports), up from 1.3 month of non-oil imports at end-2018, boosted by the disbursement under the GCC support, the renewal of bond issuance, and lower current account deficit.

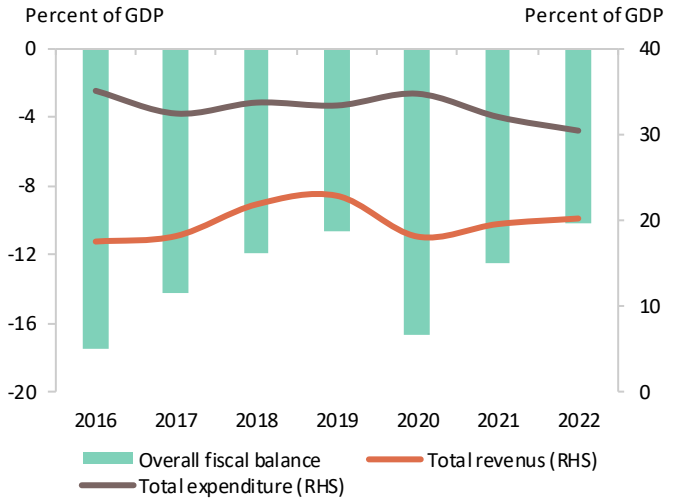
Persistent large fiscal deficits have led to a rapid rise in the public debt-to-GDP ratio, estimated at over 100 percent in 2019, from nearly 95 percent in 2018. However, the FBP, accompanied by US$10 billion in regional support, had reduced market stress and led to a significant decline in bond spreads. Like other GCC members, Bahrain has a significant share of working-age population. The latest data available from the Labor Market Regulatory Authority (LMRA) for 2019 Q2 shows that total employment decreased in 1.6 percent from the second quarter of 2018, driven by a 3.6 percent decline in employment of Bahrainis, while the reduction in employment among non-Bahrainis was 1.1 percent. Among the former (the Bahrainis), the decline in employment appears to be associated to the second phase of the voluntary retirement scheme (VRS), implemented during Q2 of 2019. In addition, it is worth noticing that in Q2 of 2019, expatriates accounted for 79.5 percent of the country's total employment.

FIGURE 1 Bahrain / Real annual GDP growth



Sources: Bahrain authorities, and World Bank staff projections.

FIGURE 2 Bahrain / General government operations



Sources: Bahrain authorities, and World Bank staff projections.

Outlook

The near-term economic growth outlook is negative, arising from low oil prices and unfavorable global conditions as the scale of disruption from COVID-19 has grown. With oil prices in the mid-$30s in 2020, GDP growth is expected to contract by 2.5 percent before bouncing back to an average of 2.7 percent in 2021-2022, supported by infrastructure projects. The non-oil economy is increasingly underpinned by GCC-financed investment to boost infrastructure, which in turn is an enabler of the financial center and tourism sectors. The expansion of Aluminum Bahrain (Alba) line 6 that opened late 2019 will further boost GDP and provides some upside potential from lower energy prices. Despite ongoing reforms to reduce the budget deficit, high dependency on oil and limited room to cut spending will make Bahrain more vulnerable to the volatility in oil prices. As such, the crash in the oil prices will widen the fiscal deficit to over 16 percent of GDP in 2020, and the current account deficit to 9 percent of GDP, reversing the narrowing path seen in previous year.

Continuing fiscal reforms and emphasizing better-targeted subsidies under the FBP will help to narrow the fiscal deficit over 2021-2022, assuming the costs of the VRS is financed off budget. Public debt is expected at around 125 percent of GDP in 2020, and to increase further in 2021-2022 given the sizable gross financing needs. The current account deficit is likely to persist, albeit at moderate levels. This is in turn could decrease foreign reserves and delaying the buildup in external resilience.

Despite ongoing reforms and while implementing the FBP, the country faces difficult public policy choices deriving from reforms in social spending that may impact the delivery of public services and safety net programs. In the context of the disruptions associated with the COVID-19, negative impacts in labor incomes are expected, especially in tourism, services and construction. To protect the most vulnerable individuals and businesses, the government introduced in March a stimulus package of US$11billion.

Risks and challenges

Key immediate risks to the outlook include the collapse in oil prices stemming from the COVID-19 and OPEC+ breakdown which will have a substantial negative impact on growth, fiscal revenue, and foreign-currency earnings. With travel restrictions imposed, service sector activity will suffer due to weaker domestic demand, as well as other sectors, such as restaurants, and entertainment. The sharper swings in energy prices, tightening of global financial conditions, and weakening of global demand will lead to further demands on fiscal policy. Excessive recourse to domestic financing would also intensify pressures on reserves and crowd out the private sector. Coming close to a balanced fiscal position by 2022 will require stronger fiscal measures including further subsidy reform and savings associated with the VRS, along with improving spending efficiency to narrow these risks. That said, recent fiscal stimulus, and increased aluminum production from Alba Line 6 will boost growth. The risks are also mitigated by a pre-existing mechanism for support from the rest of the GCC through the Development Fund. The record of strong GCC support for Bahrain also mitigates the liquidity risks it faces from increased funding needs.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.3	1.8	1.8	-2.5	3.0	2.3
Private Consumption	1.3	-1.9	1.6	0.5	1.7	1.5
Government Consumption	11.0	0.6	0.9	-2.1	1.0	0.8
Gross Fixed Capital Investment	10.6	9.5	5.0	2.6	3.3	2.7
Exports, Goods and Services	3.7	3.3	4.3	1.5	2.3	3.5
Imports, Goods and Services	7.6	5.7	4.4	1.8	2.7	2.4
Real GDP growth, at constant factor prices	4.3	1.8	1.8	-2.5	3.0	2.3
Agriculture	-0.9	3.8	1.8	1.6	2.2	2.4
Industry	0.6	2.3	1.2	0.7	1.6	1.4
Services	7.2	1.4	2.3	-4.9	4.1	3.0
Inflation (Consumer Price Index)	1.4	2.1	1.0	2.8	2.4	2.3
Current Account Balance (% of GDP)	-4.5	-5.9	-3.0	-9.2	-7.3	-5.3
Net Foreign Direct Investment (% of GDP)	0.8	1.9	1.9	2.2	2.1	2.0
Fiscal Balance (% of GDP)	-14.2	-11.9	-10.6	-16.6	-12.5	-10.2

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

DJIBOUTI

Table 1	2019
Population, million	1.0
GDP, current US$ billion	3.6
GDP per capita, current US$	3667
International poverty rate ($1.9)[a]	17.1
Lower middle-income poverty rate ($3.2)[a]	40.2
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	69.6
Life expectancy at birth, years[b]	65.9

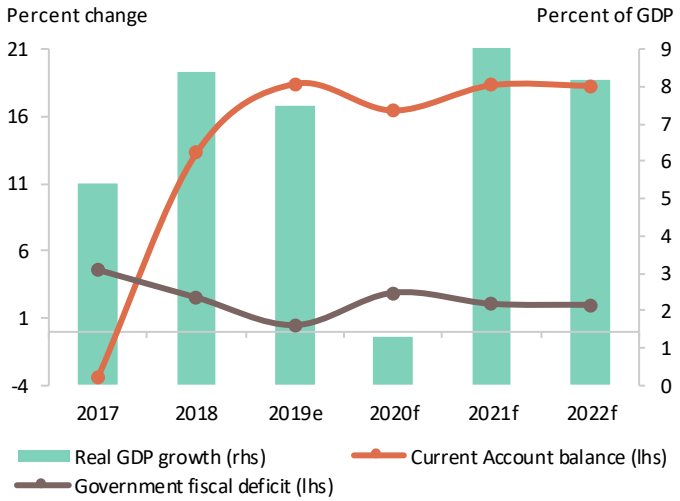
Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2017).

After two decades of strong economic growth, Djibouti's economy is expected to slow dramatically as the government takes restriction measures to avoid rapid and wide spread of the COVID-19 in local communities and strain healthcare systems. Per capita GDP is expected to contract for the first time since the global financial of 2009. With the rigid monetary regime (currency board) and virtually no fiscal buffers to protect vulnerable households, the social impact of the crisis could be particularly devastating.

Recent developments

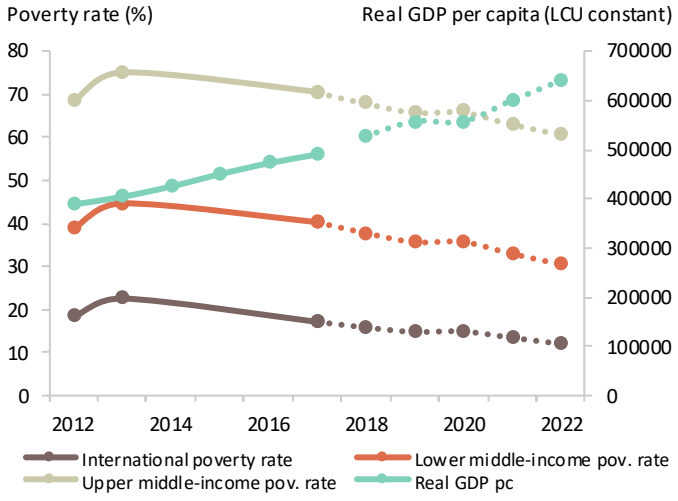
After 8.4 percent in 2018 and 7.5 percent in 2019, growth is expected to slow to 1.3 percent in 2020 compared to an initial projection of 7.5 percent, as the economic machine stops for weeks because of the COVID-19 outbreak. The first case of coronavirus in Djibouti was confirmed on March 18, 2020. The patient arrived in Djibouti on March 14 and was tested positive on March 17. As an early response, the Government suspended all in and out international passenger flights on March 18, 2020, closed schools and universities on March 23, and ordered a general lockdown starting from March 27, 2020. As of March 31, there were 30 confirmed cases of COVID-19 in Djibouti, with no death. While it is early to assess the overall economic impact of these measures, government simulations indicate that they could cost 0.75 percent of GDP per week of general lockdown for a duration of 8 to 10 weeks needed to flatten the curve. Airport, hotels and restaurant activities were put on near-standstill by the suspension of the international passenger flights while construction, general trade, transportation, and services were particularly hit by the general lockdown. While ports and logistics activities were near-normal in the first quarter of 2020, international trade is projected to decline in Ethiopia from 35.2 percent of GDP in 2019 to 31.6 percent of GDP in 2020, with imports of goods and services declining by 0.5 percent in 2020. Container terminal volume increased by 6.8 percent in 2019 to reach 917,000 TEU, while bulk cargo volume increased by 20.2 percent, to 5.7 million tons in the same period. The year-on-year inflation rate increased from 2.2 percent in January to reach a peak of 4.3 percent in September, before starting a declining trend. In February 2020, inflation stood at 2.7 percent on a year-on-year basis. As a regional transportation and logistics hub, Djibouti is highly exposed to global and regional value-chain disruptions related to the COVID-19. Demand for logistics services and reexport activities are expected to decline together with international trade in Ethiopia and global transshipment. As a result, the current account surplus (including free zones) is expected to decline to 16.5 percent of GDP down from 18.5 percent of GDP in 2019. Excluding the free zones, the current account is expected to show a wider deficit of 5.8 compared to 2.5 percent of GDP in 2019. The financing of the current account deficit become challenging as FDI inflows are expected to be lower at 4.0 percent of GDP while the debt amortization remains important. As a result, the Central Bank reserve holdings are expected to decline to 2.8 months of imports (excluding imports related to free zone reexports), slight below the adequate level of 3 months. In addition, the declining trend of the budget deficit initiated since 2015 will be stopped as fiscal revenues fall together with the nominal GDP and health and social protection expenditures soar with the government's response to the COVID-19. The government has already delayed the deadline for the payment of corporate income tax by a month to End April 2020 to ease

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



Sources: Government of Djibouti and World Bank staff projections.

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



Sources: World Bank. Notes: see Table 2.

pressure on SMEs' cash management but, recovery rate is expected to be lower. Health expenditures have also increased as the government has scaled up testing, tracing and treating capacity with two hospitals dedicated to receiving COVID-19 patients. The government will cut non-essential current expenditure and postpone some investment projects to create room for higher safety nets coverage. Overall, the fiscal deficit is expected to widen to 2.9 percent of GDP up from 0.5 percent in 2019. As a result, the external public and publicly guaranteed debt (PPG) will decline slower than initially expected to reach to 65.8 percent of GDP in 2020 down from 66.2 percent in 2019. Djibouti was already at high risk of debt distress that resulted from three non-concessional loans to build a water pipeline, a multipurpose port and a new railway link to Ethiopia. The loan related to the railway was recently restructured with an extension of the maturity date, an augmentation of the grace period and a diminution of the interest rate to match the repayment schedule with the maturation of the project.

With the lower economic growth due to COVID-19, extreme poverty rate at US$1.90 per day is expected to increase slightly to 15 percent in 2020 as the effects of COVID 19 outbreak are felt on households through job loss, price shocks and other factors. The monitoring of welfare also strengthened in 2019 with the expansion of the social registry which covers 62,752 households versus 44,000 households in 2018. The Government has scaled up the national cash transfer program to cover 37 percent of the 20,000 extreme poor households.

Outlook

Despite the COVID-19, the medium-term economic outlook will continue to reflect the Government's strategy of positioning the country as a regional trade, logistics, and digital hub gains traction. GDP growth is projected to rebound to 9.2 percent in 2021, before falling back to 8.0 percent in 2022-2025. The speed of the recovery will depend of the depth of the COVID-19 crisis and the effectiveness of the safety net scheme the government is putting in place to protect households and businesses. Growth will remain driven by free zone reexports and exports of transportation, logistics, and telecommunication services. A gradual emergence of non-traditional exports (cooking oil refining and packaging, seafood processing, sodium bromide, and tourism services) will increase value-added. As trade and investment flows to Ethiopia continue to develop, the need for deeper connectivity will drive capital inflows over the medium term and help increase the utilization of existing logistics facilities. With the starting of production of natural gas in Ethiopia, an export terminal in Djibouti will generate further boost in activity and Ethiopia will become a significant source of FDI in sectors like housing, tourism and the digital economy.

It is expected that poverty will decline thereafter to 13.5 percent in 2021 and 12.1 percent in 2022 if Djibouti manages to grow at pre-COVID 19 rates and if this growth is mirrored by job creation that is inclusive and broad based.

Risks and challenges

They are substantial downside risks to the short and medium-term outlook. Global, regional and national outlooks are very uncertain as the coronavirus pandemic continue to unfold. The government has clearly chosen to implement lockdown measures to avoid the spread of the OVID -19 in local communities. How long these measures will remain active is the biggest uncertainty. For example, if the lockdown is implemented to 18 weeks, GDP will decline by 5 percent resulting in the first economic contraction since 1998 with significant increase in extreme poverty.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	5.4	8.4	7.5	1.3	9.2	8.2
Private Consumption	8.0	6.0	5.0	2.0	5.5	6.0
Government Consumption	3.4	3.0	-0.5	8.6	2.1	4.9
Gross Fixed Capital Investment	-22.3	-5.8	-2.7	-3.5	16.8	17.2
Exports, Goods and Services	9.9	8.6	6.5	2.0	7.2	7.0
Imports, Goods and Services	6.1	5.0	3.0	3.0	5.0	6.4
Real GDP growth, at constant factor prices	5.3	8.5	7.5	0.6	8.8	7.8
Agriculture	35.1	15.3	3.5	3.5	3.5	3.5
Industry	14.1	45.3	10.8	3.0	10.0	10.1
Services	3.8	2.7	6.8	0.0	8.6	7.3
Inflation (Consumer Price Index)	0.6	-0.1	3.3	2.5	3.0	3.0
Current Account Balance (% of GDP)	-3.3	13.4	18.5	16.5	18.4	18.4
Fiscal Balance (% of GDP)	-4.6	-2.5	-0.5	-2.9	-2.1	-2.0
Primary Balance (% of GDP)	-3.6	-1.4	0.7	-1.7	-0.9	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	17.1	15.9	14.9	15.0	13.5	12.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	40.2	37.6	35.5	35.6	32.8	30.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	70.6	68.0	65.9	66.0	63.2	60.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was April 02, 2020.

ARAB REPUBLIC OF EGYPT

Table 1	2019
Population, million	101.2
GDP, current US$ billion	302.7
GDP per capita, current US$	2992
Lower middle-income poverty rate ($3.2)[a]	26.1
National poverty rate[a]	32.5
Gini index[a]	30.0
School enrollment, primary (% gross)[b]	106.1
Life expectancy at birth, years[b]	71.7

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

Egypt's macroeconomic stabilization was successful in supporting growth, generating a solid primary budget surplus, reducing the debt-to-GDP ratio, and replenishing reserves. Vulnerabilities persist however, including the exports and FDI underperformance, which may be aggravated by the disruptive repercussions related to the COVID-19 pandemic. This underscores the urgency of resolving structural challenges , through addressing the business environment constraints, while enhancing revenue -mobilization to create the fiscal space needed to advance the human capital agenda.

Recent developments

Growth increased to 5.6 percent in FY2018/19 (up from 5.3 percent the previous year), a rate that was sustained through Q1-FY2019/20. Sectors driving this growth are wholesale and retail trade, agriculture and manufacturing. On the demand side, investments and the improving net exports balance were the main contributors. The latter is explained by the drop in imports, overcompensating the downtick in exports. Oil imports dropped with the scale-up of natural gas production, whereas the decrease in non-oil imports may be related to the sluggish private consumption and slow-down in non-oil private sector activity, as evidenced by the contraction captured in the Purchasing Managers' Index (PMI) which averaged 46.8 during the first seven months of FY2019/20.

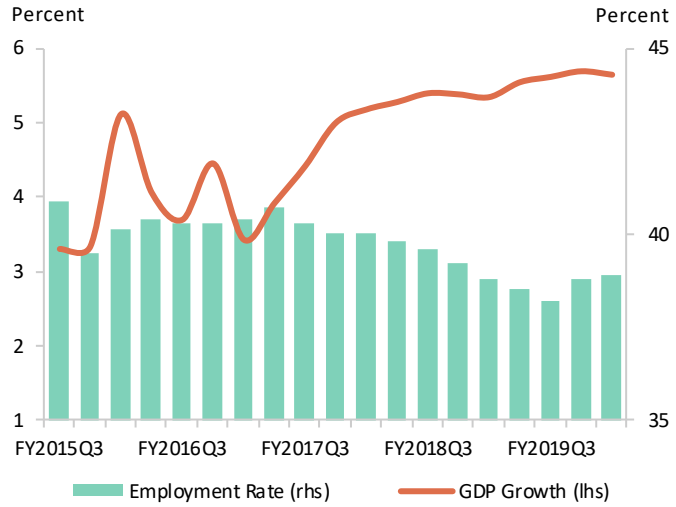
Despite growth, concerns about gains to households' welfare remain. The poverty rate – based on the national poverty line – increased from 27.8 percent in 2015 to 32.5 percent in FY2017/18 (or from 16 percent to 26.1 percent using the World Bank's international poverty line of US$3.20/person/day at 2011 PPP $). The share of employed individuals within the working-age population remained low, at 39 percent (Figure 1).

Monetary easing contributed to a nascent recovery in private credit. The Central Bank of Egypt (CBE) cut policy rates throughout H1-FY2019/20, following moderating inflation to an average of 5.8 percent during the H1-FY2019/20 compared to 14.8 percent a year earlier, supported by favorable base effects and contained food inflation. Rates stood at 12.25 percent and 13.25 percent for the overnight deposit and lending transactions at end-February, before the CBE slashed policy rates by another 300 basis-points in mid-March, in a surprise move to support the economy amidst the concerns of a slowdown following the disruptions caused by the COVID-19 pandemic (Figure 2). Credit to the private sector started to accelerate, but its share to GDP is yet to rise back to its pre-2016 levels.

Despite an improving primary surplus, fiscal accounts continue to be under pressure, mainly due to underperforming tax revenues. The budget deficit widened to 3.8 percent of GDP in H1-FY2019/20, from 3.6 percent of GDP a year earlier, affected by the decline in the revenues-to-GDP ratio especially from VAT, which reflects weaker private consumption. While the government debt-to-GDP ratio has dropped sharply (by 18 percentage-points over the past two years), it remains elevated at 90.3 percent in end-FY2018/19, and large interest payments remain a heavy burden on the budget.

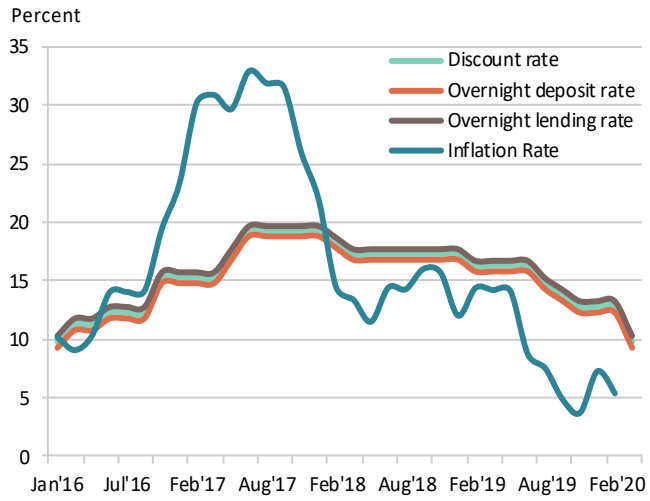
External accounts have stabilized, in part due to the drop in imports. The Balance of Payments achieved a marginal surplus of 0.1 percent of GDP in Q1-FY2019/20, in line with its ratio a year earlier. This stability is the outcome of a narrowing current account deficit (mainly reflecting the containment of imports) that was offset by the deterioration of the capital and financial account surplus. Net FDI inflows

FIGURE 1 Arab Republic of Egypt / Real growth and employment rate



Sources: Ministry of Planning & CAPMAS.

FIGURE 2 Arab Republic of Egypt / Inflation and policy rates (Jan 2016—Jan 2020)



Sources: Central Bank of Egypt.

jumped by 66 percent during Q1-FY2019/20, albeit remaining modest at 0.6 percent of FY2019/20 GDP. Further, the capital and financial account is expected to have been buoyed by the issuance of a US$2 billion Eurobond during Q2-FY2019/20. Foreign reserves were at US$45.5 billion in end-January 2020, covering 7.8 months of merchandise imports; replenished since FY2016/17 mainly through remittances, Eurobond issuances, foreign purchase of Treasury bills and bonds, along with the external borrowing. The nominal exchange rate continued to appreciate, reaching LE15.7/US$ in end-February 2020, around 12 percent stronger than its level in end-December 2018 when the repatriation mechanism was terminated, contributing to the real appreciation trend.

Outlook

Growth is expected to be undermined by COVID-19. Despite the expected gradual recovery of private consumption and investment, the pandemic is expected to hamper growth through its effect on production and exports. Key sectors, such as tourism and natural gas are expected to witness a slowdown, affected by the restricted international travel and the crash in oil prices, respectively. Policy responses are already being put in place, including the 300 basis point monetary policy rate cut, forbearance measures on credit, and signals of fiscal stimulus in the FY2020/21 budget. In case of prolonged disruptions, the impact is expected to affect the availability of final products and inflationary pressures, thereby challenging the recovery of households' purchasing power. The poverty rate, projected to remain elevated at 27 percent (using international poverty line of US$3.20), could rise further.

While the recent crash in oil prices may have a positive impact on the budget, the pace of fiscal consolidation may slow down due to the decline in tax revenues. Accelerated efforts are needed to mobilize domestic revenues, including the reinforcement of tax compliance, simplification of tax administration and collection procedures as well as streamlining non-productive tax exemptions. On the external front, the current account deficit is projected to hover above 3 percent of GDP over the medium term, just below its ratio in FY2018/19.

Risks and challenges

The pandemic risks putting a strain on the country's healthcare system, in addition to other important implications on the economy. The trade deficit may deteriorate with the disruption of global trade and supply chains. Further, the sharp decline in oil prices, coupled with recent restrictions on travel to the GCC countries, may adversely impact remittances. The capital and financial account surplus may decline with increasing outflows from Egyptian treasuries amidst turbulent global financial markets.

In the medium term, critical measures would be key to continue the fiscal consolidation path, safeguard the competitiveness gains from the recent reforms and deploy social measures to alleviate poverty and socioeconomic hardship. Another wave of reforms is needed to address longstanding constraints to a strong private sector-led economic transformation and job creation. Key reforms should cut red-tape, lift non-tariff trade barriers, foster a level-playing field between public and private economic actors, and facilitate access to key inputs (such as land and skilled labor) to cater to the private sector and allow it to expand in more productive sectors and more sophisticated products, such that it becomes capable of generating more and better jobs that can boost shared prosperity and reduce poverty.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.2	5.3	5.6	3.7	3.8	5.8
Private Consumption	4.2	1.1	0.8	0.7	1.1	2.5
Government Consumption	2.5	1.7	2.8	5.0	7.0	5.0
Gross Fixed Capital Investment	11.9	16.4	12.5	6.5	12.0	14.8
Exports, Goods and Services	86.0	32.2	-2.6	-12.0	5.0	5.0
Imports, Goods and Services	52.5	11.3	-9.5	-14.0	3.0	1.2
Real GDP growth, at constant factor prices	3.6	5.3	5.1	3.6	3.6	5.7
Agriculture	3.2	3.1	3.3	3.4	3.6	3.7
Industry	2.1	6.4	5.8	6.7	7.3	7.0
Services	4.6	5.1	5.1	1.7	1.2	5.3
Inflation (Consumer Price Index)	23.3	21.6	13.9	9.5	10.0	10.0
Current Account Balance (% of GDP)	-6.1	-2.4	-3.6	-3.7	-3.4	-3.3
Net Foreign Direct Investment (% of GDP)	3.3	3.1	2.7	2.0	2.5	2.6
Fiscal Balance (% of GDP)	-10.9	-9.7	-8.1	-8.2	-7.3	-6.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.2	3.3	3.5	3.5	3.5	3.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	26.1	26.7	27.4	27.7	27.5	27.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2017-HIECS. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.

The cut-off date for information in this MPO was April 02, 2020.

IRAN, ISLAMIC REPUBLIC

Table 1	2019
Population, million	82.8
GDP, current US$ billion	463.3
GDP per capita, current US$	5594
Upper middle-income poverty rate ($5.5)[a]	10.9
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	110.7
Life expectancy at birth, years[b]	76.3

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

Iran's economy contracts for a second consecutive year in 2019/20 due to the tightening of US sanctions and despite growth in some non-oil sectors. Inflation and unemployment remain high compared to regional averages. The fiscal deficit has widened due to underrealized revenues as the current account surplus diminished. Iran has been severely impacted by the COVID-19 pandemic which combined with the recent decline in global oil prices and stringent economic sanctions present significant risks to the country's economic outlook.

Recent developments

The recession in Iran accelerated in 2019/20 as US sanctions progressively tightened. Iran's GDP contracted by 7.6 percent (yoy) in the first 9 months of 2019/20 (Apr-Dec 2019) largely due to a 37 percent decline in the oil sector. Since the reintroduction of US sanctions in 2018, oil production has dwindled reaching a record low of 2 mbpd in December 2019. Non-oil GDP growth in Apr-Dec 2019 was close to zero (yoy), a marginal improvement compared to the sector's 2.1 percent contraction in 2018/19. In the same period, non-oil industries grew by 2 percent (yoy) driven by construction and utilities sectors while services value-added contracted by 0.2 percent. The recent COVID-19 outbreak has significantly disrupted trade, tourism and retail business during the busiest period for travel and commerce (Iranian New Year).

All major components of GDP (expenditure side) are contracting, pointing to a broad-based recession. Private and government consumption declined by 6 percent and 2.4 percent (yoy) respectively in Apr-Dec 2019 while inventories grew by 56 percent (yoy). In the same period, investment shrank by 2.6 percent (yoy) despite construction investment growing by 9.6 percent (yoy). Exports and imports declined sharply by 32.6 and 27.1 percent (yoy) respectively due to trade restrictions.

The recent downward inflation trend and slower depreciation of the rial is likely to reverse with COVID-19. Consumer price inflation declined to 25 percent (yoy) in February 2020, down from a peak of 52.1 percent in May 2019, as the base effect of sanctions declined. After August 2019, the rial depreciated more moderately in the open market. However, the currency depreciated by 10 percent in under a month since the first cases of COVID-19 were confirmed in Iran.

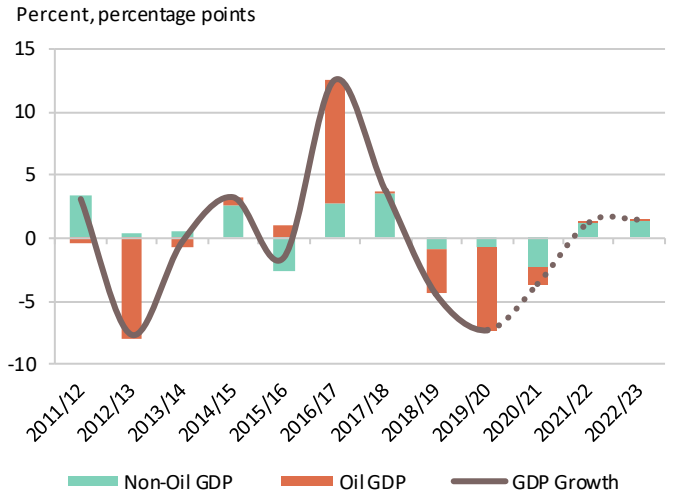
The current account surplus has almost entirely faded despite continued decline in imports. The non-oil trade balance in Apr-Dec 2019 registered a small surplus despite imports falling by US$1.2 billion (yoy) The current account surplus in 2018/19 had increased to US$26.7 billion (highest amount since 2011/12) as goods imports contracted by almost 20 percent nominally.

The fiscal deficit has widened as non-tax revenues have come under pressure. The under realization of government revenues compared to the budget targets indicate a widening fiscal deficit in 2019/20. Revenues from disposal of capital assets (mainly oil export revenues) registered 18 percent realization in Apr-Nov 2019.

Lower economic activity contributed to unemployment marginally improving in Oct-Dec 2019. The unemployment rate declined to 10.6 percent in Oct-Dec 2019, down from 11.8 percent a year earlier while labor force participation edged down from 44.5 percent to 44.3 percent.

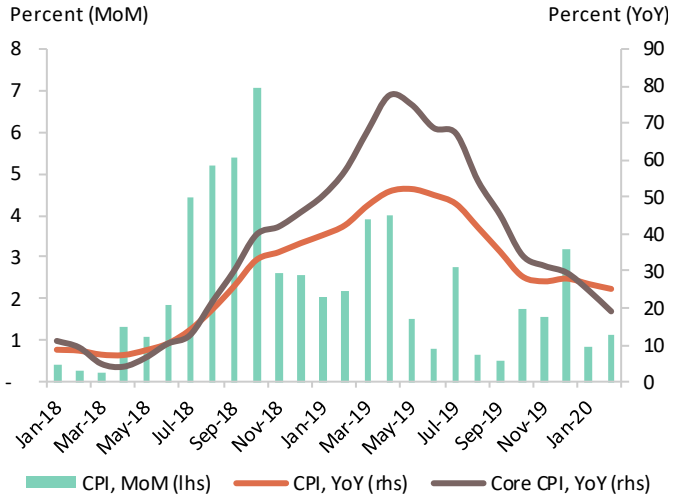
Poverty in Iran, measured at the World Bank's upper middle-income threshold of US$5.5 per day (2011 PPP), increased moderately between 2013-2017. This negative trend in wellbeing was mainly associated with the erosion of cash transfers in real terms.

FIGURE 1 Islamic Republic of Iran / Real GDP growth and sectoral contributions to real GDP growth



Sources: CBI, SCI and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Consumer price inflation (monthly and annual)



Sources: SCI and World Bank staff calculations.

The cut-off date for information in this MPO was April 02, 2020.

Outlook

Facing a growing pandemic, low oil prices and increasing sanctions, Iran's GDP growth is projected to remain subdued in 2020/21-2022/23. The baseline outlook is primarily driven by COVID-19 outbreak reducing oil and non-oil GDP in 2020/21 and two subsequent years of modest recovery. Oil production in 2021/22 and 2022/23 is expected to grow in line with long term domestic consumption growth.

The fiscal deficit is projected to widen as revenues fall short of targets and COVID-19 adds to expenditures. The 2020/21 draft budget, though contractionary in real terms, relies on optimistic assumptions. The expected widening budget deficit especially in light of COVID-19 and other exogenous shocks are likely to lead to further debt issuance and withdrawals from strategic reserves.

The current account balance is projected to be in deficit due to trade restrictions and oil market dynamics. Non-oil exports are expected to fall short of total imports as oil exports flatline (assumed at 500 thousand bpd under the baseline in 2021/22 and 2022/21). However, low external debt (under 3 percent of GDP) limits external financing exposures.

While Covid-19 is expected to add to inflationary pressures, inflation is expected to follow a downward trend due to weak demand. Headline inflation is expected to remain above 20 percent due to pressures on foreign exchange reserves and projected fiscal deficits.

With negative economic growth and high inflation, compounded by higher gasoline prices in November 2019, poverty may increase in 2019/20. COVID-19 outbreak in 2020 will have long-lasting economic and social impacts as well, most probably through the labor market channels. Cash transfers from the Government to 18 million households to compensate for increased gasoline prices will help, but most likely will not be enough to fully mitigate all negative shocks.

Risks and challenges

The current unique situation of Iran's economy presents significant downside risks for the baseline forecast. The most significant risk is a stronger and more protracted impact of the COVID-19 outbreak through various channels including widescale contractions in commerce, tourism and trade as well as higher production costs. Persistence of lower oil prices and export volumes (e.g., due to a significant decline in China's oil demand) would result in a substantially larger overall shock and fiscal deficit in 2020/21. Other developments including additional US sanctions and FATF's recent designation of Iran as a high-risk country could further restrict Iran's production and trade with neighbors. Intensification of geopolitical tensions coupled with supply push factors could also translate to higher inflation and downward pressure on the currency.

High inflation will quickly erode the real value of distributed cash transfers in subsequent years, as experienced after 2012 and will affect the poorest the most. Progressing COVID-19 outbreak will have a negative impact on wellbeing as well. Poverty trends in the future will depend upon subsequent policy responses. Any increases in the value of cash transfers, along with introducing targeting mechanisms, could help the poor cope with the social-economic shocks, but fiscal constraints may limit the scope for significant response.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	3.8	-4.7	-8.2	-3.7	1.3	1.5
Private Consumption	2.5	-2.2	-6.1	-2.1	0.2	1.0
Government Consumption	3.9	4.5	-2.4	-1.0	2.0	2.3
Gross Fixed Capital Investment	1.4	-5.5	-2.0	-7.7	-0.2	1.5
Exports, Goods and Services	1.8	-13.6	-30.4	-4.8	5.1	2.2
Imports, Goods and Services	13.4	-38.3	-26.0	-3.0	3.4	2.1
Real GDP growth, at constant factor prices	3.7	-4.4	-7.3	-3.7	1.3	1.5
Agriculture	3.2	-1.5	2.1	1.5	2.0	2.1
Industry	3.0	-9.5	-16.5	-5.8	1.7	1.9
Services	4.5	0.2	-0.5	-2.9	0.9	1.1
Inflation (Consumer Price Index)	9.6	26.9	34.8	29.8	23.2	21.3
Current Account Balance (% of GDP)	3.5	5.3	-0.4	-2.5	-2.1	-1.9
Fiscal Balance (% of GDP)	-1.8	-1.4	-5.1	-6.5	-6.8	-7.1
Gross Public Debt (% of GDP)	36.1	37.8	43.9	50.6	55.3	61.1
Primary Balance (% of GDP)	-1.7	-1.2	-4.4	-5.2	-5.1	-5.1

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

REPUBLIC OF IRAQ

Table 1	2019
Population, million	40.1
GDP, current US$ billion	234.1
GDP per capita, current US$	5841
Lower middle-income poverty rate ($3.2)[a]	17.9
Upper middle-income poverty rate ($5.5)[a]	57.3
National poverty rate[b]	22.5
Gini index[a]	29.5
Life expectancy at birth, years[b]	70.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011 PPPs.
(b) Most recent WDI value (2017).

While the oil sector boosted growth in 2019, the Government of Iraq's failure in service delivery, fighting corruption, and private-sector job creation has prompted ongoing social unrest since November. In response, a considerable expansion in public sector employment, pensions and transfers overshadowed critical spending for human capital and reconstruction. The outlook entails considerable risks linked with lower oil prices, the spread of COVID19, budget financing constraints, political deadlock, and the need for fiscal consolidation.

Recent developments

The protests that erupted in November 2019 have had a considerable impact on the services sector which decelerated to 0.9 percent in Q4-19 (y/y). However, record agriculture yields from above-average rainfalls coupled with 33 percent electricity production expansion and a fiscal loosening have offset such an impact. As a result, non-oil GDP grew by 4.9 percent in 2019. The oil sector was not affected by the social unrest despite refinery road closures. With a 5 percent rise in production, oil has been the lynchpin for economic activity. As such, GDP growth was 4.4 percent for the year.

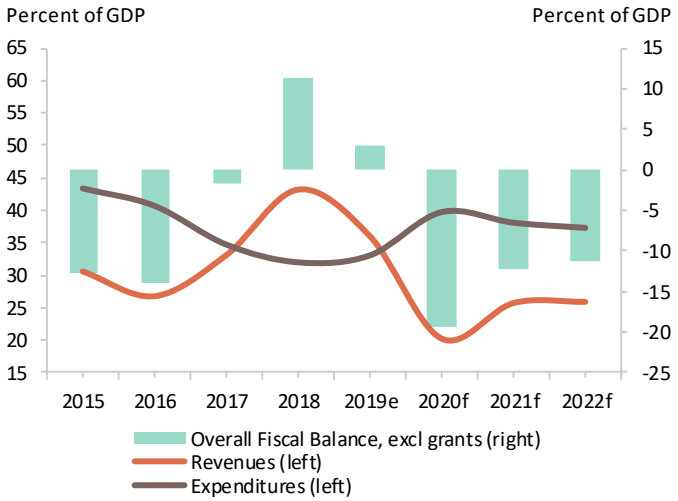
Inflation remained subdued. Both headline and core inflation declined to an average of 0.2 percent in 2019 (y/y). This is largely driven by cheaper imported consumption goods due to the depreciation of Turkish and Iranian currencies, the two main trading partners for Iraq. Calls from impacted domestic producers pushed the GoI to raise tariffs and impose import bans on selected food items.

The GoI maintained a policy of fiscal loosening focused on boosting consumption at the expense of public investment. The overall budget balance is estimated at a surplus of 3 percent of GDP in 2019, down from a surplus of 11.2 percent of GDP in 2018. This is due to a substantial 21 percent rise in recurrent spending amidst decisions to expand public sector employment, cash transfers, and lower the retirement age. Investment spending has increased by 10 percent. Its execution rate remains at only 45 percent with most of it going to oil-related investments. Non-oil sectors investment execution stood at only 28 percent, raising concerns over public service delivery, and a rising infrastructure gap. At only 8 percent of budgetary receipts, non-oil revenues have been well below budgetary projections. This follows weak compliance and new exemptions on customs.

The current account surplus declined to 2.5 percent of GDP in 2019, from a surplus of nearly 7 percent of GDP in 2018. This is mainly driven by less favorable terms of trade, with Iraq's average oil export prices falling from US$66/barrel in 2018 to US$61/barrel in 2019 as well as a fiscal expansion that resulted in a 20 percent (y/y) rise in imports. The central bank's reserves reached US$68 billion at end-2019, a 5.3 percent increase compared to 2018 (or 10 months of imports and cover 1.9 times short term debt).

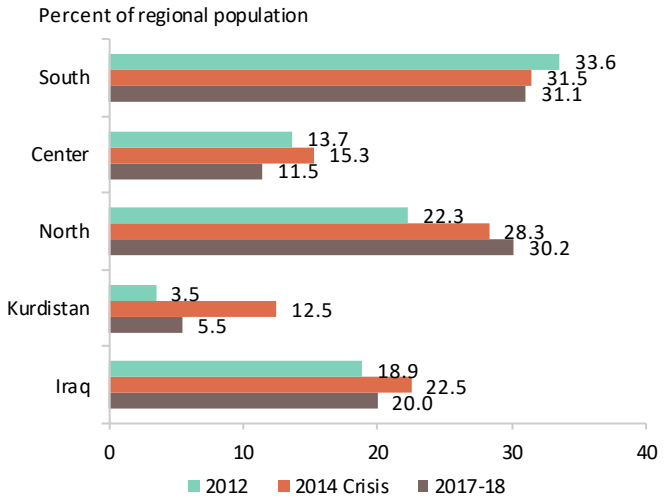
The overall monetary poverty rate has declined from 22.5 percent in 2014 to around 20.0 percent in 2017/18 due to economic growth, subdued inflation, and improved security situation. However, due to change in survey methodology of collecting expenditure data, the 2017/18 poverty estimate is not strictly comparable to previous estimates. The 2017/18 survey also reflects improvement in several non-income dimensions of welfare, including increases in school enrollment, and expansion of drinking water provision. At the same time, employment conditions have worsened since 2012. The unemployment rate, which was falling before the ISIS

FIGURE 1 Republic of Iraq / Fiscal accounts



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

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



Sources: World Bank staff estimates.

crisis, has increased beyond the 2012 level to 9.9 percent in 2017/18. Underemployment is particularly high among internally displaced persons (IDPs), with almost 24 percent of IDPs unemployed or underemployed (compared to 17 percent for the national average). Also, more than a fifth of the economically active youth do not have a job and are neither in employment nor in education or training. In conflict afflicted areas, the standard of living is likely below the 2014 level because of labor market disruptions.

Outlook

The outlook for Iraq which was already negative prior to the COVID19 shock has markedly worsened since. The near-term economic growth will be subdued by low oil prices and unfavorable global conditions including disruptions from COVID19 spread which are projected to put growth on a declining trend. GDP growth is projected to contract by 5 percent in 2020 and revert to its low-base potential of 1.9-2.7 percent in 2021-2022. The political and social turmoil and lack of reforms to boost private sector participation will continue to put pressure on services sector. As a result, non-oil GDP growth is expected to decelerate to 2.7 percent by 2021.

The unsustainable stimulus package introduced to appease demonstrations coupled with weaker oil prices are expected to have detrimental fiscal effects. In case oil prices stabilize in the low-30s in 2020, the budget deficit would exceed 19 percent of GDP in 2020 with gross financing needs of over 26 percent of GDP. Iraq will also face a persistent current account deficit in 2020 driven mainly by lower oil prices and sticky imports. This is expected to be financed partially from CBI FX reserves, increasing the country vulnerability to external shocks during the forecast period. Iraq could increase oil production after the collapse of the OPEC+ agreement, to mitigate the widening of the deficit, albeit at the risk of further reducing oil prices.

Risks and challenges

Lower oil prices, the spread of COVID19 and ongoing political turmoil are all challenges that the GoI will need to navigate in the short-term. Risks include significant losses from religious tourism, weaker demand on Iraqi oil exports from China, and further delays of a $10 billion oil-for-infrastructure investment deal with China. Lower oil prices may force GoI to consider cutting spending, a move that could fuel more social unrest with already poor public services and high unemployment. If oil prices stay in the low-30s in 2020, budgetary financing needs would reach US$60 billion. Under this situation, Iraq may have no choice but to resort to a mixture of domestic and foreign sources to finance the deficit. Heavy reliance on local banks will crowd-out private sector, while access to international markets may prove to be difficult given market conditions and a weak macro-framework for Iraq. Relying on CBI for budget financing could drawdown its reserves to only 3 months of imports by end 2020. Closing the gap through local currency bonds will weaken the CBI balance sheet and create pressures on the exchange rate and inflation.

Delays in fiscal reforms – including for domestic revenues mobilization and civil service - could lead to unfavorable macro-financial dynamics and delay vital infrastructure projects. The country's weak healthcare system and close relations with Iran will make Iraq's ability to respond to COVID19 crisis more challenging.

The political turmoil and fiscal pressures along with the COVID19 pandemic are also likely to worsen the welfare of both the displaced and non-displaced Iraqis, especially poverty and labor market outcomes, while households' out-of-pocket spending on healthcare is likely to increase at the same time as social safety net programs may come under fiscal pressure.

* The global outlook is very uncertain. This outlook reflects information available at the time of its publication. As more information become available, these projections will be revised. They are presented now to assist policymakers to think through possible outcomes and design alternative policy responses.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	-2.5	-0.6	4.4	-5.0	1.9	2.7
Private Consumption	-1.2	0.3	2.0	-3.0	1.2	2.0
Government Consumption	4.4	15.2	6.3	14.8	0.2	0.9
Gross Fixed Capital Investment	-13.0	-9.1	4.3	1.5	1.9	0.4
Exports, Goods and Services	-0.1	1.4	1.3	-40.5	31.0	12.4
Imports, Goods and Services	-1.7	13.1	12.0	1.4	0.5	1.8
Real GDP growth, at constant factor prices	-2.5	-0.6	4.4	-5.1	1.9	2.7
Agriculture	-16.0	-26.1	5.0	3.0	5.5	5.0
Industry	-3.5	-2.3	4.3	0.2	1.8	1.8
Services	0.9	4.6	4.7	-17.4	2.0	5.1
Inflation (Consumer Price Index)	0.1	0.4	-0.2	2.0	2.0	2.0
Current Account Balance (% of GDP)	1.8	6.9	2.5	-12.1	-5.9	-5.7
Fiscal Balance (% of GDP)	-1.6	11.2	3.0	-19.4	-12.3	-11.4
Debt (% of GDP)	58.9	46.0	39.4	58.5	66.9	73.5
Primary Balance (% of GDP)	-0.6	12.6	4.6	-17.9	-10.9	-10.1

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

The cut-off date for information in this MPO was April 02, 2020.

JORDAN

Table 1	2019
Population, million	10.1
GDP, current US$ billion	43.8
GDP per capita, current US$	4336
School enrollment, primary (% gross)[a]	80.8
Life expectancy at birth, years[a]	74.3

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

Amid already weak economic performance, recent global developments in the light of COVID-19 pandemic are likely to have a substantially negative impact on Jordan's growth prospects in the near term. This impact would be largely transmitting through slowdown in major export and regional markets, reduced international travel and foreign inflows, and disruption in services sector as social distancing measures are rigorously enforced. On the flip side, decline in global oil prices would provide notable respite to the import bill, and to some extent limit deterioration in the current account.

Recent developments

Economic activity remained weak. Real GDP growth during the first three quarters of 2019 stood at 1.9 percent, consistent with the trend over the past three years.

Headline inflation remained subdued throughout 2019 with growth in consumer prices averaging at 0.8 percent compared to 4.5 percent in 2018. Similar trend in prices continued during the first two months of 2020.

External sector imbalances narrowed significantly. The current account deficit (CAD) during 9M-2019 declined by almost 60 percent to US$ 1.08 billion (3.4 percent of GDP) compared to US$ 2.87 billion (9.3 percent of GDP) during the same time in 2018. This reduction has been primarily driven by a 15.1 percent contraction in the country's trade deficit, particularly in the non-oil trade deficit.

Large fiscal slippages continued. The overall fiscal deficit (incl. grants and use of cash) of the central government stood at 4.7 percent of GDP in 2019, wider by 1.3 and 1.6 percent of GDP compared to 2018 and the 2019 budget, respectively. This increase was primarily driven by weak performance on domestic revenue mobilization front (down 1.0 percentage points of GDP to 22.2 percent of GDP). As a result, the debt-to-GDP ratio (including arrears) rose by 4.7 percentage points to 99.1 percent of GDP at end-December 2019.

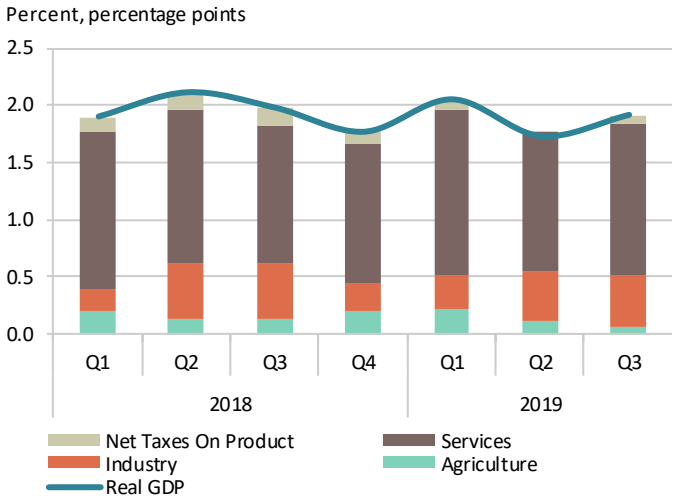
Poverty and employment remain important and challenging issues, particularly among the youth and women. Jordan's unemployment rate remained stubbornly high at 19 percent at Q3-2019, 0.5 percentage points higher than same period in 2018. Female unemployment continued to rise, reaching 27.5 percent, further widening the already large gap with the male rate, which was steady at 17 percent.

Outlook

As with the rest of the world, Jordan's near-term growth prospects has substantially weakened due to COVID-19 pandemic. Jordan's economic growth is projected to grow by -3.5 percent of GDP in 2020. This assessment is assuming significant slowdown in the global and reduced domestic demand during 2020. As 2020 unfolds, a reduction in domestic economic activity is expected to become more intense as social distancing intensifies (full curfew was imposed indefinitely on March 21), having significant negative implications for domestic demand. Moreover, spillovers from weak growth prospects in GCC countries in the form of lower foreign direct investment and remittances are likely to create further drag on the economy. In 2021, economy is expected to recovery gradually to 2.0 percent and 2.2 percent over medium-term.

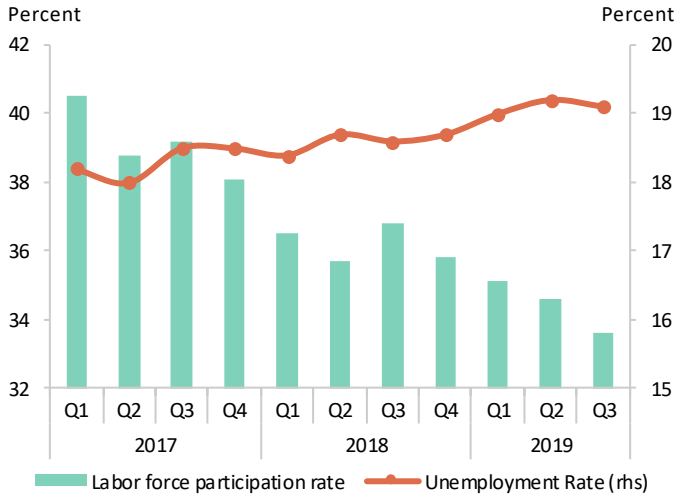
Inflation is projected to remain benign. Inflation is projected to remain moderate with considerable downside risks in 2020. The softness in prices is mainly coming from favorable outlook for international commodity prices, particularly oil prices.

FIGURE 1 Jordan / Real GDP growth and supply side contributions to real GDP growth (year-on-year)



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

FIGURE 2 Jordan / Labor market dynamics



Sources: Department of Statistics and World Bank staff calculations.

External imbalances are projected to increase amid large gross financing needs. In part due to the COVID-19 pandemic, Jordan's CAD is projected to widen in 2020 and expected to moderate over the medium-term. Sharp decline in the international oil prices provide significant respite for Jordan, but the external account in 2020 is projected to worsen on account of weak external demand and its spillover effects on the domestic economy through declining exports, remittances, travel and foreign investments. With already challenging financing conditions, the global developments further heightened Jordan's dependence on official flows, particularly when large Eurobond bullet payments come due in late 2020.

Fiscal consolidation will become challenging in the immediate run resuming gradually over the medium-term. Jordan's overall deficit (incl. grants) is likely to decline only nominally in 2020 on the back of higher recurrent spending (Covid-19 related spending) and significantly lower tax revenue collection (primarily result of economic slowdown) while capital spending is projected to be significantly reined-in. The tax effort (as a ratio of GDP) is likely to get one-time increase in 2021 due to a low base effect however given tax system's underline low buoyancy, tax-to-GDP ratio over medium-term is projected to remain flat at around 17.3 percent of GDP, needing to be offset by additional revenue measures (fiscal gap measures). On the spending side, recurrent spending is projected to contract only marginally over the medium-term while capital spending is projected to average around 3.7 percent of GDP. Additional COVID-19 related spending and fiscal measures to boost the economy present immediate downside risks to this projection. Consequently, debt-to-GDP ratio is projected is projected to remain elevated over medium-term.

Even with modest improvements in growth in the medium-term, the challenges in the labor market coupled with the potential impacts of COVID-19 raise concerns for poverty and inclusion prospects. While the GDP growth outlook in the medium-term is modestly positive, the estimates from a recent World Bank report indicate that it will not be enough to raise the employment rate from its persistent low levels to reach a significantly large share of the working-age population. In the short-run, the expected travel and tourism declines due to the COVID-19 outbreak will likely depress labor demand in those sectors. Furthermore, Jordan's susceptibility to remittances (and investment flows) from GCC countries may manifest as a further shock to households' welfare throughout the pandemic.

Risks and challenges

The coronavirus pandemic poses an immediate significant downside risks to the global economic recovery and to Jordan's. This along with this heightened regional uncertainty pose further challenge for Jordanian economy. Given Jordan's already elevated debt levels, policy responses are constrained by limited fiscal space and a COVID19-induced sharp drop in capital flows to emerging markets as global risk aversion surges. Jordan's peg to the US dollar also constrain its monetary policy response. Given deteriorating global liquidity conditions, gross financing needs could become more challenging to meet; Jordan's roll-over of a US$1.25 billion Eurobond in Q4 2020 could therefore be challenging. Over the medium-term, growth revival and the pace of job creation—the key to long-term sustained reductions in poverty and vulnerability—depends on the pace of global recovery and the economy's own resilience; the latter can be strengthened by having a steadfast focus on implementing structural reforms. The new IMF EFF program will be instrumental for Jordan's medium-term macroeconomic stability.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.1	1.9	2.0	-3.5	2.0	2.2
Private Consumption	4.3	0.4	1.1	-5.8	0.0	1.4
Government Consumption	3.2	3.2	1.5	1.3	1.2	1.1
Gross Fixed Capital Investment	7.3	0.1	1.9	-3.2	1.5	1.9
Exports, Goods and Services	5.3	0.6	5.2	-17.7	11.4	3.2
Imports, Goods and Services	8.9	-0.8	1.5	-14.3	3.9	1.2
Real GDP growth, at constant factor prices	2.2	2.0	2.0	-3.6	2.1	2.2
Agriculture	4.8	3.2	2.7	2.5	2.9	2.7
Industry	1.8	1.3	1.3	-6.5	1.7	1.7
Services	2.2	2.3	2.3	-2.8	2.2	2.4
Inflation (Consumer Price Index)	3.3	4.5	0.8	1.0	2.0	2.3
Current Account Balance (% of GDP)	-10.8	-7.0	-2.9	-3.9	-3.7	-3.3
Net Foreign Direct Investment (% of GDP)	5.0	2.3	2.1	1.0	2.4	2.6
Fiscal Balance (% of GDP)[a]	-2.2	-3.4	-4.7	-4.4	-4.1	-3.4
Debt (% of GDP)[b]	94.3	94.4	99.1	107.1	108.5	108.8
Primary Balance (% of GDP)[a]	0.7	0.0	-1.0	-0.6	-0.3	0.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Includes grants, adjustment on receivables and payables (use of cash), and fiscal gap of 0.6% of GDP in 2021and 1.3% of GDP in 2022.
(b) Government and guaranteed gross debt. Includes WAJ estimated borrowing for 2019-2022. Includes legacy arrears in 2019.

KUWAIT

Table 1	2019
Population, million	4.2
GDP, current US$ billion	143.2
GDP per capita, current US$	33700
School enrollment, primary (% gross)[a]	95.7
Life expectancy at birth, years[a]	75.3

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

Subdued oil prices and lower oil production led to slower overall economic growth in 2019 but robust public spending and credit growth are expected to underpin non-oil growth through the medium term. The steep downturn in oil prices since March and slower global growth spurred by the coronavirus will be absorbed by fiscal and financial buffers, at the expense of sustainability and diversification. This underscores the need for implementing fiscal and structural reforms to diversify away from hydrocarbons, support private sector activity and lay the foundations for a more sustainable growth model.

Recent developments

Real GDP growth slowed to an estimated 0.7 percent in 2019 from 1.2 percent in 2018 due to a contraction in oil output in line with the since-lapsed OPEC+ agreement. On the other hand, non-oil growth strengthened on the back of higher government and consumer spending.

Domestic credit growth was strong, at 4.3 percent in 2019, while business lending and household credit growth slowed. Capital market reforms and the inclusion of Kuwait equities in FTSE Russell and MSCI EM have led Kuwait to outperform its GCC peers. As of December, the Kuwaiti stock market was up 29 percent for 2019, but has surrendered virtually all of those gains in the year to date. Inflation rose slightly to 1 percent due to rising food and transport costs and slower deflation in housing. While keeping rates unchanged following the Fed's first two cuts in 2019, Kuwait followed suit after the cuts in October 2019 and March, 2020 reaching its lowest in Kuwait's history.

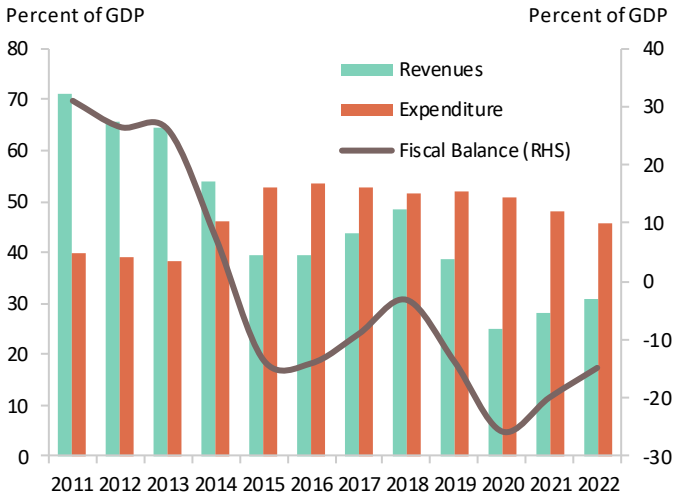
The improvement in the fiscal deficit during 2018 is expected to reverse in 2019 as oil prices declined sharply in the final months of the fiscal year (ending in March). The fiscal deficit is estimated to worsen from 3 percent of GDP in FY18/19 to 13.6 percent in FY19/20 (excluding investment income and before transfers to the Future Generations Fund) driven by higher spending and lower oil revenues. The FY19/20 budget projects a 3 percent increase in government spending (over last year's outturns), and a deficit target of KD6.7bn (15.3 percent of GDP). The traditionally conservative oil price assumption will be tested by the oil price crash. Fiscal reforms are slow; VAT implementation has been postponed until 2021.

While Kuwait has significant financial buffers, Kuwait's Investment Authority's (KIA) assets are estimated to have increased to 410 percent of GDP, continued drawdowns from the General Reserve Fund for deficit financing have reduced its liquid balances (to 24 percent of GDP as of June 2019). Kuwait has not issued debt since 2017 as the Parliament has not approved the Public Borrowing Law yet. Lower oil prices have reduced export receipts and the current account surplus is estimated to have fell from 15.1 percent of GDP in 2018 to 8.1 percent of GDP in 2019.

Kuwait is amongst the top 20 improvers globally on the 2020 Doing Business ranking. Various measures led to this improvement; including making it easier to obtain a commercial license, the simplification of the process to apply for electricity connection, the digitization of property transfer registration, improved access to credit information and improving the trading across borders component by improving customs risk management and implementing electronic clearance systems.

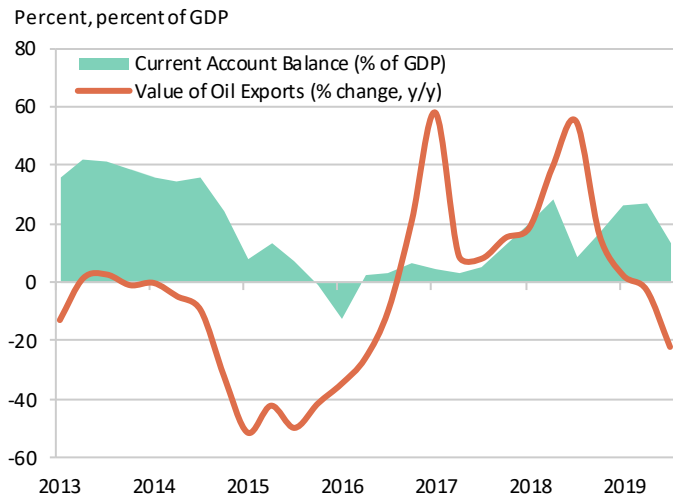
Unemployment was approximately 2 percent in 2019, according to the latest ILO estimates. However, unemployment among young workers (aged 15 to 24 years) tends to be significantly higher at 15.8 percent. Similarly, women face overall higher unemployment rates (5.5 percent) than men (1.1 percent), but the gap

FIGURE 1 Kuwait / General government operations



Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice, IMF WEO Oct 2019.

FIGURE 2 Kuwait / Current account and oil exports



Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice, IMF WEO Oct 2019.

The cut-off date for information in this MPO was April 02, 2020.

is especially large among women in the 15 to 24 age range, since female unemployment rate almost triples that of men for this age group (29.4 percent for women versus 10 percent for men). In addition, according to the Central Statistical Bureau (CSB), Kuwaitis held 74 percent of all public sector jobs in 2017, but since then there has been a deliberate effort to promote the employment of Kuwaiti nationals in the public sector and, more recently, also in private activities.

Outlook

In the near-term non-oil GDP growth will be subdued by COVID-19 related domestic mitigation measures and trade disruption, as fears over the spread of the coronavirus continue to grow. The oil sector outlook is unusually volatile, with scenarios ranging from a revitalization of the OPEC+ agreement to a prolonged price war leading to higher oil-sector production volumes but far lower revenues. Over the medium-term growth will be supported by continued recurrent public spending (given its high inertia) and credit growth, reaching to 2.2 percent by 2022. Plans to invest US$115 billion in the oil sector over the next five years should further boost oil production, if they can be implemented – a long standing challenge. The announced budget deficit for FY20/21 was KD 9.2 billion. However, the recent plunge in oil prices and higher government spending are expected to widen the fiscal deficit in 2020. Revenue-raising measures, such as the VAT in 2021, are likely to reduce budgetary pressures, but this depends on government's appetite for implementation in a weaker economy. The deficit is estimated to slowly recover, as oil prices mildly rebound, to 14.7 percent of GDP by 2022 (excluding investment income and before FGF transfers). As oil prices continue to plunge, the current account is expected to turn into a deficit in 2020, and then slowly improve over the medium-term. Inflation is expected to rise gradually as property rents recover.

Risks and challenges

Key external risks are already materializing including global economic disruptions, and continued volatility in oil prices around a much lower base. The uncertain trajectory of COVID-19 has added to these downside risks as the global growth slowdown is expected to deepen with its duration. This in addition to further delays in fiscal reform could lead to unfavorable macro-financial dynamics, widening fiscal and external imbalances and eroding fiscal buffers.

Domestic political tensions have been rising. Friction between the cabinet and parliament has led to frequent cabinet reshuffles and parliamentary opposition to critical fiscal reforms remains a key challenge. This friction is now to the fore in the stalled progress on the draft debt law.

Longer term challenges relate to the economy's heavy dependence on oil and the implementation of the New Kuwait 2035 Development Plan. Notwithstanding Kuwait's large oil reserves, the global shift to cleaner energy threatens economic and fiscal sustainability over the long term. Large financial assets underpin Kuwait's economic resilience, but fiscal and structural reform are key to offset the risks of lower oil prices and uncertain output. These measures include non-oil revenue mobilization measures such as VAT implementation as well as enhancing human capital and reforming economic governance to invigorate private-sector led development and job creation.

TABLE 2 **Kuwait** / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	-4.7	1.2	0.7	0.0	1.6	2.2
Private Consumption	3.5	5.4	4.1	-1.0	1.2	3.5
Government Consumption	2.0	6.3	2.6	2.2	2.3	2.2
Gross Fixed Capital Investment	10.8	4.8	3.3	3.0	3.2	3.4
Exports, Goods and Services	-4.8	-4.8	-0.4	0.9	2.9	3.1
Imports, Goods and Services	9.2	-0.9	2.0	0.8	4.0	4.8
Real GDP growth, at constant factor prices	-3.6	1.3	-0.3	0.3	1.6	2.1
Agriculture	6.2	-0.4	0.9	1.1	2.3	2.4
Industry	-6.1	0.2	-1.0	0.9	1.8	2.5
Services	0.3	2.8	0.6	-0.7	1.3	1.6
Inflation (Consumer Price Index)	2.2	0.6	1.0	1.8	2.4	2.8
Current Account Balance (% of GDP)	6.4	15.1	8.1	-6.4	-5.2	-3.0
Net Foreign Direct Investment (% of GDP)	-6.5	-5.6	-5.4	-4.0	-3.9	-3.7
Fiscal Balance (% of GDP)	-8.9	-3.0	-13.6	-25.6	-19.8	-14.7
Primary Balance (% of GDP)	-8.6	-2.8	-13.3	-25.2	-19.3	-13.8

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

LEBANON

Table 1	2019
Population, million	6.9
GDP, current US$ billion	53.4
GDP per capita, current US$	7753
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	78.8

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

Lebanon is facing compounded crises. On March 7, the Government defaulted on a $1.2 billion Eurobond redemption as the economy continues to suffer from financial crisis stresses. The decision's main effect is on banking solvency, for which the authorities are ill prepared. On March 18, the Government declared a state of General Mobilization giving authorities a legal mandate to impose special measures to counter COVID-19, including the closure of the borders (airport, sea and land), and public and private institutions.

Recent developments

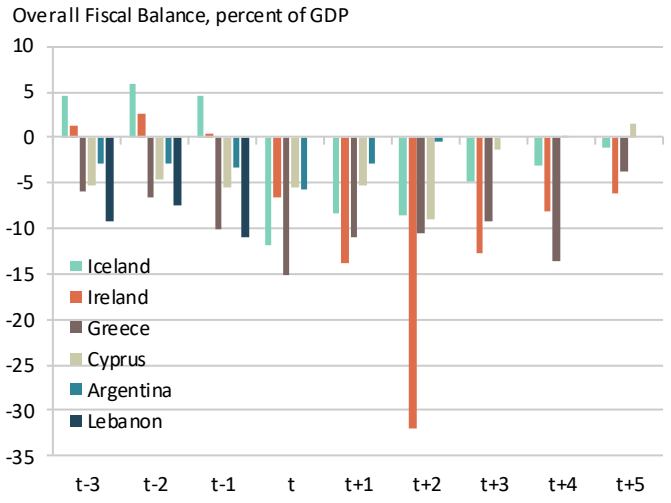
Even prior to Lebanon's exposure to COVID-19, exchange market pressures and an ensuing liquidity crunch were already stifling trade and corporate finance, constraining the importation of capital and final goods, and inducing disruptions all along the supply chain. In 2019, real GDP is estimated to have declined by 5.6 percent, and while the contraction was concentrated in Q4 2019, it was in effect since 2018. Net exports are the sole positive contributor to GDP, driven by falling imports; according to customs data, while the total value of merchandize imports declined by 3.7 percent in 2019, non-energy imports fell by 20 percent.

Crisis dynamics are also reflecting on the Government's fiscal position. The overall 2019 fiscal deficit is estimated at 10.5 percent of GDP, compared to a (2013-18) average of 8.3 percent of GDP and a Budget 2019 projection of 7.6 percent. While the sustainability and efficacy of the budgetary measures were always in question, the collapse in economic activity has had a significant impact on revenue collection. In fact, over 10M 2019 (which includes only one crisis month, October), customs and Value Added Tax (VAT) revenues declined by 16 percent yoy.

Monetary conditions mirror panic behavior as well as firefighting by BdL. Since October 2019, with the capital account severely restricted, BdL lowered interest rates on deposits, which by end-2019 fell by 1.95 and 1.77 basis points (bps) on dollar and LL deposits, respectively. Moreover, different measures of money supply have diverged; by end-2019, narrow money (M1) expanded by 42.5 percent yoy, while broad money (M3 plus non-resident deposits) contracted by 6.7 percent yoy, reflecting capital outflows. The sharp growth in M1 reflects a number of factors, including (i) the evolution of a cash economy in LL; (ii) a flight to safety (FTS) as dollar depositors who can only withdraw in LL at the official exchange rate accept to take a loss by reconverting back to dollars at parallel market rates; and (iii) and flight to quality (FTQ) as LL depositors also convert to dollars at the official exchange rate. As a result, deleveraging in the financial sector is proceeding briskly; total private sector deposits in commercial banks shrank by 8.6 percent 2019, amounting to US$ 15.6 billion dollars.

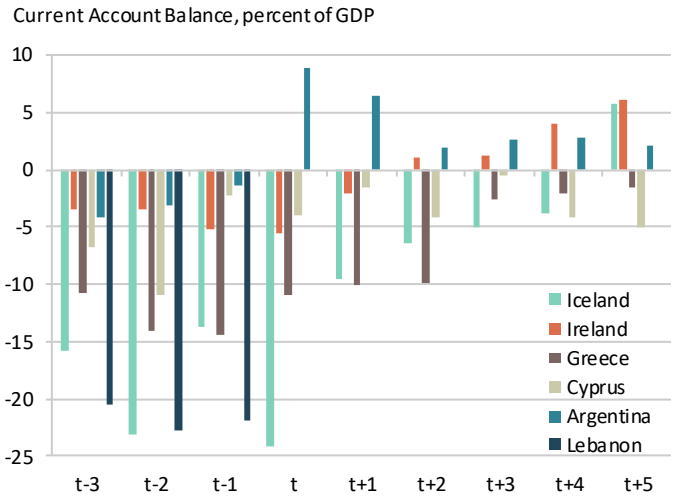
Despite the hemorrhaging, informal capital and exchange controls introduced by banks have been effective in mitigating the impact on Lebanon's gross foreign exchange reserves. As of January 15, 2020, gross foreign exchange reserves at BdL reached $37 billion, declining by only $1.5 billion since September 2019, and by $2.7 billion since end-2018. While BdL allows banks access to its dollar reserves, it does so at a high 20 percent interest rate, and with the condition that banks cannot transfer these resources out of the country. Banks have instead tapped into their foreign assets in international banks; banks' claims on non-resident financial institutions declined by around $5.2 billion over in 2019.

FIGURE 1 Lebanon / Lebanon enters crisis with a worse fiscal balance compared to other crisis countries …



Sources: WDI and WB staff calculations. Where t, t-i, t+i denote the year of and ith year prior and post, respectively, of the crisis.

FIGURE 2 Lebanon / … while its current account balance is second worst to Iceland.



Sources: WDI and WB staff calculations.

The cut-off date for information in this MPO was April 02, 2020.

Outlook

While uncertain in duration, COVID-19 is expected to have a substantial impact on the Lebanese economy, especially over Q1 -Q2 2020 and concentrated on key sectors such as retail, restaurants, construction, real estate and banking. On the other hand, the sharp decline in global commodity prices can (i) help relieve balance of payments pressures; and (ii) mitigate the surge in inflation resulting from parallel exchange rate pass through effects.

For our baseline, in addition to COVID-19 effects, we assume insufficient financial crisis policy responses, parallel exchange rates and continued deleveraging in the financial sector at the expense of the real economy. Real GDP growth is projected to contract by almost 11 percent in 2020. Net exports will be the sole positive contributor due to sharply contracting imports, a reflection of the recession in general, and the constraints on trade finance in particular.

Examining Lebanon's macroeconomic fundamentals in relation to other crisis episodes can be indicative on how the crisis potentially unfolds; key macroeconomic indicators were relatively inferior for Lebanon on the eve of the crisis, especially in regard to its large twin deficits and low growth trajectory; Lebanon's fiscal balance compares more closely to Greece's (Figure 1), while the current account position does so to Iceland's (Figure 2). Peak to trough, real GDP plunged by 27 percent in Greece, with the recession lasting 8 years, by 18 percent in Argentina over 4 years, 12 percent in Cyprus over 3 years and 10 percent in Iceland over 2 years. We thus expect Lebanon's recession to be prolonged and sharp. Moreover, with capital inflows drying up, a direct trade off is in effect between BdL's foreign exchange reserves and imports. Current policy measures have prioritized the former over the latter.

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

Risks and challenges

Lebanon needs a credible crisis management strategy that identifies crisis stabilization and recovery measures along a number of dimensions, especially: the external, fiscal and financial sectors, social safety nets, a growth framework and the governance deficiency.

In the absence of formal capital controls, the lack of harmonization between banks, and between customers within the same bank, has generated considerable popular backlash against banks and the central bank. De facto lirafication and haircuts on dollar deposits are ongoing despite BdL's official commitment to safeguarding deposits. When paying out dollar deposits to customers—other than a minimal (and diminishing) amount paid out in actual dollars—banks are exchanging at the official exchange rate and paying out in LL, incurring a loss in real value. The burden of the ongoing adjustment/deleveraging is highly regressive concentrated on the smaller depositors.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	0.9	-1.9	-5.6	-10.8	-6.3	-3.4
Private Consumption	0.1	-1.3	-7.4	-5.7	-8.0	-3.2
Government Consumption	9.9	6.7	-6.2	-29.5	-6.4	-3.6
Gross Fixed Capital Investment	-1.9	-0.2	-16.9	-20.5	-6.4	-2.5
Exports, Goods and Services	3.9	-4.7	-1.2	-16.8	1.6	0.5
Imports, Goods and Services	2.1	1.2	-9.2	-15.4	-4.2	-0.2
Real GDP growth, at constant factor prices	0.9	-1.7	-2.6	-8.6	-6.3	-3.4
Agriculture	13.4	-4.0	29.1	-1.8	-5.5	-4.5
Industry	-3.3	-4.2	-0.1	-4.6	-5.5	-4.5
Services	1.0	-1.1	-5.0	-9.9	-6.5	-3.1
Inflation (Consumer Price Index)	4.5	6.1	2.9	16.0	8.0	4.5
Current Account Balance (% of GDP)	-22.8	-24.3	-12.5	-7.8	-7.3	-8.2
Net Foreign Direct Investment (% of GDP)	2.3	3.7	2.5	0.0	0.0	0.0
Fiscal Balance (% of GDP)	-6.7	-11.0	-10.6	-12.2	-12.7	-14.5
Debt (% of GDP)	149.7	154.9	171.8	162.8	176.2	189.9
Primary Balance (% of GDP)	2.7	-1.2	-0.5	-2.4	-2.5	-2.5

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

LIBYA

Table 1	2019
Population, million	6.6
GDP, current US$ billion	51.7
GDP per capita, current US$	7816
Life expectancy at birth, years[a]	72.5

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

Libya's conflict has become a proxy war, which complicates peace and recovery prospects. Oil production stopped as the sector is being used for partisan political gains, while exacerbating the economic situation and the hardship of the population. Consequently, the macroeconomic framework is unstable as both the budget and current account will run deficits in 2020. Prospects are uncertain, exacerbated by the effect of Covid-19 globally and domestically. A political resolution is needed to implement the required reforms for a private sector driven growth and jobs generation.

Recent developments

The recent economic recovery has been short-lived, stalled in early 2019 by the most serious political crisis facing Libya since 2011. The outbreak of the war around Tripoli in April 2019 prevented Libya from continuing its strong economic expansion. Indeed, after its deep recession over 2013-16, driven by limited oil production (0.6 million bpd in average vs. a potential of 1.6 million bpd), the Libyan economy was able to substantially increase oil production above one million bpd in average over 2017-2019. As a result, real GDP growth reached an average of 21 percent during 2017-18, but slowed down sharply to 2.5 percent in 2019, and is expected to be negative in 2020.

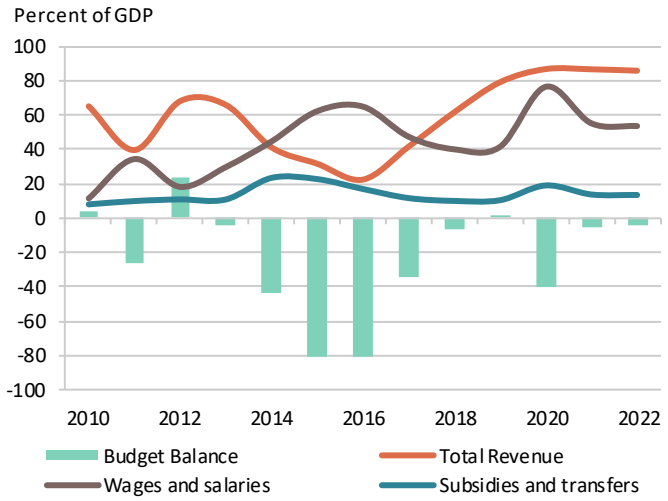
After four years of high inflation, the consumer price index (CPI) declined in 2019, mainly driven by falling parallel exchange rate market premia. Thanks to the fee on hard currency transactions (183 percent in September 2018, reduced to 163 percent in August 2019) and the access easing to foreign exchange, the parallel and official exchange rates converged. In this context, the CPI fell by 2.7 percent over the first 9 months of 2019. Deflation is estimated to average 3 percent in 2019.

Despite higher oil revenues and forex fees, public finances remained under stress in 2019, constrained by higher and rigid expenditures. Revenues from the hydrocarbon sector represented 43.2 percent of GDP. Non-oil revenues remained low, reflecting a decrepit tax administration. As a result, current revenues are not enough to cover the wage bill and subsidies. The forex fee generated a windfall to fund part of the other expenditures. The proceeds from the forex fee reached 32.2 percent of GDP. The wage bill continued to increase (42 percent of GDP) reflecting a bloated public sector (2 million public employees out of a population of 6.6 million) and rising real salaries. Subsidies remained high (11 percent of GDP), with the largest part supporting consumer prices of petroleum products. Being regressive, subsidies encourage overconsumption –including of foreign consumers– and international smuggling. The budget run a small surplus (1.7 percent of GDP) after six years of deficits. The government's gross domestic debt slightly declined but remains high at 144 percent of GDP.

In 2019, the current account continued to register surpluses for the third year in a row. This is due to the persistence of the Central Bank of Libya rationing policy to limit supply of hard currency to essential imports only, while the forex fee contributed to curbing import demand by the public sector. The higher hydrocarbon revenues (US$ 31.7 billion) are also contributing to the surplus. However, the surplus was lower than that recorded in 2018 (11.6 vs. 21.4 percent of GDP). The surplus allowed the CBL to strengthen further foreign reserves by US$ 3.6 billion, reaching US$ 86.2 billion end 2019 (US$ 124 billion in 2012).

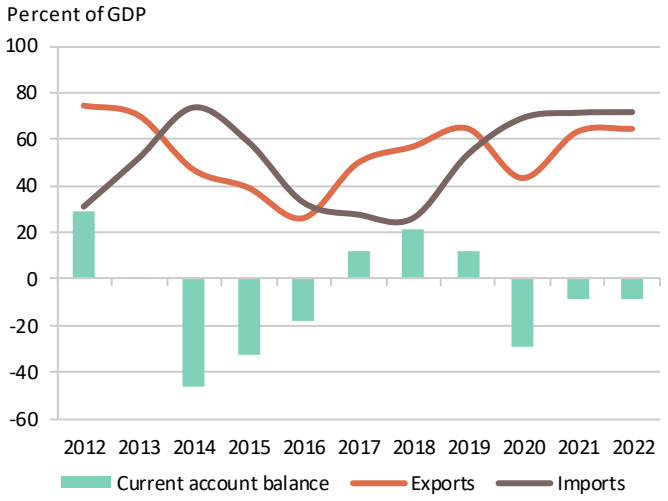
A recent survey of the World Food Program and the World Bank sheds some light on the dire situation of Libyans. Over half of respondents do not have access to

FIGURE 1 Libya / Public finances



Sources: Government of Libya and World Bank staff estimates.

FIGURE 2 Libya / Balance of payments



Sources: Government of Libya and World Bank staff estimates.

The cut-off date for information in this MPO was April 02, 2020.

subsidized food and live in an area in which there was at least five fatalities in the month before the survey. Large shares of respondents reported power or water cuts for at least one day in the month before the survey, have children that do not all attend school, have been displaced by the conflict, or do not have legal work. Furthermore, over half of respondents either do not have access to a bank account or have not been able to withdraw money for the past three months.

Outlook

The ongoing fight around Tripoli and the subsequent failure of the political rivals to reach a sustained peace deal have taken a heavy toll on the economy, which the Covid-19 pandemic is further exacerbating. In this context, the production and export of oil has almost come to a stop since January 18, 2020, due to the closure of oil ports and terminals. Assuming the disruption stays for up to end April 2020, and oil production resumes slowly to reach last-year's average production level by the end of the year, Libya would only produce a daily average of 0.67 million bpd this year (about half of last year's). As a result, GDP growth will be negative in 2020 (minus 19.4 percent) but would rebound by 22.2 percent in 2021, before stabilizing around 1.4 percent thereafter. Deflation is expected to persist (minus 1.3 percent in average) as parallel market exchange rates converge further towards the official one. The impact of lower oil exports on Libya's revenues compounds with the fall in oil prices. Consequently, budget and current account deficits will be high in 2020 (36.7 and 29.3 percent of GDP), and average 2.5 and 8.6 percent of GDP over 2021-2022. Consequently, reserves could drop to US$ 81 billion in 2020 and further down to US$ 77 billion by end 2022.

Risks and challenges

Risks to the baseline forecast are unusually high and tilted to the downside. First, peace and stability seem illusive given the conflicting agendas of the foreign countries supporting the main parties involved in the fight for power and wealth, which would delay recovery and stability. The disruption of oil production and export may continue for longer period with disastrous economic and social consequences. Second, the ongoing spread of Covid-19 infection in Europe is disrupting both demand and supply of commodities. Libya may suffer from lower demand for oil, reducing Libya's income. It might also face lower supply of equipment and final consumption goods, which would disrupt further basic services delivery and increase the hardship of the population. Third, in case the spread of Covid-19 intensifies domestically, exacerbated by weak enforcement of social distancing and its high contagion among displaced people and migrants, it would be hard to address and contain the infection because of the decrepit health system. An alternative scenario that can surmount the current adversity and uncertainty would entail a revitalized political will to unite the country and its institutions. The political resolution would enable a cohesive state that could implement the critical policies and reforms to strengthen institutions, stabilize the macroeconomic framework, and diversify the economy to generate enough private jobs. The main policies include renewing state governance, rebuilding infrastructure and restoring public services, while improving economic institutions through reforming the subsidy system, rightsizing the public sector, reforming the tax system, and consolidating the financial sector.

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

	2017e	2018e	2019e	2020f	2021f	2022f
GDP growth, at constant market prices	26.7	15.1	2.5	-19.4	22.2	1.4
Private Consumption	2.8	3.6	1.7	-5.8	2.0	1.3
Government Consumption	14.1	0.0	2.7	-6.7	2.7	2.1
Gross Fixed Capital Investment	31.6	28.8	17.1	-15.3	20.1	1.5
Exports, Goods and Services	82.6	32.2	33.6	-42.2	53.8	3.1
Imports, Goods and Services	25.5	23.8	43.9	-21.5	19.9	1.0
GDP growth, at constant factor prices						
Hydrocarbon	116.9	35.9	4.3	-38.0	54.0	0.5
Non-hydrocarbon	0.0	1.8	1.0	-2.9	4.3	2.2
Inflation (Consumer Price Index)	28.4	9.3	-3.0	-2.0	-1.0	-1.0
Current Account Balance (% of GDP)	11.7	21.4	11.6	-29.3	-9.0	-8.2
Fiscal Balance (% of GDP)	-33.1	-7.0	1.7	-36.7	-2.6	-2.5
Debt (% of GDP)	113.0	89.9	87.1	145.9	124.8	123.1
Primary Balance (% of GDP)	-33.1	-7.0	1.7	-36.7	-2.6	-2.5

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

The cut-off date for information in this MPO was April 02, 2020.

MOROCCO

Table 1	2019
Population, million	35.6
GDP, current US$ billion	118.7
GDP per capita, current US$	3336
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.2)[a]	7.7
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	112.4
Life expectancy at birth, years[b]	76.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014).
(b) Most recent WDI value (2017).

The global effects of the covid-19 pandemic compound with the domestic ones and those of drought. Consequently, Morocco's economy is expected to suffer from a recession this year, the first one since more than two decades. The twin deficits will deteriorate, increasing significantly financing gaps. Demands for external financing have increased, which also underly the imperative of consolidating foreign reserves. Both Central government's and external debt will increase but will remain sustainable. The outlook remains subject to significant downside risks, including from more severe and longer duration of the pandemic.

Recent developments

Economic activity slowed down in 2019. Real GDP growth decelerated sharply to 2.3 percent, mainly driven by the contraction of agricultural output by 5.4 percent and a modest non-agricultural growth (3.3 percent). On the demand side, private consumption contributed the most to growth (up 3.3 percent), boosted by higher salaries and low inflation. The contribution of net exports remained negative, reflecting low competitiveness of exports and dependence on energy imports. Thanks to prudent monetary policies and declining import prices, inflation has remained low and controlled under 0.5 percent. The unemployment rate remains elevated at 9.2 percent and is significantly higher among women and youth. Recognizing the limitations of the country's existing development model, H.M. the King Mohammed VI has tasked the Commission for the New Development Model, a consultative body to outline by June 2020 a new national development vision for a 10-15-year horizon.

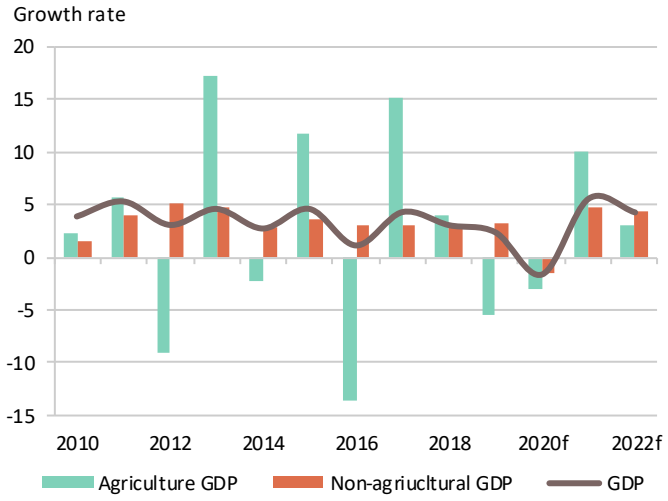
Public finances are under stress, due to higher social spending and wages. Following five years of strong fiscal consolidation efforts, the fiscal deficit widened anew in 2019 to an estimated 4.1 percent of GDP (excluding privatization proceeds), driven mainly by increased spending, especially on wages and social programs, but also by lower than forecasted corporate tax revenue and grants from the GCC. However, thanks to privatization proceeds, the budget financing needs edged down to 3.6 percent of GDP in 2019. Consequently, the central government debt-to-GDP ratio only slightly increased to 65.7 percent.

The external position improved in 2019 and remained sustainable despite some vulnerabilities. The current account deficit dropped to around 4.6 percent of GDP (5.5 percent of GDP in 2018), helped by declining import prices, especially of energy. As a result, imports increased by only 2 percent in 2019. At the same time, although facing sluggish external demand, exports maintained some dynamism, rising by 2.4 percent. The high value-added sectors contributed the most to exports, of which aeronautic industries jumping by 7.3 percent and automobile by 6.6 percent. Foreign reserves remain at more than 5.5 months of imports.

Outlook

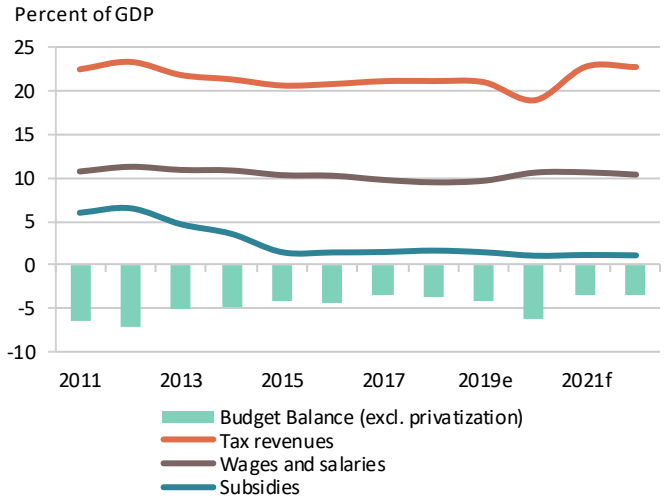
With the recent covid-19 spreading in Europe and the beginning of the infection domestically, along with an acute drought, Morocco's economy has started to suffer from the negative impact of the pandemic. As a result, real GDP is expected to recede by 1.7 percent in 2020. Over the medium term, assuming a V-recovery pattern from the Covid-19 impact, growth is projected to recover starting in 2021 reaching 5.5 percent as output returns to the levels projected before the pandemic outbreak. Inflation is projected to contract by 0.7 percent in 2020 as a result of the demand shock and contraction in private consumption.

FIGURE 1 Morocco / Growth rate volatility



Sources: High Commission for Planning.

FIGURE 2 Morocco / Public finances



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

The cut-off date for information in this MPO was April 02, 2020.

On the fiscal side, the pandemic will have an adverse impact on the pace of fiscal consolidation and in turn on gross financing needs and debt. The overall fiscal deficit (excluding privatization proceeds) is projected to deteriorate to 6.2 percent of GDP in 2020. The worsening of the deficit is primarily explained by Covid19-related higher social spending and lower tax revenues, particularly from corporate taxes and customs duties. At the same time, grants from the GCC could be postponed as these countries' fiscal situation is deteriorating. Subsidies and capital spending are expected to decline, but marginally. Consequently, the central government debt will peak at 73.2 percent of GDP in 2020.

The current account balance is expected to widen to 7.6 percent of GDP in 2020 before narrowing over the remainder of the forecast period. A sharp slowdown in exports, tourism revenues and remittances, is anticipated as the pandemic disrupts trade and global value chains. Although low oil prices in 2020 will reduce energy import outlays, it will not fully offset the negative impacts of the pandemic on exports of goods and services. In early March, the authorities widened the fluctuation band around the exchange rate from +/-2.5 to +/-5.0 percent along with the cut of the key policy rate from 2.25 to 2 percent, which should also help strengthen resilience. The current account deficit is projected to improve starting in 2021 to 4.3 percent of GDP as exports, tourism receipts, and remittances recover and as export manufacturing sectors (especially automobiles, electronics, and chemicals) resume.

Poverty reduction is expected to be modest given the growth outlook. In the first part of 2010s Morocco experienced significant poverty reduction; predictions based on GDP per capita indicate, however, that poverty will decline but at a much slower pace. In 2021, extreme poverty-measured using the international poverty line of US$1.9 PPP will be below 1 percent but not completely eradicated and poverty measured with the US$3.2 PPP line will be just above 5 percent, not much progress indeed compared to 2020 when it was predicted to be 5.75 percent. The planned increase of social spending accompanied by a better targeting can, however, speed up the pace of poverty reduction beyond the current predictions.

Risks and challenges

The outlook remains tightly linked to the fast-changing nature of the pandemic, the responses of policymakers and the global economy. On the demand side, Morocco's economy depends heavily on Europe's imports, tourism, and FDI. Morocco will suffer greatly from the expected recession of Europe's economy. It will also suffer if domestic demand drops further due to the closure of many activities to contain the spread of the pandemic with its impact on the revenues of employees and businesses. On the supply side, Morocco has started to be hit by the disruption in the value chains it is part of, especially in the automotive sectors with Renault and Peugeot factories shutting down. However, the newly created Covid-19 fund to mitigate the economic and social impact of the pandemic, such as higher health allocations and measures targeting households and businesses, in addition to the monetary measures, could well avoid the bankruptcy of a good number of companies and save jobs. Risks stemming from delays in implementing structural and financial sector reforms which could be postponed, could adversely affect fiscal space and thereby affect growth and external balances. Furthermore, the sluggish economic activities and its volatility can impact households' wellbeing too, particularly the wellbeing of those whose consumption expenditure is just above the poverty line; a small negative shock can push this group back into poverty.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	4.2	3.0	2.3	-1.7	5.5	4.2
Private Consumption	3.8	3.3	3.3	-1.0	4.6	3.9
Government Consumption	1.9	2.5	3.5	3.5	4.5	3.0
Gross Fixed Capital Investment	-0.2	1.2	2.4	-1.0	4.0	4.3
Exports, Goods and Services	11.1	5.8	4.2	-1.5	10.5	7.0
Imports, Goods and Services	7.9	7.5	4.2	4.0	7.0	6.0
Real GDP growth, at constant factor prices	4.4	2.8	2.3	-1.7	5.5	4.2
Agriculture	13.1	2.7	-4.3	-3.0	10.0	3.0
Industry	3.6	3.0	3.6	-1.3	5.5	4.0
Services[a]	2.6	2.7	3.5	-1.5	4.4	4.7
Inflation (Consumer Price Index)	0.7	1.9	0.2	-0.7	1.5	1.7
Current Account Balance (% of GDP)	-3.4	-5.5	-4.6	-7.5	-4.2	-3.2
Net Foreign Direct Investment (% of GDP)	1.5	2.5	0.8	1.0	1.9	1.9
Fiscal Balance (% of GDP)	-3.5	-3.7	-3.6	-6.0	-3.3	-3.1
Debt (% of GDP)	65.1	65.3	65.7	73.2	71.6	70.6
Primary Balance (% of GDP)	-0.9	-1.3	-1.3	-3.7	-0.9	-0.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.8	0.8	0.7	0.7	0.6	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	6.7	6.3	6.1	5.8	5.4	5.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	28.5	27.7	27.3	26.1	24.9	23.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Notes: e = estimate, f = forecast.
(a) Service is recalculated as the residual of GDP at Factor Cost minus Agriculture and Industry to ensure internal consistency, and therefore might be different from official sources.
(b) Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2013) with pass-through = 0.7 based on GDP per capita in constant LCU.

The cut-off date for information in this MPO was April 02, 2020.

OMAN

Table 1	2019
Population, million	5.0
GDP, current US$ billion	77.0
GDP per capita, current US$	15391
School enrollment, primary (% gross)[a]	106.4
Life expectancy at birth, years[a]	77.4

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

Oman's economy is expected to contract in 2020 due to the oil price slide and COVID-19 public health response. An increase in gas output and infrastructure spending plans will help growth to recover over 2021-22. Fiscal and external deficits will remain under strain due to low oil and gas prices. Rigid recurrent spending will keep public debt high, estimated to exceed 70 percent of GDP in 2020 and beyond. Stepping up efforts to diversify the economy and fiscal base would improve the outlook. Key risks to the outlook arise if the oil price crash is long-lived, which would require higher domestic and external borrowing, in turn needing more settled conditions in sovereign bond markets.

Recent developments

Real GDP growth is estimated to have decelerated to 0.5 percent in 2019, down from a recovery of 1.8 percent in 2018. This is largely driven by 1 percent (y/y) decline in oil production, capped by the since-lapsed OPEC+ production deal. The non-oil economy is estimated to have been subdued due to the slowdown in industrial activities and services sector. Inflationary pressures are estimated to remain muted at 0.1 percent in 2019, reflecting weak domestic demand and tame food and housing prices. Although the authorities implemented an excise tax in mid-June, they revised down the rate of tax on alcohol from 100 to 50 percent only a few days later.

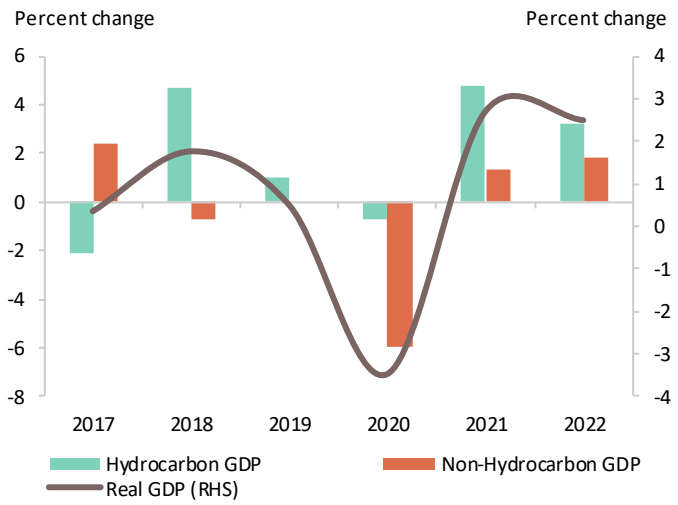
Fiscal rigidities have made consolidation difficult. The fiscal deficit is estimated to have remained high at 7 percent of GDP in 2019, or lower by only 1 percentage points of GDP (y/y). Hydrocarbon revenue is estimated to have contracted by over 4 percent in 2019 (y/y). Non-oil revenue has seen some added momentum in 2019 and increased by 0.1 percentage points of GDP (y/y), largely due to the adoption of a new excise tax on selected products in mid-June. However, with hydrocarbon production accounting for over 30 percent of the income, more than 50 percent of exports, and 70 percent of government revenues, and given the projected lower oil prices, the fiscal deficit will remain elevated indicating the need for fundamental fiscal reforms.

The current account deficit is estimated to have slightly narrowed to 5 percent of GDP in 2019 driven by favorable trade balance and lower global imports price, with remittances having fallen with fewer expatriates. Reflecting the current account deficit, foreign reserves dropped to an estimated US$16.7 billion (or 6 months of imports), from US$17.4 billion in 2018 (or 6.3 months of imports), despite the recent bond issuance.

Persistent large fiscal and external deficits have contributed to sharply rising debt levels. Public debt-to-GDP is estimated to have reached over 60 percent in 2019 from 53 percent in 2018. External debt is estimated at 92 percent of GDP in 2019, a 14 percent increase compared to 2018. These high vulnerabilities have led to a series of sovereign credit rating downgrades and an increase in funding costs. In March this year, the ministry of finance reduced the budget 2020 allocations to government agencies by 5%, and in April, the ministry instructed SOEs to cut their unnecessary spending by 10%, as a step to increase space in response to ongoing low oil prices environment. This is also included suspension of new projects and capital expenditures.

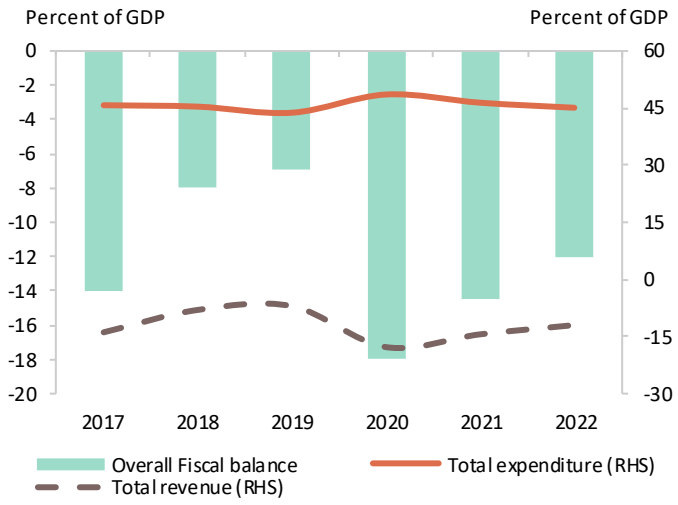
Lack of jobs remains a key concern among young Omanis. The latest official data from the National Centre for Statistics and Information shows that the unemployment rate for Omanis was 2.9 percent in January 2020 but was significantly higher among the young population (aged 15 to 24), at 9.8 percent. In addition, while the female unemployment rate was higher (9.9 percent) than among men (1.4

FIGURE 1 Oman / Real annual GDP growth



Sources: Oman authorities; and World Bank staff projections.

FIGURE 2 Oman / General government operations



Sources: Oman authorities; and World Bank staff projections.

percent), the difference in unemployment rates was especially large for women (24.4 percent) and men (2 percent) between 25 and 29 years of age.

Oman has long used selective expatriate visa bans across various private sector industries in an attempt to foster job creation among Omani citizens. The ban has been extended many times with the latest extension came into force in July 2019 to include four more professions in the private sector.

Outlook

Low oil prices and the spread of COVID-19 are the key challenges that Oman will need to navigate in the short-run. With oil prices in the mid-$30s in 2020 and constrained oil demand, growth is expected to contract by 3.5 percent. Forty five percent of Omani exports (or 21.7 percent of GDP), mostly oil, go to China, the highest Chinese exposure among GCC.

Low oil prices will create challenges to the implementation of supportive public spending for the country with already high deficits, more limited buffers and an elevated debt level. At such, the fiscal deficit is expected to markedly widen to over 17 percent of GDP in 2020, before starting to slightly narrow down over 2021-2022 assuming more favorable oil prices.

The trend of fiscal and current account deficits, together with rising public debt will accelerate in a weaker oil price environment. As a result, the current account deficit is expected to deteriorate reaching over 15 percent of GDP this year, and to remain elevated to almost 10 percent of GDP in 2021-2022. Gross reserves are forecast to decline by US$2 billion in 2020, to reach US$14.7 billion, but to remain sufficient by standard import coverage metrics in the medium term, reflecting possible increase in international government bond issuance and loans from international banks.

The persistently high fiscal deficit is expected to raise the public debt-to-GDP ratio to an average of 85 percent over 2020 -2022. External debt is projected to further increase, exceeding 120 percent of GDP largely driven by the high level of private external debt which in turn is related to infrastructure and energy projects.

COVID-19 is expected to disrupt non-oil economic activities, with negative impacts in retail, services and tourism. Thus, the social safety net should aim to protect vulnerable workers and maintain household consumption. The government has already embarked on implementing reforms to trim its burgeoning public wage bill and introduce VAT, among other measures. However, these measures will need to be sequenced with the crisis response.

Oman (a non-OPEC member) could increase oil production after the lapse of the OPEC+ agreement, to mitigate the widening of the deficit. The potential boost of the government's diversification efforts through transport and tourism would continue to facilitate an increase in non-hydrocarbon growth to about 2 percent over 2021-2022. Inflation is expected to increase to 1 percent in 2020, and to further accelerate to 3 percent in 2021 reflecting the again-delayed introduction of VAT.

Risks and challenges

Key downside risks are reflected in further erosion of the fiscal balance, through far lower oil prices, exposure to China, and economic disruption to tourism due to COVID-19. Mitigation would be demonstrated by implementation of substantial fiscal measures to curtail the government deficits, a new push on privatization, and prioritizing capital projects. With its accumulated external debt, Oman will need a rapid normalization of emerging market funding conditions to finance the continued deterioration of the country's fiscal and external accounts. Significant new gas production in 2021 along with diversifying the economy in sectors such as manufacturing, tourism and fishing will support the growth momentum and lessen the risks. At the same time, enabling Petroleum Development Oman (PDO) to maintain or increase its oil and gas production has sizable investment needs. The pressure for job creation resulting from the low employment rate of young Omanis is a risk to public finances and the social situation.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	0.3	1.8	0.5	-3.5	2.7	2.5
Private Consumption	8.7	1.0	0.7	0.1	1.7	2.5
Government Consumption	0.8	-0.2	0.6	0.2	1.8	2.2
Gross Fixed Capital Investment	-4.3	-5.1	1.8	-0.4	1.6	2.3
Exports, Goods and Services	-0.7	12.7	2.8	-1.6	2.8	3.4
Imports, Goods and Services	13.8	0.1	0.4	0.1	2.8	3.5
Real GDP growth, at constant factor prices	0.3	1.8	0.5	-3.5	2.7	2.5
Agriculture	8.7	27.9	2.5	3.8	3.9	4.5
Industry	-1.6	2.6	-0.7	-2.5	0.8	1.4
Services	3.0	-0.7	2.2	-5.5	5.6	3.9
Inflation (Consumer Price Index)	1.6	0.9	0.1	1.0	3.4	3.0
Current Account Balance (% of GDP)	-15.6	-5.5	-5.2	-15.2	-11.4	-7.7
Fiscal Balance (% of GDP)	-14.0	-7.9	-6.9	-17.9	-14.5	-12.0

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

The cut-off date for information in this MPO was April 02, 2020.

PALESTINIAN TERRITORIES

Table 1	2019
Population, million	4.9
GDP, current US$ billion	16.4
GDP per capita, current US$	3337
Upper middle-income poverty rate ($5.5)[a]	23.6
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	98.9
Life expectancy at birth, years[b]	73.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2017).

Following a fiscal crisis in 2019, the Palestinian economy was projected to slowly recover in 2020. However, the Covid-19 outbreak seems to be largely weighing on economic activity. Living conditions are difficult with a quarter of the labor force unemployed and 24 percent of Palestinians living below the US$5.5 2011 PPP a day – even prior to the recent outbreak. A larger than expected decline in aid and a further spread of the Covid-19 virus pose significant downside risks.

Recent developments

Economic momentum faltered in 2019 as growth of real Gross Domestic Product (GDP) in the Palestinian territories weakened in the first three quarters of 2019. Specifically, quarter-on-quarter growth was minus 3.3 percent in the first quarter of 2019, followed by negative growth of 2 percent in the second quarter before returning to growth of 1 percent in the third quarter. Notably, the slowdown was driven by a decline in private and public consumption and in investment. Even though official data is not out yet, anecdotal evidence shows that the situation has worsened in 2020 as the Covid-19 outbreak is causing disruptions to economic activity and everyday lives, which is expected to weigh heavily on GDP growth.

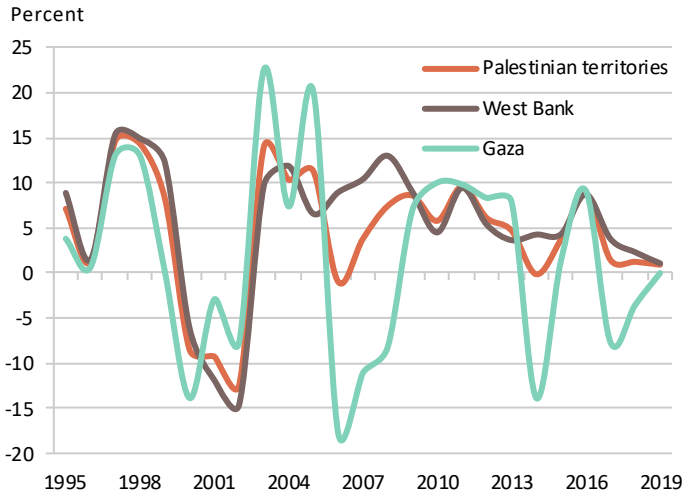
Consumer price inflation has remained low in 2019, in line with developments in Israel given the common circulation of the New Israeli Shekel and import dependence on Israel. Overall prices increased by 1.3 percent (year-on-year) in December 2019 and inflation averaged 1.6 percent for the entire 2019 compared to 2018.

The Palestinian Authority's (PA) fiscal stress significantly heightened starting in March 2019. Following a 2018 law, the Government of Israel (GoI) started making unilateral deductions of almost US$12 million per month from the tax revenues it collects on behalf of the PA (clearance revenues). In response, the PA refused to accept these transfers altogether during March - September 2019. Since clearance revenues constitute 65 percent of the PA's total revenues and 15 percent of GDP, their loss resulted in a severe liquidity squeeze that negatively impacted public and private consumption. The PA started re-accepting these revenues in September 2019, and the fiscal stress then eased allowing the PA to clear most of the arrears it had accumulated during the standoff to its employees, pay some of the arrears to private suppliers as well as pay down the increase in domestic debt. The PA's financing need (deficit before foreign assistance) reached US$1.4 billion while foreign assistance was US$590 million, resulting in a financing gap after aid of around US$0.8 billion—the largest in years.

Despite a widening trade deficit, the current account deficit is estimated to have narrowed in the first three quarters of 2019, by 10 percent, to US$1.4 billion. The trade deficit in goods and services stood at US$4.9 billion in the first three quarters of 2019—up 4 percent compared to the same period of 2018. Exports continue to be constrained by the ongoing trade restrictions. Current transfers amounted to US$3.5 billion, up 11 percent compared to the same period of 2018 as a result of an increase in both private and official transfers. Most notably, compensation of employees working abroad was up 4 percent to US$1.9 billion as a result of a greater number of workers employed in Israel.

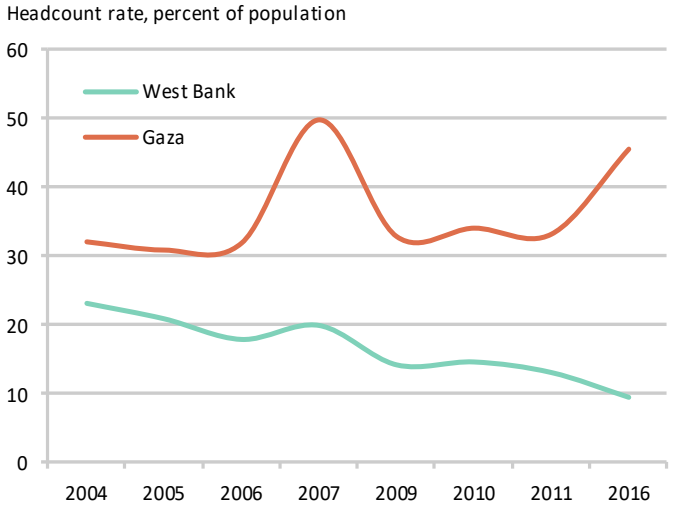
The unemployment rate reached 26.8 percent in the first quarter of 2019, but it has since eased to 24 percent in the fourth quarter due to the remission of the clearance revenues standoff. In Gaza, 43

FIGURE 1 Palestinian territories / Real GDP growth rate



Sources: Palestinian territories Central Bureau of Statistics (PCBS).

FIGURE 2 Palestinian territories / Poverty rates at the $5.5 2011 PPP per day level



Sources: PECS, World Bank staff calculations.

percent of those in the labor force were unemployed in the fourth quarter of 2019. The situation in the West Bank has been very different with the unemployment rate stagnating at around 17 percent over recent years. It has even dropped to 14 percent in the fourth quarter of 2019 as a result of an increase in the number of persons employed in Israel.

Around 24 percent of Palestinians lived below the US$5.5 2011 PPP a day poverty line in 2016/17– 2.9 percentage points higher compared to 2011. The gap between the West Bank and Gaza has increased substantially in 2016/17 with 46 percent of the population below the US$5.5 poverty line in Gaza, compared to 9 percent in the West Bank. Monetary living standards in both regions remained fragile. In the West Bank, poverty status is sensitive to even small shocks in household expenditures, while in Gaza any change in social assistance flows can significantly affect the population's wellbeing.

Outlook

Growth in 2019 is estimated to have been weak, reaching 0.9 percent, as economic activity was disrupted for most of the year due to the fiscal crisis. Notably, this outturn is a result of Gaza registering minimal positive growth following a steep recession in 2018 (-3.5 percent), while growth in the West Bank in 2019 is expected to reach the lowest level over the last five years (1.1 percent), down from 2.3 percent in 2018. Going forward, measures put in place by the PA since early March, 2020 to halt the spread of the covid-19 outbreak, while effective in limiting the spread of the virus, seem to have resulted in disruptions in economic activity, especially in the West Bank. As a result, the Palestinian economy is expected to contract by 2.5 percent in 2020.

On the fiscal side, the expected normalization of clearance revenue transfers throughout 2020 is extremely positive. However, additional spending by the PA to respond to the Covid-19 outbreak, estimated at US$120 million, will strain the budget especially as donor funding is expected to reach its lowest point in more than a decade, US$266 million. Even with planned measures to ration some public spending, savings will not be enough to offset the additional Covid-19 related expenditures resulting in a financing gap (deficit after grants) of around US$1 billion.

Given the prevailing policy uncertainty, poverty is not forecasted in this MPO round. However, declining aid flows, expected shrinking of GDP per capita, the spread of the coronavirus and a potential reduction in donor funding are expected to have a negative impact on people's wellbeing and incomes.

Risks and challenges

There are significant risks to the outlook. If the covid-19 outbreak is not controlled soon, its impact on economic activity and livelihoods is going to be severe. Under this scenario, drastic measures are expected to be put in place including a complete lock down on the West Bank and Gaza and a ban on movement between cities. Private sector representatives have also announced plans to cut pay by fifty percent. The largest impact would be through a decision to stop the entrance of more than 140,000 Palestinian workers to Israel, as those workers and their families account for a third of private consumption given their higher take-home pay. A sharp reduction in the number of tourists is also expected to contribute negatively. The lack of policy tools, such as fiscal stimulus, liquidity injections, or external borrowing could leave the economy vulnerable. The impact on consumption could be severe and the economy could contract by more than 7 percent.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.4	1.2	0.9	-2.5	2.1	2.4
Private Consumption	-1.1	1.1	1.8	-5.5	1.3	1.3
Government Consumption	-13.7	7.3	1.3	5.5	0.7	3.1
Gross Fixed Capital Investment	6.9	2.5	2.1	-1.3	4.5	4.2
Exports, Goods and Services	13.9	2.5	0.8	-0.6	1.2	1.0
Imports, Goods and Services	1.3	4.5	3.0	-3.0	1.1	1.3
Real GDP growth, at constant factor prices	0.2	1.9	3.8	-2.5	2.2	2.5
Agriculture	-6.0	1.6	0.3	-1.4	1.0	1.1
Industry	11.6	2.2	0.7	-2.9	1.6	1.8
Services	-2.2	1.8	5.2	-2.4	2.5	2.8
Inflation (Consumer Price Index)	0.0	1.2	1.6	1.4	1.4	1.5
Current Account Balance (% of GDP)	-9.7	-10.2	-9.9	-7.3	-6.3	-6.0
Net Foreign Direct Investment (% of GDP)	-1.4	-1.4	-0.8	-0.8	-0.8	-0.8
Fiscal Balance (% of GDP)	-3.2	-2.5	-4.4	-6.1	-3.9	-3.8
Debt (% of GDP)	15.8	14.5	17.3	19.6	20.9	20.5
Primary Balance (% of GDP)	-2.7	-2.1	-4.0	-5.6	-3.5	-3.4

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

The cut-off date for information in this MPO was April 02, 2020.

QATAR

Table 1	2019
Population, million	2.8
GDP, current US$ billion	184.5
GDP per capita, current US$	65138
School enrollment, primary (% gross)[a]	103.3
Life expectancy at birth, years[a]	80.0

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

Growth had been rebalancing as FIFA-related infrastructure investment tapered while other large projects in the gas and non-hydrocarbon sectors are underway. Fiscal and external balances had returned to surplus but remain highly vulnerable to volatility in hydrocarbon prices. Expanding LNG capacity is expected to underpin growth in the medium-term. Drags on growth include energy price volatility, COVID-19 disruptions, and the continued diplomatic rift with some Gulf neighbors. The diplomatic rift vindicated the infrastructure-focused diversification strategy, but COVID-19 has worsened under-utilization of capacity.

Recent developments

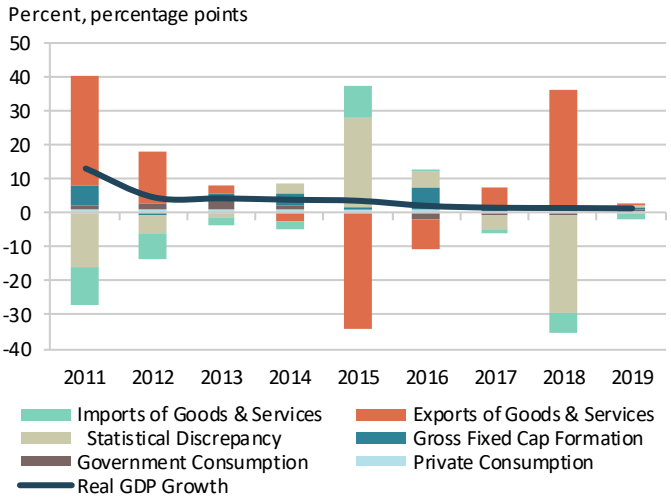
Qatar, the world's fifth-largest gas producer, second-largest gas exporter, and largest LNG exporter, has seen tepid growth throughout 2019. This reflects sluggishness in the hydrocarbon (HC) and non-HC sectors. The HC sector has reflected production restraint and phasing of new projects, while the non-HC sector reflects a gradual winding down of a decade-long boom associated with the implementation of large infrastructure projects in preparation for the FIFA 2022 World Cup. The construction sector accounts for about a fifth of non-oil activity. HC activity had been flat in recent years reflecting a decade-long self-imposed moratorium on the North Field, the world's biggest natural gas field. While the economy has coped well since the mid-2017 diplomatic rift with some GCC neighbors by using its ample infrastructure to access new import and export routes, inward foreign direct investment has dropped off sharply. Reforms have helped mitigate the loss of markets due to the diplomatic rift. A foreign investment law approved in 2018 seeks to allow foreigners to own 100 percent of the capital of companies across all economic sectors, the first GCC country to do so. This follows permanent residency reforms aimed at attracting highly-skilled foreign workers to help Qatar become a knowledge-intensive economy.

Public finances have improved, with the posting of small fiscal surpluses in 2018 and 2019, the first since 2014. Current and non-FIFA related capital spending have been pared back in recent years. Although the Government has delayed the implementation of a VAT, it has announced "sin taxes" that include 100 percent excise duties on tobacco and energy drinks and a 50 percent levy on sugary drinks. The relative tapering in capital spending as some FIFA projects are completed should help offset an increase in current spending, notably the public sector wage bill in line with the government planning to substantially increase the number of public sector jobs, particularly within health, education, defense and security.

The banking system has maintained strong asset quality despite the diplomatic rift and liquidity has been buttressed in part due to increased government deposits into the banking system to replace private outflows. To some extent, this has increased the linkages between the banking sector and the sovereign. Despite the US$ peg, the Central Bank has tended to undertake smoother monetary policy adjustments than the US Fed. Policy remained accommodative during US Fed tightening since 2017, and more recently tracked US Fed easing moves in timing but smaller in size. The monetary policy rate current stands at 1 percent. Investor confidence remains underpinned by sovereign wealth fund financial assets of over US$300 billion.

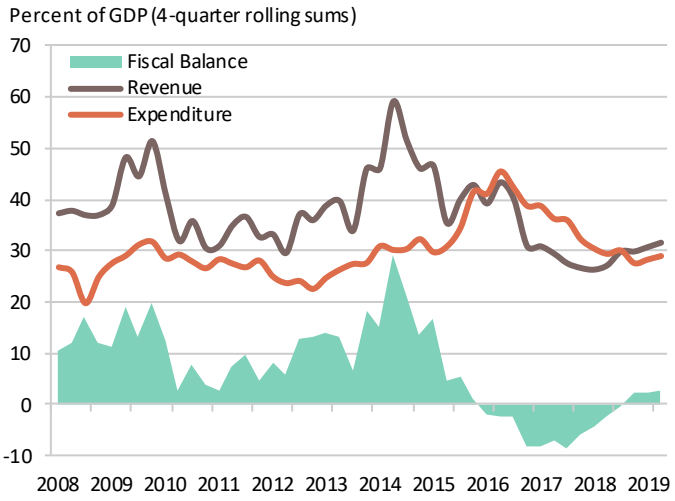
Qatar still has access to the international debt market, having just issued $10 billion in bonds, one year since its March 2019 US$12 billion sale. Public debt has doubled since 2014 to an estimated 53 percent of GDP in 2019.

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



Sources: Haver.

FIGURE 2 Qatar / Public finances



Sources: World Bank staff calculations.

Absolute poverty is not an issue for citizens. There is a national relative poverty line and a welfare measurement methodology to track living standards of the population and identify vulnerable households. This threshold is equal to half of the median household's income, with a tiny minority of Qataris below that. Lower incomes correlate with household dependency ratio, job market status, educational attainment, female headship and disability. Spatial differences in welfare exist, notably between more urbanized and less urbanized areas.

Outlook

Growth is projected to stall in 2020 even with increased government spending to ease the economic impact of COVID-19 containment, and to rise towards 3 percent in the medium term driven by stronger activity in the service sector as the FIFA World Cup 2022 underpins a V-shaped recovery. Under the Qatar National Vision 2030, nearly QR60bn (US$16.4 billion) in infrastructure and real estate investments are planned over the next four years to help offset falling FIFA-investment spending and ensure a beneficial legacy. While envisaging large-scale LNG capacity expansion plans, which should increase gas liquefaction capacity by more than a third, exploitation of the North Field will be further delayed given adverse developments in gas prices.

The fiscal and current account surplus will narrow in 2020 owing to much weaker global energy prices and disrupted LNG sales as force majeure clauses are invoked. Balances should improve over the medium term, as exports and revenues rise once the delayed US$10 billion Barzan natural gas facility comes online this year, and the eventual expansion of North Field gas projects. Public sector balances over the medium term should also remain supported by recent tax reforms and the eventual introduction of a VAT. Inflationary pressures should remain muted, aside from when the VAT is implemented.

Risks and challenges

Major external risks are materializing. Although Qatar is protected from spot oil price volatility through LNG long-term contracts, natural gas prices overall were already weak prior to the OPEC+ and COVID-19 shocks due to the mild winter in major markets and the overhang of previously isolated US gas supply coming onto the global market. The crash in hydrocarbon prices will lead to a renewed pressure on LNG pricing and volumes and deterioration in fiscal and external balances, particularly if government spending continues to rise over the medium term. Qatar's low-cost dominance in LNG export markets is threatened by new and emerging producers, notably Australia, the USA, and over the coming years Egypt and Mozambique.

The hydrocarbons-financed growth strategy over the past decade has helped to transform standards of living for citizens. However, it has also given rise to concerns about excess capacity in the economy and rapid demographic change, while resulting in a narrow economic base – although the investment in LNG and ports proved to be an important instrument for dealing with forced trade rerouting. This excess capacity carries increasing fiscal risks, as devalued assets may ultimately be absorbed by the budget. A lack of resolution of the diplomatic rift prolongs the lost opportunity of further GCC regional integration and crisis burden-sharing, and thereby confines the impact of reforms to strengthen the business environment.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.6	1.5	1.4	0.4	1.5	2.4
Private Consumption	4.4	5.0	3.0	4.0	3.5	5.0
Government Consumption	-6.1	-3.0	3.0	4.1	4.5	4.6
Gross Fixed Capital Investment	1.3	3.6	2.5	6.9	-3.8	-1.1
Exports, Goods and Services	27.3	119.5	1.1	-3.0	6.6	6.5
Imports, Goods and Services	6.1	28.1	6.0	5.0	7.5	9.0
Real GDP growth, at constant factor prices	1.0	0.5	1.2	-1.1	1.4	1.7
Agriculture	11.1	8.2	-1.0	3.0	5.0	8.0
Industry	2.2	0.6	1.2	0.9	3.0	2.8
Services	-1.5	0.3	1.3	-6.0	-2.5	-1.2
Inflation (Consumer Price Index)	0.4	0.2	-0.4	2.2	2.1	2.0
Current Account Balance (% of GDP)	3.8	8.7	2.6	0.0	1.9	2.8
Fiscal Balance (% of GDP)	-6.6	2.2	1.3	-3.0	-1.0	0.0

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

SAUDI ARABIA

Table 1	2019
Population, million	34.1
GDP, current US$ billion	749.1
GDP per capita, current US$	21942
Life expectancy at birth, years[a]	74.9

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

The contracting oil sector led to sluggish growth in 2019, despite strong performance of non-oil sectors. The outlook for 2020 remains very weak in the wake of COVID-19 and oil supply shocks. Medium-term fiscal balances are estimated to continue in deficit—risking the ability in realizing Vision 2030 fiscal targets. Vision 2030 related reforms are critical for diversification and progress was made on business environment reforms. COVID-19 response includes preservation of gains made in job creation for nationals in the private sector.

Recent developments

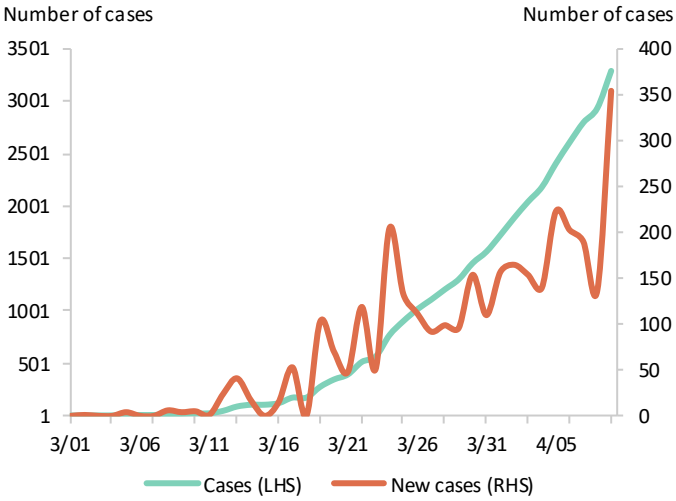
Growth stalled in 2019, driven largely by the deliberate oil production cuts in excess of those required under OPEC+ agreement, lower oil prices, and further reinforced by the drone attacks on Saudi Aramco's facilities in mid-September 2019. Overall, the economy grew by 0.3 percent in 2019 despite strong performance of non-oil sectors supported by private consumption and investments. The stronger non-oil sector offset the headwinds from oil, with December headline inflation recording a positive reading for the first time in a year.

Public sector finances posted a narrower deficit in 2019, estimated at 4.2 percent of GDP. The fall in oil revenues was compensated by strong growth in non-oil revenues, which increased from reducing VAT registration threshold and expansion of excise taxes and fees. Total spending decreased with capital spending bearing the brunt of these cuts. The deficit was financed through a combination of government withdrawals from deposits, dropping from 19.1 to 17.8 percent of GDP in 2018 and 2019, respectively; and debt issuances, with debt to GDP rising from 19 to 23.1 percent in 2018 and 2019, respectively.

The current account surplus narrowed on lower oil export earnings, which is estimated at 5.4 percent of GDP in 2019 – compared to 9 percent in 2018. Current transfers balance reported slight improvement amidst lower remittances outflow, which contributed in fueling private consumption. Net foreign investment flows increased slightly during 2019 but continues to be much lower than their pre-2014 levels – a major concern for policymakers given the ambition of Vision 2030. Portfolio investment inflows increased significantly as the Saudi Stock Exchange (Tadawul) became listed in the Emerging Markets Stock Indices. The central bank net foreign reserves stood at US$494 billion in 2019 compared to US$489.6 billion in 2018. Given the US dollar peg, the repo rate was reduced to 1 percent following Fed's recent looser monetary policy and ease the impact of the COVID-19 outbreak.

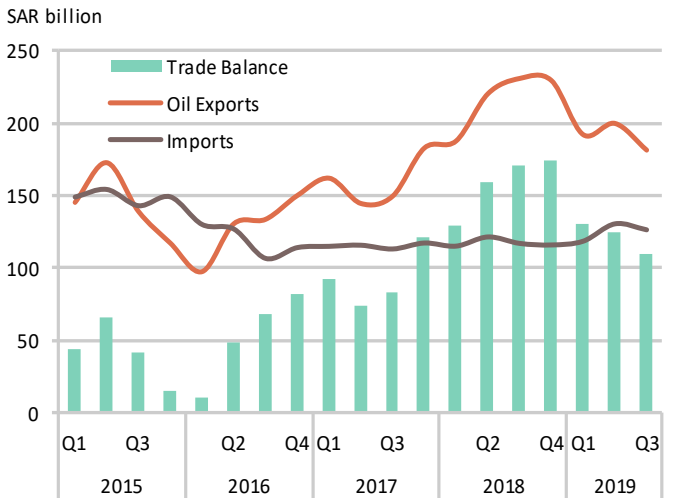
In the midst of the high-profile G-20 presidency in 2020, the Kingdom continued delivering on its Vision 2030 commitments and measures in several areas: financial sector development, human capital strengthening, public financial management, energy sector diversification, and many others. However, the most notable reforms during 2019 have been in the business environment, where Saudi Arabia was one of the top ten global improvers in Ease of Doing Business 2020 report. Furthermore, the completion of Saudi Aramco's initial public offering (IPO) in December 2019 reflects the government's drive to leverage oil wealth to finance diversification, transforming the Public Investment Fund (PIF) into an activist sovereign wealth fund. Labor market reforms aim to increase the share of nationals in the private sector workforce. Employment of nationals, including women, has increased; however impacts on private

FIGURE 1 Saudi Arabia / COVID-19 cases



Sources: World Bank; John Hopkins CSSE.

FIGURE 2 Saudi Arabia / Trade balance, oil exports



Sources: Haver.

sector growth and productivity are not immediately apparent.

No official information is available on poverty but there have been gains in administrative capacity to identify and support low income households. As in other GCC countries, the bulk of low-income residents are migrant workers, but as the citizen population crosses the 20 million-mark, there will inevitably be issues of ensuring secure livelihoods and well-being for nationals. Vision 2030 set ambitious goals to protect citizens, including modernizing the social welfare system, redirecting price subsidies toward those in need, preparing and training those unable to find employment, and providing tailored care and support to the most vulnerable citizens. Accordingly, the Citizens Account was introduced to compensate Saudi households for the cost of higher energy prices and expatriate levy. Close coordination with other cash transfer programs is warranted to assure overall effectiveness of social assistance.

Outlook

Growth will initially pivot to higher oil production as announced in March 2020, pending further agreement with OPEC+ and G20 countries. Weaker growth is anticipated in the non-oil sectors reflecting low domestic demand as COVID-19 closures and suspensions disrupt critical sectors in the economy; these effects are assumed to be concentrated within 2020. Despite indicated spending cuts to weather the fall in oil receipts, the fiscal deficit is expected to widen in 2020. COVID-19 related health spending will be prioritized, for example a commitment to free treatment for all residents (not only nationals). The deficit narrows afterwards as oil prices moderately recover to levels well below consensus assumptions at the start of the year. A current account shortfall of 10.3 percent is expected during 2020, as oil and non-oil merchandise exports fall, accompanied with a drop in tourism receipts with the suspension of religious tourism. Subdued domestic demand will help suppress headline inflation in 2020, but it remains to be seen whether supply chains can quickly regain full capacity without sharp relative price effects when the COVID-19 crisis eases.

Risks and challenges

There are two major downside risks, both of which are materializing at the same time. First, the recent lapse of OPEC+ agreement places further downward pressure on oil prices as several main players reported plans of increased production, sometimes with huge discounts, to an existing sizeable market surplus. Saudi Arabia is participating in efforts to stabilize prices, through existing production coordination mechanisms (OPEC+) and the G20. Prolonged current oil price levels would have adverse impacts on the economy and to the extent that the revenue shock is absorbed by debt, lead to a rapidly rising public debt trajectory.

Second, the continually downgraded global growth outlook due to COVID-19 and its impact on energy demand and hydrocarbon earnings. Moreover, limited information on the extent and duration of the outbreak makes it difficult to evaluate the indirect channels of impact in the economy, e.g., value chains and tradable sectors, preventive measures taken by the authorities, e.g., travel restrictions and the suspension of work for public and private sectors, or potential austerity measures in response to declining revenues.

Lower oil prices provide the urgency to tackle difficult fiscal issues, such as the large and rigid spending on public sector compensation and benefits – which will need to be assessed against the obvious need for fiscal mitigation of the effects of COVID-19. Despite efforts to foster greater diversification, the hydrocarbon sector remains the economic driver with further large investments indicated for oil and gas expansion during the current oil price turmoil. Other large capital investments and mega projects are envisaged under Vision 2030, generating significant financing needs and fiscal risks, with potential crowding out of private-sector-led growth. Finally, Saudi Arabia nationals are being incentivized to fill the gap left by expatriate exodus, but a key challenge will be to make private sector opportunities appealing enough for nationals, coupled with better management of foreign labor admission and mobility.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	-0.7	2.4	0.3	0.2	2.1	2.6
Private Consumption	3.2	1.9	4.4	-0.2	1.2	1.8
Government Consumption	3.3	6.0	0.6	0.0	1.9	3.2
Gross Fixed Capital Investment	0.7	-2.9	4.9	-0.6	0.5	1.2
Exports, Goods and Services	-3.1	6.8	-4.5	-0.2	3.6	3.4
Imports, Goods and Services	0.3	2.7	1.3	-2.0	1.9	2.0
Real GDP growth, at constant factor prices	-0.7	2.6	0.3	0.2	2.1	2.6
Agriculture	0.5	0.3	1.3	0.0	0.1	0.2
Industry	-2.4	2.7	-2.6	0.9	1.5	1.6
Services	1.9	2.5	4.3	-0.6	2.9	4.1
Inflation (Consumer Price Index)	-0.9	2.5	-1.2	0.3	1.0	1.3
Current Account Balance (% of GDP)	1.5	9.0	5.4	-10.3	-5.4	-5.3
Net Foreign Direct Investment (% of GDP)	0.9	0.7	0.8	1.2	1.2	1.2
Fiscal Balance (% of GDP)	-9.2	-5.9	-4.2	-7.5	-6.4	-6.4

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

The cut-off date for information in this MPO was April 02, 2020.

TUNISIA

Table 1	2019
Population, million	11.7
GDP, current US$ billion	38.7
GDP per capita, current US$	3298
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.2)[a]	3.2
Gini index[a]	30.9
School enrollment, primary (% gross)[b]	115.6
Life expectancy at birth, years[b]	76.3

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

The new government faces an economic situation that is highly vulnerable to a deterioration of the global economy due to the coronavirus pandemic and volatile oil prices. Tunisia has high twin deficits and debt, and limited buffers, whereas growth is anemic, employment stagnant, and inflation relatively high. A worsening pandemic would negatively impact tourism, exports and domestic demand and consequently growth, employment, and household vulnerability. A sharp reversal of recent oil price dynamics would exacerbate current account and fiscal pressures.

Recent developments

After growth picked up to 2.7 percent in 2018 from 1.9 percent in 2017, Tunisia experienced weak growth of 1 percent in 2019. This was driven by a marked slowdown in agricultural growth, a contraction in manufacturing and a deceleration in services. Political uncertainties surrounding presidential and parliamentary elections during 2019Q4, the delay in government formation and a marked deceleration in credit have weighed on growth during the first months of 2020.

Inflation has been decelerating since the second half of 2018 and stood at 5.8 percent in February 2020 as the currency appreciated in nominal terms and following monetary policy tightening by the Central Bank.

The unemployment rate dropped gradually in 2019 to reach 15 percent in the fourth quarter, compared to 15.5 percent a year before; the rate is significantly higher among women, youth, university graduates and in lagging regions.

The assumptions under which the 2020 Budget was constructed (growth of 2.7 percent and Brent oil prices of US$ 65 per barrel) have largely become obsolete due to the covid19 pandemic and oil price dynamics. These developments will result in an economic contraction and in turn a decline in revenues. On the spending side, energy subsidies are estimated to drop significantly (by close to 2 percent of GDP) in light of recent oil price declines.

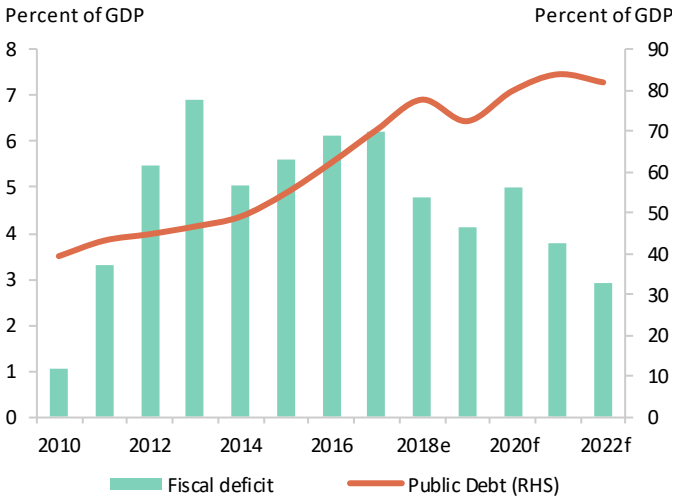
The trade deficit remained flat in 2019 as import growth slowed down markedly due to the growth slowdown and monetary tightening, and exports contracted. Improved tourism and remittances helped to narrow the current account deficit to 8.8 percent of GDP (vs. 11.2 percent in 2018). FDI remains muted and financing has mostly been through concessional loans. Lower FX interventions by the Central Bank and improved FX market functioning have contributed to protecting gross foreign reserves which reached around 4.2 months of next year's imports of goods at end-2019. The Dinar has appreciated in nominal terms by almost 9 percent against the Euro over the past twelve months, thereby reversing a multi-year trend of currency depreciation.

Outlook

The economy is projected to contract by 4 percent in 2020 in a scenario where covid19 spreads globally with disruptions to travel and trade as well as social distancing behaviors, all of which impact economic growth. This forecast assumes 2 to 3 months of social distancing, travel restrictions over the summer resulting in a large contraction of the tourism sector, and the gradual coming online of the Nawara field. The outlook is subject to major downside risks related mainly to the coronavirus pandemic.

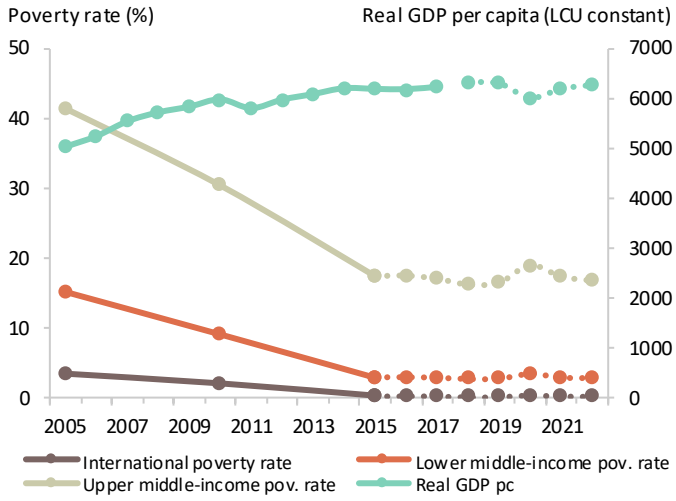
Inflation is expected to continue declining under an outlook of lower oil prices and a continued tight monetary policy. Inflation

FIGURE 1 Tunisia / Fiscal deficit and debt



Sources: Tunisian Ministry of Finance and staff estimates.

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



Sources: World Bank. Notes: see Table 2.

pressures could rise in the scenario of continued disruption of trade flows with Europe and China which could force importers to adjust their supply chains and procure in potentially higher cost countries. Poverty is projected to go above 3 percent in 2020 using the 3.2 U$ PPP per day line and around 0.3 percent using the international poverty line.

Whether the target fiscal deficit of 5 percent of GDP in 2020 can be reached remains largely dependent on the evolution of the covid19 pandemic and its impact on tourism and the broader economy, as well as oil price dynamics. The 2021 fiscal deficit may record 3.8 percent of GDP assuming a significant decline in energy subsidy spending and fiscal consolidation measures by the new government. Public debt will peak in 2021 at 84.2 percent of GDP before starting to decline assuming government reform momentum persists.

Starting in 2020, lower oil prices, and the coming online of the Nawara gas field, could contribute to significantly reducing the trade deficit as about 40 percent of this deficit is explained by the energy sector. The current account deficit will gradually improve in the baseline as energy import costs decline, offsetting potential losses in tourism receipts and remittances resulting from the covid19 epidemic.

Risks and challenges

The key risks facing Tunisia relate to the covid19 pandemic and the volatility in global oil prices. A worsening of the global pandemic would result in a further deterioration of the global economic outlook, a persistent disruption in global trade and value chains, as well as longer than expected global and Tunisia-specific restrictions to travel and activity combined with social distancing behavior that would lower domestic consumption. This would adversely affect economic activity in Tunisia and in particular tourism and exports, thereby leading to an additional slowdown in growth, job creation, and government revenue as well as potential price increases of imported goods leading to higher inflation. This – along with a potential reduction in FDI and remittances due to the pandemic – would have knock-on effects on the fiscal and current account balances and the foreign reserve position. A reversal of the recent drop in global oil prices would affect fiscal and external accounts. A disruption of global financial markets and the economic situation in a few oil exporting MENA countries could increase difficulties to finance fiscal and external balance deficits but Tunisia remains mostly dependent on multilateral financing. Domestically, there are additional risks relating to reform continuity (in light of recent elections and the installation of a new government), socio-political tensions, and a deterioration in security which would adversely impact investment and tourism. Spillovers of instability in neighboring countries could affect economic stability.

If the present risks materialize, the wellbeing of many households would be impacted, particularly vulnerable households whose consumption is just above the poverty line. Around 17 percent of the population (i.e. about 1.9 million Tunisians) is considered vulnerable, if one uses the definition of the 'vulnerable' as those living below the US$ 5.5 PPP. According to most recent estimates, the economic shock might increase this percentage to 19 percent or even more; this percentage is highly likely to rise further as the outlook is revised in the coming weeks.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	1.9	2.7	1.0	-4.0	4.2	2.2
Private Consumption	2.5	2.1	0.9	-4.0	4.1	1.7
Government Consumption	0.3	0.2	0.3	0.9	-0.3	1.1
Gross Fixed Capital Investment	0.3	2.0	-12.3	-11.4	3.9	1.1
Exports, Goods and Services	4.6	4.4	-5.0	-3.5	3.1	2.6
Imports, Goods and Services	3.5	1.7	-8.6	-4.2	1.5	1.2
Real GDP growth, at constant factor prices	1.8	2.6	0.9	-4.0	4.2	2.2
Agriculture	1.8	11.3	0.8	0.0	2.0	2.3
Industry	-0.7	0.2	-1.0	-4.2	4.0	2.2
Services	2.9	2.3	1.7	-4.5	4.6	2.2
Consumer Prices (end-of-period)	6.3	7.6	6.1	5.2	4.4	4.0
Current Account Balance (% of GDP)	-10.2	-11.2	-8.8	-7.2	-7.0	-6.8
Fiscal Balance (% of GDP)[a]	-6.1	-4.8	-4.1	-5.0	-3.8	-2.9
Debt (% of GDP)	70.4	77.9	72.6	80.1	84.2	82.2
Primary Balance (% of GDP)	-3.7	-2.1	-0.9	-1.8	-0.5	0.4
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.2	0.2	0.2	0.3	0.2	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	3.0	2.8	2.9	3.4	3.0	2.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	17.1	16.3	16.6	18.9	17.4	16.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal Balance excludes Grants, Privatization Proceeds, and Confiscated Assets.
(b) Projection using neutral distribution (2015) with pass-through = 1 based on GDP per capita in constant LCU.
(c) Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

The cut-off date for information in this MPO was April 02, 2020.

UNITED ARAB EMIRATES

Table 1	2019
Population, million	9.7
GDP, current US$ billion	402.8
GDP per capita, current US$	41618
School enrollment, primary (% gross)[a]	122.3
Life expectancy at birth, years[a]	77.6

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

Overall economic growth stabilized in 2019, despite a recovery in the hydrocarbon (HC) sector, due to headwinds in non-HC sector, notably from real-estate oversupply. Fiscal stimulus programs targeting business costs were launched to facilitate an acceleration. In 2020, plunging oil prices and efforts to contain COVID-19 will weigh heavily on the non-HC sector which was already facing challenging debt burdens and intensified traded services competition. The medium-term outlook depends on a rebound in trade/travel and on structural reforms that can reinvigorate productivity and innovation.

Recent developments

Economic growth remained unchanged at 1.7 percent in 2019 as the pick-up in the HC sector was offset by a slowdown in the rest of the economy. Official estimates suggest non-oil real GDP growth slowed to 0.3 percent in Q2 2019. The slowdown in real-estate continues due to oversupply and associated debt overhang—average residential prices fell in Q4 2019 by 7-7.5 percent y-o-y in Dubai and Abu Dhabi.

The overall fiscal balance is estimated to have returned to a deficit of 1.6 percent of GDP in 2019 from a surplus of 1.2 percent of GDP in 2018. Revenue growth in 2019 is estimated to be modest with low oil prices compounded by fee reductions. Despite VAT, higher revenues were offset by increased spending. Abu Dhabi sold US$10 billion in sovereign bonds in September 2019 to finance the deficit. The current account remained in surplus.

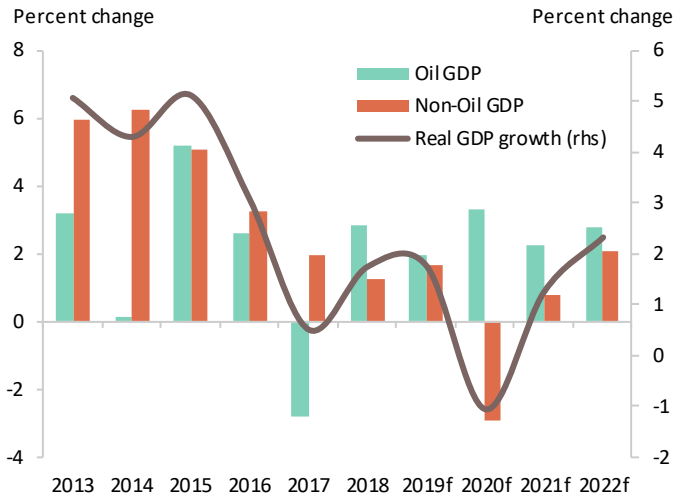
The Central Bank followed Fed rate cuts in October 2019 and March 2020 amid concerns over COVID-19. Domestic liquidity growth was muted for most of 2019, reflecting sluggish demand and weak property market. Higher deposits were driven by GRE (government-related entities) and government deposits. Similarly, government lending increased, while lending to the private-sector grew mildly. Inflation turned negative in 2019 as activity declined and VAT effects dissipated.

Understanding of poverty and inequality in the UAE is limited due to sparse access to information from representative household and labor market surveys. Previous surveys show little evidence that poverty for nationals is a concern. According to the International Labor Organization (ILO), the unemployment rate was just 2.2 percent in 2018, with 81 percent of the working-age population participating in the labor force. However, unemployment rate among women (5.9 percent) is more than four times male's unemployment rate (1.3 percent). The UAE labor market is characterized by low participation of nationals, especially women, and occupational segmentation (nationals mostly in the public sector).

Outlook

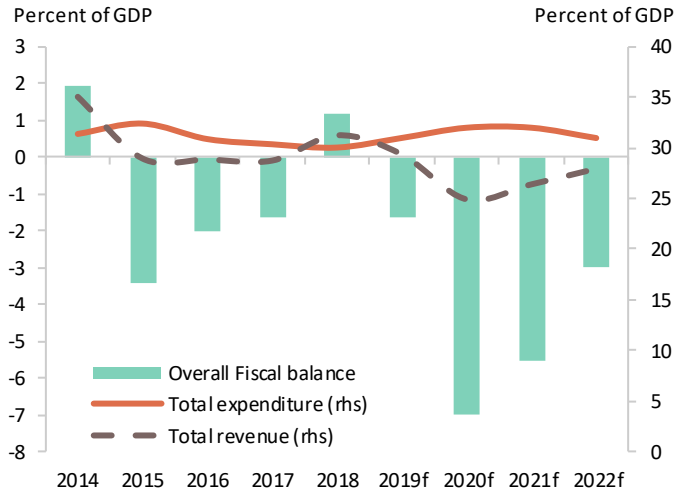
Growth in 2020 is subject to major uncertainty due to the COVID-19 pandemic and low oil prices. Travel restrictions are hitting tourism, and social distancing will contract domestic consumption. Cognizant of these exposures, the authorities moved quickly to implement a containment strategy, cancel sporting events, and tighten travel procedures. Given UAE's status as global logistics and re-processing hub, a global slowdown and disruptions in supply chains will weigh heavily on UAE's non-oil sector; which was already facing persistently weak business sentiment and a prolonged real estate downturn. The PMI had slipped to 49.1 in February—below the 50-mark indicating negative growth—for the first time since the crisis in 2009. In the absence of a revitalization of the

FIGURE 1 United Arab Emirates / Annual GDP growth rate



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

FIGURE 2 United Arab Emirates / General government operations



Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, IMF WEO Oct 2019.

The cut-off date for information in this MPO was April 02, 2020.

OPEC+ agreement, a prolonged price war leading to higher oil production will boost oil-GDP growth, an effect concentrated in Abu Dhabi. The hit to Dubai's economy could be made worse if the authorities are forced to postpone the World Expo2020. As a result, overall growth in 2020 is expected to contract. Over the medium-term, and dependent on a V-shaped global recovery, growth is expected to reach to 2.3 percent by 2022; supported by the government's economic stimulus plans and rebound in oil prices and business sentiment. A gas field (80tr ft^3) was discovered in February, boding well for the hydrocarbon sector if the global price picture improves. Modest inflation thus will return as growth rebounds, especially as congestion issues in restarting supply chains play out.

The UAE's fiscal stance will deteriorate in 2020 as oil revenues fall and authorities increase spending to mitigate the impact of COVID-19. Both the Federal and Dubai governments had announced expansionary budgets for 2020. In addition, Dubai launched an AED1.5bn economic stimulus package for the next three months to support businesses by reducing costs and simplifying procedures, targeting tourism, retail, trade and logistics sectors. Abu Dhabi announced an AED3 billion package for reducing fees and providing credit guarantees to SMEs. The Central Bank announced a package of US$25 billion to boost financial system liquidity; including a facility allowing banks to extend grace periods for loan repayments, increases in mortgage LTV ratio and real-estate exposure limits, and measures to support SMEs. As in other countries, the effect of these measures will be to increase banking system exposure to sectors experiencing economic "sudden stops."

While the fiscal deficit is expected to slowly improve as oil prices rebound, GRE debt pressure is rising. Dubai authorities have been preparing for a challenging refinancing picture by placing veterans of the 2009 crisis in strategic positions and finding ways to monetize well managed assets, as indicated from the recent delisting of DP World from Nasdaq Dubai. The current account will swing to deficit in 2020 due to lower oil prices and the global trade slowdown. Beyond 2020 the deficit is expected to improve as the global economy recovers and oil prices modestly rebound.

Risks and challenges

Mitigating the economic fallout from Covid-19 is the UAE's immediate challenge given that its impact on sectors into which the UAE had successfully diversified (through flight disruption, lower transit trade and tourism). Despite being relatively diversified compared to its GCC neighbors, the UAE remains dependent on regional oil-driven liquidity and is thus also vulnerable to the crash in oil prices. While the fiscal policy priority is to support growth in the short-term, progress needs to be made in strengthening fiscal policy frameworks and coordination across the emirates, avoiding procyclical spending and improving management of fiscal risks especially from GREs, as well as structural reform to boost productivity.

The uncertain duration of the pandemic, the containment / mitigation phases and the oil price war are the key risks to the outlook. Dubai GREs were already facing a challenge debt service burden prior to Covid-19 and this is now comingled with the adverse shocks to its dynamic comparative advantage in trade logistics, aviation, and tourism. However, regional geopolitical tensions seem reduced as a source of a downside risk, symbolized by the UAE's proactive role in facilitating crisis relief supplies to Iran.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	0.5	1.7	1.7	-1.1	1.2	2.3
Private Consumption	0.9	-0.5	1.2	-2.3	2.0	2.2
Government Consumption	21.2	-1.6	0.7	2.2	2.1	2.3
Gross Fixed Capital Investment	-8.2	-0.4	2.0	-2.2	1.1	1.8
Exports, Goods and Services	2.9	0.8	2.2	-0.5	2.5	3.9
Imports, Goods and Services	3.0	-3.2	2.0	-0.4	3.5	4.2
Real GDP growth, at constant factor prices	0.5	1.7	1.7	-1.1	1.2	2.3
Agriculture	3.3	7.2	3.8	-0.1	1.0	3.0
Industry	-1.1	2.0	1.9	0.0	1.8	2.2
Services	2.0	1.4	1.6	-2.2	0.7	2.4
Inflation (Consumer Price Index)	2.0	3.1	-1.9	-1.0	2.2	2.0
Current Account Balance (% of GDP)	7.3	9.1	7.5	-5.7	-2.5	3.9
Fiscal Balance (% of GDP)	-1.6	1.2	-1.6	-7.0	-5.5	-3.0

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

REPUBLIC OF YEMEN

Table 1	2019
Population, million	29.6
GDP, current US$ billion	29.9
International poverty rate ($19)[a]	18.8
Lower middle-income poverty rate ($3.2)[a]	52.2
National poverty rate[a]	48.6
Gini index[a]	36.7
Life expectancy at birth, years[b]	66.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2017).

An unprecedented humanitarian crisis persists, leaving many Yemenis dependent on humanitarian assistance and remittances, while economic activity continues to be hindered by distortions created by the fragmented state institutions. In view of dwindling foreign reserves and the lack of stable sources of hard currency, the Yemeni rial is vulnerable to downward pressures with profound humanitarian implications. The country's ability to cope with the spread of COVID-19 is limited given the weakened public health systems and fiscal space.

Recent developments

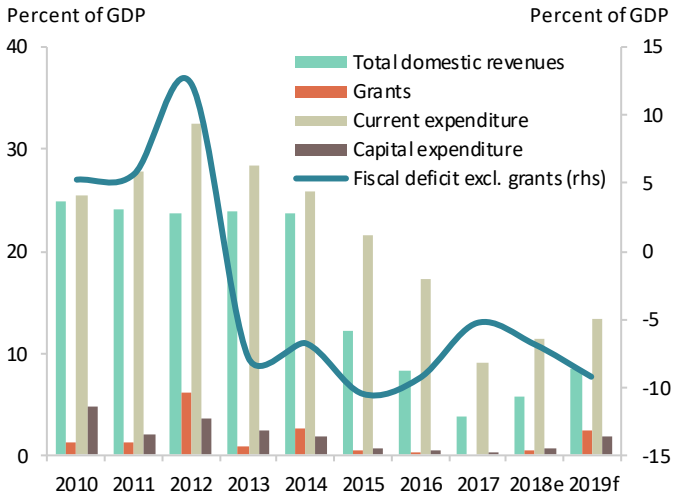
After almost five years of escalating conflict, Yemen continues to face an unprecedented humanitarian, social and economic crisis. Significant damage to vital public infrastructure has contributed to a disruption of basic services, while insecurity has delayed the rehabilitation of oil exports—which had been the largest source of foreign currency before the war—severely limiting government revenue and supply of foreign exchange for essential imports. The bifurcation of national capacity, including the Central Bank of Yemen (CBY), between the conflicting parties, and ad hoc policy decisions by them further compound the economic crisis and humanitarian suffering from violence.

Relative macroeconomic stability continued throughout 2019, supported mainly by balance of payments assistance from the Kingdom of Saudi Arabia (KSA). Available information suggests that the economy may have grown for the second year in a row, underpinned by reduced macroeconomic volatility and a continued recovery of oil production and exports, after a contraction of over 40 percent during 2014-17. However, oil exports remained significantly below the pre-conflict levels and a much-anticipated resumption of gas exports did not materialize in 2019 due to insecurity and repeated sabotages against critical infrastructure. Non-oil economic activity remained subdued, impaired by protracted hostilities, widespread destruction of infrastructure, interruption of basic services, and acute shortages of inputs, which were compounded by double taxation and economic distortions driven by uncoordinated policy decisions by the two authorities.

Significant pressure on public finances persisted in 2019. Despite the gradual recovery of oil exports, in Aden, government revenue in 2019 was far below what was needed to execute the ambitious State Budget, prepared for the first time since 2014. The significant revenue shortfall forced the Government in Aden to drastically cut expenditure, limiting the payment of salaries and pensions largely to recipients in areas under their control. The commitment to regular civil service salary and pension payments across the country was not fulfilled. The suspension of external public debt service remained in place except for payments to IDA. Preliminary estimates suggest that the fiscal deficit (cash basis) in 2019 was smaller than expected due to the sharp expenditure compression. The bulk of the deficit was monetized. Public finances by the *de facto* authorities in Sana'a, the country's main commercial and financial center, are operating under the cash budget system. Given the lack of hydrocarbon revenue, the scale of fiscal policy in Sana'a is smaller and depends on revenue from corporate profit tax.

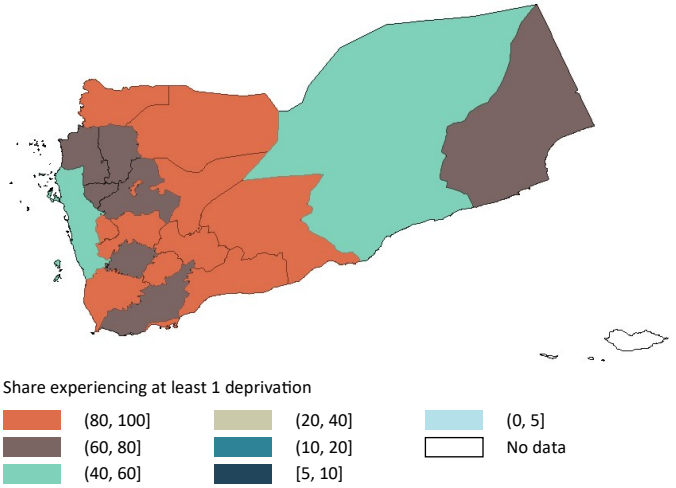
Inflation was largely contained during 2019 as the US$2 billion KSA deposit and oil export receipts allowed the CBY in Aden to supply foreign exchange for the import of essential commodities and sterilize the large-scale monetization of the fiscal deficit. The Yemeni rial was broadly stable on the parallel market until late

FIGURE 1 Republic of Yemen / Public finances



Sources: Yemen authorities, IMF, World Bank.

FIGURE 2 Republic of Yemen / Household suffering deprivation (December 2019)



Source: World Food Program.

2019, when conflict over monetary control by the rival authorities escalated. In mid-December, citing the inflationary impact of money creation by the CBY in Aden, the de facto authorities in Sana'a announced a complete ban on the use of the new edition of banknotes, printed after September 2016 when the CBY headquarters moved to Aden, deepening the divisions in the financial sector and economic distortion. Market reaction to the banknote ban has seen increased speculation on the price of the old banknotes against the new, which led to diverging exchange rates between the areas controlled by two different authorities, causing a sharp increase in domestic financial transfer fees between the two areas, and adding further strains to businesses and households.

The poverty situation remains very difficult. Reduced macroeconomic volatility in 2019 does not appear to have eased Yemeni's living conditions significantly. Along with the lack of adequate financial resources, the disruption of basic services, widespread displacement, and violence has placed an extraordinary amount of stress on households that cannot be completely summarized by monetary poverty alone. Estimates from WFP surveys suggest that the share of households suffering any deprivation in basic services was approximately 80 percent in December 2019, and for a number of governorates, nearly every single respondent reported to suffering from at least one deprivation. The recent escalation of violence raises deep concerns about the deterioration of the humanitarian situation.

Outlook

Economic and social prospects in 2020 and beyond are uncertain and hinge critically on the political and security situations. Affordability of food is a rapidly emerging threat to household welfare, as pre-existing global food price increases and rial depreciation is now interacting with COVID-19 related trade restrictions by food exporters. Yemen's import dependence is exacerbated by the impact of desert locusts on the cropping season.

A cessation of the ongoing violence and eventual political reconciliation, including the reintegration of vital state institutions, would improve the operational environment for the private sector, facilitating the reconstruction of the economy and rebuilding of social fabric. Recovery of the hydrocarbon sector would accelerate, giving a major boost to government revenue and foreign reserves and supporting macroeconomic stability.

Risks and challenges

Yemen continues to face significant risks of renewed macroeconomic volatility. Without stable sources of foreign exchange, the Yemeni rial is vulnerable to downward pressures. KSA's deposit, which financed essential imports, is close to depletion and increased hydrocarbon exports are highly uncertain due to the bleak outlook of the global oil market, and the fragmented multiple exchange rate regimes. A further rial depreciation would immediately have a knock-on effect on the prices of imported commodities with dire economic and humanitarian consequences. A COVID-19 related global and regional economic slowdown may affect Yemen through reduced remittances from the GCC. However, as the country is a net importer of oil products, lower global oil prices would likely strengthen the trade balance. The net impact of COVID-19 would be uncertain but with already weakened public health systems and limited fiscal space, Yemen's official capacity to fight the spread of the virus is very limited.

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

	2017	2018	2019 e
Real GDP growth, at constant market prices	-5.1	0.8	2.1
Real GDP growth, at constant factor prices	-5.8	-2.7	2.1
Inflation (Consumer Price Index)	30.4	27.6	14.7
Current Account Balance (% of GDP)	-0.2	-1.8	-4.2
Fiscal Balance, cash basis (% of GDP)	-5.3	-6.3	-6.8

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

Macro Poverty Outlook

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