Middle East and North Africa

Macro Poverty Outlook

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

Spring Meetings 2021

WORLD BANK GROUP
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Middle East and North Africa

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United Arab Emirates
Yemen, Republic

ALGERIA

Table 1	2020
Population, million	44.1
GDP, current US$ billion	144.9
GDP per capita, current US$	3286.7
National poverty rate[a]	5.5
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	3.7
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	107.3
Life expectancy at birth, years[b]	76.7

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

The Algerian economy contracted sharply in 2020 due to measures to contain the pandemic and a significant fall in hydrocarbon production, contributing to a major deterioration of the twin deficits. Swift lockdown measures have helped contain the pandemic, while the vaccination campaign was launched in January. To support the recovery, authorities have announced a longstanding economic reform effort to transition to a private sector-led economic model, reduce severe macroeconomic imbalances and protect the livelihoods of Algerians.

Key conditions and challenges

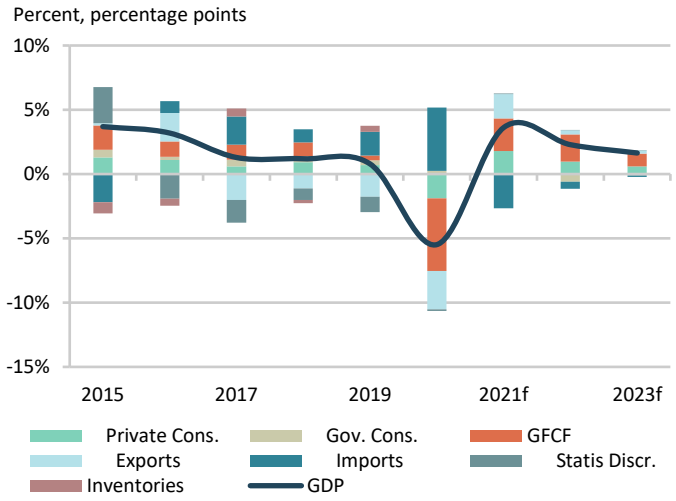
Algeria's economic performance is declining due to stagnating hydrocarbon production and a winded public sector-led model. Average annual real GDP growth reached 3.3 percent between 2010 and 2016, before falling to 1.1 percent after 2017, leading to negative GDP per capita growth. The hydrocarbon sector shrank by 2.1 percent yearly since 2010 due to declining investments, with the rise in domestic consumption leading to a 2.8 percent yearly fall in export volumes. This, combined with the decline in international oil prices, resulted in the current account and overall budget deficits averaging 13 percent and 11 percent of GDP, respectively, since the 2014 oil shock. Real public spending has since stagnated, and the pace of growth of nonhydrocarbon sectors has slowed down. The transition to a private sector-led growth model is proving challenging, with private firms remaining small, of low productivity, largely informal and confronted with significant challenges such as a high regulatory burden, limited access to credit, a labor market skills gap and the omnipresence of state-owned enterprises.

Amid the COVID-19 pandemic and concurrent crash in oil demand and prices, the Algerian economy is facing significant stress. The impact of lockdown measures has been broad-based, with the services and construction sectors, as well as sectors which are labor-intensive and concentrated in the informal segment, being particularly affected. Algeria's borders have been closed for a year, and trade flows have declined sharply. Meanwhile, the abrupt fall in oil prices in February 2020 and decline in hydrocarbon exports have taken a heavy toll on fiscal and external revenues. In March 2021, lockdown measures remain in place, but the vaccination campaign has started, with modest vaccine deliveries in January. The government has adopted the Socio-Economic Recovery Plan in 2020, which lays out a structural reform agenda to foster the transition towards a sustainable, private-led growth model. While numerous reforms have been announced, there remains high uncertainty surrounding their implementation.

Recent developments

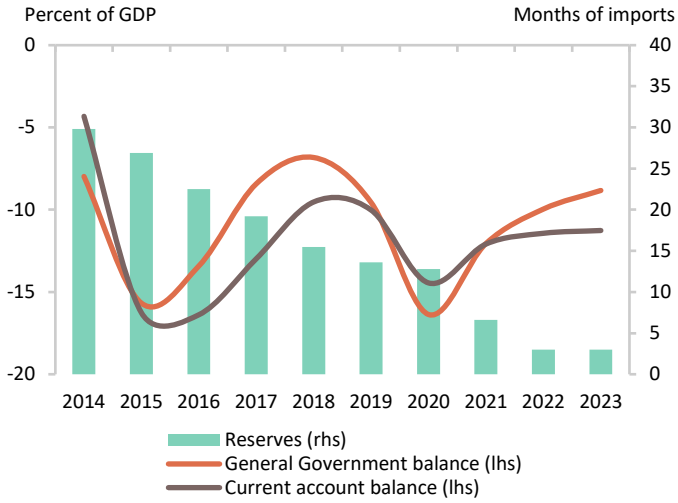
Amid COVID-19 containment measures and a contraction in hydrocarbon output, real GDP is expected to have contracted by 5.5 percent in 2020. The hydrocarbon sector is expected to have declined by 8.5 percent, led by a sharp fall in crude oil production, to below Algeria's OPEC production quota. Although complete national accounts data beyond Q1-2020 remain unavailable, non-hydrocarbon GDP is expected to have fallen by 4.4 percent in 2020. After moderate declines in Q1, the contraction in production, consumption and investment worsened in Q2. The sectors related to services were significantly

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



Sources: Algerian authorities, World Bank staff estimates.

FIGURE 2 Algeria / Twin deficits and international reserves



Sources: Algerian authorities, World Bank staff estimates.

impacted, as were industrial and construction activities, in line with the fall in investments. The economic contraction is expected to have extended to the second semester, with lockdown measures still in place. Despite the lack of recent estimates, poverty is expected to have risen in 2020 due to falling growth and employment, although inflationary pressures have remained contained.

Due to volume and price effects, exports fell by 37 percent in 2020, despite a moderate exchange rate depreciation. During the first eleven months of 2020, imports have declined by 18 percent y-o-y, with a pronounced contraction in machinery and equipment imports. The current account deficit is expected to have increased to 14.4 percent of GDP, and international reserves fell by 24 percent, to around 12.8 months of imports.

On the fiscal front, tax revenues have declined in H1-2020 compared to H1-2019, compounding the sharp fall in hydrocarbon budget revenues. Public spending remained unchanged, as the increase in current expenditure counterbalanced the fall in investment. Off-budget Treasury interventions, however, had already reached 4 percent of GDP by midyear, in the context of increased support to public banks and SOEs. To finance an overall budget deficit expected at 16.4 percent of GDP, significant liquidity was drawn from SOEs, contributing to a fall in banking liquidity despite a significant easing of prudential ratio. Such liabilities are excluded from official public debt, which therefore recorded a moderate increase, and remains on very favorable terms.

Outlook

A slow pace of economic recovery is expected for 2021 and 2022, amid large uncertainties as to the duration of the sanitary and economic crises. To date, the pace of the vaccination campaign suggests that partial containment measures could remain in place until 2022. Falling employment and firm revenues, and low consumer and business confidence, could limit private consumption and investment. The planned increase in public investment will support growth, although project costs will increase, in line with import prices. Hydrocarbon production and exports are expected to recover, supported by higher global demand and oil prices, but the partial recovery in imports will limit the reduction in the current account deficit. The overall budget deficit should remain elevated in 2021 and 2022 despite a recovery in hydrocarbon revenues, as public spending and realized contingent liabilities from public banks exposed to struggling SOEs increase. Further exchange rate depreciation and monetary financing are expected, to address high financing requirements. Imported inflationary pressures will mount and, combined with economic activity and employment remaining below the economic potential, poverty reduction will remain elusive.

Uncertainties surrounding the pace of the global and domestic recovery and domestic reform implementation, remain high. The spread of new variants of COVID-19 could limit the effectiveness of the vaccination campaign, and delay the global and domestic economic recovery, thereby leading to depressed external demand for international travel and Algerian exports. Lower-than-expected hydrocarbon prices would increase the twin deficits, while meeting the large budget financing requirements may adversely impact banking liquidity and undermine recovery efforts. With foreign exchange reserves expected to cover three months of imports by end-2022, the risk of a disorderly exchange rate adjustment has increased. Amid a volatile economic environment and recovered oil prices, insufficient progress in implementing decisive economic reforms to foster private sector activity would hinder the recovery.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	0.8	-5.5	3.6	2.3	1.6
Private Consumption	2.8	2.1	-5.5	5.2	2.8	1.7
Government Consumption	2.3	1.9	1.3	-0.2	-2.9	-0.5
Gross Fixed Capital Investment	3.1	1.0	-15.9	8.0	6.4	2.9
Exports, Goods and Services	-3.7	-6.1	-11.1	7.4	1.2	1.0
Imports, Goods and Services	-3.6	-6.9	-19.7	12.3	2.4	0.5
Real GDP growth, at constant factor prices	1.5	1.0	-5.5	3.6	2.3	1.7
Agriculture	3.5	2.7	1.6	1.6	1.5	1.4
Industry	-2.6	-1.7	-7.3	5.1	1.9	1.7
Services	5.6	3.3	-5.3	2.7	2.9	1.7
Inflation (Consumer Price Index)	3.5	2.3	2.1	3.9	4.1	4.0
Current Account Balance (% of GDP)	-9.5	-10.0	-14.4	-12.1	-11.4	-11.3
Fiscal Balance (% of GDP)	-6.8	-9.6	-16.4	-12.1	-10.0	-8.8
Debt (% of GDP)	37.6	45.6	51.4	56.1	60.5	65.3
Primary Balance (% of GDP)	-6.3	-9.0	-15.7	-11.6	-9.4	-8.3

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

BAHRAIN

Table 1	2020
Population, million	1.7
GDP, current US$ billion	33.3
GDP per capita, current US$	19589.5
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	77.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Significant disruptions related to COVID-19 compounded by sharp fall in oil prices weighed heavily on Bahrain's economy in 2020. Fiscal and external deficits worsened, reversing the narrowing path observed in 2019. Widespread access to the vaccine, higher oil prices, and commitment to implement policies under the Fiscal Balance Program, particularly those pertaining to tackling budget rigidities and providing fiscal support to the most vulnerable, will improve the outlook. Downside risks arise from further resurgence of COVID -19 outbreaks, volatility in hydrocarbon prices, and delays in fiscal reforms.

Key conditions and challenges

The COVID-19 crisis and ensuing oil price slump have highlighted the vulnerability of the country's over-reliance on oil exports for non-oil growth and fiscal revenues. Even prior to the pandemic, lower oil prices since 2014 have generated sizable fiscal and external imbalances and resulted in large financing needs and borrowing costs. The authorities responded by announcing Fiscal Balance Program (FBP) in 2018 supported by US$10 billion commitment from GCC peers, which aims to achieve a balanced budget by 2022. While fiscal reforms under the FBP helped to narrow the fiscal deficit prior to COVID-19, protracted low oil prices and large off-budgetary spending kept the fiscal deficit over 9 percent of GDP in 2019. Lingering fiscal deficits led to rapid debt accumulation that exceeded 100 percent of the GDP in 2019 and is expected to rise in the coming years with sizable gross financing needs.

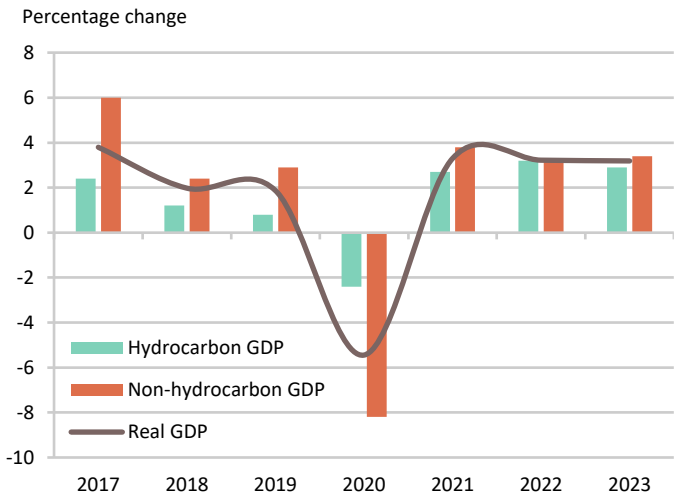
This difficult macro-fiscal situation was significantly worsened by the hit of lower oil prices and the health and economic fallout of COVID-19. The government responded quickly to deliver liquidity support to sectors and households affected by lockdowns and more recently with brisk access to vaccination to limit the spread of the virus. However, the fiscal and monetary stimulus package of headline size over BHD4.5 billion (36 percent of GDP) introduced cumulatively in March and July 2020 to mitigate the impact of the pandemic put additional pressure on an already precarious fiscal position, and will make the pre-pandemic FBP targets more difficult to achieve on time.

The shocks underscore the importance of accelerating key reforms envisaged under FBP, including reduction of the twin deficits to ensure debt sustainability and ease pressures on reserves. Meanwhile, reforms to address the weak fiscal position and lift the growth will be challenging given the government's generous subsidy system amidst limited financial resources, large public debt and bulky gross financing needs. While Bahrain is rapidly rolling out vaccines, the services-based non-oil sector will face a balancing act between resumption of travel and containment of the virus, especially new variants. The dynamism in diversification has come from Bahrain's footholds in global innovator services and labor-intensive tradable services, but these are areas in which other countries are putting considerable effort and comparative advantage can be eroded quickly.

Recent developments

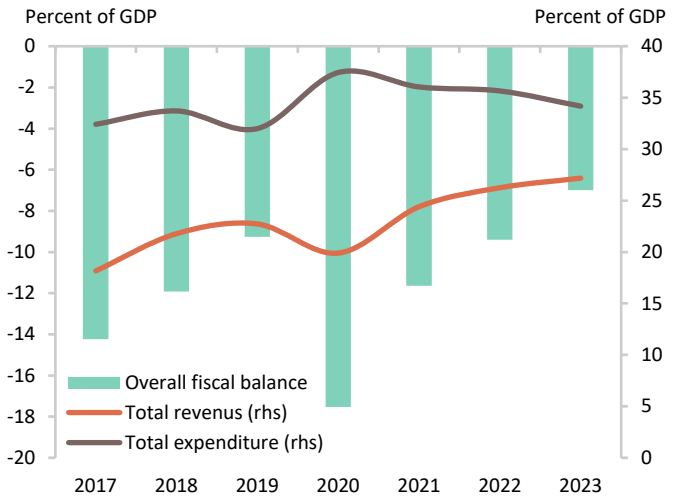
Faced with this multifarious crisis, the economy is estimated to have contracted by 5.4 percent in 2020 weighed down by sharp 8 percent (y/y) contraction in non-oil economy, mainly that related to the all-important services and tourism. Oil GDP saw a 2.0 percent decline as oil production remained capped by the OPEC+ cut agreement.

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



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

FIGURE 2 **Bahrain** / General government operations



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

Weak consumer demand led to 2.6 percent (y/y) deflation in 2020.

The unprecedented fiscal and monetary mitigation measures introduced to lessen the fallout brought by COVID-19, along with the sharp plunge in oil prices and the concomitant constrained oil production capacity have rapidly widened the overall fiscal deficit to over 17 percent of GDP, reversing the narrowing path observed in 2019. The public debt-to-GDP ratio is estimated to have reached 133 percent in 2020, reflecting the highly strained fiscal position; financing needs are correspondingly sizable.

The current account deficit is estimated to have worsened from 2.1 percent of GDP in 2019 to more than 9 percent of GDP in 2020 primarily due to a sharp decline in oil exports, which accounts for over 55 percent of total exports (2019). Foreign reserves are estimated to have declined to almost 1.4 months of non-oil imports at end-2020.

Poverty data is sparse. The most recent labor data available for Bahrain corresponds to the second quarter of 2019. According to the Labor Market Regulatory Authority (LMRA), foreign workers accounted for 80 percent of the country's total employment. The number of employed Bahrainis had been falling prior to the pandemic (2019 Q2 compared to 2018). Similarly, median monthly wages among Bahrainis fell 1.1 percent between the second quarter of 2018 and 2019.

Outlook

The outlook for Bahrain's hinges on the uncertainty related to the pandemic, the effectiveness of the vaccine, evolution of global oil markets and the reforms process. Economic growth is expected to gradually rebound to 3.3 percent in 2021, underpinned by the rebound in non-oil activity as rapid rollout of the vaccine will boost the sectors most impacted by the pandemic. Growth is projected to remain modest at an average of 3 percent over the medium term as fiscal austerity measures will act as a headwind to post-pandemic catch-up.

In the absence of structural reforms, the fiscal deficit is projected to remain sizable at 11 percent of GDP in 2021 amidst modest recovery in oil prices. In the aftermath of the pandemic, steadfast fiscal reforms and better-targeted subsidies under the FBP, accompanied with development of new oil and gas resources will gradually narrow the fiscal deficit. However, debt to -GDP ratio is expected to increase to over 133 percent in 2021, and to remain elevated in the forecast period implying still large financing needs. Large current account deficits are likely to persist in 2021-23 albeit at slightly moderated levels thanks of modest oil price gains.

Key risks to the outlook arise from the possibility of recurring COVID-19 outbreaks that could force retightening of containment measures and harm the non -oil growth prospects. A further downturn in hydrocarbon prices (e.g. if global supply gets too far ahead of demand recovery) will limit fiscal space to absorb further shocks.

The COVID-19 pandemic and the measures to mitigate the outbreak had a negative impact in sectors such as tourism and services, that are important sources of employment and diversification. The recovery of the labor market will depend on the speed of the rollout of the vaccine not only domestically but, in the case of tourism, in Saudi Arabia and other large markets that are traditional sources of business and leisure travel to Bahrain. These countries are also augmenting their homegrown portfolio of services sectors that increasingly compete with Bahrain.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.0	1.9	-5.4	3.3	3.2	3.2
Private Consumption	1.4	-1.0	-4.0	3.9	2.9	2.7
Government Consumption	1.8	-1.5	6.5	3.3	1.4	1.2
Gross Fixed Capital Investment	9.5	1.4	-6.8	2.3	4.4	4.5
Exports, Goods and Services	3.3	0.4	-10.4	5.0	5.5	5.7
Imports, Goods and Services	5.7	-5.5	-10.0	6.0	4.2	3.4
Real GDP growth, at constant factor prices	2.0	1.9	-5.4	3.3	3.2	3.2
Agriculture	3.8	-1.0	0.8	1.5	1.6	1.5
Industry	0.2	2.3	-4.8	2.5	3.0	3.7
Services	3.3	1.6	-5.9	3.8	3.4	2.8
Inflation (Consumer Price Index)	2.1	1.0	-2.6	2.5	2.3	2.2
Current Account Balance (% of GDP)	-6.6	-2.2	-9.6	-6.9	-4.6	-3.5
Net Foreign Direct Investment (% of GDP)	3.7	3.0	1.1	1.3	1.9	2.6
Fiscal Balance (% of GDP)	-11.9	-9.3	-17.6	-11.7	-9.4	-7.0
Primary Balance (% of GDP)	-7.5	-4.8	-12.6	-6.9	-4.7	-2.6

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

DJIBOUTI

Table 1	2020
Population, million	1.0
GDP, current US$ billion	3.4
GDP per capita, current US$	3425.5
International poverty rate ($1.9)[a]	17.0
Lower middle-income poverty rate ($3.2)[a]	39.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.8
Life expectancy at birth, years[b]	66.6

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

Djibouti's economy weathered the initial impact of the pandemic well, averting a contraction. Output expanded by 0.5 percent in 2020, driven by buoyant free zone re-exports and exports of transportation, logistics, and telecommunication services to and from Ethiopia in the latter half of the year. Yet, extreme poverty increased slightly to 14.7 percent in 2020. Djibouti's growth prospects, while favorable, depends critically on Ethiopia's political and economic conditions. High global food prices raise concern about Djibouti's food security.

Key conditions and challenges

As a small state with a population of less than one million, Djibouti has leveraged its strategic location at the southern entrance to the Red Sea, along some of the world's busiest shipping lanes. Djibouti also plays an important security role in the Horn of Africa, hosting several military bases for foreign countries with forces supporting global anti-piracy efforts including France, the United States and NATO. It also hosts refugees from Yemen and Somalia as well as asylum seekers from Ethiopia who are fleeing political crises and natural disasters.

Over the past decade, Djibouti economy grew rapidly by over 6 percent per year, on average, driven by externally-financed, large-scale investment in transport and port infrastructure, to make the most out of its strategic location and deep-water port to serve as key regional refueling, trade and transshipment center. The economic expansion of Ethiopia, the largest landlocked neighbor, has also fueled Djibouti's growth by stimulating trade and logistic activities, most notably through re-exports by Ethiopian companies in the free zones. However, the development strategy based on sizable investments has come at the cost of rising debt vulnerabilities. Djibouti's public and publicly guaranteed debt rose sharply from 37.5 percent of GDP in 2010 to peak at about 72 percent in 2017. The country is assessed at high risk of external debt distress. The repayment burden of its fast-maturing debts has limited the fiscal space for much-needed spending in social sectors.

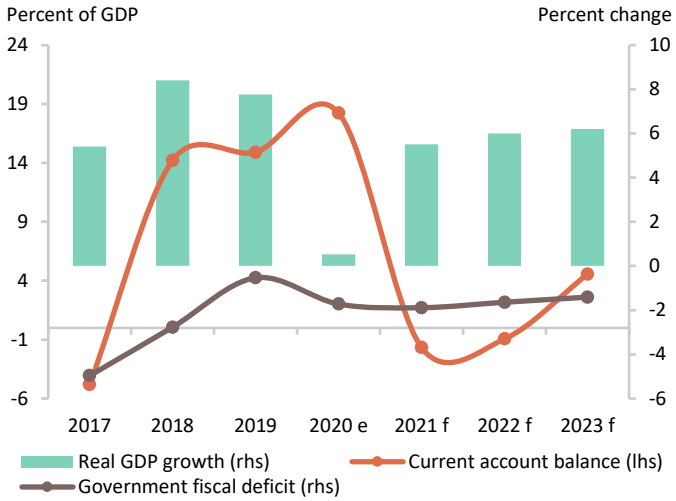
Rapid growth has allowed Djibouti to acquire a lower-middle income status, but poverty, while declining overall, remains a major problem. Due to its arid climatic conditions, Djibouti's agriculture sector has very limited potential to create employment and feed the population. In 2017, an estimated 39 percent of the population lived below the lower-middle income poverty line (US$3.2 per day) and 17 percent in extreme poverty (below the international poverty line of US$1.9 per day). Heavy reliance on food imports is a key vulnerability for the country.

Recent developments

Djibouti weathered the Covid-19 crisis relatively well. Despite a sharp fall, GDP growth remained positive at 0.5 percent in 2020, as a recovery of key domestic market-oriented sectors (construction, trade and energy) and strong economic activity in Ethiopia boosted re-export activities and transportation and logistics services in the latter half of the year. Inflation remained low at 1.8 percent in 2020, down from 3.3 percent in 2019.

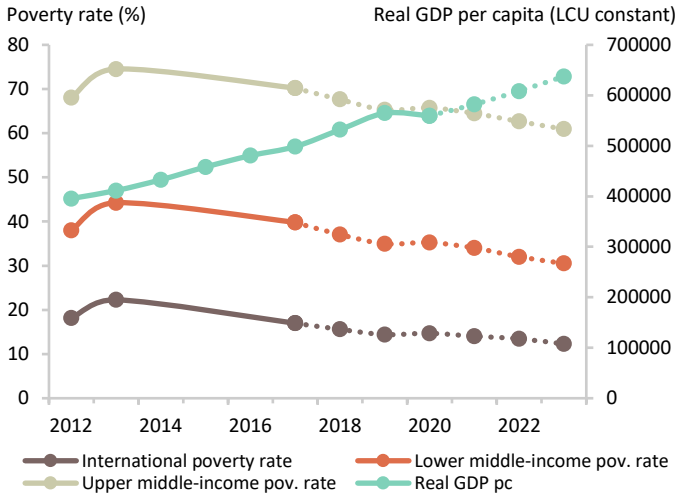
The fiscal deficit rose to an estimated 1.7 percent of GDP in 2020 from 0.5 percent in 2019. The deterioration of the fiscal position was less than initially expected. Although revenue declined, COVID-related

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.

spending increases—hiring of doctors and other medical staff, food vouchers for vulnerable household and support to struggling firms—were more than compensated for by the delays in the execution of ongoing and new investment projects. The participation in the G-20 debt service suspension initiative (DSSI) has also provided Djibouti valuable fiscal space to absorb the fiscal impact of COVID-19. Revenue performance improved in the latter half of 2020, owing to buoyant customs and direct tax revenues. The lease of land used as military bases by foreign armed forces also provided a stable source of nontax revenue. The deficit was financed by concessional borrowing, pushing up public debt to 70 percent of GDP in 2020, from 66.9 percent in 2019.

The current account surplus, including the free zones, rose sharply, due to robust exports and a compression of imports, especially of capital goods. Strong foreign direct investment, IMF Rapid Credit Facility and other disbursing budget support increased reserves from 3.7 months of imports in 2019 to 4.6 months in 2020, resulting in the currency board arrangement coverage of 105 percent, well above the minimum required. The banking sector remained stable and sound and in ample liquidity with a solvency ratio of 14.2 percent in September 2020, a ratio of nonperforming loans to gross loans down by more than 2 points compared to the previous year, and a provisioning rate of NPL of 78 percent.

The poverty rate increased modestly from 14.4 percent in 2019 to 14.7 percent (international poverty rate). In July 2020, phone surveys revealed that 19 percent of urban households' breadwinners had lost their jobs largely due to the pandemic. Nonetheless, subsequent surveys showed that employment has been trending back to its pre-COVID levels. The phone surveys also showed that 12 percent of the households are severely food insecure, while 27 percent are moderately insecure, according to the Household Food Insecurity Access Scale, and that poorer households contended with more severe food security challenges.

Outlook

The medium-term outlook is positive. Output growth is set to reach 5.5 percent in 2021 and average 6.1 percent a year over 2022-23, as a recovery of global trade would drive re-exports and demand for Djibouti's transshipment, logistics, and telecommunication services. The resumption of infrastructure projects, such as the construction of a ship repair yard, is also expected to support non-trade growth and create jobs, while further increasing Djibouti's competitive advantage as a regional trade and logistic hub in the medium run. The current account will likely slip into a deficit in 2021-22, reflecting a surge in capital goods imports for infrastructure projects. A return to fiscal consolidation is not expected in the near future, as the authorities recently announced additional targeted measures to support businesses and households, including a halving of the minimum flat-rate tax and tax exemptions to the ICT, transport and tourism sectors. The fiscal deficit would start narrowing in 2023, provided that the Covid-related fiscal measures are phased out.

There is considerable uncertainty surrounding the economic outlook. Given its heavy reliance on trade, Djibouti's economy is vulnerable to the global economic conditions. In particular, a potential economic and political deterioration in Ethiopia would have knock-on effects on Djibouti's growth. Given the country's reliance on food imports, persistently high global food prices are a cause of concern, as they were during the global financial crisis in 2008-09.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	8.4	7.8	0.5	5.5	6.0	6.2
Private Consumption	4.8	5.0	-5.0	4.9	4.9	4.9
Government Consumption	1.9	-0.5	-2.1	-0.5	3.5	-2.3
Gross Fixed Capital Investment	-30.8	26.4	-37.2	3.9	2.9	12.1
Exports, Goods and Services	10.3	12.9	7.5	5.5	6.0	6.0
Imports, Goods and Services	-15.3	13.9	-0.5	4.8	5.5	5.5
Real GDP growth, at constant factor prices	8.8	7.2	0.5	5.5	6.0	6.2
Agriculture	15.3	0.7	3.5	3.5	3.5	3.5
Industry	45.3	9.4	2.0	5.0	8.2	8.2
Services	3.0	6.8	0.1	5.6	5.5	5.8
Inflation (Consumer Price Index)	-0.1	3.3	1.8	2.0	2.0	2.0
Current Account Balance (% of GDP)	14.2	14.9	18.2	-1.7	-0.9	4.5
Fiscal Balance (% of GDP)	-2.8	-0.5	-1.7	-1.9	-1.6	-1.4
Debt (% of GDP)	69.9	66.9	70.0	67.7	64.5	62.1
Primary Balance (% of GDP)	-1.6	0.8	-0.4	-0.4	-0.1	-0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	15.6	14.4	14.7	14.0	13.5	12.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.1	35.0	35.3	34.0	32.0	30.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	67.7	65.3	65.8	64.5	62.7	61.0

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: 2018-2020. Forecast are from 2021to 2023.

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

ARAB REPUBLIC OF EGYPT

Table 1	2020
Population, million	102.3
GDP, current US$ billion	360.6
GDP per capita, current US$	3523.7
Lower middle-income poverty rate ($3.2)[a]	28.9
National poverty rate[a]	32.5
Gini index[a]	31.5
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.8

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

Economic activity and employment started resuming, yet the resurgence in COVID-19 cases is clouding the nascent economic uptick. Pressures arise from the severely affected foreign income sources (tourism, goods exports, FDI) but remittances, portfolio inflows and external financing continue to support international reserves. Besides pandemic-containment efforts, pushing ahead with macro-fiscal and structural reforms, strengthening social protection and advancing the human capital agenda will be crucial for a strong recovery.

Key conditions and challenges

Egypt's macroeconomic reforms helped stabilize the economy in recent years and allowed the country to enter the COVID-19 crisis with improved fiscal accounts and a relatively ample level of foreign reserves. Energy sector reforms helped boost electricity supply and gas exports, opened up the energy market for private activity, especially in renewables. However, the adverse repercussions of the pandemic undermined the recent progress and shed light on long-standing challenges. These include the sluggish non-oil private sector activity, underperforming exports and FDI, the elevated government debt-to-GDP ratio (despite recent significant reduction), below-potential revenue-mobilization and the unfavorable budget structure, with limited allocations to health and education.

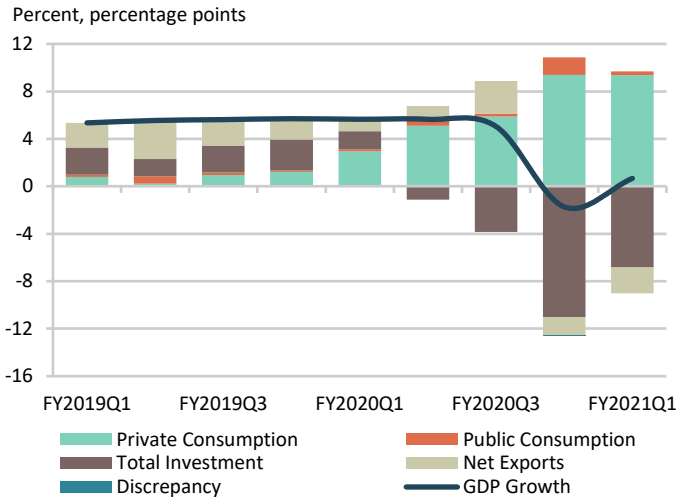
Social conditions remain difficult, as around 30 percent of the population continued to live below the national poverty line (according to the household survey results for October 2019—March 2020). The adverse impact of the pandemic on economic activity and incomes thus warrants an intensification of poverty-reduction efforts. Egypt has been strengthening social protection, and has expanded existing programs and introduced temporary mitigation measures at the outset of the COVID-19 crisis, notably targeting irregular workers.

Pre-pandemic growth was not poverty-reducing. Therefore, beyond important social protection measures, lifting living standards will require boosting job-creation and shifting the economy towards higher value-added activities and private sector-led growth. Key preconditions for a strong recovery include stepping-up efforts to contain the pandemic, maintaining macroeconomic stability, investing in education and health and enhancing social protection. Further, improving governance and reinforcing the role of the State in its policy-making and regulatory functions will be crucial to establish the level-playing-field that would enable the private sector to thrive and unleash its competitive potential to create better earning opportunities for the young and large population.

Recent developments

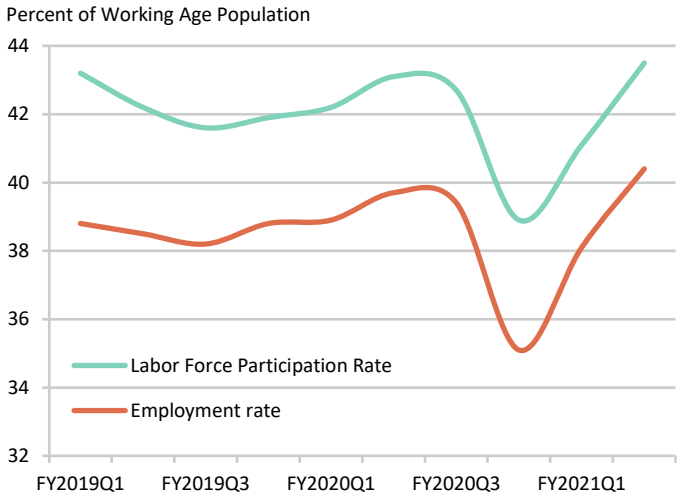
Growth inched up in Q1- and Q2-FY2020/21 (July-September 2020 and October-December 2020) after easing of COVID-19-related restrictions, but remained low at 0.7 percent and 2 percent, respectively (up from a contraction of 1.7 percent in Q4-FY2019/20). Unemployment also declined to 7.2 percent by Q2-FY2020/21 (after spiking at 9.6 percent six months earlier), with the gradual resumption of economic activity, and the continuation of megaprojects throughout the crisis. Both labor force participation and employment rates rebounded from their large (short-lived) dip, although

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



Sources: Ministry of Planning and Economic Development and WB staff calculations.

FIGURE 2 Arab Republic of Egypt / Labor force participation and employment rates



Sources: Central Agency for Public Mobilization and Statistics.

remaining below-potential at 43.5 percent and 40.4 percent of the working-age population. Key exposed sectors, such as tourism, manufacturing, the Suez Canal and oil and gas extractives continue to be impacted by travel restrictions, the slump in demand and disruptions to domestic and global supply chains and trade.

The Central Bank of Egypt cut key policy rates by 400 basis points cumulatively between March and November 2020, to lower the cost of access to credit for individuals and businesses and enable government domestic borrowing at more favorable terms during the crisis. This monetary expansion was facilitated by the subdued inflation, which averaged 5.7 percent during FY2019/20 and continued to decline thereafter, averaging 4.5 percent during the first half of FY2020/21. Private credit (32 percent of total domestic credit) also accelerated with the monetary easing, but its share to GDP is yet to rise to its pre-2016 levels.

International reserves remain relatively ample at US$40.2 billion in end-February 2021 (covering above 7 months of merchandise imports), despite the impact of COVID-19 on tourism, Suez Canal revenues, and goods export. Although still below their pre-crisis peak of US$45.5 billion, international reserves were bolstered by remittances, rebounding portfolio inflows, and the external financing that Egypt mobilized, Eurobond issuances, and an innovative sovereign Green-bond.

Outlook

Growth is forecast to decline from 3.6 percent in FY2019/20 to 2.3 percent in FY2020/21, in light of the ongoing effect of the pandemic, and the renewed surge in the COVID-19 cases, as well as the slow vaccine roll-out domestically and abroad. Private consumption is expected to be partially supported by remittance inflows, expanded social protection, lower inflation (*favorable for households' purchasing power*) as well as monetary easing. Pre-pandemic labor markets trends, such as the fall of real earnings and the rise of informality, are now compounded by the income losses due to COVID-19 shock, especially among informal workers. This can lead to an uptick in the poverty rate.

If the vaccine is sufficiently deployed by early-2022, Egypt is expected to gradually regain growth momentum during FY2021/22—23, which still means that COVID-19 will have caused at least a 3-year shortfall from pre-pandemic rates. A downside scenario for growth over the forecast horizon would happen if COVID-vaccination becomes more protracted, or if disease variants cause renewed disruptions. The current account deficit is forecast to widen from 3.1 percent of GDP in FY2019/20 to 3.4 percent in FY2020/21 (mainly on the back of a drop in revenues from key services exports such as tourism and the Suez Canal) before narrowing gradually to around 2.7 percent of GDP over the medium term. The capital and financial account is projected to remain buoyed, mainly supported by portfolio inflows (including Eurobonds) and external financing, although FDI inflows are projected to decline from 2.1 percent of GDP in FY2019/20 to around 1 percent of GDP in FY2020/21, amidst the global economic slowdown and then gradually recover over the medium-term.

The overall budget deficit is forecast to increase from 8 percent of GDP in FY2019/20 to 8.2 percent of GDP in FY2020/21, with the uptick mainly driven by the projected increase in subsidies, social protection and public investment, whereas revenues are expected to remain sluggish. This would push the government debt-to-GDP ratio upwards from 87.5 percent at end-FY2019/20 to above 90 percent of GDP by end-FY2020/21, before fiscal consolidation (mainly through domestic revenue mobilization) resumes over the medium-term, notably with the implementation of the recently-approved Medium-Term Revenue Strategy.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.3	5.6	3.6	2.3	4.5	5.5
Private Consumption	1.0	1.0	7.3	2.9	3.0	4.1
Government Consumption	1.7	2.8	6.7	1.0	2.0	2.5
Gross Fixed Capital Investment	16.9	14.1	-20.9	-8.1	14.7	16.9
Exports, Goods and Services	31.6	-2.2	-21.7	-11.0	12.0	13.0
Imports, Goods and Services	10.6	-8.9	-17.9	-11.2	8.0	11.0
Real GDP growth, at constant factor prices	5.3	5.1	2.5	2.2	4.4	5.4
Agriculture	3.1	3.3	3.3	3.3	3.3	3.3
Industry	6.4	5.8	0.6	3.8	5.9	7.0
Services	5.1	5.1	3.6	1.0	3.7	4.8
Inflation (Consumer Price Index)	21.6	13.9	5.7	5.3	7.5	8.5
Current Account Balance (% of GDP)	-2.4	-3.6	-3.0	-3.4	-2.8	-2.7
Net Foreign Direct Investment (% of GDP)	3.0	2.6	2.1	1.0	1.8	2.1
Fiscal Balance (% of GDP)	-9.7	-8.1	-8.0	-8.2	-7.0	-6.6
Primary Balance (% of GDP)	0.1	1.9	1.8	1.0	1.8	1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.9	4.1	4.3	4.4	4.2	
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	29.5	30.0	30.5	31.1	30.3	

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

Notes: e = estimate, f = forecast.

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

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

IRAN, ISLAMIC REPUBLIC

Table 1	2020
Population, million	84.0
GDP, current US$ billion	628.0
GDP per capita, current US$	7472.9
Upper middle-income poverty rate ($5.5)[a]	14.0
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	110.7
Life expectancy at birth, years[b]	76.5

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

Years of sanctions and the COVID-19 pandemic have mounted pressures on the Iranian economy. Fiscal space remains constrained due to a decline in oil revenues and the cost of COVID-19 mitigation measures, which caused a surge in government debt. Restricted access to foreign reserves due to US sanctions led to a sharp exchange rate depreciation, which in turn heightened inflation. Job losses through the pandemic and high inflation deteriorated welfare, particularly that of already vulnerable households.

Key conditions and challenges

Over the last decade, bouts of GDP growth have been jobless and primarily driven by the oil sector. Real GDP has declined to the same level of a decade ago and the country failed to benefit from growth opportunities like periods of high oil prices (2010-2014) and a highly educated young population that could boost productivity. Job creation has fallen short of meeting labor supply and despite a persistent low labor market participation rate (44 percent average) the rate of unemployment has been in the double digits. Unemployment has been especially high among the youth, female, and the highly educated (23.7, 15.9 and 14.3, respectively in Q4-2020). Despite some progress towards economic diversification, high public sector presence continues to inhibit job creation and capital formation by the private sector.

Iran is grappling with the COVID-19 health crisis. With more than 1.7 million cases and 61,000 deaths, as of mid-March 2021, Iran remains the worst affected country in the Middle East and North Africa region. After stricter lockdown measures were announced in late-2020 confirmed new cases remained stable and daily deaths fell below 100 persons. A gradual relaxation of measures raises the likelihood of a fourth wave of COVID-19 cases. Vaccinations started in February 2021 for 10,000 frontline medical workers, but full coverage of the 84 million population will take time.

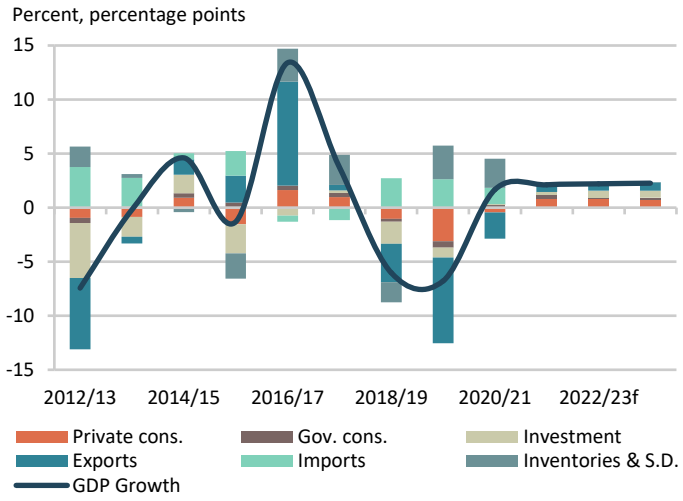
COVID-19 and years of economic sanctions amplify previous economic challenges. The sharp decline in hydrocarbon revenues since 2019/20 combined with the economic and health costs of the pandemic resulted in a large burden on government finances and amplified existing structural challenges. Inflation has remained high since 2018/19 (36 percent YoY on average). The pandemic severely affected jobs and incomes in many labor-intensive activities, including high-contact services and the informal sector.

Recent developments

Despite an initial COVID-19 induced shock to GDP, a strong rebound in mid-2020 led to a modest economic expansion in 2020/21[1] . Iran's GDP is now estimated to expand by 1.7 percent in 2020/21. The COVID-19 output loss since Feb 2020 was less pronounced than in other countries as Iran's economy had already contracted by 12 percent over the previous two years. The economic recovery in Q3 and Q4-2020 was stronger than expected both in oil and non-oil sectors, which grew by 16 percent and 3.1 percent YoY, respectively. The increase in oil GDP vis-à-vis a decline in exports suggests that oil production was largely directed to domestic consumption

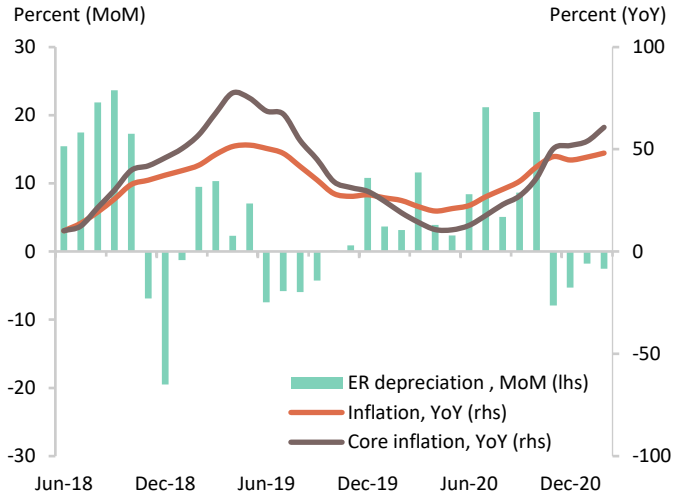
1/ The Iranian calendar year starts on March 21 of every year and ends on March 20 of the following year.

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



Sources: CBI and World Bank staff calculations.

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



Sources: CBI, SCI and World Bank staff calculations.

and storage in Q3 and Q4-2020. The non-oil sector rebound was driven by the manufacturing sector as the exchange rate depreciation made domestic production more price competitive. Discouragement from the labor market, reflected in lower economic participation, drove the unemployment rate down to 9.4 percent in Q4-2020, despite the employment level falling by over 1 million YoY.

COVID-19 expenditures and plummeting oil revenues increased the fiscal deficit-to-GDP ratio to its highest rate in decades. Government revenues in Apr-Dec 2020 (9M-2020/21) were only 55 percent of the budget approved amount for the entire 2020/21. Similarly, only 14 percent of the anticipated oil income materialized due to both lower oil export volumes and prices. Higher health and social assistance costs from the COVID-19 pandemic pushed total expenditures up by 28 percent YoY. As such, the fiscal deficit is estimated to increase to over 6 percent of GDP and public debt to surpass 50 percent of GDP in 2020/21. The fiscal deficit in 9M-2020/21 was primarily financed through bond issuance (70 percent), followed by sales of assets and withdrawals from strategic reserves.

Inflationary pressures increased in 2020/21 as the rial depreciated due to a limited foreign exchange supply and heightened economic uncertainty. Inflation resurged to over 48 percent (YoY) in February 2021. Since April 2020, the Iranian currency lost half of its value due to US sanctions on accessing reserves abroad. Hopes of sanctions relief after the US elections led the rial to gain about 15 percent of its value. The exchange rate volatility and government financing operations also had negative spillovers in the stock market.

Recent economic developments have added stress on low-income households and stalled poverty reduction. Poverty increased by 1 percentage point from 2017/18 to 2018/19 reaching 14 percent, before the COVID-19 pandemic. The loss in household incomes through the pandemic and rising living costs due to inflation are estimated to raise poverty by 20 percentage points. A range of social protection measures have been introduced in response. While they partially compensate for the lost incomes, their real value will erode with continued high inflation.

Outlook

Iran's economic outlook hinges on the evolution of the COVID-19 pandemic and the pace of global economic recovery. The GDP recovery is projected to be slow and gradual due to a slow vaccination rollout and weak demand from regional trading partners. Inflation is forecast to decrease but remain above 20 percent on average in the medium term. With limited fiscal space and high inflation, economic pressures on poor households will continue. Better targeting of cash transfers can help reduce mitigation costs.

In the absence of a pickup in oil revenues, the fiscal deficit is projected to remain high in the medium term. A slow economic recovery would translate into similarly slow growth in non-oil revenues. Higher reliance on bond issuance, especially in the form of short-term bonds, would increase interest payment and amortizations costs. Further government debt issuance and sales of public assets could increase financial contagion risks in the stock market and place additional stress on the undercapitalized banking sector.

Risks to Iran's economic outlook relate to the recovery path from the pandemic and the prospects of geopolitical developments. The pace of vaccination (purchase and distribution), resurgence in the number of cases such as those from new COVID-19 strains, and subsequent lockdown measures could weigh down on economic activity and prolong the acute phase of the crisis. The burden of further economic deterioration would be felt the most by the poor and vulnerable and increase poverty. Upside risks relate to the possibility of partial sanctions relief which could boost economic activity, as the economy has chronically operated below potential capacity.

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

	2018/19	2019/20	2020/21 e	2021/22 f	2022/23 f	2023/24 f
Real GDP growth, at constant market prices	-6.0	-6.8	1.7	2.1	2.2	2.3
Private Consumption	-2.6	-7.7	-1.1	2.2	2.0	2.0
Government Consumption	-2.9	-6.0	2.3	3.2	1.8	1.5
Gross Fixed Capital Investment	-12.3	-5.9	0.7	1.9	3.9	4.1
Exports, Goods and Services	-12.5	-29.9	-12.2	4.0	4.0	4.3
Imports, Goods and Services	-29.5	-38.1	-32.4	1.5	2.5	2.6
Real GDP growth, at constant factor prices	-5.4	-6.5	1.6	2.1	2.2	2.3
Agriculture	-0.9	8.8	4.0	4.0	4.2	4.2
Industry	-11.0	-15.9	4.3	2.9	3.3	3.7
Services	-0.7	-0.5	-0.7	1.2	1.0	0.8
Inflation (Consumer Price Index)	31.1	41.3	36.9	29.3	21.7	18.9
Current Account Balance (% of GDP)	5.9	0.6	-0.8	0.8	1.1	1.3
Net Foreign Direct Investment (% of GDP)	0.6					
Fiscal Balance (% of GDP)	-1.6	-3.7	-6.3	-6.7	-7.0	-7.0
Gross Public Debt (% of GDP)	38.5	47.9	50.3	52.1	54.7	57.4
Primary Balance (% of GDP)	-1.3	-3.0	-5.3	-5.2	-5.0	-4.9

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

REPUBLIC OF IRAQ

Table 1	2020
Population, million	41.5
GDP, current US$ billion	166.9
GDP per capita, current US$	4019.5
Lower middle-income poverty rate ($3.2)[a]	14.8
Upper middle-income poverty rate ($5.5)[a]	52.4
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	70.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2012), 2011 PPPs.
(b) Most recent WDI value (2018).

COVID-19 repercussions and oil price volatility are deepening Iraq's economic woes. GDP contracted sharply in 2020 driven by a steep decline in oil production and non-oil output. Twin surpluses turned into large deficits in 2020 putting pressure on public debt and foreign currency reserves. Economic outlook depends on oil market developments and reforms implementation. Key risks relate to deteriorating security situation, delayed vaccination rollout and setbacks in oil markets, with severe consequences on poverty and unemployment.

Key conditions and challenges

Oil price volatility and the pandemic have amplified Iraq's economic woes, reversing two years of steady recovery. These twin shocks have deepened existing economic and social fragilities, which further added to public grievances that existed pre-COVID-19. The absence of fiscal space has limited the ability of the Government of Iraq (GoI) to provide a stimulus to an economy highly dependent on oil exports for growth and fiscal revenues. As a result, the country experienced the largest contraction of its economy since 2003.

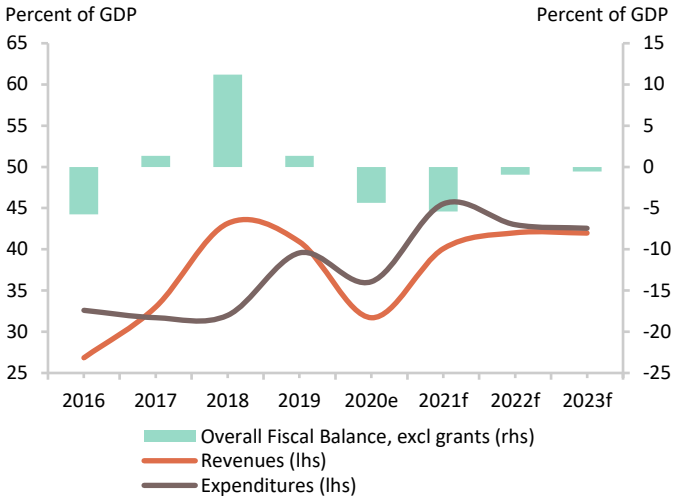
These crises have also impacted the economic welfare of Iraqi households, adding further pressures on unemployment especially among informal workers and those in self-employment. Unemployment remained more than 10 percentage points higher than the pre-pandemic level. Limited fiscal space has impacted transfers, including the universal Public Distribution System and remittances, where the share of households receiving transfers dropped by more than 8 percentage points. The loss of household income and social assistance has increased vulnerability to food insecurity. COVID-19 has also severely limited child learning as evidenced by the small proportion of students engaged in learning activities during school closure. These impacts coupled with reduced access to market and healthcare services undermine human capital accumulation and economic mobility.

Recognizing the severity of the crisis, the GoI devised a national reform plan (the 'White Paper') that sets out a blueprint of reforms to achieve sustainable medium-term growth. The 2021 budget proposes measures aimed at boosting domestic revenue mobilization and public financial management, as well as announcing an 18.5 percent devaluation of the IQD against the USD. The ultimate success of reforms depends on political will and public support to implement the proposed measures and lead the country out of a long-standing fragility trap. Amid persistently high perception of corruption and weak public service delivery, fiscal consolidation could give rise to social tensions and undermine reform implementation. Other priorities include limiting the spread of COVID-19 and ensuring a quick vaccine rollout to manage the economic fallout from the pandemic.

Recent developments

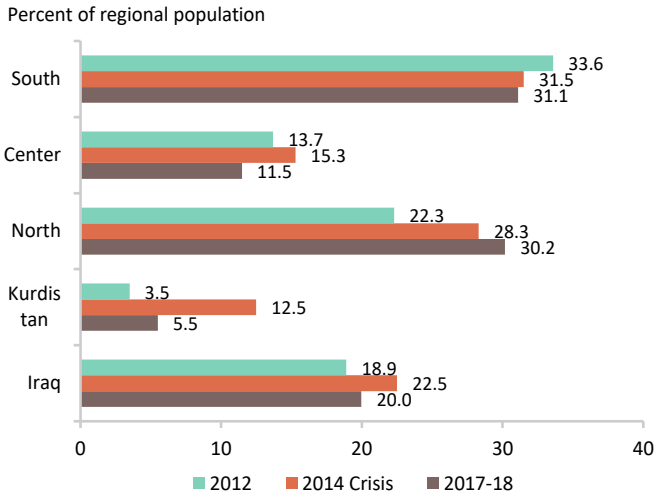
The twin shocks took a heavy toll on Iraq's economy, with GDP (at factor cost) posting a contraction of 10.4 percent in 2020. Growth was weighed down by depressed global oil demand and adherence to OPEC+ production cuts agreement which led to a 17.6 percent contraction in oil GDP. The non-oil economy also underwent a 9 percent contraction as COVID-19 induced lockdown battered domestic demand with religious tourism and services

FIGURE 1 Republic of Iraq / Fiscal revenue, expenditures, and balance



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

FIGURE 2 Republic of Iraq / Poverty head count rate



Sources: World Bank staff estimates.

sectors suffering the most. Weak domestic demand and cheaper imported goods kept inflation pressures low with headline and core inflation only edging up to 0.6 and 1.0 percent in 2020, respectively.

Cuts in oil production exerted severe pressures on government finances, with oil revenues—accounting for 92 percent of total revenue in 2019–falling by over 45.1 percent in 2020. The GoI responded through cutting discretionary spending and slashing public investment. To deal with Budget rigidities, especially those linked to the public wage bill and pension, the GoI deferred the regularization of new entrants and contractual workers to 2021 thus accruing wage arrears. Hence, the 1.4 percent of GDP fiscal surplus in 2019 turned into a 4.4 percent of GDP deficit in 2020, raising gross budgetary financing needs to over 6.5 percent of GDP following also a restructuring of domestic debt held by state-owned banks and central bank. This together with the higher value of foreign debt following IQD devaluation also caused central government debt-to-GDP ratio to increase by 21 percentage points to 69.3 percent in 2020.

Lower oil exports led to a worsening of the current account balance, which turned from a surplus in 2019 to a 12.9 percent of GDP deficit in 2020. With net FDI flows at only US$3.2 billion and limited other foreign borrowing in 2020, CBI foreign currency reserves fell by almost US$13.6 billion to cover the gap. This brought reserves coverage to 9.6 months of imports by end-2020 despite a decline in imports.

Outlook

Iraq's economic outlook hinges on the evolution of COVID-19, global oil markets prospects, and reforms implementation. The economy is forecast to gradually recover on the back of rising oil prices and OPEC+ production quotas. GDP growth is projected to rise to 1.9 percent in 2021 and 6.3 percent on average over the subsequent two years. Delays in vaccine rollout would lead to additional lockdowns, which in turn impact economic activity. Non-oil GDP is forecast to recover in 2021, growing by 5.5 percent before converging to historical potential GDP growth trend in 2022-23.

Economic recovery and mass vaccination will gradually reverse the surge in poverty, projected by 7 to 14 percentage points rise at the national poverty line of IQD110,881 per person per month. The disproportional impact of the shock on the informal sector, dominated by the poor and vulnerable, will worsen inequality. The currency devaluation is estimated to push inflation to 8.5 percent in 2021 due to limited capacity for import substitution. This will present an additional pressure on households' wellbeing and poverty reduction.

The fiscal stance remains expansionary as the wage bill and pensions are expanded in the 2021 budget law to regularize wage arrears, while reform measures were attenuated in Parliament debate. Higher oil revenues coupled with the devaluation effect are projected to narrow the fiscal deficit to 5.4 percent of GDP in 2021. Financing needs are forecast to remain elevated compared to pre-COVID-19 levels, averaging at US$13.7 billion/year in the outlook period.

The projected oil recovery will boost exports while devaluation is expected to have an impact on imports. This will also contribute to the current account deficit declining to 4.4 percent of GDP by 2023 and reduce pressures on the central bank's FX reserves. Reforms could help motivate new FDI which could further appease external financing needs.

Sizeable risks cloud the prospects for Iraq's economic recovery over the medium-term. Oil price down cycles, failure to implement fiscal and structural reforms in an election year, delays in vaccine rollout, deteriorating security conditions amidst high regional geopolitical tensions are significant downside risks to the outlook.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.8	2.4	-11.9	1.9	8.4	4.2
Private Consumption	2.3	1.5	-9.0	1.5	8.0	5.6
Government Consumption	17.7	25.2	-10.6	31.5	2.1	1.1
Gross Fixed Capital Investment	-74.2	-16.2	-40.0	5.0	15.0	10.0
Exports, Goods and Services	9.4	2.7	-15.8	1.1	10.3	5.1
Imports, Goods and Services	16.6	28.4	-9.4	15.0	2.0	3.0
Real GDP growth, at constant factor prices	-1.2	4.4	-10.4	1.9	8.4	4.2
Agriculture	12.8	38.8	34.3	14.0	10.0	5.0
Industry	-2.4	3.7	-11.6	2.7	10.2	4.0
Services	0.7	3.7	-12.2	-1.9	3.6	4.5
Inflation (Consumer Price Index)	0.4	-0.2	0.6	8.5	3.8	3.3
Current Account Balance (% of GDP)	10.6	6.1	-12.9	-11.3	-5.6	-4.4
Net Foreign Direct Investment (% of GDP)	2.4	1.5	1.9	1.9	1.9	1.8
Fiscal Balance (% of GDP)	11.9	1.4	-4.4	-5.4	-1.0	-0.6
Debt (% of GDP)	52.4	48.2	69.3	61.1	55.6	52.7
Primary Balance (% of GDP)	13.1	2.6	-3.2	-4.0	0.9	1.7

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

JORDAN

Table 1	2020
Population, million	10.2
GDP, current US$ billion	43.7
GDP per capita, current US$	4278.2
School enrollment, primary (% gross)[a]	81.8
Life expectancy at birth, years[a]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Jordan is currently facing back-to-back second and third waves of COVID-19 infections, while the country's major economic indicators continue to deteriorate. The twin deficits have substantially widened, the debt level has increased, and unemployment is rising. However, the fall-out on Jordan's economic growth during 2020 remains relatively modest compared to peer countries. Going forward, Jordan's economic outlook largely depends on the rebound in global demand and international travel as well as the pace and scale of domestic vaccination.

Key conditions and challenges

Economic activity in Jordan, before the pandemic, was lackluster due to falling investment, eroding competitiveness and challenging regional conditions. Annual real GDP growth, which averaged at 5.1 percent during 2000-15, dropped to 2.0 percent during 2016-19 – the lowest plateau in a decade. This growth is insufficient to tackle the country's pressing socio-economic pressures to create enough jobs for the young and rapidly growing labor force and to achieve significant poverty reduction.

Stringent lockdown measures, including closing borders and prohibiting movement across cities, helped preserve public health during the first wave of the pandemic. As the lockdown was lifted in May, key manufacturing industries rebounded quickly in H2-2020. However, during the last quarter of 2020, Jordan saw a resurgence of COVID-19 cases, and authorities opted for more targeted restrictions to balance health and economic objectives. Meanwhile, fiscal and monetary measures were taken to lessen the economic fallout. Liquidity measures introduced by the Central Bank of Jordan (CBJ) are estimated to be around 8 percent of GDP. Still GDP in 2020 contracted; for the first time since 1989.

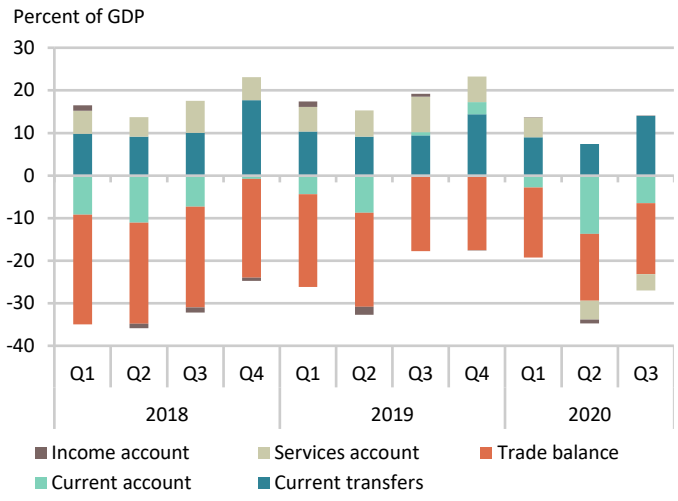
Jordan's economic outlook in 2021 remains contingent upon the evolution of domestic cases along with the pace and scale of vaccination at home and abroad. In February 2021, government announced that at least 3 to 5 million doses of the coronavirus vaccine will be available by April. As the third wave of COVID-19 continues to unfold, vaccination is critical. However, by mid-February vaccination remain abnormally low at around 0.6 percent of the population. Thus, the first half of 2021 is unlikely to see a quick turnaround, while recovery in the second half of 2021 is expected to be protracted unless the pace of vaccination significantly picks up.

Recent developments

The Jordanian economy contracted by 1.5 percent during the first nine months of 2020 (9M-2020). The impact of the shock on GDP remains relatively muted compared to peer countries. Despite this fact, COVID-19 has had a particularly devastating effect on the country's travel and tourism sector, which accounted for around 18 percent of GDP and of total employment in 2019.

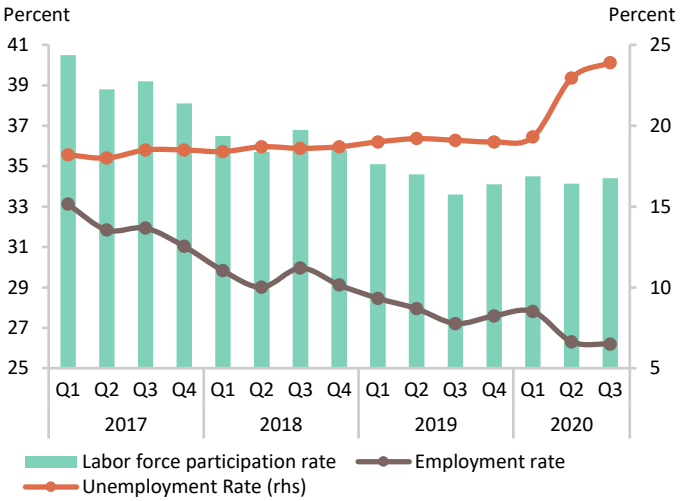
Central Government (CG) fiscal deficit (incl. grants) widened to 5.8 percent of GDP in 11M-2020. Domestic revenues plummeted due to weakened economic activity, deferred tax payments as well as temporarily reduced social security contributions and some consumption tax rates. To alleviate some pressure, the authorities delayed public wage increase, imposed a hiring freeze and postponed non-priority capital investment. Nevertheless, CG debt rose to almost 106.3 percent of GDP during 11M-2020 - almost 10 percentage points of GDP higher than at end-2019.

FIGURE 1 Jordan / Current account indicators



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

FIGURE 2 Jordan / Labor market indicators



Sources: Department of Statistics and World Bank Staff calculations.
Note: Employment rate is defined as percentage of employed Jordanian adults to total population 15+.

Jordan's current account deficit (CAD) (incl. grants) for 9M-2020 stood at US$2.4 billion, almost twice the size of the deficit recorded in 9M-2019. Despite a reduction in goods' trade deficit and an improvement in current transfers, a substantial deterioration in the services account – driven by dismal travel receipts – was the key driver behind the widening CAD. Nonetheless, both private and official flows remained more than sufficient to cover the widening gap as CBJ's gross foreign reserves increased by almost US$1.5 billion to US$16.9 billion at end-2020.

Poverty was challenging even before the COVID-19 onset. The most recent national poverty rate was 15.7 percent in 2018 raising concern for the welfare of households. Moreover, labor market indicators have deteriorated to unprecedented levels. Amid the crisis, employment decreased to 26.2 percent, and unemployment reached a historical high - 23.9 percent in Q3-2020. Unmitigated declines in employment incomes are likely to increase poverty in the near-term by 11 percentage points.

Outlook

Jordan's real GDP growth is projected to recover to 1.4 percent in 2021 from an estimated contraction of 1.8 percent over last year. In the immediate run, several policy measures are expected to provide some boost including public sector employees' salary increase, social security net programs and the minimum wage increase. Exports are expected to perform better as demand strengthens in the U.S. and Gulf countries. Nevertheless, growth in the immediate run faces significant downside risks due to rising COVID-19 cases and slow vaccination, and over medium-term remains constrained by the country's chronic structural weaknesses.

The current account deficit is projected to remain elevated in 2021 before narrowing steadily over the medium-term. Merchandize trade balance is projected to deteriorate in 2021 due to rising import bills driven by higher international food and oil prices assumptions. Tourism receipts are projected to remain modest in 2021 - at around only 40 percent of 2019 level – before returning to pre-COVID level only by 2023.

The fiscal deficit of the CG (incl. grants) is projected to reach 6.4 percent of GDP in 2021 compared to an estimated 6.7 percent in 2020. This modest consolidation hinges on the revival of domestic revenues as recurrent spending is projected to remain elevated alongside recovery in capital spending. Over the medium term, CG fiscal balance (incl. grants) is projected to improve only gradually. As a result, CG debt is projected to reach 109.0 percent at end-2020, almost 10 percent higher than at end-2019 and remain high over the medium term.

Sluggish economic growth, high unemployment and declining participation in the labor market raise concerns about the extent of poverty reduction that can be achieved. Household recovery is subject to uncertainty and expected to be uneven; young, female, informal workers and those in interaction-intensive services sectors will likely see depressed incomes for longer.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.9	2.0	-1.8	1.4	2.2	2.3
Private Consumption	2.2	1.7	-1.3	0.7	2.0	2.2
Government Consumption	-0.7	4.1	5.0	3.2	2.2	0.6
Gross Fixed Capital Investment	-19.4	-25.7	-3.5	3.4	3.6	4.3
Exports, Goods and Services	0.9	6.5	-24.8	14.6	12.1	7.3
Imports, Goods and Services	-6.6	-3.1	-16.3	9.8	9.0	5.5
Real GDP growth, at constant factor prices	2.0	2.2	-1.6	1.4	2.2	2.3
Agriculture	3.2	2.6	1.8	2.2	2.5	2.5
Industry	1.2	1.4	-2.7	1.1	1.5	1.7
Services	2.3	2.4	-1.4	1.6	2.5	2.5
Inflation (Consumer Price Index)	4.5	0.8	0.3	1.5	2.0	2.3
Current Account Balance (% of GDP)	-6.9	-2.1	-7.2	-7.0	-6.0	-4.6
Net Foreign Direct Investment (% of GDP)	2.2	1.5	1.7	2.4	2.7	3.0
Fiscal Balance (% of GDP)[a]	-3.3	-4.6	-6.7	-6.4	-5.4	-4.9
Debt (% of GDP)[b]	92.9	97.4	109.0	114.0	116.1	116.7
Primary Balance (% of GDP)[a]	0.0	-1.1	-2.5	-2.2	-1.1	-0.7

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

(a) Central Gov. fiscal balance incl. grants, use of cash and unident. measures as per IMF-EFF (Jan 2021) of 0.7% of GDP in 2021, 1.8% of GDP in 2022 and 2.9% of GDP in 2023.
(b) Government and guaranteed gross debt including debt holdings by SSIF. Includes WAJ estimated borrowing for 2020-2023. Includes legacy arrears in 2019.

KUWAIT

Table 1	2020
Population, million	4.5
GDP, current US$ billion	118.3
GDP per capita, current US$	26523.5
School enrollment, primary (% gross)[a]	88.0
Life expectancy at birth, years[a]	75.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Kuwait is still adapting to the twin shocks of COVID-19 and slump in oil prices that hard-hit its economy and fiscal and external positions. As fiscal deficits persist in the medium term, and in the absence of a new debt legislation, drawdowns from sovereign assets will be inevitable, potentially without concomitant reforms. Friction between the executive and legislative branches, delays in vaccination rollout to the entire population, and renewed downward pressure on oil prices are all key downside risks to the outlook.

Key conditions and challenges

Long-term challenges relate to the economy's heavy export dependence on oil, domestic dependence on consumption, and slow progress in the implementation of Vision 2035 reforms and the diversification objective therein. Large financial assets underpin Kuwait's economic resilience, but these assets alone cannot substitute for the fiscal and structural reforms that would offset the risks of lower oil prices, low oil demand in the future, and rising marginal cost of oil production. Such measures include non-oil revenue mobilization as well as enhancing human capital and reforming economic governance (e.g., relating to FDI, land, and private sector participation) to invigorate private sector-led development and job creation.

Friction between the executive and legislative branches has led to frequent cabinet reshuffles and parliamentary opposition to critical fiscal reforms exemplifies a lack of consensus around reform direction. This friction is now to the fore in the stalled progress of the draft debt law; given the high financing needs foreseen in the medium term, approval of a debt law could be a useful trigger for another attempt to reach a reform consensus.

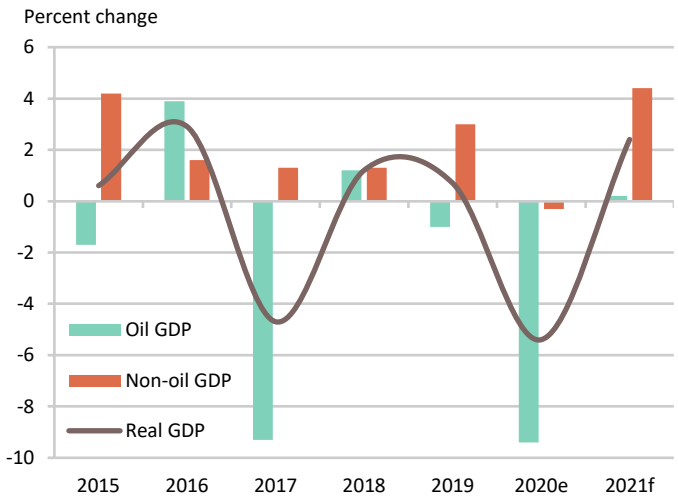
Key risks to the outlook relate to further spikes of COVID-19 and continued volatility in oil demand and prices. If new cases continue to be high, or oil prices continue at their subdued levels, this will lead to unfavorable macro-financial dynamics, further widening fiscal and external imbalances. A more rapid rollout of the vaccine programs in Kuwait and the GCC should partially mute these risks and strengthen domestic recovery, but the persistent challenge of diversification will then return to the fore.

Recent developments

As in other countries, a new wave of the pandemic is an emerging possibility. The 7-day moving average for daily new cases registered a new high in early February (980 cases), after being on a downward trajectory since October 2020. A spike in new cases prompted authorities to renew restrictions in early February. Meanwhile, the national vaccination program rollout started in late December 2020 with the target of inoculating 80 percent of the population by September 2021—by end-March, only 8.7 percent of the population received at least a single dose of the vaccine. A boost in prospects has come from oil prices, which recouped some of their lost ground since Spring 2020 owing to effective OPEC+ supply restraint and a pick-up in global economic activity as countries relax containment measures.

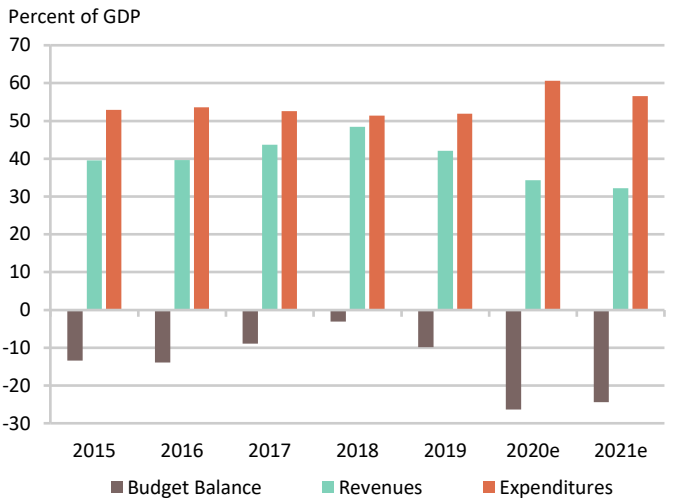
Given a lowering case count and relaxed social distancing restrictions during the second half of the year, real GDP growth in 2020 is expected to perform better than previously projected; revising from -7.9 to -5.4 percent. A stronger rebound in

FIGURE 1 **Kuwait** / Annual real GDP growth



Sources: CSB Kuwait, IMF Article IV, and WB staff estimates.

FIGURE 2 **Kuwait** / Central government operations



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

private consumption supported overall performance in the non-oil sectors.

The fiscal deficit is expected to widen from 9.8 percent of GDP in FY19/20 to 26.2 percent in FY20/21 (the fiscal year begins in April). These figures are excluding investment income and before transfers to the Future Generations Fund (FGF). The FGF has a significant financial buffer to weather the current crisis; however, continued drawdowns for deficit financing and the previously legally-mandated 10 percent of budgetary revenue transfers to the FGF have depleted all performing assets in the General Reserve Fund (GRF) in FY20/21.

Kuwait has not issued debt since 2017 as it awaits parliamentary approval to raise the borrowing limit resulting in government recently seeking Parliament's permission to withdraw as much as KD 5 billion annually from the FGF to fill part of its financing needs.

According to the most recent Labor Force Survey from 2017 the Kuwait labor market is highly segmented. Labor force participation rate is 73.8 percent on average but differs considerably by nationality: 39.5 percent of Kuwaitis participate in the labor market, against 82.2 percent of non-Kuwaitis. Nine out of ten employed Kuwaitis work in the public sector, and thus were insulated from the pandemic-related restrictions on economic activity. The labor market also exhibits heterogeneity across gender (female unemployment is 5.8 percent versus 0.9 percent among men) and age, with higher unemployment among the young (unemployment rate in the 15-24 years old group is 15.4 percent, versus a 2.2 percent at the national level).

Outlook

The economy is expected to recover with 2.4 percent growth in 2021, driven by a more accelerated pick up in global energy demand and prices while oil production levels continue to lag, growing only at 0.2 percent, in agreement with OPEC+ commitment. As the vaccination program gains more momentum and COVID-related restrictions are further eased, non-oil sectors will continue its growth trajectory, estimated to reach 4.4 percent in 2021 to reflect stronger domestic demand. Over the medium term, growth will recover even further with continued public spending and credit growth, averaging around 3.2 percent. Inflation is anticipated to pick up as economic activity recovers.

The budget deficit is anticipated to slightly narrow in FY21/22 but continues to be extremely high, reaching around 23 percent of GDP. In the medium-term, a recovery in oil receipts will support improvements in the fiscal position, but will not of itself shift it to surplus. Introduction of the VAT will be a major addition to the fiscal toolkit offering the ability to diversify fiscal revenues and orient the economy away from consumption-led non-oil growth. The trajectory of headline government debt is subject to the passing of the much-anticipated debt law, but the deeper issue is the need for a comprehensive sovereign asset and liability management perspective, since assets will be run down more quickly even if headline debt does not increase, in the absence of fiscal reforms.

As oil export earnings recover in 2021, underpinning improvements in global demand conditions, the current account will shift back into surplus. But as with the fiscal balance, the annual current account surplus does not reflect the needed level of saving of resource revenues to provide for an uncertain future where climate change concerns loom much larger than at present.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	0.4	-5.4	2.4	3.6	2.8
Private Consumption	5.4	3.2	-4.7	2.5	2.8	2.0
Government Consumption	6.3	2.6	-0.9	3.6	3.1	3.3
Gross Fixed Capital Investment	4.8	3.3	-2.6	-0.9	3.0	3.5
Exports, Goods and Services	-4.8	-0.4	-11.4	4.6	6.2	5.7
Imports, Goods and Services	-0.9	2.0	-7.7	4.3	6.1	7.0
Real GDP growth, at constant factor prices	1.3	-0.6	-5.0	2.3	2.5	2.0
Agriculture	-0.4	-6.0	1.0	1.5	2.0	2.0
Industry	0.2	-1.5	-9.3	0.3	3.4	2.9
Services	3.1	0.9	1.7	5.2	1.4	0.8
Inflation (Consumer Price Index)	0.6	1.1	0.9	2.0	2.3	2.5
Current Account Balance (% of GDP)	14.1	16.4	-2.7	8.2	11.7	13.8
Fiscal Balance (% of GDP)[a]	-3.0	-9.8	-26.2	-22.6	-19.3	-8.3

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

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

LEBANON

Table 1	2020
Population, million	6.8
GDP, current US$ billion	33.4
GDP per capita, current US$	4891.3
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	78.9

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

Lebanon is enduring a severe and prolonged economic depression in part due to inadequate policy responses to an assailment of compounded crises—the country's largest peace-time financial crisis, COVID-19 and the Port of Beirut explosion. Real GDP growth contracted by 20.3 percent in 2020. Inflation reached triple digit while the exchange rate keeps losing value; poverty is rising sharply. Lebanon lacks a fully functioning executive authority as it attempts to form its third Government in a little over a year.

Key conditions and challenges

Monetary and financial turmoil continue to drive crisis conditions, with interactions between the exchange rate, narrow money and inflation a key dynamic. A multiple exchange rate system includes the official exchange (LL 1,515/ US$), central bank (BdL)-backed lower rates for critical imports, as well as a highly volatile US$ bank-note exchange rate; in fact the banknote rate depreciated by about 50 percent over March 12-16, 2021. Overall, the World Bank Average Exchange Rate (AER) depreciated by 129 percent in 2020 (Figure 1). Meanwhile, currency in circulation (CIC) surged by 227 percent, while inflation rates are in the triple-digits, averaging 84.3 percent in 2020. Regression estimates suggest a coefficient of 0.8 for the impact of growth in CIC on inflation.

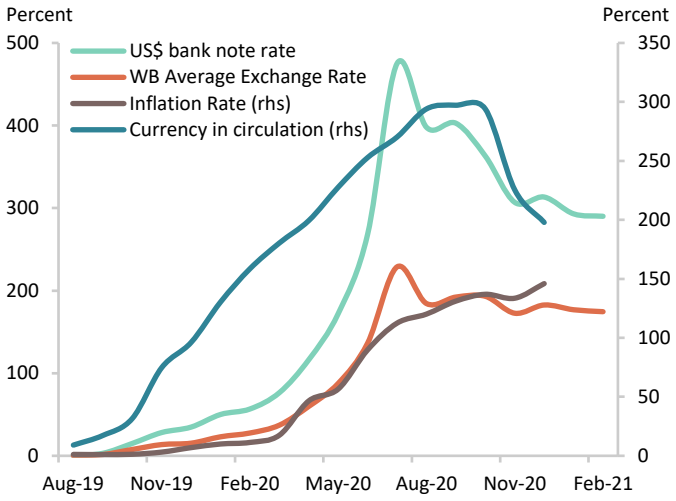
The banking sector, which informally adopted severe capital controls, has ceased lending and does not attract deposits. Instead, it endures in a segmented payment system that distinguishes between older (pre-October 2019) dollar deposits and minimum new inflows of "fresh dollars". The former is subject to sharp deleveraging through de facto lirafication and haircuts (up to 70 percent) on dollar deposits. Deleveraging is also facilitated by netting out bank positions between assets (loans) and liabilities (deposits). The burden of the ongoing adjustment/deleveraging is highly regressive concentrated on the smaller depositors and SMEs.

The social impact, which is already dire, could become catastrophic; more than half the population is likely below the upper income poverty line, higher shares of households are facing challenges in accessing food, healthcare and other basic services and unemployment is on the rise. Inflationary effects are highly regressive factors, disproportionally affecting the poor and middle class. Inflation in the food and non-alcoholic beverages category averaged 254 percent in 2020 and has been a key driver of overall inflation (Figure 2). Those paid in Lira—the bulk of the labor force—are seeing potent purchasing power declines. Phone surveys conducted in November-December by the World Food Program found that 41 percent of households reported challenges in accessing food and other basic needs. The share of households having difficulties in accessing health care rose from 25 percent (July-August) to 36 percent (Nov-Dec). The unemployment rate also rose among the respondents, from 28 percent in February (pre-COVID) to nearly 40 percent in Nov-Dec. Violent street action has erupted across the country even under COVID conditions.

Recent developments

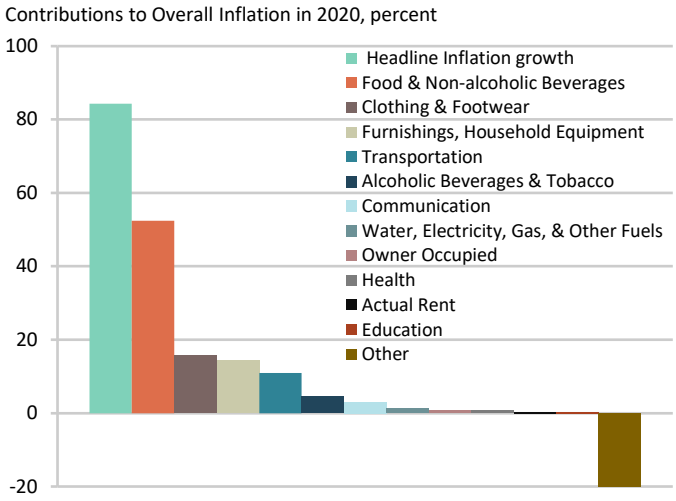
Real GDP is estimated to have declined by 20.3 percent in 2020. High frequency indicators support a substantial contraction in economic activity. The BLOM-PMI index, which captures private sector activity,

FIGURE 1 Lebanon / Exchange rate depreciation along with surging inflation



Sources: Lebanese authorities and WB staff calculations.

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



Sources: Lebanese authorities and WB staff calculations.

averaged 41.1 in 2020 (<50 represents a contraction of activity), the lowest since it was first published in 2013. Construction permits and cement deliveries, which are indicators of construction activities, suffered yoy declines of 33.4 and 48.3 percent, respectively, over 9M-2020. On the demand side, net exports, is expected be the sole positive contributor to GDP, driven by falling imports (merchandize imports declined by 45.4 percent in 11M-2020, yoy).

The sudden stop in capital inflows, coupled with a continued large current account deficit, has implied a steady depletion in foreign exchange (FX) reserves at BdL. By end-2020, gross FX reserves at BdL reached $24.1 billion, declining by $12.5 billion since end-2019. The gross position, however, guises key pressure points (BdL, contrary to other central banks, does not publish net reserves; these are however estimated to be negative). The breakdown includes $5 billion in Lebanese Eurobonds and an unpublished amount lent out to banks since October 2019, leaving much of the remainder as required reserves on banks' customer FX deposits.

Partial-year fiscal data confirm severe fiscal stress. Over the 8M-2020 period, total revenues declined by 20.2 percent (yoy), driven by 56.5, 49.7 and 34.5 percent yoy decreases in telecoms, VAT and customs revenues, respectively. Total expenditures over 8M-2020 have also decreased by 18.4 percent. This, however, is almost exclusively due to cuts in interest payments resulting from the March 2020 Eurobond default and a favorable arrangement with BdL on TBs it holds.

Outlook

Subject to unusually high uncertainty, we project real GDP to contract by a further 9.5 percent in 2021. Our projection assumes that COVID-19 effects carry through 2021, while macro policy responses remain inadequate. We also assume a minimum level of stability on the political and security scenes (i.e. formation of Government) and refrain from assuming runaway inflation-depreciation, which is a realistic scenario.

Lebanon's recession is likely to be arduous and prolonged given the lack of policymaking leadership and reforms. Lebanon's GDP/capita has fallen by around 40 percent over the 2018-2020 period and is expected to decline further. Hence, Lebanon's World Bank income classification is likely to be downgraded from an upper-middle income economy, which should enjoy a GNI per capita of between U$4,046 and US$12,535—to a lower-middle income status.[1]

Macroeconomic stabilization is a key prior action for Lebanon's recovery process. This necessarily includes comprehensive restructurings of the public debt and the financial sector, a new monetary policy framework and a fiscal adjustment program. Meanwhile, discussions with the IMF have stalled and remain at the diagnostic stage.

A contraction of real GDP per capita and high inflation in 2020 will undoubtedly result in substantial increase in poverty rates affecting all groups of the population in Lebanon through different channels such as loss of productive employment, decline in real purchasing power, and so forth. Tracking population wellbeing on a regular basis and protecting the poor and the most vulnerable is an urgent priority for the country. Lebanon also continues to host the largest number of refugees on a per capita basis globally. With poverty levels exceeding those of the host population, their vulnerability has increased with the compounding effects of the economic and health crises in the country.

1/ Latest available Gross National Income per capita for Lebanon is for 2019 US$7,380.

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

	2018	2019	2020 e	2021 f
Real GDP growth, at constant market prices	-1.9	-6.7	-20.3	-9.5
Private Consumption	-1.3	-5.7	-10.7	-7.2
Government Consumption	6.7	-6.2	-55.4	-8.5
Gross Fixed Capital Investment	-0.2	-16.9	-59.3	-57.3
Exports, Goods and Services	-4.7	-1.2	-53.5	3.7
Imports, Goods and Services	1.2	-9.2	-46.6	-8.0
Real GDP growth, at constant factor prices	-1.7	-5.3	-16.0	-9.8
Agriculture	-4.0	6.0	29.7	-9.5
Industry	-4.2	-17.4	-15.8	-9.4
Services	-1.1	-4.0	-19.0	-9.9
Inflation (Consumer Price Index)	6.1	2.9	84.3	80.0
Current Account Balance (% of GDP)	-24.3	-21.2	-11.0	-6.7
Net Foreign Direct Investment (% of GDP)	3.7	3.4	9.3	4.9
Fiscal Balance (% of GDP)	-11.0	-10.5	-4.9	-2.8
Debt (% of GDP)	154.9	171.0	186.7	180.7
Primary Balance (% of GDP)	-1.2	-0.5	-2.7	-1.1

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

LIBYA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	26.2
GDP per capita, current US$	3813.3
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	72.7

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

Libya entered 2021 as a divided nation aspiring for recovery and healing. With intensifying conflict and a blockade of oil terminals and fields, the economy registered one of the worst performances in recent records for the most part of 2020. Starting in mid-September, a rapprochement between political/military factions brought much-needed relief to the economy, capping the GDP plunge at 31.3 percent, annually. The election of a unity government in early 2021 has rekindled hope, but, the reunification agenda faces formidable challenges ahead.

Key conditions and challenges

In 2020, Libya effectively remained a divided nation, where competing political and military factions operated redundant and often conflicting systems of governance. The Government of National Accord (GNA) controlled western regions around Tripoli and the Interim Government (IG), backed by the Libyan National Army (LNA), controlled other regions. The Central Bank in Tripoli controlled the country's money supply and reserves, while the eastern branch mimicked its currency printing function. The National Oil Company in Tripoli was solely responsible for oil exports; but the Petroleum Facilities Guard, which protects oil assets, was divided between western and eastern forces. These divisions, with culminating coordination problems, have proven to be devastating for Libyans. A 9-month blockade that began in January 2020 cut the country's crude oil output to an average 228,000 barrels per day during the blockade, less than one-sixth of 2019 values. For an acutely undiversified economy where hydrocarbons comprise over 60 percent of GDP and 90 percent of fiscal revenues, this dealt a heavy blow, leading to a near-complete scrapping of development expenditures. With severely limited health infrastructure and services after years of conflict, the COVID-19 pandemic added to the strife faced by Libyans. A recent World Food Programme (WFP)-World Bank (WB) survey showed that 10 percent of Libyans had inadequate food consumption in December 2020. Food insecurity was higher in the Eastern and Southern regions, with deteriorating trends in Tobruk, Murzuq and Alkufra since May 2020.

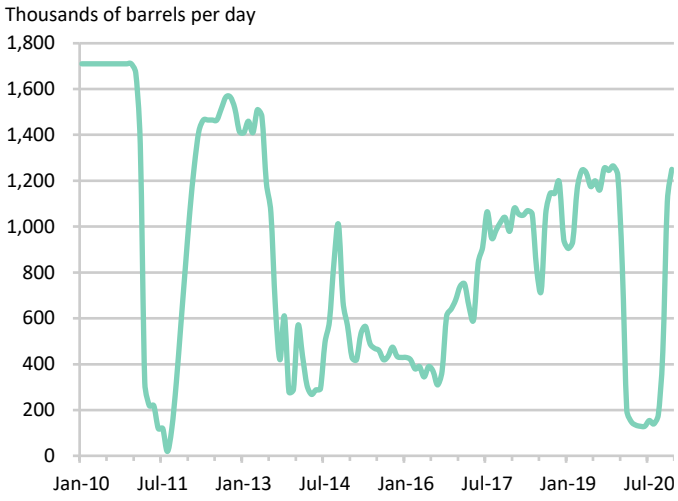
There is reason for cautious optimism for recovery and healing, but downside risks abound. A ceasefire agreement of October 2020 helped resume oil production to 1.25 million barrels per day by December. In mid-November, parties also agreed to hold parliamentary and presidential elections in December 2021 and commissioned a three-member Presidency Council to form a Government of National Unity and facilitate the transition. However, the underlying political and economic divisions pose surmounting challenges and competing international influences can still derail the process.

Recent developments

For the most part of 2020, the performance of the Libyan economy was the worst in recent records. Even with the rebounding oil proceeds in the last quarter, the economy could not recover its earlier losses, and registered a 31.3 percent real decrease in GDP. On average, oil production in 2020 is estimated at 405,000 barrels per day, roughly a third of actual output in 2019 (Figure 1).

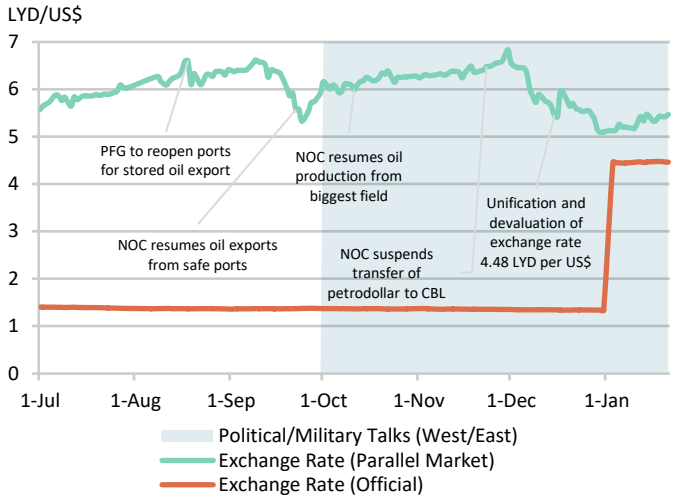
Total fiscal revenues stood at LYD 23 billion in 2020, about 40 percent of those in 2019. The plunge in oil revenues translated

FIGURE 1 **Libya** / Oil production



Sources: US Energy Information Administration.

FIGURE 2 **Libya** / Official and parallel market exchange rates



Sources: Authorities, and World Bank calculations.

into lower government spending, LYD 45.9 billion as opposed to LYD 56.2 billion a year ago, about 20 percent reduction in nominal terms. Subsidies, including those for fuel, electricity, water and sewage, sanitation, and medical supply reached LYD 5.6 billion, or 16 percent of total expenditures. Development expenditures were miniscule for the year, LYD 1.8 billion or five percent of total expenditures, compared to LYD 4.6 billion in 2019. All capital expenditures projects for 2020 were essentially canceled. Despite that, however, the overall fiscal balance recorded a deficit of 64.4 percent of GDP.

The collapse of oil revenues strained the ability of the monetary and fiscal authorities to defend the country's currency peg, and on December 16, for the first time in five years, the board of directors of the Central Bank of Libya, agreed to devalue the currency from LYD 1.00 = SDR 0.5175 to LYD 1.00 = SDR 0.156 effective January 3, 2021, with the equivalent rate to the U.S. dollar at LYD 4.48 = US$1.00 using the current US$1.44 = SDR 1.00 rate (Figure 2). The new rate aims to apply to all governmental, commercial, and personal foreign exchange transactions, and largely remove the growing wedge between black market and official rates, also rendering the foreign exchange transactions surcharge unnecessary.

The movements in exchange rates also affected consumer prices in Libya, where domestic food supply relies heavily on imports (e.g., 90 percent of cereals are imported). In December, the price of the Minimum Expenditure Basket (MEB) was 12.8 percent higher than pre-COVID prices in March, while the East (755 LYD) and the South (856 LYD) exceeded the national average (710 LYD). According to the WFP-WB survey, households reported the high prices as the most significant shock they experienced within the past year.

Outlook

With looming uncertainties, projecting future economic trends is a daunting task. However, if the current rapprochement remains on track, a significant economic recovery from the 2020 slump is within reach in the forthcoming year. With major maintenance problems still pending, oil production is projected to reach 1.1 million barrel per day (MBD) in 2021. This would lead to a rebound in real GDP growth, to 67 percent in 2021. In terms of level of GDP, the economy would still be 23 percent smaller than that in 2010, the year prior to the start of the conflict.

With a US$44 per barrel average oil price projection, the country is still expected to run a twin deficit in 2021, that is a 9 percent of GDP fiscal deficit (overall balance) and a 6.2 percent of GDP current account deficit. Higher international oil prices would help further support the overall rebound in oil output, filtering through stronger government consumption and investment, and in turn supporting a recovery in private consumption.

With deep reliance on imports, the recent currency devaluation is expected to "pass-through" on domestic prices in 2021. However, the presence of an expansive FX black-market will limit this effect because a de facto devaluation was already embedded in the black market rates. Overall, a 12 percent CPI is expected in 2021.

The agenda for social policy and institutional reform is full and needs urgent attention. Besides peace and stability, the country needs urgent infrastructure investments. Operationalizing 14 of 27 non-functioning power plants will cost about US$1.1 billion. Budget plans for 2021 include a possible allocation for repairs over the next two years however the budget has not been adopted yet. Libyans are also increasingly affected by the COVID-19 pandemic. With relaxation of containment measures, the spread of the virus has accelerated. As of end-January 2021, there were 116,064 confirmed cases and 1,802 reported deaths due to COVID-19. The true incidence of the disease is almost certainly under-monitored and compounded by an incapacitated health sector, which will slow down the rollout of vaccines even by regional standards. Overall, any potential progress in these areas would be curtailed should the reunification process stall.

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

	2018	2019	2020 e	2021 f
Real GDP growth, at constant market prices	15.1	2.5	-31.3	66.7
Private Consumption	3.6	1.7	-12.8	32.5
Government Consumption	0.0	2.7	-21.6	18.3
Gross Fixed Capital Investment	28.8	17.1	-12.7	40.8
Exports, Goods and Services	32.2	33.6	-64.8	171.6
Imports, Goods and Services	23.8	43.9	-27.5	40.3
Inflation (Consumer Price Index)	9.3	-3.0	-2.0	12.0
Exchange Rate (USD/LYD)	1.4	1.4	1.4	4.5
Current Account Balance (% of GDP)	21.4	11.6	-46.4	-6.2
Fiscal Balance (% of GDP)	-7.0	1.7	-64.4	-9.0
Crude Oil (million bpd)	1.0	1.2	0.4	1.1

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

MOROCCO

Table 1	2020
Population, million	36.9
GDP, current US$ billion	111.0
GDP per capita, current US$	3006.7
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.2)[a]	7.3
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	114.8
Life expectancy at birth, years[b]	76.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014).
(b) WDI for School enrollment (2019); Life expectancy (2018).

The combination of a pandemic with an agricultural shock pushed the Moroccan economy into a deep recession in 2020. However, the government response to the crisis has been appropriate, and the ambitious reforms being implemented could set the stage for a solid recovery. Growth is expected to accelerate to 4.2 percent in 2021, although significant downside risks remain. A piecemeal recovery with slow job creation would delay the return to pre-pandemic poverty levels.

Key conditions and challenges

The COVID-19 crisis has been compounded by an agricultural shock in a context of declining long-term growth rates. Although Morocco's last yearly contraction was in 1997, activity had already lost steam before the pandemic due to adverse climatic conditions and to low total factor productivity growth.

The government is putting forward an ambitious growth enhancing and pro-equity reforms program to mitigate the health and economic impacts of the pandemic and to support the recovery. Among other measures, it is revamping its social protection systems to stimulate human capital formation, supporting the capitalization of the private sector through the creation of a Strategic Investment Fund, and upgrading its industrial and agricultural policies. Their successful implementation could increase the growth potential of the Moroccan economy.

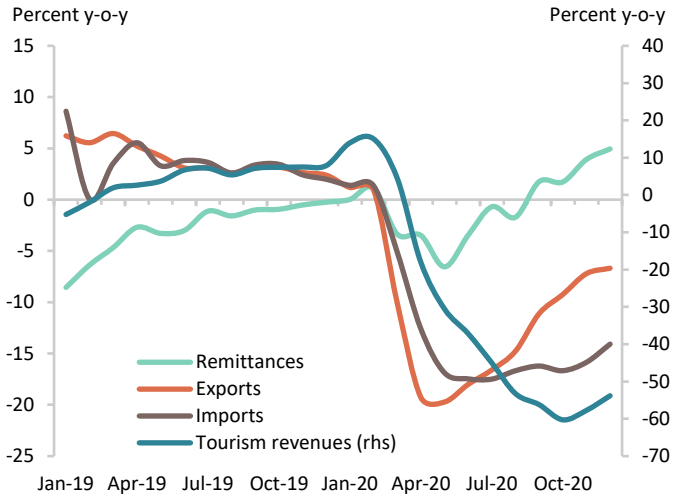
In the shorter-term, however, the recovery could be gradual. Despite encouraging epidemiological trends and the successful beginning of the vaccine rollout, the global environment remains uncertain, and economic activity has recently weakened in Morocco´s trading partners and will affect the recovery of the tourism sector. The COVID-19 crisis has adversely impacted households´ wellbeing and accentuated inequality. According to the High Commission of Planning (HCP), during confinement, 74 percent of workers belonging to the bottom quintile experienced a reduction in income against 44 percent in the top quintile. Also, the loss in monthly income was more pronounced in the bottom rather than top quintile: 66 against 32 percent respectively.

Recent developments

A stringent confinement, collapsing tourism revenues, the disruption of global value chains and an agricultural shock contribute to explain the magnitude of the recession. During the second quarter of 2020, real GDP contracted by 15.1 y-o-y. Although activity began to pick up in the third quarter, preliminary estimates indicate that real GDP contracted by 7 percent in 2020. On the production side, the impact of the crisis has been particularly severe for the hospitality industry and transports, and for the manufacturing segments most exposed to international trade. In addition, agricultural value added contracted by 7.1 percent due to the drought. On the demand side, private consumption contracted by 9.4 percent, partly compensated by a 6.2 increase in public consumption. In this context, headline inflation averaged 0.7 percent in 2020 and the share of non-performing loans increased to 8.4 percent of banks' credit portfolio (7.6 percent in December 2019).

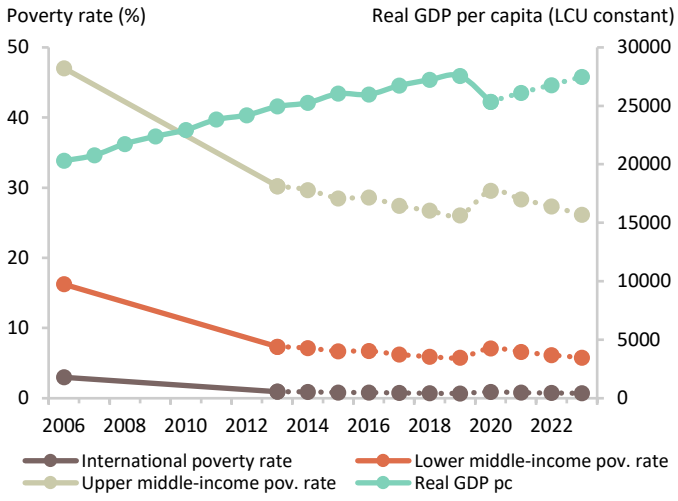
The fiscal response to the pandemic, mostly debt financed, has supported firms and households to compensate for their revenue losses. The resulting increase in

FIGURE 1 Morocco / An asymmetric recovery reflected in the behavior of the current account



Sources: Morocco exchange office.

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



Sources: World Bank. Notes: see Table 2.

expenditures and a sharp contraction in tax revenues led to a deterioration of the budget deficit (7.7 percent of GDP in 2020), and the debt to GDP ratio increased by more than 12 percentage points to 77.8 percent of GDP. This is the largest increase ever registered in the debt-to-GDP ratio in a single year since that series is available. The current account closed with a deficit of just 3 percent of GDP (4.1 percent of GDP in 2019), owing to the contraction of imports and the resilience of workers' remittances. Morocco has preserved good access to external finance, with large multilateral disbursements, two successful sovereign bond issuances (€1 billion in September and US$3 billion in December), and resilient net FDI flows. Foreign exchange reserves increased by 26.6 percent in 2020, reaching 30 percent of GDP, more than seven months of imports.

After several years of declines, the poverty rate (US$3.2 PPP line) is estimated to have increased from 5.8 percent in 2019 to 7.1 percent in 2020, an increase that could have been larger hadn't it been for the government's cash transfer programs. The unemployment rate spiked to 11.9 percent (9.2 percent in 2019) and a recent HCP survey indicates that 37.5 percent of the firms have reduced their workforce in the second half of 2020 (compared to 2019), with larger contractions among very small business and SMEs.

Outlook

GDP growth is expected to accelerate to 4.2 percent in 2021. In this baseline scenario, agricultural output returns to historical trends, the vaccine rollout proceeds according to the government´s plans, monetary policy remains accommodative and the fiscal stimulus is maintained. The recovery of the manufacturing and services sectors is expected to be gradual, initially constrained by the recent slowdown in Morocco´s trading partners and by a protracted return of international tourism. Real GDP growth is expected to remain slightly above its pre-pandemic trend during the projection period as the output gap narrows gradually and the ongoing reforms begin to have an impact. The current account deficit is expected to stabilize below 4 percent of GDP while the fiscal deficit is expected to fall gradually.

There are significant downside risks. The evolution of the pandemic remains uncertain given the global spread of new coronavirus variants, which may lead to the adoption of new containment measures in Morocco or elsewhere. Large gross financing needs have increased the exposure of the economy to an external shock and the ongoing increase in non-performing loans could weigh on banks´ balance sheets. The materialization of the contingent liabilities associated with the credit guarantee program could result in a deterioration of the fiscal outlook.

In 2021, poverty is expected to decline but not to return to the pre-crisis levels. Extreme poverty (US$1.90 PPP line) should remain below 1 percent, while poverty (US$3.2 PPP line) is expected to decrease by 0.5 percentage point in 2021 and reach 6.6 percent. The percentage of "vulnerable" population is expected to slowly decrease in 2021 to about 28.35 from 29.56 in 2020. This trend is expected to continue through 2022 and 2023, but poverty indicators may not return to the pre-Covid-19 situation until 2023. The successful implementation of the social protection reform could accelerate that process.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	2.5	-7.0	4.2	3.7	3.8
Private Consumption	3.4	1.8	-9.4	3.7	4.1	4.3
Government Consumption	2.7	4.7	6.2	5.6	4.7	4.5
Gross Fixed Capital Investment	1.2	1.0	-8.5	5.5	5.7	5.9
Exports, Goods and Services	6.0	5.5	-14.1	6.9	7.4	7.9
Imports, Goods and Services	7.4	3.3	-12.1	6.3	7.9	8.4
Real GDP growth, at constant factor prices	3.0	2.5	-6.7	4.2	3.7	3.8
Agriculture	2.4	-4.6	-7.1	10.3	4.1	4.0
Industry	3.0	3.5	-6.3	3.4	3.6	3.7
Services[a]	3.1	4.0	-6.8	3.1	3.7	3.7
Inflation (Consumer Price Index)	1.9	0.2	0.7	1.1	1.4	1.7
Current Account Balance (% of GDP)	-5.3	-4.1	-3.0	-3.5	-3.9	-3.8
Net Foreign Direct Investment (% of GDP)	3.0	1.3	1.5	1.3	1.3	1.2
Fiscal Balance (% of GDP)	-3.8	-3.6	-7.7	-6.5	-6.4	-5.1
Debt (% of GDP)	65.2	64.9	77.8	78.4	78.7	79.0
Primary Balance (% of GDP)	-1.4	-1.3	-5.2	-4.0	-3.9	-2.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.7	0.7	0.9	0.8	0.7	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	5.9	5.8	7.1	6.6	6.1	5.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	26.7	26.1	29.6	28.3	27.3	26.1

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

(a) Service is recalculated as the residual of GDP at Factor Cost minus Agriculture and Industry to ensure internal consistency; might differ from official sources.
(b) Calculations based on 2013-ENCDM.Actual data: 2013. Nowcast: 2014-2020. Forecast are from 2021to 2023.
(c) Projection using neutral distribution (2013) with pass-through = 0.7 based on GDP per capita in constant LCU.

OMAN

Table 1	2020
Population, million	5.1
GDP, current US$ billion	63.3
GDP per capita, current US$	12389.1
School enrollment, primary (% gross)[a]	102.9
Life expectancy at birth, years[a]	77.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Rapid and well-coordinated measures have limited the spread of COVID-19, but lockdown restrictions weighed heavily on economic activity in 2020. The slump in oil prices and exports have significantly widened fiscal and external deficits and resulted in higher public debt and financing risks. The outlook assumes containing the pandemic, avoidance of another oil price plunge, and successful implementation of fiscal consolidation plans. Materialization of downside scenarios would heighten external financing pressures.

Key conditions and challenges

The twin shocks of Covid-19 and lower oil prices are placing significant and adverse impact on Oman's hydrocarbon-dependent economy. These events pose a new risk to the fiscal and external positions, which have been fragile since the 2014 oil price shock. Despite past efforts to diversify the economy away from oil into sectors such as logistics and tourism and restrain public spending, the hydrocarbon sector continues to account over 34 percent of GDP (2019) and because of the complex nature of Oman's oil and gas resources, the hydrocarbon sector has large investment financing needs. Persistent large fiscal and current account deficits have resulted in further debt build up, a series of credit rating downgrades, and sizable financing needs.

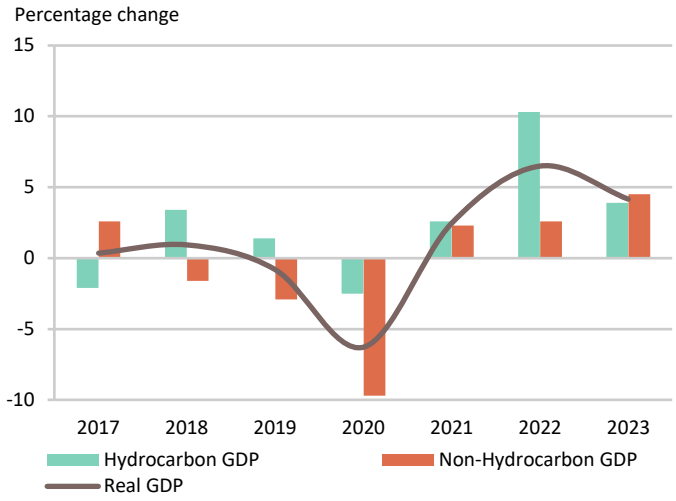
Reflecting the aggravation of the pre-existing fiscal challenge, the government announced the Medium-Term Fiscal Balance Plan (MTFP) 2020-24 at end-2020 with several fiscal adjustment reforms aiming to delink the economy from spending of oil revenues and put public debt on a sustainable path. However, challenges remain. Containing the virus, providing support to vulnerable households and overcoming vaccine-rollout challenges are key immediate priorities. While ambitious reforms are needed to rekindle job growth for nationals, the typical model of services-led growth was already facing pandemic-related risks and oil market volatility. While Oman has had some notable success in reducing and targeting subsidies, such as with petroleum products, there are still expectations of the state as a job provider in a context where young Omanis were already facing high unemployment rates.

Recent developments

Overall growth is estimated to have contracted by 6 percent in 2020. This is mainly driven by more than 9 percent contraction in non-oil GDP as the subsequent lockdown measures weighed heavily on domestic demand where tourism and services sectors have suffered the most. A significant increase in the production of condensates that is not subject to OPEC+ cut deal, has helped the oil sector to adapt to the crisis, at least in volume terms, with oil GDP has seen only 2 percent contraction. Inflation turned negative at -1.0 percent (y/y) in 2020 reflecting weak domestic demand.

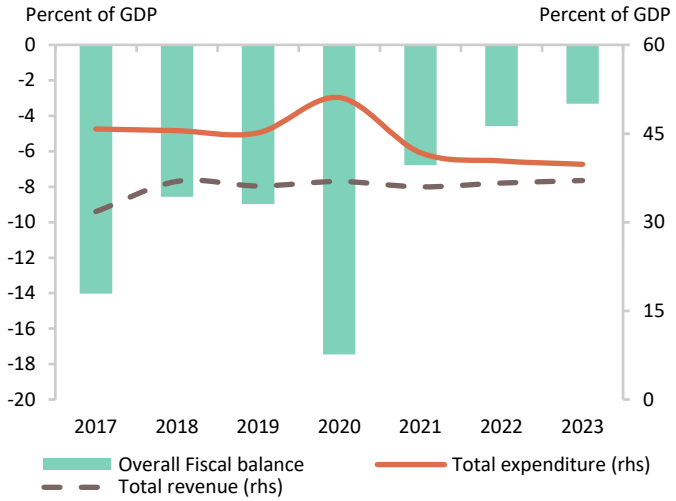
Despite attempts to restrain spending, fiscal stimulus and relief measures in response to COVID and the sharp shortfall in hydrocarbon revenues have widened the fiscal deficit to over 17 percent of GDP in 2020, primarily financed by withdrawal of reserves and external bond issuance and other external loans. The latest imbalance on top of post-2014 deficits pushed the public debt-to-GDP ratio to an estimated 81 percent in 2020.

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.

Lower exports and increased income payments have almost doubled the current account deficit to 10.4 percent of GDP in 2020, up from 5.5 percent in 2019. International reserves witnessed a modest decline of US$15 billion in 2020 (or 6.5 months of imports) helped by Eurobond issuance and stable FDI inflows, according to IMF latest estimates.

Latest official data from the National Centre for Statistics and Information shows that the unemployment rate in Oman was 3.0 percent in January of 2021, slightly up from 2.9 percent in December of 2020. However, the unemployment rate was significantly higher among the young population (aged 15 to 24), where it reached 15.6 percent, and among women whose unemployment rate was 10.2 percent. The gender gap in unemployment was especially large among the age group 25 to 29 years old, where female unemployment rate (26.2 percent) was far higher than the male rate (1.8 percent). Pandemic impacts fell heavily on migrant labor: between January of 2020 and 2021, the number of Omanis employed in the private sector fell in 3.1 percent. In contrast, the number of expatriates working in the private sector decreased 14 percent from January 2020 to January 2021.

Outlook

Overall growth is projected to post a tepid recovery of 2.5 percent in 2021 supported by the vaccine roll-out and the ease in lockdown restrictions. A backloaded rebound will see growth peak at 6.5 percent in 2022 lifted by rising oil prices, and further development of the hydrocarbon sector, before declining to 4 percent in 2023 in view of fiscal austerity measures. Inflation is projected to pick up to 3 percent in 2021, reflecting the recovery of domestic demand and the April 2021 introduction of VAT, but to decline in the years to come as VAT-driven impact on inflation dissipates.

A substantial increase in fiscal revenues (mainly driven by introducing 5% VAT in April 2021) and a reduction in spending, are expected to narrow the fiscal deficit to less than 7 percent of GDP in 2021. This positive trend could be also supported by the removal from the budget of expenses related to Petroleum Development Oman (PDO) with the restructuring of the state role in the oil and gas sector in the new entity Energy Development Oman. The fiscal deficit is projected to keep declining to an average of 4 percent over 2022-23 aided by increased gas production and steady implementation of the fiscal reforms outlined in the medium-term plan. Large financing needs estimated at 14 percent of GDP in 2021 will keep the debt-to-GDP ratio elevated over 70 percent in the forecast period.

The current account deficit is projected to show a modest decline of 8 percent of GDP in 2021, before starting to narrow down further reflecting more favorable terms of trade.

Downside risks may include the possibility of pandemic flare-ups, which would imply further strict lockdown measures and severely curtailed private sector activity. Further plunges in oil prices or delays in fiscal adjustment will worsen fiscal and debt positions, leading to higher external financing needs at a time when emerging market debt appetite might be lower than it is today. If this led to procyclical fiscal policy (e.g., further fiscal austerity measures), there would be additional drag to the recovery.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	0.9	-0.8	-6.3	2.5	6.5	4.2
Private Consumption	2.1	0.9	-5.4	3.4	3.8	3.5
Government Consumption	2.7	0.3	-8.0	-4.6	-4.2	-2.3
Gross Fixed Capital Investment	-5.3	-3.8	-7.8	2.6	4.2	3.7
Exports, Goods and Services	2.7	4.8	-8.2	5.5	6.2	5.7
Imports, Goods and Services	-4.4	-0.4	-10.2	4.5	5.4	5.0
Real GDP growth, at constant factor prices	0.9	-0.8	-6.3	2.5	6.5	4.2
Agriculture	27.9	2.0	3.3	3.4	3.4	3.5
Industry	2.2	1.2	-4.9	2.2	4.8	4.0
Services	-2.3	-4.1	-9.4	2.8	9.6	4.5
Inflation (Consumer Price Index)	0.9	0.1	-1.0	3.0	2.5	2.6
Current Account Balance (% of GDP)	-5.6	-5.5	-10.4	-8.1	-5.2	-4.3
Fiscal Balance (% of GDP)	-8.6	-9.0	-17.4	-6.8	-4.6	-3.3
Primary Balance (% of GDP)	-6.4	-6.7	-14.7	-3.7	-2.0	-1.1

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

PALESTINIAN TERRITORIES

Table 1	2020
Population, million	5.1
GDP, current US$ billion	15.1
GDP per capita, current US$	2980.4
Upper middle-income poverty rate ($5.5)[a]	21.9
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	97.7
Life expectancy at birth, years[b]	73.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

After a successful containment of the COVID-19 first outbreak in the spring of 2020, the second and third waves have been more challenging. Q2 2020 witnessed one of the largest economic contractions on record, but activity has slightly improved since. The fiscal position has worsened not only due to the outbreak but also due to a political standoff that has disrupted the flow of revenues for half of 2020. The outlook remains precarious and subject to numerous political, security and health risks.

Key conditions and challenges

Before the onset of the COVID-19 pandemic, the Palestinian economy was stagnant and the overall socio-economic situation was difficult, due to recurrent hostilities and violence, a deteriorating relationship with Israel, and falling aid inflows. During 2017-19, annual GDP growth averaged 1.3 percent, lower than the population growth rate, resulting in decreasing per capita incomes and increasing poverty. Decomposing growth historically makes it evident that it was driven by accumulation of factors (both capital and labor) and not improvements in productivity. During the 2015-19 period, gross investment averaged about 25-26 percent of GDP, but the bulk of this has been channeled into activities in the non-tradable sectors – not sectors that have served as escalators for growth in other countries. Likewise, Foreign Direct Investment (FDI), at a mere 1 percent of GDP, is very low. Potential sources of growth will be very limited going forward even in the post-COVID environment.

COVID-19 has exacerbated existing economic and social challenges. The West Bank is currently going through a third wave with no sign of a flattened curve anytime soon and the daily cases in Gaza also continue to be high. If this continues and given that the vaccination campaign is still nascent, further stringent lockdowns may become necessary, amid eroding compliance, adversely affecting the outlook.

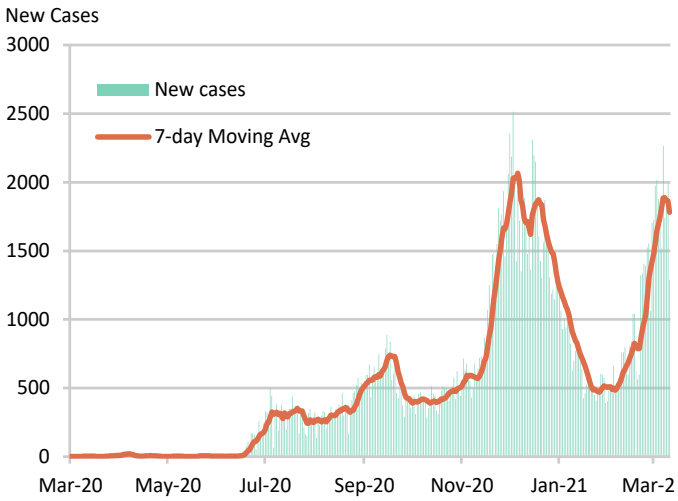
Recent developments

With limited fiscal space and monetary policy tools (due to the lack of a national currency) to mitigate the crisis impact, the economy bore the brunt of the pandemic and containment measures. The decline in activity from March 2020 was rapid and broad, with GDP contracting by 3.4 percent (y/y) in the first quarter of 2020 and then by19.5 percent (y/y) in the second quarter, one of the largest contractions on record. There was a rebound in the third quarter as the economy grew by 12 percent (q/q), but nonetheless, it was still nearly 12 percent lower than the same quarter of 2019 with private consumption and capital investment continuing to record significantly lower levels. In total, the economy shrank by 11.5 percent in 2020, in real terms.

Growth in consumer prices had been modest prior to the outbreak of COVID-19, where prices generally moved in the 1-2 percent range. But since April 2020, growth in prices has turned negative and by December, prices were 1.5 percent lower than in the same month of 2019, reflecting weak demand by consumers.

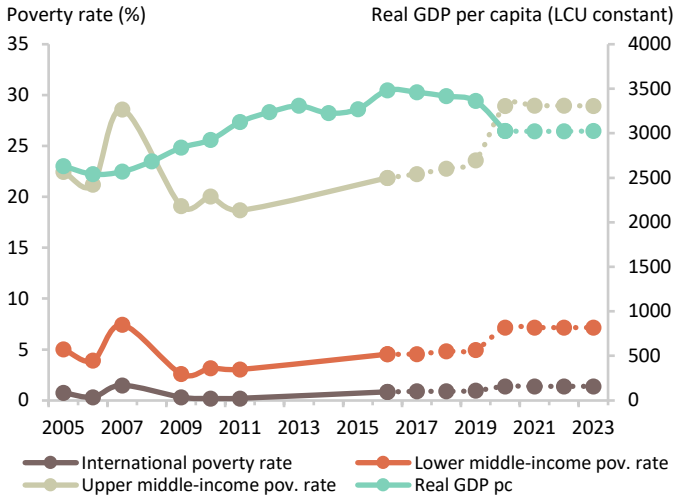
The PA's fiscal stress heightened in 2020 due to the economic slowdown and the decision to halt coordination with Israel. The PA's decision in May 2020 to stop coordination with the Government of Israel (GoI) in response to the proposed

FIGURE 1 Palestinian territories / New daily COVID-19 infections



Sources: John Hopkins University CSEE and World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

annexation plan resulted in a suspension of clearance revenue receipts for six months, compounding the liquidity impact of the Covid-19 crisis given that they constitute the majority of public income. On the expenditure side, public spending increased mainly due to a rise in social assistance to the new poor and affected businesses and increased medical spending. The financing need (deficit after grants) amounted to US$1.1 billion in 2020 forcing the PA to increase its domestic borrowing and accumulate more arrears to the private sector.

During the peak closures of activity in the second quarter, some 121,000 people lost their jobs. Of this, some 96,000 people have lost a job in the Palestinian territories, especially in sectors that have been affected by social distancing measures, such as tourism, restaurants, and construction, while some 25,000 Palestinian workers that cross to Israel lost their job in the second quarter of 2020. Both the third and fourth quarters saw an improvement with some 50,000 people regaining their jobs. This put the unemployment rate at 23.4 percent at the end of the fourth quarter of 2020. In Gaza, 43 percent of those in the labor force were unemployed in the fourth quarter of 2020, while the West Bank recorded an unemployment rate of 15 percent during the same time.

Based on the most recent official data, about 22 percent of Palestinians lived below the upper-middle income poverty line (US$5.5 2011 PPP a day) in 2016/17, a 2.8 percentage points increase with respect to 2011. There is a significant regional income disparity, with 46 percent of the population in Gaza below the poverty line in 2016/17, compared to just 9 percent in the West Bank.

Outlook

Uncertainty about the rollout of COVID-19 vaccinations implies that the ongoing "lockdown-open-surge-lockdown" dynamic will disrupt the economic activity until enough population is vaccinated to achieve herd immunity. Accordingly, a modest bounce back is expected in 2021 with growth returning to around 3.5 percent, reflecting in part the base year effect from a sharp contraction in 2020. Upside risks arise from the signs of renewed engagement by the US with the PA and the potential for the announced Palestinian elections to ease the internal divide between the West Bank and Gaza.

Domestic revenue collections are projected to rise given that full lockdowns and severe disruptions to economic activity are not anticipated. Clearance revenues, whose transfer is now resumed, are projected to decline as deductions by Israel are expected to increase by US$180 million in 2021. Despite additional spending to reinstate wages of Gaza employees as recently decided by the President, overall expenditure as a share of GDP will slightly decline in 2021 as social assistance is expected to drop. Put together, the government balance (deficit after aid) is expected to remain high at 6.4 percent of GDP in 2021 – down from 7.6 percent in 2020.

Projections based on GDP per capita growth suggest that the poverty rate has been increasing since 2016, reaching 28.9 percent in 2020—a significant increase of approximately 7 percentage points in the last four years. This represents approximately 1.4 million people living in poverty in 2020.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	1.4	-11.5	3.5	3.2	3.0
Private Consumption	1.1	3.8	-11.0	2.4	2.5	2.5
Government Consumption	7.3	-6.1	8.2	6.5	2.3	2.7
Gross Fixed Capital Investment	2.5	0.9	-31.8	8.4	9.3	5.1
Exports, Goods and Services	2.5	2.0	-9.6	3.8	3.0	3.0
Imports, Goods and Services	4.5	1.4	-12.0	5.0	4.0	3.0
Real GDP growth, at constant factor prices	1.9	1.4	-11.5	3.5	3.2	3.0
Agriculture	1.6	0.0	-3.6	2.2	1.9	1.6
Industry	2.2	-0.9	-19.9	5.0	4.4	3.7
Services	1.8	2.2	-9.7	3.2	3.0	3.0
Inflation (Consumer Price Index)	1.2	0.8	-0.7	0.7	0.9	0.9
Current Account Balance (% of GDP)	-13.2	-10.4	-6.5	-8.1	-8.3	-8.9
Net Foreign Direct Investment (% of GDP)	1.7	1.1	0.9	0.8	0.8	0.8
Fiscal Balance (% of GDP)	-2.5	-4.5	-7.6	-6.4	-5.7	-5.2
Debt (% of GDP)	14.5	16.3	24.2	25.7	26.4	26.9
Primary Balance (% of GDP)	-2.1	-4.2	-7.3	-6.0	-5.2	-4.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	1.0	1.4	1.4	1.4	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.8	5.0	7.1	7.1	7.1	7.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.8	23.6	28.9	29.0	29.0	28.9

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

(a) Calculations based on 2016-PECS.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 1 based on GDP per capita in constant LCU.

QATAR

Table 1	2020
Population, million	2.9
GDP, current US$ billion	156.8
GDP per capita, current US$	54428.9
School enrollment, primary (% gross)[a]	103.5
Life expectancy at birth, years[a]	80.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Qatar entered COVID-19 with a very particular set of circumstances, namely a high specialization in liquefied natural gas exports and very limited interaction with its immediate neighbors due to a diplomatic rift. These factors somewhat buffered the impact of Covid-19. The fundamentals for a strong recovery are in place through resilient demand for gas as a transition fuel, an extensive set of business environment reforms, and a tourism sector that was gearing up for 2022, not 2020-21.

Key conditions and challenges

Qatar is distinct from other GCC economies in the dominance of natural gas exports, a model in which it has made large investments to bring gas onshore and export it mainly via liquefaction (LNG). As a result, it is the world's second-largest gas exporter and the largest exporter of LNG. The collapse in crude oil prices at the start of the pandemic reverberated through to LNG markets, especially oil-linked LNG contracts. This persisted for most of 2020 and weakened overall GDP growth.

Crude oil exports remain an import source of export earnings and liquidity that help smooth out the lumpy investments and long timeframes of LNG. Exemplifying the scale of investment associated with LNG, Qatar has begun new investments which will total around US$29 billion expanding LNG capacity from the maritime North Field, which will take LNG production capacity to 110 million tons per annum by 2026 (mtpa) up from the current production rate of 77 million mtpa.

Unlike other energy producers in MENA, Qatar is also likely to have a longer timeframe to continue exporting hydrocarbons to the degree that LNG is viewed seen as less brown intermediate feed stock to complement a renewable and / or hydrogen-energy based future economy.

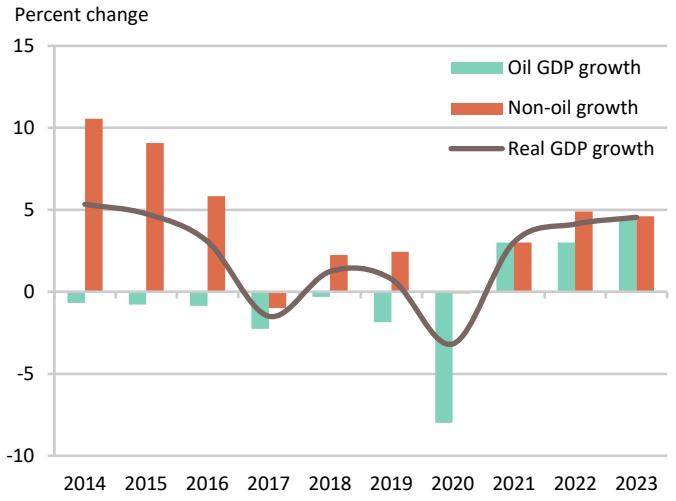
Notwithstanding LNG ambitions, there have been years of efforts to bolster competitiveness. Recently, these included: the abolishment of the Kafala sponsorship system and the strengthening of labor protection that helps facilitate labor mobility and raise productivity; the introduction of a new Public-Private Partnerships law which should help improve FDI attractiveness; and the announcement of the terms, conditions, benefits and procedures for real estate ownership and use of them by non-Qataris. This last step is a recognition that the diversification may involve long-term expatriate residency, moving towards a permanent residency model regarding access to healthcare, education, and level playing field with citizens in some commercial activities.

The prolonged diplomatic rift with four key neighbors (Bahrain, Egypt, Saudi Arabia and UAE) has also been resolved at the start of 2021; this removed some basic obstacles to movement of people, goods, and services between the countries (including airspace restrictions), but it will take some time to reestablish normal economic links between the countries.

Recent developments

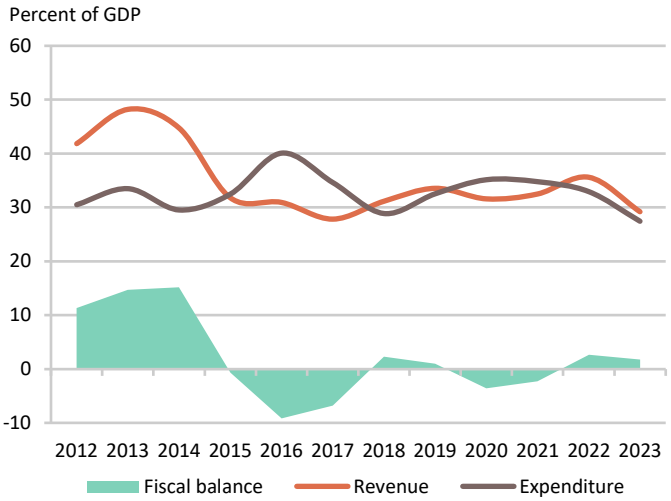
An initial spike of COVID-19 cases in the first and second quarters of 2020 was controlled through a strict lockdown, social distancing and travel restrictions. As a result, the country experienced a path of low and stable new cases as well as a relatively low number of deaths which allowed the authorities to gradually unwind the restrictions. In contrast with other GCC countries, mobility (measured via

FIGURE 1 **Qatar** / Real GDP growth



Sources: Haver and World Bank staff calculations.

FIGURE 2 **Qatar** / Public finances



Sources: Haver and World Bank staff calculations.

Google mobility data) returned to pre-pandemic levels by the third quarter. Retail and recreation and transit station footfall, as well as workplace mobility converged to the torrid pace set by residential activity during lockdown.

Following a sharp fall in the first quarter of 2020, Qatar's Purchasing Managers' Index (PMI) has consistently remained above 50 indicating economic expansion. Manufacturing and services activity reached near 60 at the end of the second quarter settling at a more subdued pace in the third and fourth quarters but still showing expansion. A PMI of 51.8 in January 2021 also suggested a strong start to the new year. Nonetheless, a rise in COVID-19 cases (from less than 150 new cases in December 2020 to 469 at the end of February 2021) has led government to announce new measures, especially focused on social gatherings where it is believed much non-compliance was occurring.

In addition to the lift in LNG pricing from the recovery in oil prices, Qatar expanded its share of the LNG market in Asia, where LNG spot prices have recently spiked, being the only major exporter able to respond quickly to the surge in demand.

The fiscal deficit in 2020 is estimated at 3.6 percent of GDP in 2020 in the wake of weak hydrocarbon prices, from where the bulk of government revenues are derived, and strong offsetting expenditures to mitigate the economic effects of COVID-19 amongst hardest hit sectors (travel, tourism and real estate). Consumer price inflation was -2.6 per cent last year. Prices are likely to return to normal from base effects in 2021 and with the possible implementation of VAT, which was postponed due to the pandemic.

The year 2021 began with continued impetus from manufacturing and services as reflected in the PMI, a stronger than expected recovery in oil markets, and final preparations ahead of the fortuitously-timed 2022 FIFA World Cup. Optimism has been dented with a resurgence of new COVID-19 cases, slow vaccination rollout in Europe, and new social restrictions in February 2021.

Outlook

Real GDP growth for 2021 is expected to be 3 percent, with the same rate of growth for both oil and non-oil GDP, driven by domestic and foreign demand as vaccinations roll out and with the end of the diplomatic rift. Strengthening energy prices and final preparations for the FIFA World Cup 2022, as well as expected bumper tourist receipts from what could be the world's first post-Covid mass audience sporting event, should lead to 4.1 percent growth in 2022, with non-oil GDP expected to grow 4.9% (and oil GDP remaining at 3%).

The fiscal deficit is expected to narrow to 2.3 percent in 2021 following recovery in hydrocarbon prices, the potential introduction of VAT in the current year and a general easing of fiscal mitigation as the pandemic unwinds. Like other macroeconomic indicators, the current account in Qatar is largely a function of energy-related commodity prices and export volumes. With a strong improvement in energy prices and higher market share in Asia, the current account will likely return to surplus (1.7 percent of GDP in 2021) and should be further bolstered from World Cup tourist receipts in 2022.

Nonetheless, the economic rebound in 2021 and beyond depends on the control of the COVID-19 pandemic and the effective roll-out of vaccines. Existing testing and tracing infrastructure will be needed for some time. The resolution of the diplomatic rift revives the prospect of further GCC integration and regional crisis burden-sharing.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	0.8	-3.2	3.0	4.1	4.5
Private Consumption	5.0	3.5	-5.6	4.8	5.9	5.1
Government Consumption	-3.0	2.5	10.3	4.0	4.3	3.5
Gross Fixed Capital Investment	4.0	2.5	-3.2	3.0	3.3	3.4
Exports, Goods and Services	1.5	1.1	-6.8	2.7	5.3	6.0
Imports, Goods and Services	3.0	6.0	-2.7	5.5	5.8	6.0
Real GDP growth, at constant factor prices	1.2	0.8	-3.2	3.0	4.1	4.5
Agriculture	15.7	1.0	3.0	5.0	7.5	6.8
Industry	0.6	1.2	1.0	2.7	2.6	3.0
Services	2.7	-0.3	-13.7	4.0	8.5	8.7
Inflation (Consumer Price Index)	0.1	-0.9	-2.6	1.0	3.0	2.5
Current Account Balance (% of GDP)	9.1	2.4	-2.5	1.7	2.7	4.1
Fiscal Balance (% of GDP)	2.3	1.0	-3.6	-2.3	2.7	1.8
Primary Balance (% of GDP)	3.7	2.7	-1.7	-0.6	4.3	3.3

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

SAUDI ARABIA

Table 1	2020
Population, million	34.8
GDP, current US$ billion	701.6
GDP per capita, current US$	20151.6
School enrollment, primary (% gross)[a]	100.7
Life expectancy at birth, years[a]	75.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

After a deep contraction in 2020, Saudi Arabia's economy is on a recovery path as new COVID-19 cases have stabilized at manageable levels, global conditions improve, and the national vaccination program gains momentum. Improvement in oil prices and easing of containment measures will strengthen medium-term fiscal and external positions. A resurgence of COVID-19 infections and renewed downward pressure on oil prices are key downside risks to the outlook. Further fiscal austerity measures would also act as a headwind to the recovery.

Key conditions and challenges

Saudi Arabia remains highly dependent on the hydrocarbon sector, but a reform acceleration beginning in 2016 had made progress on economic diversification, especially regarding labor force participation of women, mobilization of non-oil revenues, and services-led growth. The economy fell into a deep recession in 2020 in the aftermath of the twin shocks of COVID-19 and lower oil prices, creating large shortfalls in fiscal and external positions. While the oil sector impact of COVID-19 has accelerated the urgency to delink the path of the economy from the oil sector, the pandemic is also likely to change the nature of the services model in many countries, and oil will remain a valuable asset to finance the transformation and adaptation to this emerging model.

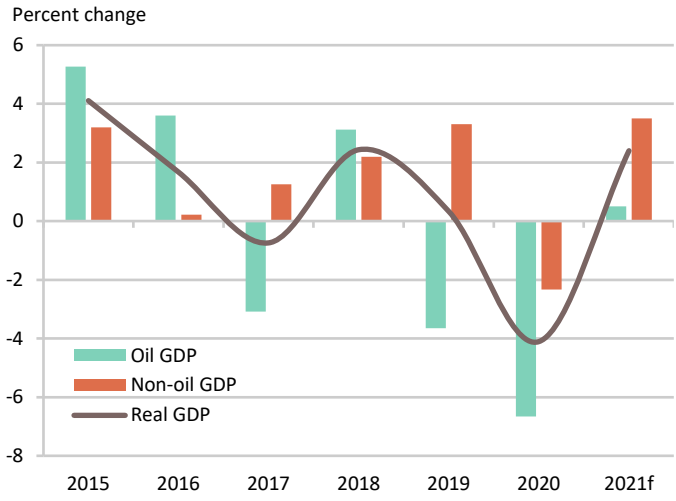
While authorities lifted many stringent public health measures with the improvement of pandemic conditions, a spike in cases due to new variants of the virus risks a cycle of on-off lockdowns, dampening recovery. Saudi Arabia is a regional leader for launching its national vaccination program in mid-December; however, the vaccination rate remains in the large cluster of slowly-progressing countries, an order of magnitude behind countries like the USA, UAE, and Chile. Strong groundwork for a vaccination scale-up and an ample testing apparatus should support efforts in restarting in-person services, especially in light of the importance of travel for religious pilgrimage.

With oil prices rebounding as global demand recovers, the temptation to "cheat" on production quotas by OPEC+ members increases, which might trigger another price war as in March 2020. Imposing further fiscal restraint, whether to tackle the public sector wage bill or mobilize non-oil revenues, will need to be balanced against the case for active fiscal policy to mitigate COVID-19 impacts. To lessen the burden on the budget as a driver of growth, the Public Investment Fund (PIF) is taking on a larger developmental role in the domestic economy; experience of other countries shows that the crowding-in potential of a public fund is enhanced by transparency and predictability for the private sector on the fund's investments and governance thereof.

Recent developments

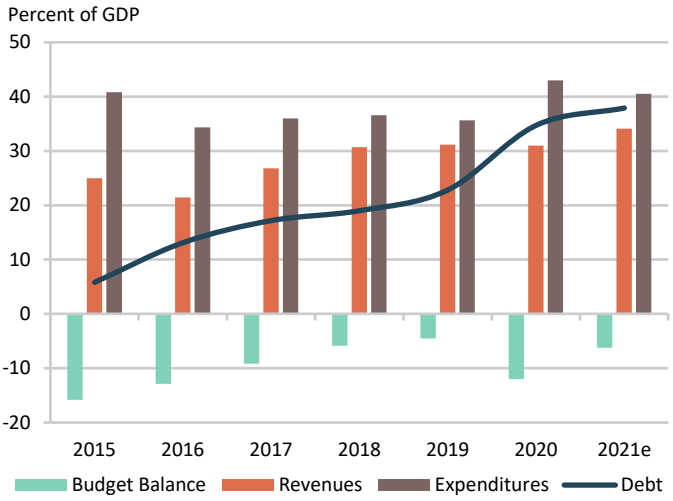
Saudi Arabia has faced a compound challenge of coping directly with the pandemic and with the indirect oil market implications of the pandemic. Daily infections had been on a downward trajectory from its peak in June 2020 (4400 cases) to early January 2021 (100 cases); yet by mid-February new and more transmissible variants of the virus crept up, forcing partial reinstatement of travel bans. Meanwhile, the national vaccination program rollout started in mid-Dec 2020, ahead of many countries in the region, with the aim of inoculating at least 70 percent of population by end 2021. The

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and WB staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



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

vaccination rate, currently standing at 7 doses per 100 people, is increasing rapidly, but still too low to give sizable immunity. On the other hand, the Kingdom has navigated extraordinary volatility in the oil market, using the OPEC+ structure and its own carefully calibrated production adjustments to keep supply in line with the gradual global relaxation of containment measures. Nevertheless, oil prices are now at a level where unconventional supply will be induced back into the market.

Against this background, GDP contracted by 4.1 percent in 2020, led by oil production cuts. Non-oil sectors reported better-than-expected signs of recovery during the second half of 2020 as containment measures eased—with quarter-to-quarter growth registering 1.8 and 2.8 percent for Q3 and Q4, respectively; yet proxies for consumer spending remain weak reflecting households' adjustment to higher VAT rate and the construction sector seemed to slow. With the VAT increase in mid-2020, headline inflation rose to 3.4 percent for the year.

Despite painful fiscal measures introduced in mid-2020, the budget deficit continued to widen, reaching 11.3 percent of GDP. Thus far, depletion of reserves and ample market access have proven sufficient to finance the deficit, insulating the economy from the full volatility of oil revenues.

There is no publicly available information on official poverty rates in Saudi Arabia and access to survey data to measure welfare conditions is limited. However, in recent years the government has made gains creating the capacity to identify and support low income households.

The most recent employment data from the General Authority of Statistics (GASTAT) shows that unemployment during Q3 of 2020 was 8.7 percent, 2.9 p.p. higher than during the same period of 2019. Unemployment among Saudis is largely made up of the young and educated ; 60.7 percent of all unemployed Saudis belong to the age group 20-to-29 years, and more than half of them (53.9 percent) hold a bachelor's degree. Male labor force participation (66 percent) is more than double that of females (31.3 percent) – itself a doubling of the rate since 2016.

Outlook

The economy is expected to grow by 2.4 percent in 2021, driven by a more accelerated pick-up in global energy demand and prices and Saudi oil production level closer to its OPEC+ original commitment, resulting in oil sector growth of 0.5 percent. As the vaccination program gains more momentum and COVID-related restrictions are eased, non-oil sectors will continue their growth trajectory, estimated to reach 3.5 percent in 2021 and reflecting stronger private consumption, gradual resumption of religious tourism, and higher domestic capital spending signaled through PIF's five-year strategy (2021-2025). Medium-term growth is expected to reach 3.3 percent while headline inflation in 2021 is expected drop, as VAT -driven impact on inflation dissipates.

The budget deficit is anticipated to reach 5.6 percent of GDP in 2021 and will continue its narrowing path in the medium term, but not quickly enough to achieve the self-imposed medium-term balanced budget target articulated in the Fiscal Balance Program (FBP) by 2023. Signs of urgency by authorities to push forward with the privatization program will instill confidence about private sector role in Vision 2030 and ease financing needs, with debt-to-GDP projections staying comfortably below 50 percent target in the medium term. The external current account is projected to return into surplus during 2021-2023 as energy prices and export earnings recover.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.4	0.3	-4.1	2.4	3.3	3.2
Private Consumption	1.9	4.4	-4.9	2.3	2.6	2.7
Government Consumption	6.0	0.6	2.6	2.6	1.2	0.9
Gross Fixed Capital Investment	-2.9	4.9	-14.0	3.9	4.0	4.0
Exports, Goods and Services	6.8	-4.5	-8.7	1.8	4.7	4.5
Imports, Goods and Services	2.7	1.3	-14.6	2.7	3.0	3.1
Real GDP growth, at constant factor prices	2.6	0.3	-4.0	2.4	3.3	3.2
Agriculture	0.3	1.3	0.0	0.1	0.2	0.2
Industry	2.7	-2.6	-5.3	0.4	2.4	2.4
Services	2.5	4.3	-2.5	5.1	4.6	4.3
Inflation (Consumer Price Index)	2.5	-1.2	3.4	3.6	2.0	2.2
Current Account Balance (% of GDP)	9.0	6.6	-2.7	2.6	4.5	5.9
Net Foreign Direct Investment (% of GDP)	0.7	0.8	-0.2	0.5	0.6	0.8
Fiscal Balance (% of GDP)	-5.9	-4.2	-11.3	-5.6	-3.0	-1.0
Primary Balance (% of GDP)	-5.4	-3.4	-10.1	-4.3	-1.7	0.3

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

TUNISIA

Table 1	2020
Population, million	11.8
GDP, current US$ billion	39.1
GDP per capita, current US$	3311.9
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.2)[a]	3.0
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	115.4
Life expectancy at birth, years[b]	76.5

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

As the COVID-19 pandemic stretches into 2021 and in a context of heightened socio-political unrest, Tunisia's growth and fiscal outlook is weaker than before. The recovery will require more stability and a joint national effort to steer the economy to the right path.

Key conditions and challenges

On the tenth anniversary of the Jasmin revolution, Tunisia finds itself on a weak economic footing and a renewed wave of social unrest. With persistent political instability over the past ten years, the economy struggled to garner investor confidence such that GDP growth averaged just 1.5 percent between 2011 and 2019. Growth now relies increasingly on consumption while investment and exports remain significantly below pre-revolution levels. As growth stagnated, a social contract that sees the public sector as a source of jobs and a guarantor of affordability has seen the fiscal context deteriorate under the weight of a large public sector wage bill, underperforming state-owned enterprises and consumer price subsidies.

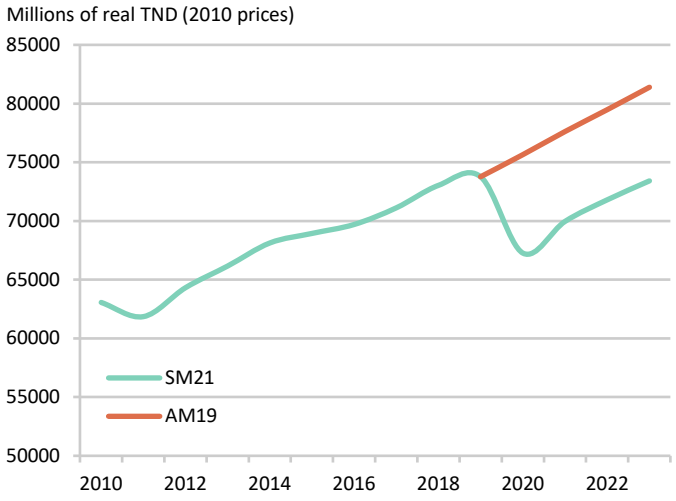
Having handled the first wave of the COVID-19 pandemic well, a deeper and prolonged second wave has been ongoing since September 2020. The number of confirmed new infections averaged around 1700 per day by end 2020, compared to a peak of just 61 new cases in April 2020, but started to decline by February 2021. The authorities are attempting to manage the pandemic with social distancing and internal travel restrictions while avoiding another national lockdown. Adding to the COVID-19 challenge is an increase in social protests by a strained population and renewed political turbulence, whilst economic conditions deteriorate and fiscal space narrows. This offers Tunisia poor prospects unless strong national leadership begins to build political stability and consensus to steer the country on the path to recovery.

Recent developments

Real GDP contracted by 8.8 percent in 2020 as sharp declines in domestic and external demand followed the pandemic. With a 9.3 percent contraction, manufacturing, a mainstay of the Tunisian economy, was deeply impacted. An 80 percent decline in passenger arrivals also caused a downturn in tourism and transport. Notably, business pulse surveys indicate that almost a quarter of formal firms (23.6 percent), mainly in the services sector, were either temporarily or permanently closed by the end of 2020. This has had a knock-on effect on unemployment, which stood at 17.4 percent by end 2020, compared with 14.9 percent pre-pandemic.

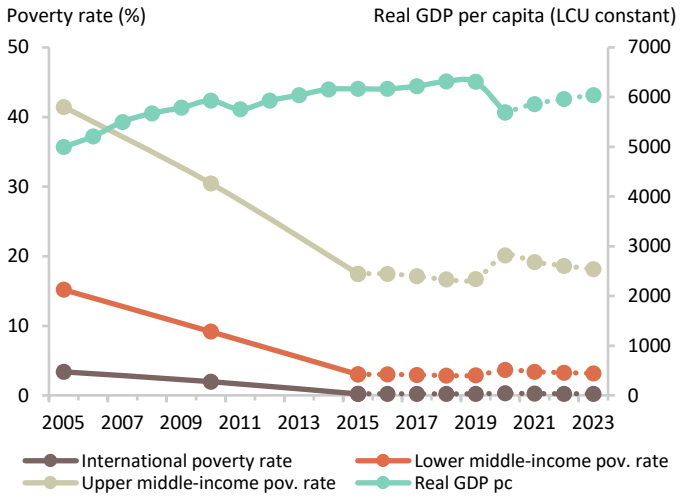
According to a series of telephone interviews conducted by the *Institut National de la Statistique* and the World Bank, during and after confinement (March-November 2020), economic activity sharply declined for most employees, and a decline in incomes has been observed. Results show that although employment in November 2020 rebounded to pre-crisis levels among respondents, labor income among wage workers, and particularly the self-employed, is still below pre-pandemic levels. More than half of households report

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



Sources: Government of Tunisia; World Bank.

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



Sources: World Bank. Notes: see Table 2.

worsening living standards relative to the pre-pandemic period, and for about 40 percent of the poorest, welfare levels have continued to deteriorate. Although COVID-19 has had negative effects on everyone's welfare, poor and vulnerable households are particularly hit because of their unequal access to basic services, especially heath care in case of infection, as well as coping mechanisms put in place. However, considering the magnitude of the GDP decline, this increase could have been much bigger if the government hadn't reacted very fast by scaling up the existing cash transfer programs to compensate for the loss of employment and the decrease in income.

The current account deficit improved from 8.5 percent of GDP in 2019 to 6.8 in 2020 as imports declined (-19 percent) faster than exports (-12 percent). With this, forex reserves increased to US$8.3 billion (158 days of import cover) by January 2021 against US$7.4 billion at end 2019.

COVID-19 response measures, along with revenue losses, caused the fiscal deficit to balloon to approximately 10 percent of GDP in 2020 (up from 3 percent of GDP in 2019). Central government debt is estimated to have reached 88 percent of GDP by end 2020, compared to 72 percent in 2019. The debt burden exceeds 100 percent of GDP once government guarantees and SOE debts are included.

Outlook

Growth is temporarily expected to accelerate to 4 percent in 2021 as the pandemic's effects on exports begin to abate and domestic demand begins to recover. The uptick is, however, not large enough to return output to pre-pandemic levels of 2019. After this short-term rise, growth is expected to return to a more subdued trajectory, expanding by around 2 percent by 2023, reflecting pre-existing structural weaknesses and a gradual global recovery from the pandemic. These estimates are presented with significant downside risks. The pace of the recovery will depend on the extent of the pandemic in 2021, vaccine rollout in Tunisia and among key trading partners as well as measures to mitigate the pandemic's impact on households and firms.

Extreme poverty - measured using the international poverty line of US$1.9 PPP - is projected to remain below 1 percent through 2023 but poverty measured using the US$3.2 PPP line will only slightly decline compared to 2020 and will not return to pre-crisis levels of 2.9 percent (2019). It was 3.7 in 2020 and it will decline to 3.4 percent in 2021. Also, the percentage of the population "vulnerable" to falling into poverty is not expected to recover to pre-crisis levels in 2021. Using an expenditure threshold of US$5.5 PPP, the number of poor and of those vulnerable to poverty is expected to decline from 20.2 percent to 19.2 percent of the population.

The current account deficit is expected to widen to 9.2 percent of GDP in 2021 as imports begin to recover and oil prices increase. As the effects of the pandemic ease and trade flows recover, manufactured exports and tourism arrivals are expected to pick up gradually, supporting a gradual decline to 8.9 percent of GDP by 2023. But risks to the external outlook remain high, including a sluggish recovery in exports, given the heavy impact of the pandemic on firm capacity and the pace of recovery amongst Tunisia's main trading partners.

Financing needs will continue to be high in the medium-term given the extent of the pandemic's impact on the economy. Public finances will be particularly challenging in 2021, with an expected fiscal deficit in the range of 8-9 percent of GDP, as the authorities deal with the pandemic and maintain support to households, but with depleted fiscal buffers. In particular, meeting the 2021 budget's external financing needs will be challenging given the deterioration of the fiscal setting, the recent sovereign credit rating downgrade and in the absence of an IMF program.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.7	1.0	-8.8	4.0	2.6	2.2
Private Consumption	2.1	0.9	-3.0	2.5	1.5	1.4
Government Consumption	0.2	0.3	-11.4	-15.8	1.3	1.3
Gross Fixed Capital Investment	2.0	-12.3	-32.6	33.9	6.5	6.0
Exports, Goods and Services	4.4	-5.0	-19.0	21.0	12.0	10.0
Imports, Goods and Services	1.7	-8.6	-18.0	16.0	10.0	8.8
Real GDP growth, at constant factor prices	2.6	1.0	-9.1	4.5	2.6	2.3
Agriculture	11.9	0.4	4.4	-3.0	3.5	3.5
Industry	1.4	-1.1	-10.7	9.5	1.4	0.4
Services	1.7	1.9	-10.5	3.8	3.0	2.8
Inflation (Consumer Price Index)	7.3	6.7	5.6	5.8	6.0	6.0
Current Account Balance (% of GDP)	-11.2	-8.5	-6.8	-9.2	-9.0	-8.9
Fiscal Balance (% of GDP)	-4.5	-3.1	-10.0	-8.6	-6.8	-6.4
Debt (% of GDP)	77.8	71.8	87.2	90.3	91.5	94.1
Primary Balance (% of GDP)	-1.8	-0.5	-6.2	-5.0	-3.2	-2.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.2	0.2	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.9	2.9	3.7	3.4	3.3	3.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	16.7	16.7	20.1	19.2	18.6	18.1

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

(a) Calculations based on 2015-NSHBCSL.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2020
Population, million	9.9
GDP, current US$ billion	345.8
GDP per capita, current US$	34961.8
School enrollment, primary (% gross)[a]	108.4
Life expectancy at birth, years[a]	77.8

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

COVID-19 and its economic fallout entailed a major shock to the UAE's open economy. Low oil prices and OPEC+ production cuts hobbled the hydrocarbon sector, the backbone of the economy, while the service-oriented non-hydrocarbon economy was severely affected by disruptions in global trade and travel. The UAE's near-term economic prospects depend critically on being positioned to benefit from the recovery of the global economy. The country's long-run priority is to further diversify the economy and create jobs in the private sector.

Key conditions and challenges

Rich in hydrocarbon wealth, the United Arab Emirates (UAE) is the second largest economy in the Middle East after Saudi Arabia. Over the past years, the authorities have intensified efforts to diversify the economy away from hydrocarbon, successfully positioning the UAE as the region's global trade, financial and travel hub. While the non-hydrocarbon sector accounts for two-thirds of GDP, the economy continues to rely on hydrocarbon as the engine of growth and the main source of government revenue, and thus remains vulnerable to volatility of global oil prices.

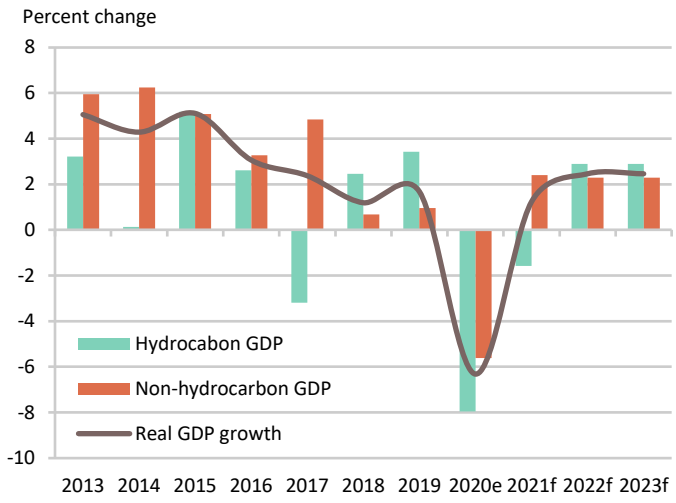
In 2020, the UAE's economy suffered a major blow from COVID-19. The hydrocarbon sector was severely affected by plummeting global oil prices and the OPEC+ production cuts, which led to a sharp contraction of hydrocarbon exports and government revenue, constraining performance of oil-liquidity dependent sectors, especially real estate and construction. Sectors catering to the trade and travel industries were also hard-hit by the global economic contraction and strict containment measures. The brunt of job and income losses due to COVID-19 has likely been borne disproportionally by foreign workers.

While the authorities' major monetary, financial, and fiscal mitigation measures have cushioned the impact of the pandemic on the economy, the UAE's near-term economic prospects depend on the recovery in global demand for oil and their proactive COVID-19 management strategy, including the national-scale rapid testing and ongoing swift roll-out of vaccines. Continued diversification efforts will remain a key priority to maintain the UAE's dynamic comparative advantage in global innovator services and labor-intensive tradable services.

Recent developments

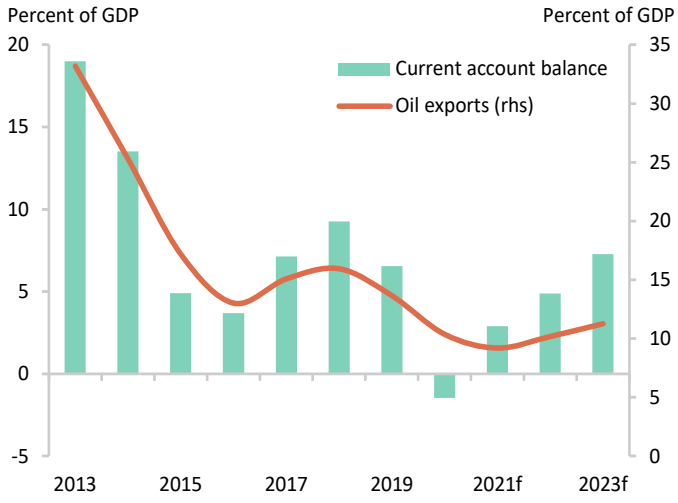
COVID-19 and its economic fallout exerted a heavy toll on the UAE's open economy, leading to a contraction of 4 percent in the first half of 2020 year on year (y/y). The volume of oil production declined by 4.4 percent (y/y) in the second quarter of 2020, in line with the OPEC+ production cuts agreement. The non-hydrocarbon sector contracted by 6 percent for the first half of 2020, as strict lockdown, travel bans, and supply chain disruptions constrained tourism, construction and trade activities. Non-hydrocarbon activity began to show signs of recovery in the third quarter of 2020, with the resumption of international travel, relaxation of lockdowns, and large-scale monetary and fiscal measures. However, the nascent recovery was soon put on hold in late 2020, as a spike in new COVID infections in the UAE and across the globe prompted the authorities to reimpose tight movement restrictions and close travel corridors (in some cases, corridors were closed at the other end). The hydrocarbon sector remained severely depressed due to restrained oil production in line with the

FIGURE 1 United Arab Emirates / Annual GDP growth rate



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

FIGURE 2 United Arab Emirates / External account



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

OPEC+ production quota. The overall economy has likely contracted by around 6 percent in 2020. Government finances are under significant strain. The fiscal outturn in the first half of 2020 was a deficit of 2.3 percent of GDP, compared with a surplus of 3.4 percent a year earlier, due to reduced hydrocarbon revenue and the fiscal mitigation measures introduced at both the federal and emirate levels. The mitigation packages, totaling AED 26.5 billion (US$7.2 billion), included a suspension of work permit fees, reduction of labor and other charges to lower the cost of doing businesses and support small and medium enterprises, as well as financial assistance to activities particularly affected by COVID. Financing needs were mostly met by international debt issuances at the emirate level, but a recently released new federal public debt strategy for 2021-23 also points to growing reliance on the local-currency bond market.

The deflationary trend has persisted throughout the year, with the CPI falling by 2 percent in December 2020 (y/y), driven by price declines of non-tradable goods and services (such as rents, transport and recreation) that reflected subdued domestic and external demands. The recession has further depressed real estate prices in the UAE, which had been on the fall due to oversupply of residential properties, undermining banking sector profitability.

The Central Bank of the UAE (CBUAE) has maintained an accommodative monetary policy stance, closely tracking US monetary policy to maintain its currency peg. Early in the pandemic crisis, the CBUAE launched an AED 256 billion (US$70 billion) monetary stimulus, relaxing a number of regulatory requirements for banks to ease repayment pressures for the private sector and boost domestic credit growth. Yet credit to the private sector, particularly lending to business and industries, continued to contract in 2020, and the share of non-performing loans in total lending is on the rise, reaching 7.7 percent in September 2020.

The current account position has likely slipped into deficit in 2020, for the first time on record, due to the significant underperformance of both hydrocarbon and non-hydrocarbon exports. However, the UAE's external position remains strong, with official reserves equivalent to more than 5 months of imports as of September 2020, and assets of various sovereign wealth and development funds are vast.

Outlook

The economy is expected to rebound in tandem with the recovery of the global economy.

The hydrocarbon sector would regain strength with rising global oil prices, helping to restore the fiscal and external positions, and boosting confidence on the overall economy. This, coupled with a sustained recovery of global trade and travel, would allow the non-hydrocarbon sector to rebound. The normalization of relations with Israel and Qatar could expand economic opportunities. But the pandemic could have a lingering impact on global travel, hampering a speedy recovery of the UAE's large tourism industry. The long-run economic prospects continue to hinge on the authorities' efforts to create a favorable business environment to foster growth of the non-hydrocarbon sector and create jobs in the private sector. The introduction of a new Commercial Companies Law in December 2020, which among other things permits foreign nationals 100 percent ownership in most industries, marks a further extension of the free zone investment environment to the "on-shore" economy. Combined with the measures on business costs and the earlier introduction of VAT, there has been a sizable gain in competitiveness, and thus significant upside risks to the outlook.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	1.7	-6.3	1.2	2.5	2.5
Private Consumption	6.1	13.4	-4.9	2.3	2.2	2.2
Government Consumption	-5.0	14.3	3.2	2.1	2.3	2.3
Gross Fixed Capital Investment	3.6	0.0	-4.5	2.5	2.1	2.1
Exports, Goods and Services	11.5	-2.9	-7.3	3.6	3.9	3.9
Imports, Goods and Services	10.9	3.6	-4.5	2.5	4.2	4.2
Real GDP growth, at constant factor prices	1.2	1.7	-6.3	1.2	2.5	2.5
Agriculture	5.4	2.7	-5.0	3.4	2.1	2.1
Industry	1.8	2.1	-7.2	0.3	2.6	2.6
Services	0.6	1.2	-5.5	2.1	2.3	2.3
Inflation (Consumer Price Index)	3.1	-1.9	-1.6	1.2	2.0	2.0
Current Account Balance (% of GDP)	9.3	6.5	-1.5	2.9	4.9	7.3
Fiscal Balance (% of GDP)	1.2	-1.0	-8.0	-0.5	1.7	-2.7

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

REPUBLIC OF YEMEN

Table 1	2020
Population, million	29.8
GDP, current US$ billion	19.9
GDP per capita, current US$	668.2
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	66.1

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

An unprecedented protracted humanitarian crisis, aggravated by COVID-19, leaves many Yemenis mostly dependent on relief and remittances. Socio-economic conditions are deteriorating rapidly, driven by a currency depreciation, trade disruptions, rising food prices, severe fuel supply shortages, disruption and downsizing of humanitarian operations. Intensifying violence and fragmentation of macroeconomic policies add further strains on the fragile economic conditions, and the population is at risk of famine in 2021.

Key conditions and challenges

The fallout of COVID-19 has hit the people and the economy of Yemen in a state of extreme fragility after seven years of conflict. Socio-economic conditions deteriorated further in 2020, affected by compound conflict, health, and climate events and depleted coping capacity. Distortions created by the fragmentation of institutional capacity and the divergent policy decisions between the areas of control have led to acute shortages of basic inputs, including fuel.

Without stable sources of foreign exchange, expansionary monetary policy has accelerated the depreciation of the Yemeni rial. Given Yemen's high dependence on imports, the weakening of the currency has passed through to domestic prices, eroding purchasing power of households and businesses. Recovery of oil production and exports remain slow, limiting government revenue. Collection of non-hydrocarbon revenue has been limited. Regular salary payments to public sector workers continue to experience recurring delays and uneven geographical coverage.

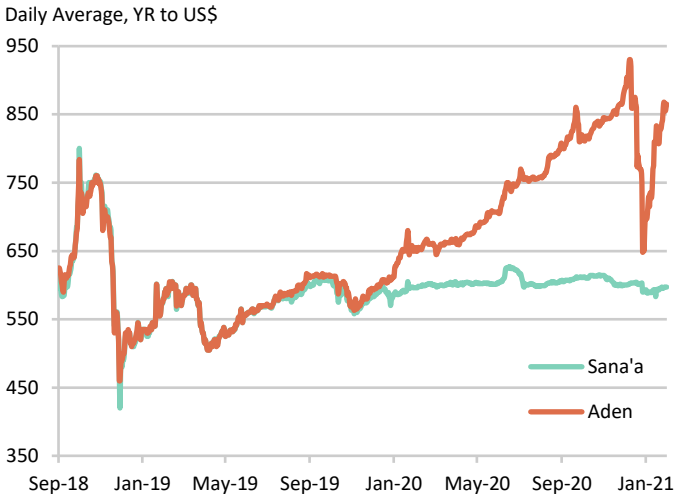
Accurate poverty projections are unable to be produced in the current environment. The latest national poverty rate was estimated using data prior to the conflict, and provides a difficult base from which to estimate how poverty has changed since given the profound impacts the conflict has had on the country. Any projection of poverty is imprecise without a more thorough, data-borne understanding of the significant changes to both inflation and economic activity and the effects of forced displacement. Even though poverty estimates cannot be produced, the welfare situation in the country is dire, where approximately 80 percent of respondents of a monthly mobile phone survey conducted by the WFP in 2020 had difficulty accessing either food or basic services.

The overarching socio-economic risks derive from fragility and conflict. Near-term macroeconomic risks are closely tied to improving external accounts. In the government-controlled areas, there is a difficult trade-off between salary payments and macroeconomic stability, in the absence of other financing sources besides monetary expansion. In the non-government controlled areas, the private sector faces enormous challenges due to an arbitrary and sometimes coercive business environment and numerous interruptions to the inflow of commercial imports. Fragmentation of institutional capacity and the lack of policy coordination risks deepening the divisions in the financial sector and further aggravation of market distortions (e.g., smuggling and arbitrage of goods and currency).

Recent developments

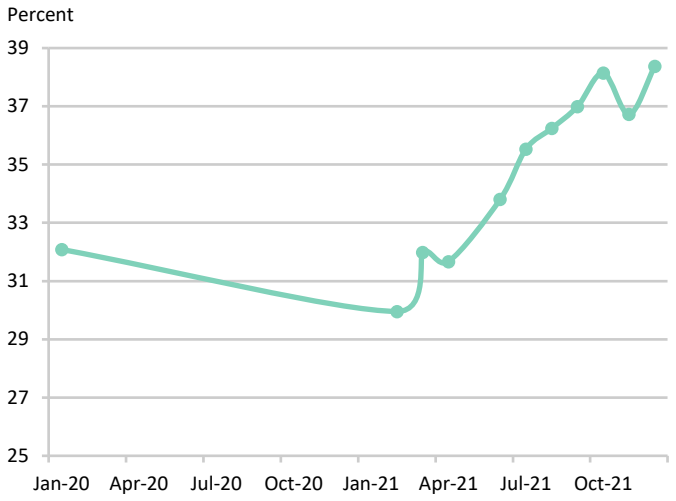
The economy contracted sharply from an already low base. The oil sector—the only large export earner—was hard-hit by low global oil prices. Non-oil economic activity

FIGURE 1 Republic of Yemen / Parallel market exchange rate



Sources: World Bank staff estimates.

FIGURE 2 Republic of Yemen / Share of respondents with poor food access



Sources: WFP Mobile Vulnerability Analysis and Mapping Survey.

suffered significantly from COVID-19 related trade slowdown and exceptionally heavy rainfalls, which caused intense flooding, damage and loss of life. Foreign exchange shortages deepened further with the near depletion of Saudi Arabia's basic import finance facility, reduced oil revenues, and downsizing of humanitarian assistance.

Inflation has accelerated quickly in 2020. The weakening of the rial played a major role; other factors such as COVID-19 related disruptions, insecurity, trade restrictions and associated fuel shortages have also influenced price dynamics. The national average cost of the Minimum/ Survivable Food Basket increased by 4 percent in December 2020 (m-o-m) and by 30 percent (y-o-y). Hodeidah port, a major port of entry for much of the country, showed a 6 percent volume reduction of imported food products during 2020, especially flour (30 percent decline) and wheat (20 percent decline). Fuel shortages also contribute to domestic price increases and disruptions in basic services delivery. The total volume of discharged diesel and gasoline imported through Hodeidah have declined by an estimated 34-40 percent in 2020. The divergence in cash exchange rates between Sana'a and Aden have widened in early 2021 reaching nearly YR 268 (approximately 45 percent more depreciated in Aden) at the end of the January 2021. The divergence between exchange rates, and tightening of exchange controls and payment networks on both sides have increasingly fragmented local financial markets, impeding domestic transfer services. The cost of financial transfers through commercial banks and exchange bureaus from new to old banknotes saw a gradual increase in recent months and associated fees reached more than 40 percent at end-January 2021, all eroding the value of remittances. While no recent remittance data is available, global evidence is that formal channel remittances have held up well.

In addition to the decreasing purchasing power, the humanitarian response supporting households through years of conflict was significantly scaled back during 2020. Projections between January and June 2021 from the latest Integrated Food Insecurity Phase Classification (IPC) released in December 2020 suggest that 16.2 million people are expected to fact high levels of acute food insecurity, and UN OCHA is warning of a potential famine in 2021 if humanitarian assistance is not increased.

Initially during 2020, households were able to maintain their food access at the start of the pandemic. However, as food prices in the government-controlled areas and fuel prices in the non-government areas surged, households increasingly struggled to maintain adequate access to food. By the end of 2020, approximately 40 percent of households reported having either poor or borderline consumption, and the trend is getting worse.

Outlook

Economic and social prospects in 2021 and beyond are highly uncertain. A gradual recovery of global oil prices with increasing national production and export capacity, would help ease the strain on public finances in the government-controlled areas; means to support the government in payment of civil salaries would also reduce the recourse to central bank financing. Urgent progress to implement past agreements concerning access to supplies and fuel imports through Hodeidah would improve prices and access to food, the provision of public services and the operational environment for humanitarian operations. A cessation of hostilities and eventual political reconciliation remain prerequisites for the reconstruction of the economy and rebuilding of social fabric.

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

	2018 e	2019 e	2020 f
Real GDP growth, at constant market prices	0.8	2.1	-5.0
Inflation (Consumer Price Index)	27.6	10.0	26.4
Current Account Balance (% of GDP)	-2.0	-3.9	-2.4
Fiscal Balance, cash basis (% of GDP)	-8.0	-5.5	-9.6

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

Macro Poverty Outlook

04/
2021

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