Middle East and North Africa

Macro Poverty Outlook

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

Spring Meetings 2023

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Middle East and North Africa

Spring Meetings 2023

Algeria
Bahrain
Djibouti
Egypt, Arab Republic
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Lebanon
Libya
Morocco
Oman
Palestinian Territories
Qatar
Saudi Arabia
Syrian Arab Republic
Tunisia
United Arab Emirates
Yemen, Republic

ALGERIA

Table 1	2022
Population, million	44.9
GDP, current US$ billion	191.9
GDP per capita, current US$	4274.1
National poverty rate[a]	5.5
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	4.0
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	111.3
Life expectancy at birth, years[b]	74.5
Total GHG emissions (mtCO2e)	284.0

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

Algeria's economy continued rebounding from the 2020 recession triggered by COVID-19. The country's external and fiscal balances improved markedly in 2022, as hydrocarbon production and exports picked up steam before this trend reversed in late 2022. The fiscal windfall financed an increase in public spending and some build-up of international reserves. The implementation of reforms supportive of private sector expansion and the improvement of the macroeconomic policy framework will be key to achieve economic diversification and sustainable growth.

Key conditions and challenges

Europe's shift away from Russian energy supply is generating opportunities for investment in the Algerian oil and gas sector, just as the 2019 Hydrocarbon Law aimed to reinforce the sector's attractiveness to foreign investment. However, more private investment outside the hydrocarbon sector is needed to foster faster, inclusive, and sustainable growth.

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

As a result, large twin deficits have eroded the country's reserves and strained the domestic banking sector. Since 2016 the current account and overall budget deficits have averaged 11 percent and 10 percent of GDP, respectively, leading to a marked decline in international reserves, currency depreciation, import reduction policies, as well as debt monetization. Real public spending stagnated, and GDP growth slowed down to 1.1 percent in 2017-2019, causing GDP per capita (in PPP terms) to decline to its 2014 levels. Nonetheless, non-monetary poverty dropped between 2013 and 2019, amid improvements in education, health, and living standards, while inflation fell to reach 2.2 percent in 2019-2020.

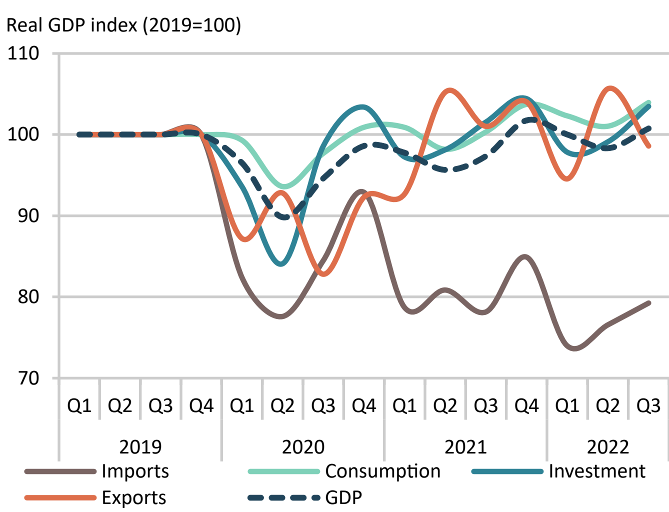
In 2021, a strong recovery in hydrocarbon output helped the economy rebound from the COVID-19-induced recession but inflation picked up, fueled by domestic and international factors.

The September 2021 Government Action Plan (GAP) makes the transition to a private sector-led growth and job creation model a developmental priority and aims to strengthen the macroeconomic framework through spending rationalization and import substitution. Since the GAP's publication, authorities implemented policies to encourage foreign and domestic investment, including the adoption of the Investment Law. Continued reform implementation, notably to improve the business environment, will be key to foster growth in the nonhydrocarbon private sector.

Recent developments

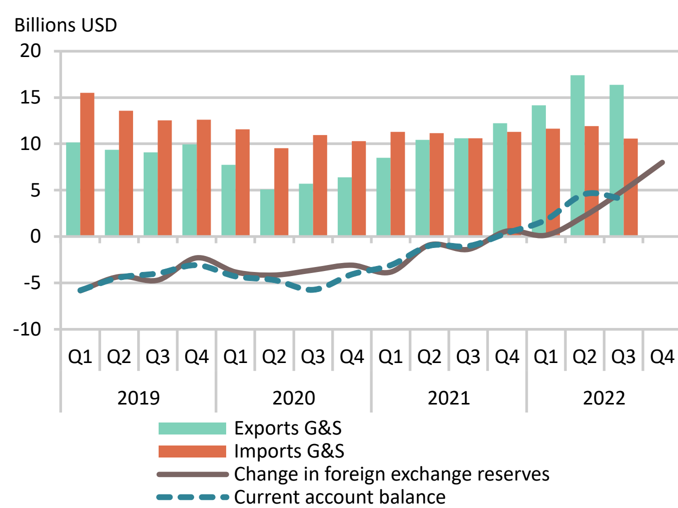
GDP growth moderated over the first 9 months of 2022 (+2.9 percent y-o-y), dragged by the decline in crude oil and natural gas production from their post-COVID peak. Over that period, nonhydrocarbon GDP growth accelerated (+3.7 percent y-o-y), supported by private consumption and declining import volumes, suggesting some degree of import substitution. On the production side, the performance of nonhydrocarbon activity was supported by a rebound in output in

FIGURE 1 Algeria / Real GDP and components, level indexes



Sources: Algerian authorities and World Bank staff estimates.

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



Sources: Algerian authorities and World Bank staff estimates.

agriculture as well as consumer-oriented manufacturing and services sectors.

The current account deteriorated in Q3-2022, despite a 10-year peak in Q2, as hydrocarbon exports revenues tracked oil prices and declined more markedly than imports. Nonetheless, the current account is expected to have reached a 5.9 percent of GDP surplus in 2022. Despite subdued domestic investment and stricter import policies, merchandise imports rose by 7.4 percent in 2022, as rising global commodity prices inflated food, raw, and intermediate product imports. External surpluses and a valuation effect led reserves to rise by US$ 15.7 billion, to 61.7 billion at end-2022, or about 16.3 months of imports of goods and services.

The overall budget deficit is expected to have drastically shrunk from 7.2 percent of GDP in 2021 to 0.9 percent in 2022, having been driven by rising tax and hydrocarbon revenues and despite higher public sector wages, the higher cost of the new unemployment benefit scheme, and larger food subsidies. Public debt is estimated to have declined to 51.8 percent of GDP at end-2022, reflecting nominal GDP's expansion, and it has remained overwhelmingly domestically held, at long-term maturities and negative real interest rates.

Monetary policy remained accommodative and broad money increased rapidly in 2022. However, private sector credit growth remained subdued, with new credit having been channeled mostly to Government securities as part of a large state-owned enterprise debt buyback program. Despite moderating in Q4, inflation reached 9.3 percent in 2022, fueled by food inflation, hurting vulnerable Algerians disproportionately, as food accounts for over half of the spending for the bottom 40 percent of the population.

Outlook

GDP growth is expected to moderate in 2023, as hydrocarbon production stabilizes and nonhydrocarbon GDP slows down, amidst tapering agricultural and services growth. Investment is expected to rebound in 2023 while net exports are predicted to act as a drag on growth. In 2024 and 2025, the economy is expected to return to its pre-pandemic trajectory, with a moderate decline in hydrocarbon output and slower growth in nonhydrocarbon sectors.

In 2023, the current account balance is expected to post a moderate surplus, as the sharp decline in hydrocarbon and nonhydrocarbon export prices is partly cushioned by lower commodity import prices and continued import reduction. The overall budget deficit is expected to come close to balance in 2022 but expand in 2023, as further increases in public spending and declining hydrocarbon revenues outweigh expanding tax receipts, buoyed by economic activity and inflation. Despite diminishing hydrocarbon revenues in 2024 and 2025, sustained import control policies and a slowdown in public spending would counterbalance the deterioration in the current account and budget deficits, respectively. Inflation is expected to decline gradually, fueled by rising money supply and public spending but dampened by the dinar's recent appreciation against the Euro, the expected dwindling in import prices, and the strengthening of food subsidy mechanisms.

The trajectory in external and budget balances remains dependent on volatile global oil prices, while a global slowdown could affect OPEC production quotas. Meanwhile, financing large budget deficits through the domestic banking sector and maintaining import reduction policies could increasingly weigh on growth and inflation. Europe's efforts to diversify its energy supply could support hydrocarbon sector investment in Algeria and medium-term growth. At the same time, fostering sustainable and diversified growth – and ultimately job creation – will hinge on ambitious and decisive structural reforms for broader private sector participation in the economy.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-5.1	3.4	3.1	2.0	2.0	1.8
Private Consumption	-3.0	3.7	2.8	2.4	2.2	2.0
Government Consumption	-0.1	1.2	2.1	2.0	2.0	1.9
Gross Fixed Capital Investment	-5.2	5.8	1.4	3.7	3.3	3.1
Exports, Goods and Services	-11.3	13.4	0.0	-2.9	-2.3	-2.5
Imports, Goods and Services	-16.0	-4.1	-3.3	1.8	1.5	1.3
Real GDP growth, at constant factor prices	-4.5	4.0	3.1	2.0	2.0	1.8
Agriculture	1.7	-1.9	4.0	1.9	1.9	1.7
Industry	-6.8	7.7	1.7	0.8	0.9	0.8
Services	-4.3	2.7	4.1	3.0	3.0	2.8
Inflation (Consumer Price Index)	2.4	7.2	9.3	7.8	6.9	6.1
Current Account Balance (% of GDP)	-12.8	-2.9	5.9	1.2	-0.5	-1.8
Fiscal Balance (% of GDP)	-11.9	-7.2	-0.9	-5.2	-6.3	-6.9
Revenues (% of GDP)	30.5	29.8	32.5	29.5	27.3	25.8
Debt (% of GDP)	51.8	62.9	51.8	54.2	56.1	59.3
Primary Balance (% of GDP)	-11.0	-6.5	0.4	-4.0	-5.1	-5.6
GHG emissions growth (mtCO2e)	-2.7	-0.9	4.4	3.1	2.5	2.6
Energy related GHG emissions (% of total)	49.8	49.1	50.4	51.1	51.5	52.0

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

BAHRAIN

Table 1	2022
Population, million	1.5
GDP, current US$ billion	44.2
GDP per capita, current US$	30029.8
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	79.2
Total GHG emissions (mtCO2e)	54.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2019); Life expectancy (2020).

Economic growth is accelerating driven by both a continued robust non-hydrocarbon activity and hydrocarbon production expansion. Higher oil prices and renewed fiscal reforms momentum are improving fiscal and external balances considerably. Steadfast implementation of comprehensive fiscal and structural reforms under the FBP will reduce debt vulnerabilities and rebuild fiscal buffers. Potential emergence of new COVID-19 variants, volatility of hydrocarbon prices and weaker global demand, potential delays in the implementation of fiscal reforms, and rising global inflation and interest rate pose significant risks to Bahrain's economic outlook.

Key conditions and challenges

Bahrain's economy is the most diversified in the GCC region with strengths in heavy industry (including the world's largest aluminum smelter), financial services, manufacturing, retail business, and tourism. As such, the non-oil sector dominated, at over 85 percent of GDP (2021). Renewed fiscal reform momentum under the revised Fiscal Balance Program (FBP) announced in October 2021 and high hydrocarbon prices are mitigating Bahrain's fiscal and external vulnerabilities. In January 2023, Bahrain's government endorsed a new four-year program 2023-26, which prioritizes several objectives that aim to raise the standard of living, improve infrastructure and quality of government services, and attain digital transformation, among others.

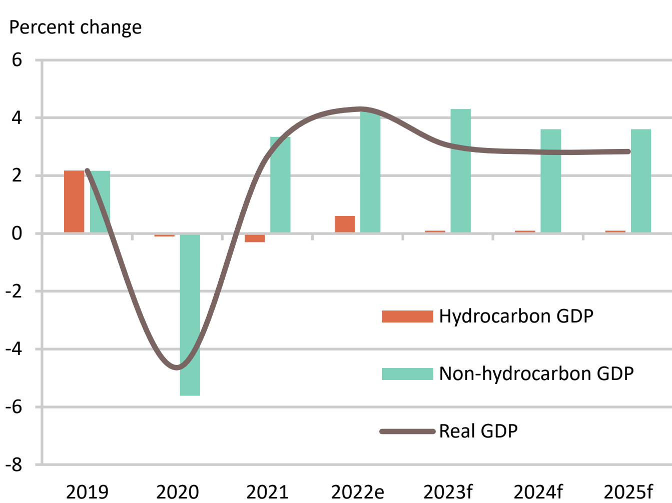
However, challenges remain. Notwithstanding progress on diversification, Bahrain continues to face structural challenges, most notably those relating to fiscal sustainability, the level of youth unemployment, and the depletion of underground water resources. Meanwhile, the hydrocarbon sector remains a critical driver of the economy accounting for almost 60 percent of total budget revenues (2021), thereby making the economy extremely vulnerable to external shocks. Lower energy and commodities prices could renew financing challenges. Downside risks to the outlook are mostly linked to a breakout of new COVID-19 variants, lower hydrocarbon prices, and potential delays in implementing fiscal reforms, which could reverse the recent improvements in the fiscal and external positions, reduce investor confidence, and lead to higher external financing costs. On the upside, adherence to the medium-term fiscal adjustment and reducing the fiscal risks from off-budget expenditures will help build external buffers, contain external borrowing, and put debt on a firm downward path.

Advancing structural reforms including those related to investing in renewable energy and supporting the transition towards a low-carbon economy would ensure a private sector-led inclusive recovery and increase employment opportunities, particularly among women and youth.

Recent developments

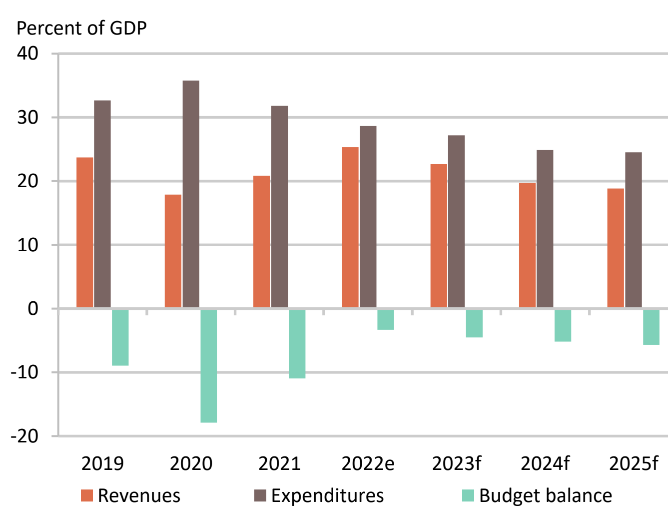
Bahrain's economy continues to show broad-based recovery. Real GDP is estimated to have edged up to 4.3 percent in 2022. This was mainly driven by the non-hydrocarbon sector which grew by almost 5 percent in Q3 2022 y/y as well as 1.2 percent growth in the hydrocarbon sector. The recovery was underpinned by strong performance of the high-contact sectors, of which hotels and restaurants achieved the highest growth rate amongst non-oil sectors (14.7 percent). This was also aided by strong manufacturing sector which expanded by 5 percent with record aluminum output. CPI inflation increased

FIGURE 1 Bahrain / Real annual GDP growth



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

FIGURE 2 Bahrain / General government operations



Sources: Bahrain authorities and World Bank projections.

by 3.6 percent y/y in 2022 driven by stronger aggregate demand, pass through from higher global inflation, and doubling of the VAT rate to 10 percent.

Preliminary fiscal data released for 2022 indicate that the government's total revenues increased by 33 percent y/y supported by higher oil receipts (36 percent) and the rebound of non-oil revenue (28 percent); driven mainly by the doubling of the VAT rate. As a result, and considering prudent management of recurrent spending, the overall fiscal deficit (including extrabudgetary spending) is estimated to significantly decline, to 3.3 percent of GDP, by the end-2022 which, in turn, improves debt dynamics.

Despite the rebound in imports, higher hydrocarbon, and non-hydrocarbon prices and exports strengthened the external balance position remarkably, posting a surplus of US$1.6 billion during Q3 2022, and an estimated surplus in excess of 12 percent of GDP for the whole year. As a result, official reserve assets reached a record high of over US$8 billion (4 months of imports) by end-2022.

In the second year of the National Labor Market Plan (NLMP) 2021-2023, the Ministry of Labor continued to pursue goals of private sector job creation and support for employees and job seekers. The Ministry has also continued efforts to ensure compliance with labor legislation and increase occupational safety, and awareness-raising workshops. About 29,995 Bahrainis found employment in the private sector in 2022, reaching almost 150 percent of the NLMP employment goal for that year.

According to ILO estimates, Bahrain's labor market is continuing to recover from the impact of the COVID-19 pandemic but has not yet rebounded fully. The labor force participation rate and employment-to-population ratio are projected to reach 71.9 percent and 70.8 percent respectively in 2023, each still a little below its level in 2019. The unemployment rate is expected to hold steady at around 1.4 percent in 2023, 0.2 percentage points above the 2019 rate. The gradual decline in the unemployment rate since the height of the pandemic has been slower among women than among men, with the unemployment rate among women expected to increase slightly again in 2023. The unemployment rate for youth (15-24 age) is estimated at 6.7 percent in 2023, up from 6.6 percent in 2022 (ILO).

Outlook

Bahrain's economic outlook hangs on oil market prospects and accelerated implementation of structural reforms agenda under the revised FBP. Growth is projected to moderate around 3.1 percent in 2023 before averaging 2.8 percent during 2024-25 as fiscal adjustments continue. Growth in the hydrocarbon sector is expected to slow down to 0.1 percent in 2023 while the non-hydrocarbon sectors will continue expanding (by 4.3 percent) supported by the recovery in the tourism and service sectors and the continuation of infrastructure projects. Inflation is anticipated to hover around 2.8 percent in 2023 to reflect softening global commodity prices, tighter monetary conditions, and the dissipating impact of doubling the VAT rate.

Declining oil prices, rising global interest rates, and higher cost burden of debt are projected to widen the fiscal balance deficit to 4.5 and 5.2 percent of GDP in 2023 and 2024, respectively. This will in turn keep the debt and financing needs elevated in the absence of sufficient fiscal adjustment.

High hydrocarbon prices are estimated to support maintaining the current accounts in surplus throughout 2023-24, albeit moderating in 2025, as oil prices follow a projected decline. The comfortable external position will boost foreign reserves and strengthens resilience against future external shocks.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.6	2.7	4.3	3.1	2.8	2.8
Private Consumption	-4.4	18.9	4.4	2.4	1.8	1.8
Government Consumption	-2.5	6.5	2.4	3.4	3.0	2.6
Gross Fixed Capital Investment	-3.8	-4.2	5.3	5.5	2.8	3.2
Exports, Goods and Services	-2.5	29.5	7.3	5.1	3.4	3.2
Imports, Goods and Services	-0.7	15.2	6.0	4.4	3.8	4.0
Real GDP growth, at constant factor prices	-4.6	2.7	4.3	3.1	2.8	2.8
Agriculture	0.1	7.2	1.2	3.5	3.0	1.8
Industry	-0.9	0.5	0.6	3.5	4.0	2.3
Services	-7.2	4.3	7.2	2.8	2.0	3.2
Inflation (Consumer Price Index)	-2.3	-0.6	3.6	2.8	2.4	2.0
Current Account Balance (% of GDP)	-9.4	6.7	12.5	8.0	5.4	3.5
Net Foreign Direct Investment Inflow (% of GDP)	-3.5	-4.4	-4.0	-4.0	-4.0	-3.9
Fiscal Balance (% of GDP)	-17.9	-11.0	-3.3	-4.5	-5.2	-5.7
Revenues (% of GDP)	17.9	20.8	25.3	22.7	19.7	18.8
Primary Balance (% of GDP)	-12.8	-6.3	1.2	-0.2	-0.5	-0.6
GHG emissions growth (mtCO2e)	3.4	-4.5	0.9	6.2	3.9	2.9
Energy related GHG emissions (% of total)	61.1	58.6	58.4	60.0	60.6	60.7

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

DJIBOUTI

Table 1	2022
Population, million	1.0
GDP, current US$ billion	3.5
GDP per capita, current US$	3470.0
International poverty rate ($2.15)[a]	19.1
Lower middle-income poverty rate ($3.65)[a]	43.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.2
Life expectancy at birth, years[b]	62.7
Total GHG emissions (mtCO2e)	1.4

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

Economic activity in Djibouti remains resilient while soaring global prices associated with Russia's invasion of Ukraine, combined with regional tensions and severe drought in the Horn of Africa, translate into more conservative growth estimates for 2022 at 3 percent. The outlook remains positive thanks to the lasting peace prospect in Ethiopia. Poverty, projected to stand at 15.6 percent in 2023 (at the international poverty line), is expected to follow a downward trend, reflecting sustained economic expansion.

Key conditions and challenges

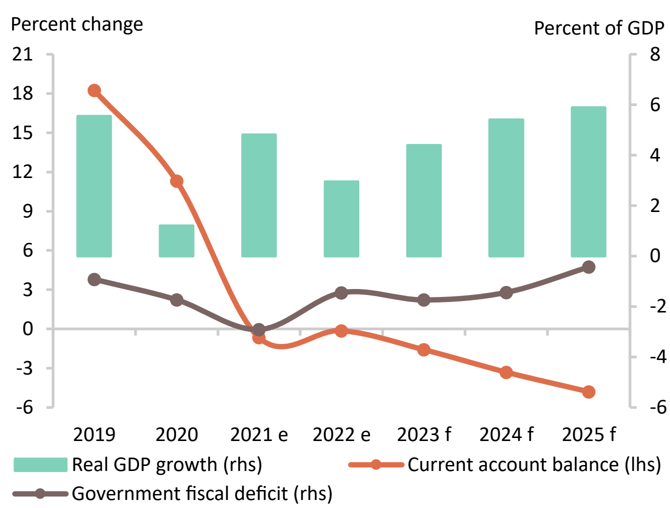
Djibouti's ambition to leverage its geostrategic location to turn a small and resource-constrained economy into a fast-growing transport and logistics regional hub faces a number of challenges. Continued commitment by country authorities to fiscal prudence will be critical. This will include monitoring and rationalizing tax expenditure, as well as avoiding large fiscal gaps that would result in further accumulation of public debt. Shocks in the global transport and logistics value chains, especially those related to port-related public enterprises, also represent a source of risk. Climatic changes, including drought and floods, also pose an increasing threat to households and businesses, which may be disproportionally felt in poorer regions of the country. Poverty rates, which stood at 19 percent in 2017 at the international poverty line, are estimated to have decreased at a slower rate in recent years to around 15.6 percent in 2023, reflecting the COVID-19 effects as well as the economic and social impact of regional instability and accelerating commodity prices up to 2022.

Recent developments

After recovering in 2021, Djibouti's economic activity decelerated in 2022, due to logistical tensions associated with Russia's invasion of Ukraine, subdued Ethiopian demand, and worsening drought in the Horn of Africa – which also contributed to a sharp uptick in food and energy prices. Real GDP growth is estimated to have fallen to 3 percent from 4.8 percent in 2021. Year-on-year inflation reached 6.1 percent, mainly due to higher world commodity prices and to disruptions in the Ethiopian food supply chain.

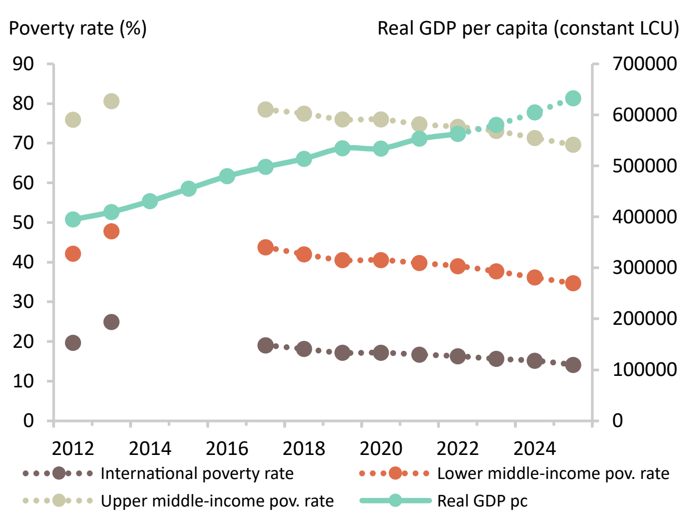
On the fiscal side, the budget has been under pressure because of rising food and energy subsidies and other fiscal measures to mitigate negative effects of the war in Ukraine, worsening drought, and the sharp increase in debt service in 2022. Domestic revenue fell by 1.6 percent of GDP to about 18.5 percent of GDP in 2022. Also, the loss of revenues associated with the tax incentives on refined oil products was estimated at 1.1 percent of GDP in December 2022. The government responded with fiscal tightening, including eliminating exceptional expenditure linked to the COVID 19 crisis and freezing most expenditure items. These measures partially compensated for the decline in revenue, containing the budget deficit (commitment basis) at 1.5 percent of GDP. At the same time, public debt service has tripled to around 4 percent of GDP in 2022, to which the government responded with external arrears accumulation. As a result, Djibouti's stock of public debt external arrears is estimated to have exceeded 3 percent of GDP in 2022. Arrears were mainly accumulated

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



Sources: Government of Djibouti and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

on the railway and water pipeline loans financed by China, and on the cement factory loan financed by India.

The external accounts performed well during 2022, as the current account balance is estimated to have closed the year with a slight deficit of 0.1 percent of GDP, and the foreign reserve coverage ratio of the money supply under the currency board remained comfortable at 106 percent, while gross official reserves reached 3.9 months of imports. The banking sector remains stable, despite some deterioration of the liquid assets-to-total assets ratio (from 63.7 percent in December 2020 to 50.2 percent in June 2022, which could limit the banking sector's ability to face future shocks). Nonperforming loans as a share of total gross loans declined from 13.3 percent in 2020 to 7 percent at the end of June 2022.

Outlook

Djibouti's economy is projected to accelerate gradually over the medium term. The Ethiopian demand for transport and logistics services is expected to take up steam following the peace agreement signed in November 2022 between the Tigrayan People's Liberation Front and the Ethiopian Federal government. Locally, the development of the Damerjog Industrial Park Project and infrastructure programs to be undertaken as part of the implementation of the National Development Plan (NDP) would push Gross Fixed Capital Investment upward. Decelerating energy and food price inflation in 2023 should provide a lift to households' real income and boost private consumption. GDP growth is, therefore, projected to accelerate to 4.4 percent in 2023 then to 5.4 percent in 2024, and to 5.9 percent in 2025. Critical fiscal consolidation measures, including the reprioritization of central government investment spending, the freeze on new civil service recruitment, and improvements in fiscal management and tax administration and collection, should help gradually reduce the budget deficit, which is expected to drop to 0.4 percent of GDP by 2025. It is projected that 15.6 percent of the population would continue living under the international poverty line in 2023 and that this rate would decrease to 15.2 percent and 14.2 percent respectively in 2024 and 2025. While poverty rates are expected to continue moving on a downward trend, they are susceptible to shocks related to fiscal constraints, weaker growth, climate change, and uncertainty surrounding global food prices.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	1.2	4.8	3.0	4.4	5.4	5.9
Private Consumption	10.2	7.0	0.9	2.0	3.2	3.5
Government Consumption	1.6	-7.0	-10.6	3.4	2.8	1.0
Gross Fixed Capital Investment	1.0	3.5	3.5	8.8	7.6	6.8
Exports, Goods and Services	-29.7	3.0	9.4	5.4	5.0	5.5
Imports, Goods and Services	-29.5	3.0	7.0	6.0	5.0	4.8
Real GDP growth, at constant factor prices	2.0	4.8	3.0	4.4	5.4	5.9
Agriculture	11.5	11.4	1.2	3.2	4.8	5.4
Industry	-4.4	9.9	1.8	6.1	6.2	6.3
Services	3.1	3.7	3.3	4.1	5.3	5.8
Inflation (Consumer Price Index)	1.0	1.5	5.1	3.3	0.8	0.4
Current Account Balance (% of GDP)	11.3	-0.7	-0.1	-1.6	-3.3	-4.8
Fiscal Balance (% of GDP)	-1.7	-2.9	-1.5	-1.7	-1.4	-0.4
Revenues (% of GDP)	23.5	20.1	18.5	18.7	18.6	18.6
Debt (% of GDP)	75.9	74.1	71.8	72.3	73.7	73.7
Primary Balance (% of GDP)	-1.6	-2.8	-0.6	-0.8	-0.6	-0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	17.2	16.7	16.3	15.6	15.2	14.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	40.6	39.8	39.0	37.7	36.2	34.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	76.0	74.8	74.1	73.1	71.3	69.6
GHG emissions growth (mtCO2e)	-0.1	0.9	0.7	0.8	0.8	0.6
Energy related GHG emissions (% of total)	25.3	25.4	25.5	25.7	25.9	26.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

ARAB REPUBLIC OF EGYPT

Table 1	2022
Population, million	103.4
GDP, current US$ billion	476.7
GDP per capita, current US$	4610.7
Lower middle-income poverty rate ($3.65)[a]	17.6
National poverty rate[a]	29.7
Gini index[a]	31.9
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.0
Total GHG emissions (mtCO2e)	361.5

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

Inflation is eroding incomes and constraining business activity. Growth is expected to decline to 4.0 percent in FY23 from 6.6 percent in FY22. Improvements in reserves reflect increases in tourism, Suez Canal revenues, and foreign financing. Yet, hard currency shortages persist. Reforms to boost investment, exports and FDI remain crucial for competitiveness. Further, fiscal consolidation to reduce vulnerabilities and create space for social protection and advanced human development is key for better socio-economic outcomes.

Key conditions and challenges

One year through Russia's invasion of Ukraine and tightening global financial conditions, Egypt continues to face a foreign currency crunch, a spike in domestic prices, and a sharp rise in borrowing costs. While triggered by the overlapping global shocks, Egypt's macroeconomic imbalances reflect pre-existing vulnerabilities, including the sluggish foreign income-earning activities (non-oil exports and FDI) and risks associated with government debt.

A significant share of the Egyptian population is poor (29.7 percent in 2019/20, the latest official estimates). The pandemic, followed by high inflation in 2022 and 2023, are expected to have increased poverty rates further. Meanwhile, recent labor market trends are not conducive to poverty reduction. Employment and labor force participation rates continue to be low at 39.5 percent and 42.7 percent of the working-age population, respectively as of Q1-FY23, with bigger challenges for youth and women in the labor force. Moreover, the fiscal space needed to advance human and physical capital for the (largely youthful) population of above 104 million remains constrained by below-potential revenue mobilization (with tax revenues at 12.6 percent of GDP in FY22), more than half of which is directed to covering budgetary interest payments

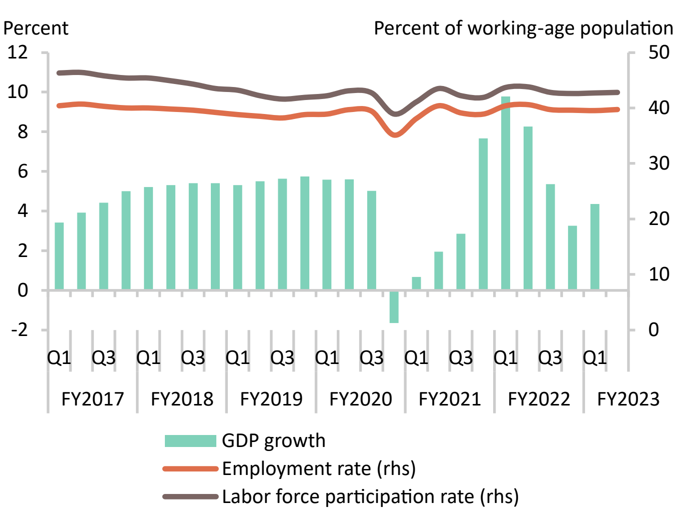
In response to the concurrent shocks, the authorities undertook a series of policy adjustments. These include raising key policy rates by 800 basis points, allowing the exchange rate to depreciate by more than 95 percent since March 2022, and introducing social mitigation measures (including increases to pensions, food subsidies and expansion in the coverage and allocations of the Takaful and Karama programs) to partially shield the vulnerable. The 46-month IMF Extended Fund Facility is expected to support the gradual restoration of macroeconomic stability and to underpin structural reforms, including those outlined in the State Ownership Policy to enhance competitive neutrality for improved private sector participation.

Recent developments

Following the rebound in early FY22, economic activity has been adversely impacted by the overlapping global shocks and domestic supply bottlenecks. While remaining broad-based, with positive contributions from all sectors (except gas extractives), Egypt's real GDP growth declined to 4.2 percent during H1-FY23, from 9.1 percent during the same period last year.

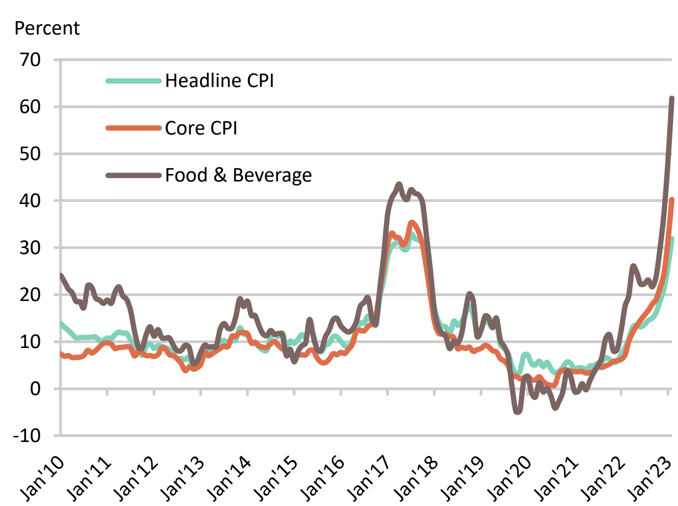
Urban inflation (in double-digits since March 2022) shot up to a 5-year high of 31.9 percent in February 2023; and core inflation jumped to 40.3 percent, exceeding the peak reached during the 2017 inflation episode. Food items (61.8 percent inflation) constitute more than 44 percent

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



Source: World Bank estimates based on CAPMAS and Ministry of Planning and Economic Development.

FIGURE 2 Arab Republic of Egypt / Inflation rates



Source: CBE.

of the expenditures for the bottom quintile and remain the main driver of inflation. While cost-push factors have been contributing to the inflationary wave, domestic liquidity conditions continue to be loose, with credit extended to the government's continuing to be the key driver of domestic credit growth.

Official reserves (Tier 1 reserves) and other foreign currency assets (Tier 2 reserves) increased gradually over recent months, jointly reaching US$40.2 billion at end-February 2023. These, however, remain around US$14 billion (26 percent) below their level a year earlier. While Balance of Payments outturns indicate that improvements in the services balance (tourism and the Suez Canal), along with FDI (from sales of assets to non-residents) have supported the recent uptick in reserves, hard currency supply remains a key challenge. This is evidenced by the banking system's net foreign assets position [-LE654.43 billion (US$21.7 billion) at end-January 2023] which has been deteriorating even prior to the escalation of the war in Ukraine, as the banking system has been liquidating foreign assets amidst the crunch. The CBE is gradually dismantling restrictions on imports (e.g., letter of credit requirement), but other restrictions remain, and lingering import backlogs at ports are yet to be cleared.

Outlook

Growth is expected to decline to 4.0 percent in FY23 from 6.6 percent a year earlier, as households' purchasing power and firms' activity are constrained by higher costs because of the depreciation, imported inflation, upward adjustments in fuel prices, and monetary tightening. Going forward, growth is projected to increase to 4.7 percent in FY25, benefitting from favorable base effects, and the narrowing net exports deficit.

The current account deficit is forecast to decline from 3.5 percent of GDP in FY22, albeit marginally, as improvements in tourism, Suez Canal, and export proceeds are expected to be counterbalanced by the still-elevated imports costs, downtick in remittances, and as import backlogs/suppliers' credits are paid down. The capital and financial account is expected to remain under pressure, with some mitigation arising from international financing and asset sales to non-residents. The US$1.5 billion Sukuk issued provided some relief for external debt repayment during FY23, although its high interest burden may discourage further issuances before international financial conditions improve.

The budget deficit is projected to also widen, to 7 percent of GDP in FY23, from 6.2 percent a year earlier, as government purchases, subsidies, and interest payments are driven up by higher prices, mitigation measures, and monetary tightening. Fiscal pressures and the valuation effect from the depreciation will drive the debt-to-GDP to a projected 95.8 percent by end-FY23 from 88.3 percent a year earlier. Similar to other emerging markets, Egypt's outlook depends in large part on the containment of the repercussions of the war in Ukraine and developments in international financial markets. Risks stem from the inflation-depreciation dynamics and their implications for households' welfare on the one hand and for the fiscal/debt trajectory on the other hand. Over the medium term, more ambitious fiscal consolidation (through enhanced revenue mobilization and contained budgetary and extra-budgetary expenditures) would strengthen macroeconomic resilience, help narrow the large risk premia (as captured by sovereign spreads) and create fiscal space for advancing human development.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	3.6	3.3	6.6	4.0	4.0	4.7
Private Consumption	7.4	6.2	2.8	2.7	4.0	4.0
Government Consumption	7.9	3.4	4.9	1.7	5.3	3.6
Gross Fixed Capital Investment	-21.1	-3.2	18.5	7.1	3.3	10.2
Exports, Goods and Services	-23.7	-13.9	57.4	35.0	8.0	5.0
Imports, Goods and Services	-18.7	0.5	24.3	22.0	7.0	5.0
Real GDP growth, at constant factor prices	2.5	2.0	6.2	4.0	4.0	4.6
Agriculture	3.4	3.8	4.0	4.5	3.5	3.3
Industry	0.4	-1.0	6.6	2.4	5.1	6.3
Services	3.7	3.5	6.4	4.8	3.4	3.8
Inflation (Consumer Price Index)	5.7	4.5	8.5	18.9	15.0	10.0
Current Account Balance (% of GDP)	-2.9	-4.3	-3.5	-3.4	-3.0	-2.9
Net Foreign Direct Investment Inflow (% of GDP)	1.9	1.1	1.8	2.5	2.5	2.2
Fiscal Balance (% of GDP)	-7.5	-7.1	-6.2	-7.0	-6.9	-6.4
Revenues (% of GDP)	15.9	16.6	16.9	16.6	16.8	16.8
Debt (% of GDP)	82.8	87.9	88.3	95.8	95.2	89.6
Primary Balance (% of GDP)	1.7	1.4	1.3	1.6	1.9	2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.7	1.7	1.7	2.4	2.4	2.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	20.0	19.9	19.6	24.2	24.0	23.8
GHG emissions growth (mtCO2e)	1.3	-0.6	1.9	1.8	1.6	1.9
Energy related GHG emissions (% of total)	64.6	64.3	64.3	64.2	64.2	65.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2019-HIECS. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Poverty estimates for FY2020 and FY2023 are based on microsimulations.

IRAN, ISLAMIC REPUBLIC

Table 1	2022
Population, million	84.7
GDP, current US$ billion	407.4
GDP per capita, current US$	4809.4
Upper middle-income poverty rate ($6.85)[a]	27.6
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	74.8
Total GHG emissions (mtCO2e)	912.0

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

A combination of improving hydrocarbon sector outturns and growth in the non-oil sectors drives economic expansion in Iran. Water and electricity shortages, insufficient job creation, and high inflation pose chronic structural challenges that, together with socio-political grievances, have contributed to recent country-wide protests. Weaker global demand and ongoing economic sanctions present major headwinds to the outlook.

Key conditions and challenges

The Iranian economy is set to grow for a third consecutive year in 2022/23 (Iranian year starting on March 21), albeit at a slower pace than in 2021/22. However, structural challenges, including sluggish long-term growth, high inflation, and low employment, have added to other grievances which contributed to recent protests. Despite some diversification in the economy, Iran remains vulnerable to the volatility of oil markets, as the government's financial and external accounts continue to be heavily skewed on commodity exports and hydrocarbon derivatives.

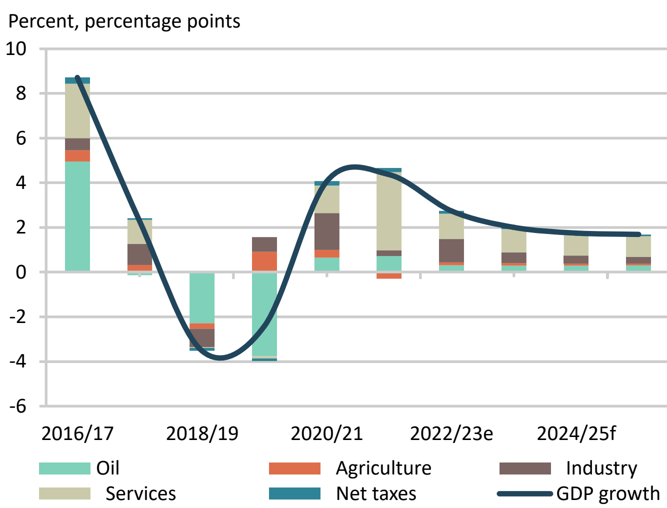
High inflation and inadequate job creation disproportionately impact lower-income households. Although external shocks, including sanctions, pushed average annual inflation to 40 percent in 2019-2023, inflation already hovered above 20 percent in the past four decades, which highlights structural challenges from persistent budget deficits and imbalances in the banking system. Such unabating inflationary pressure not only affected the level of domestic prices but also caused an erosion in the real value of social assistance transfers, thus making poorer households pay the heaviest toll. At the same time, just over a third of the population is employed due to anemic job creation. Even with a highly educated female population, only one out of ten Iranian women is employed. Iran's labor market challenges have been compounded by the increasing emigration of the highly educated workforce. Low employment and the resulting low pension contributions add to financial sustainability risks for the pension system in the longer term.

Urgent reforms are needed to confront pressing structural economic challenges on the monetary and fiscal fronts. Monetary policy should focus on restoring price and financial system stability and moving away from administrated lending and pricing. Counter-cyclical fiscal policy would help control budget deficits and promote investment in productive sectors, renewable energy, and economic diversification, while also freeing up much-needed resources to protect the most vulnerable through well-defined and targeted transfers.

Recent developments

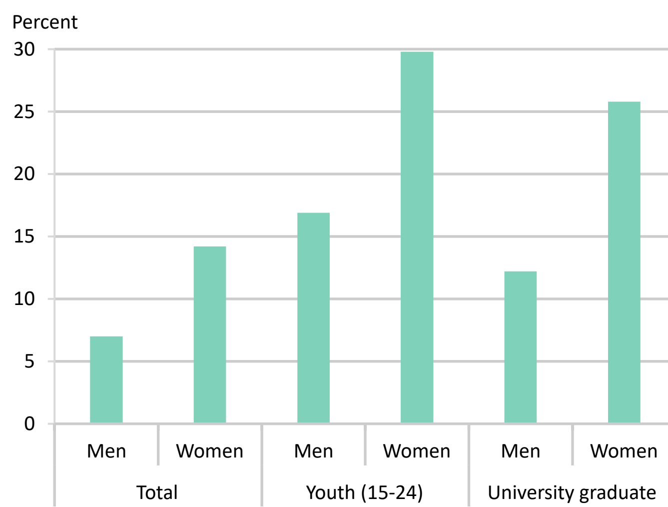
GDP grew by 3.5 percent year-on-year (y-o-y) in the first nine months of 2022/23 (9M-22/23), driven by services and manufacturing. The oil sector also grew by 9.3 percent (y-o-y), aided by favorable supply-and-demand adjustments in global oil markets. On the expenditure side, private consumption was the main driver of GDP growth, while investment growth was insufficient to fully compensate for the decline in the net capital stock in recent years. This economic expansion – coupled with some decline in labor force participation (still 3.3. percentage points

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



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

FIGURE 2 Islamic Republic of Iran / Unemployment rates, Q3-22/23



Sources: Statistical Center of Iran and World Bank staff calculations.

below pre-pandemic levels) – contributed to achieving a record low unemployment rate of 8.2 percent. Unemployment remains especially high among women, youth, and university graduates.

The fiscal balance remained negative in 2022/23, constrained by the under-realization of oil income. In response, the government cut capital expenditures to cover rising current expenditures, particularly on the front of the rising wage bill, pension expenditures, and transfers.

Inflation accelerated following new food import policies and the depreciation of the rial, in the context of rising inflationary expectations. In 10M-22/23, headline and core consumer price inflation rose to 43.6 percent and 42.5 percent, respectively. Food prices contributed to half of the total price index increase, driven by the elimination of the subsidized exchange rate for imports of most food items.Inflationary expectations following the stalemate in the nuclear talk led the rial to depreciate by over 56 percent (y-o-y) in the same period, fueling inflation further.

The surge in oil prices led the current account to register a surplus in H1-22/23. Exports grew by 40 percent (y-o-y) in nominal terms, thanks to both higher oil prices and export volumes, while imports grew by 21 percent (y-o-y) primarily supported by the reversal of previous import restrictions. This led to a current account surplus of US$13.4 billion (3.5 percent of GDP equivalent), which was however largely offset by a net capital account deficit of US$12.8 billion, reflecting a recent upward trend in capital outflows.

Outlook

GDP growth is projected to remain modest in the medium term. Declining oil prices, the intensification of US sanctions, and global economic uncertainty weigh down on oil growth in the medium term. Recent social tensions, industrial sector strikes, energy shortages, and internet disruptions are expected to negatively impact growth in 2022/23 and may have long-lasting effects on economic activity. Water shortages are expected to adversely impact both agricultural production and add to energy shortages, especially if critical investments and price reforms in the energy sector do not materialize.

Fiscal and external pressures are forecast to remain high. Expenditures in the 2023/24 budget bill are expected to grow more than revenues, resulting in a growing fiscal deficit. The government plans to rely on sales of assets, which however could only partially finance the gap. On the external side, the current account will be adversely impacted by lower exports due to declining oil prices. Restricted access to international reserves due to ongoing sanctions will continue to exert pressure on the exchange rate. These pressures along with inflationary expectations are projected to keep inflation elevated in the medium term. High inflation and limited job creation will negatively impact household welfare and could add to social grievances.

The economic outlook is subject to high risks. Downside risks include further intensification of climate change shocks leading to protracted disruptions to domestic production due to water and energy shortages, escalation of social tensions due to an inflation-depreciation spiral, in addition to heightened geopolitical tensions. An escalation of sanctions or restrictions would further disrupt trade and financial transactions with main trading partners, including China, Iraq, and UAE. A significant breakthrough or interim agreement in nuclear negotiations can lead to marked changes in the economic outlook.

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

	2020/21	2021/22	2022/23e	2023/24f	2024/25f	2025/26f
Real GDP growth, at constant market prices	3.3	4.7	2.7	2.0	1.8	1.7
Private Consumption	0.5	3.9	3.7	1.8	1.5	1.4
Government Consumption	-0.9	8.3	0.5	2.4	2.5	2.7
Gross Fixed Capital Investment	3.2	0.0	3.9	2.6	2.3	2.2
Exports, Goods and Services	-12.8	5.2	7.3	4.7	3.6	3.3
Imports, Goods and Services	-29.7	24.1	9.2	3.7	3.3	3.1
Real GDP growth, at constant factor prices	4.1	4.4	2.7	2.0	1.8	1.7
Agriculture	3.2	-2.6	1.4	1.2	1.0	1.0
Industry	7.8	3.2	4.4	2.5	2.0	1.9
Services	2.2	6.5	2.1	1.9	1.7	1.7
Inflation (Consumer Price Index)	47.1	46.2	46.1	49.1	44.3	40.4
Current Account Balance (% of GDP)	-0.3	3.5	3.8	3.1	2.3	2.0
Fiscal Balance (% of GDP)	-5.8	-2.0	-2.3	-2.5	-2.9	-3.2
Revenues (% of GDP)	7.3	11.1	11.4	10.8	10.3	10.0
Gross Public Debt (% of GDP)	39.2	42.4	38.0	38.5	39.0	40.0
Primary Balance (% of GDP)	-5.3	-1.6	-1.9	-2.1	-2.5	-2.8
GHG emissions growth (mtCO2e)	-2.4	2.4	2.1	1.6	1.5	1.5
Energy related GHG emissions (% of total)	66.2	66.6	66.2	65.8	65.3	64.8

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

REPUBLIC OF IRAQ

Table 1	2022
Population, million	42.2
GDP, current US$ billion	247.0
GDP per capita, current US$	5858.5
Lower middle-income poverty rate ($3.65)[a]	2.4
Upper middle-income poverty rate ($6.85)[a]	24.7
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	69.1
Total GHG emissions (mtCO2e)	259.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ Most recent WDI value (2020).

An oil-driven recovery in 2022 drove GDP to pre-pandemic levels and led to significant fiscal and current account surpluses. The recent exchange rate volatility has led to an uptick in inflation, piling pressure on poor and vulnerable households and young people who are already facing limited job opportunities. Growth is forecast to moderate in the medium term in line with weaker global demand and limited non-oil potential GDP.

Key conditions and challenges

Iraq's economy is continuing its recovery after the sharp, pandemic-induced recession in 2020. The rebound has been driven primarily by the capital-intensive oil sector, resulting in limited positive spillover on the labor market. On the other hand, non-oil growth is expected to remain moderate due to inefficient public investment, limited absorptive capacity of the economy, and an unfavorable business environment for the private sector.

In the context of institutional weakness, the drive for fiscal reforms to address budget rigidities and to mobilize non-oil revenues has slowed. After a yearlong political stalemate following parliamentary elections in 2021, the new government unveiled its economic and social plan in October 2022, prioritizing social protection, fighting corruption, and improving service delivery. Institutional challenges became more apparent when, in 2022, the budget was not approved, and full ratification of the budget for 2023 has experienced delays. The draft budget signals a significant expansionary fiscal stance that could lead to rapid depletion of recent oil windfall and renewed fiscal pressures.

The economy faces multiple, intertwined structural challenges. Pre-existing drivers of fragility, including high oil dependence, low labor force participation, especially females, high private sector informality, the lack of job opportunities, financial sector imbalances, poor service delivery, and security risks remain key challenges. External shocks including those related to the impact of climate change, slowing global growth, and heightened geopolitical tensions add to the downward risks.

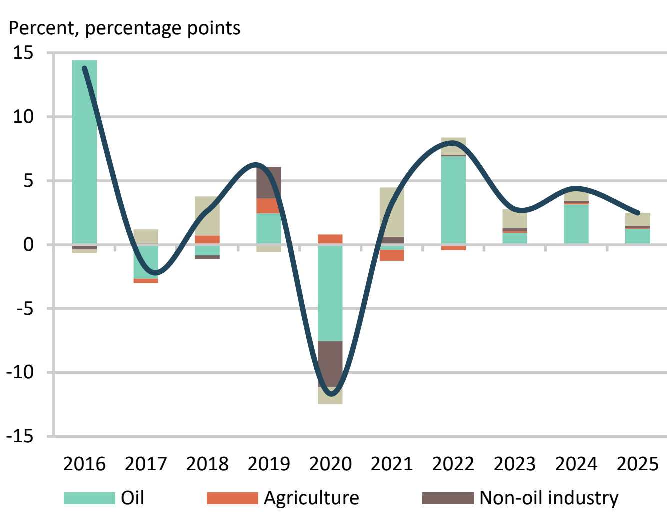
Recent developments

Iraq's economic rebound in 2022 was supported by the revival of the oil sector. GDP growth is estimated to have accelerated to 7.9 percent in 2022 following a 3.2 percent growth in 2021. Growth was driven by a tapering of OPEC+ production cuts in the first nine months of 2022 (9M-22), driving oil GDP up by 14 percent in 9M-22 year-on-year (y-o-y). Oil production was constrained again in Q4-22, as the new OPEC+ agreement extended production limits. Non-oil GDP grew by 1.5 percent y-o-y in 9M-22 led by the transport and construction sectors.

While inflationary pressures overall eased in 2022, the currency depreciation led to an isolated surge in prices in early 2023. Headline and core inflation declined to 5.0 and 4.3 percent in 2022, respectively as the pass-through of higher global commodity prices was muted by the passage of the Emergency Law for Food Security and Development. However, inflation surged in January 2023, following the depreciation of the dinar in the parallel market since November 2022.

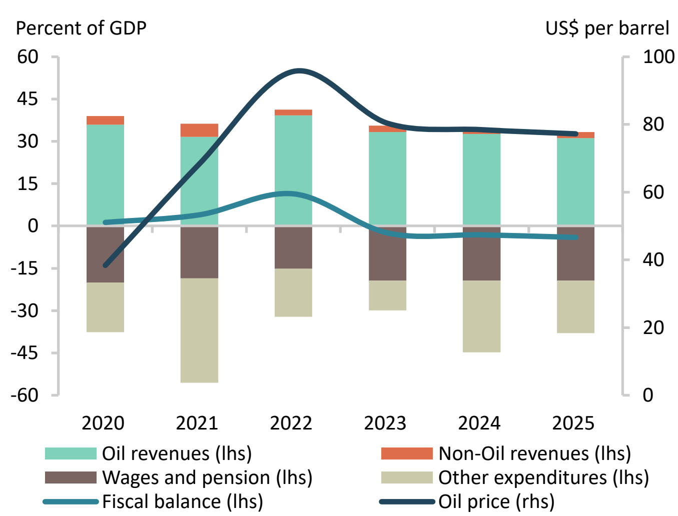
Government revenues, dominated by oil, grew by 48 percent in 2022 y-o-y, directly

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



Sources: Iraq's COSIT and World Bank staff calculations.

FIGURE 2 Republic of Iraq / Fiscal account and oil price



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

reflecting soaring oil prices. The lack of a budget in 2022 limited expenditures to the previous year's total allocation plus the complementary allocation of the Emergency Bill, which partly curbed the procyclicality of fiscal policy in 2022. Despite a rising wage bill, the oil windfall is estimated to have led to a budget surplus of 11.4 percent of GDP in 2022. The fiscal surplus in tandem with higher nominal GDP is estimated to have reduced the debt-to-GDP ratio to 52.6 percent in 2022. The draft budget for 2023 proposes a 59 percent expansion in expenditures compared to 2022, with recurrent expenditures accounting for 70 percent of total spending.

The current account, driven by oil exports, registered a sizeable surplus of 14 percent of GDP in 9M-2022, despite higher imports. Gross official reserves reached a record high of US$97 billion (equivalent to 14 months of imports) by end-2022. However, enforcement of financial reporting standards of the central bank's dollar auctions since November 2022 has led to a sharp decline in the volume of daily CBI auctions, with part of the demand for dollar being redirected to the parallel market, which in turn resulted in the depreciation of the dinar. In February 2023, the CBI revalued the dinar up by 10.3 percent to IQD1,300/USD to curb inflation, however, the parallel market rate remained elevated at IQD1,590/USD in February 2023, after the announcement.

Outlook

Iraq's economy is forecast to continue to grow, although at a slower pace, assuming global demand for oil weakens. Overall growth is expected to moderate to 2.8 percent in 2023. Specifically, non-oil GDP is projected to grow by 4.5 percent, partly assisted by the anticipated budget expansion. Limited linkage between oil and no-oil sectors coupled with public sector dominance in formal employment will likely continue to result in a stunted and largely informal private sector. An environment of low appetite for reforms amid high oil prices, and Iraq's chronic structural weaknesses could constrain long-term economic growth.

Higher expenditures and imports will worsen both the fiscal and current account balances, with the former turning into a deficit. The re-valuation of the dinar will result in lower dinar-denominated oil revenues for the government while expenditures are expected to increase significantly as per the announced budget. As a result, the fiscal account is forecast to register a widening deficit starting from 2023. The growing fiscal pressures are projected to increase the debt-to-GDP ratio. The current account surplus is forecast to moderate throughout 2023-25, as oil prices follow a projected decline and higher government expenditures and a stronger dinar drive a surge in imports and undermine export competitiveness.

Iraq's economic outlook is subject to significant risks. The economy's high dependence on oil leaves it vulnerable to volatilities in the oil market and fluctuations in global demand. Heightened climate change vulnerabilities and commodity price volatility associated with the Russian invasion of Ukraine will continue to intensify pre-existing poverty trends and raise food insecurity. Competition on export markets for Iraqi oil, with the heavily discounted Russian oil, could also pose risks to growth prospects.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-9.0	-0.6	7.9	2.8	4.4	2.5
Private Consumption	-5.5	2.6	4.5	4.0	3.7	3.5
Government Consumption	-9.5	4.7	6.3	9.0	6.0	4.0
Gross Fixed Capital Investment	-65.3	9.4	5.6	12.5	7.3	5.8
Exports, Goods and Services	-10.1	-13.4	12.1	1.6	5.4	2.1
Imports, Goods and Services	-23.9	7.7	8.5	9.0	7.0	5.1
Real GDP growth, at constant factor prices	-11.7	3.2	7.9	2.8	4.4	2.5
Agriculture	22.5	-17.5	-11.2	4.0	3.5	2.0
Industry	-16.4	0.3	11.3	1.8	5.2	2.2
Services	-4.6	12.5	4.0	4.6	3.0	3.1
Inflation (Consumer Price Index)	0.6	6.0	5.0	7.0	6.0	5.0
Current Account Balance (% of GDP)[a]	-4.0	12.0	12.4	2.6	1.3	0.4
Net Foreign Direct Investment Inflow (% of GDP)[a]	1.7	1.3	1.3	1.3	1.2	1.2
Fiscal Balance (% of GDP)[a]	-12.1	4.0	11.4	-2.4	-3.1	-4.0
Revenues (% of GDP)	29.3	36.2	41.3	35.5	34.7	33.3
Debt (% of GDP)[a]	77.4	55.1	52.6	57.6	58.6	60.0
Primary Balance (% of GDP)[a]	-11.0	4.5	12.3	-1.8	-2.5	-3.5
GHG emissions growth (mtCO2e)	-17.2	-13.8	12.9	9.5	9.7	12.1
Energy related GHG emissions (% of total)	42.8	42.3	45.4	47.6	49.9	50.6

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

JORDAN

Table 1	2022
Population, million	11.3
GDP, current US$ billion	48.4
GDP per capita, current US$	4288.1
National poverty rate[a]	15.7
School enrollment, primary (% gross)[b]	80.0
Life expectancy at birth, years[b]	75.2
Total GHG emissions (mtCO2e)	36.9

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

Jordan has shown resilience vis-a-vis major regional and global crises. However, labor market conditions suggest that incomes have not recovered after Covid, while climate change risks exacerbate food insecurity. Despite a clear willingness to tackle structural constraints, policy, and regulatory reforms often stumble at the implementation phase or are reversed. Amid an uncertain global environment, and limited macroeconomic policy space domestically, a renewed commitment to pursue structural reforms can help unleash growth and resolve long-standing labor market challenges.

Key conditions and challenges

Regional and global pressures have dominated the Jordanian socioeconomic landscape during the past decade, resulting in sluggish growth performance, with real per capita growth contracting for most of the past decade. Jordan has managed to navigate its economy through times of crisis by adopting a progressive and development-oriented response to the large inflow of refugees, preserving macroeconomic stability and showing resilience following the COVID-19 pandemic and Russia's invasion of Ukraine, albeit at the cost of rapidly escalating public sector debt. The main challenge lies in accelerating private sector-led growth, which is suppressed by a challenging business environment and job market bottlenecks.

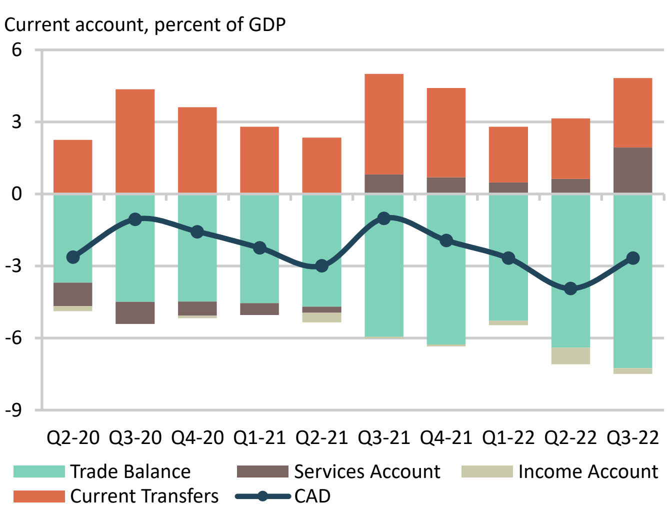
Global risks - including a slowdown in growth, heightened geopolitical tensions, high commodity prices, and tighter financial conditions – pose significant challenges, notably for the water and electricity sectors' financial sustainability. The effects of climate change echoed in rising temperatures and lower precipitation could aggravate Jordan's already acute water scarcity. Without proper mitigation measures, including appropriate water pricing, the country remains highly susceptible to extreme weather conditions and food security risks.

To address these key impediments, and following similarly focused Visions and strategies, Jordan launched a ten-year Economic Modernization Vision in mid-2022, focusing on inclusive, sustainable, and private sector-led growth to generate job opportunities and improve living standards.

Recent developments

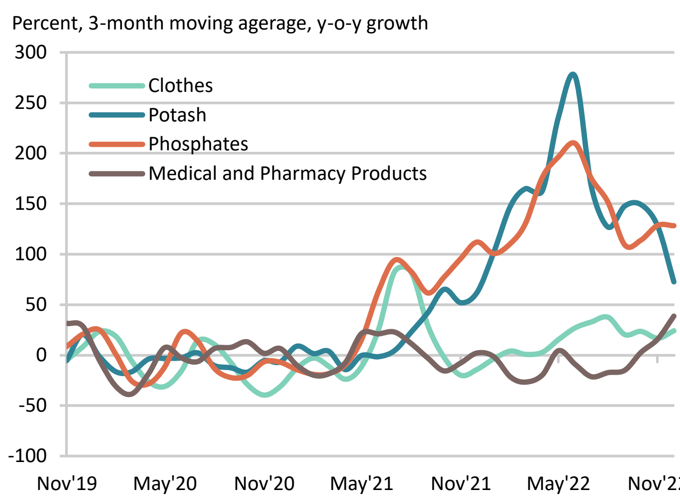
Growth was robust at 2.7 percent (y-o-y) during the first three quarters of 2022, boosted by a recovery of tourism and its spillover to the services sector, as well as solid contributions in the manufacturing and mining sectors. Manufacturing performance stemmed from clothes, machinery, medical and pharmaceutical products, while mining's originated with the potash and phosphate sub-sectors that benefited from the price surge associated with the war in Ukraine. Inflation remained contained at 4.2 percent in 2022, helped by the Central Bank's monetary tightening, price controls, and subsidies. However, the tightening effect on the real sector was limited by the favorable interest rates of its refinancing programs and by real policy rates turning negative. The Central Government (CG) fiscal deficit (excl. grants) narrowed by 0.4 percentage points to 6.0 percent of GDP during 11M-2022, supported by growing tax and non-tax revenues. These outpaced the rise in total expenditures due to temporary fuel subsidies (0.7 percent of GDP) and higher capital expenditures. Government and guaranteed debt reached 113.5 percent of

FIGURE 1 Jordan / The difficult global environment has directly impacted Jordan's external accounts



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

FIGURE 2 Jordan / Jordan's key merchandize exports



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

GDP in November 2022, compared to 112.3 percent of GDP at end-2021.

On the external front, a marked increase in mining exports (42 percent) and a full rebound in travel receipts could not fully mitigate the effect of commodity prices on non-energy import bills, triggering a widening of the current account deficit. The CAD widened to 9.3 percent of GDP in 9M-2022, up from 6.2 percent in 9M-2021. Despite a surge in net FDI (1.8 percent of GDP), the BOP deficit worsened to 2.0 percent of GDP, from a surplus of 3.0 percent a year earlier. Gross foreign reserves declined by US$0.86 billion to US$18.2 billion at end-2022.

Labor market conditions remain the most significant threat to households' welfare. Employment has only modestly recovered, while the labor force participation rate remained low at 33.7 percent. Unemployment reached 22.9 percent in Q4-2022, compared to 19.0 percent during Q4-2019. The national poverty rate stood at 15.7 percent in 2018 (latest available). Labor market conditions, compounded with higher inflation, suggest that real household incomes may have not fully recovered from the COVID-19 crisis and a large share of the non-poor population is vulnerable to poverty due to income volatility. Moreover, the poorest households are particularly vulnerable to recent price increases since they spend a greater share of their income on food.

Outlook

In 2023, the recovery is projected to continue being supported by tourism and services, while the industry will benefit from high potash and phosphate prices, and robust manufacturing growth. However, growth is forecast to decelerate to 2.4 percent, from 2.6 percent in 2022, due to fading base effects. The weakening global growth, monetary tightening, and ongoing fiscal consolidation are all expected to weigh on aggregate demand. Inflation in 2023 is anticipated to be contained at 3.0 percent supported by declining international oil prices, and domestic price controls.

The CG fiscal deficit (incl. grants) is expected to further narrow to 5.0 percent of GDP in 2023, compared to an estimated 5.4 percent in 2022, as various revenue-raising measures and the containment of public wage bill growth will overcompensate for rising interest payments, wheat subsidies, and higher capital expenditures. However, fiscal pressures from the water and electricity sectors - notably the Attarat oil shale project - are likely to increase public debt to 115.2 percent of GDP (with debt excluding SSIF holdings expected to reach 91.2 percent) at end-2023.

On the external front, pressures are expected to ease in 2023 as commodity prices decline and imports retract while exports sustain momentum. As a result, the CAD is projected to decline to 5.7 percent of GDP in 2023 compared to an estimated 9.7 percent of GDP in 2022 and to gradually narrow over the medium term.

Progress in terms of labor incomes and poverty reduction is expected to be limited, whilst large vulnerability persists. While the recovery of tourism and manufacturing is expected to support wage incomes, persistent challenges related to limited private sector job creation, segmented labor markets, high informality, and low labor productivity, continue to hinder household income growth. Considering higher inflation and weak labor market conditions, real incomes will remain suppressed, poverty is expected to remain above pre-Covid levels, and a large segment of the population remains vulnerable to shocks.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-1.6	2.2	2.6	2.4	2.4	2.4
Real GDP growth, at constant factor prices	-1.4	2.2	2.6	2.5	2.4	2.4
Agriculture	1.6	2.8	2.6	2.5	2.4	2.4
Industry	-2.4	3.1	3.7	3.1	2.2	1.5
Services	-1.3	1.8	2.2	2.3	2.5	2.8
Inflation (Consumer Price Index)	0.3	1.4	4.2	3.0	2.5	2.5
Current Account Balance (% of GDP)	-5.7	-8.2	-9.7	-5.7	-4.3	-3.5
Net Foreign Direct Investment Inflow (% of GDP)	1.7	1.3	2.2	2.3	2.6	3.0
Fiscal Balance (% of GDP)[a]	-7.2	-6.3	-5.4	-5.0	-4.5	-4.4
Revenues (% of GDP)	22.4	25.0	25.6	25.4	25.6	25.4
Debt (% of GDP)[b]	107.8	112.3	114.1	115.2	116.1	117.1
Debt, net of SSIF (% of GDP)[b]	87.0	90.7	91.5	91.2	90.4	89.6
Primary Balance (% of GDP)[a]	-3.1	-2.0	-1.2	-0.6	0.0	0.2
GHG emissions growth (mtCO2e)	-3.3	1.9	2.5	2.0	2.1	2.3
Energy related GHG emissions (% of total)	62.2	62.6	62.6	62.5	62.3	61.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ CG fiscal balance incl. grants and adjustment on receivables and payables (use of cash) as per IMF Country Report No. 23/49.
b/ Government and guaranteed gross debt. Includes securitization of domestic arrears in 2019-21.

KUWAIT

Table 1	2022
Population, million	4.4
GDP, current US$ billion	168.8
GDP per capita, current US$	38352.3
School enrollment, primary (% gross)[a]	82.6
Life expectancy at birth, years[a]	76.9
Total GHG emissions (mtCO2e)	155.8

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

Kuwait's economy is expected to slow down in 2023, after performing strongly in 2022, and stabilize over the medium term. The projected economic slowdown is driven by the sluggish global economic activity and OPEC+ cautious production schedule. Softer energy prices will narrow fiscal surpluses and raise deficit concerns in the medium term. Generous subsidies, tight monetary policy, and falling import prices will keep inflation subdued. Downside risks to the outlook include global oil price volatility, a stronger-than-anticipated global economic slowdown, and continued political deadlock over key reforms.

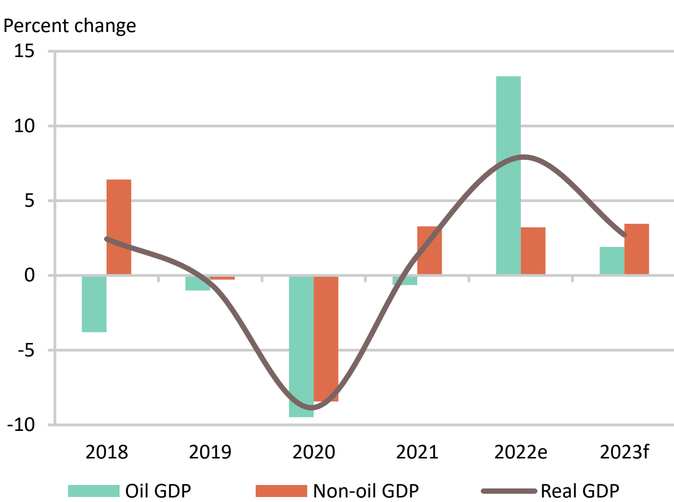
Key conditions and challenges

Kuwait's long-term economic challenges are linked to its dependency on oil, domestic consumption as key driver for growth, and slow implementation of its diversification agenda. Nonetheless, sizable foreign assets held through Kuwait's sovereign wealth fund (KIA), one of the largest globally, continue to underpin the country's economic resilience. These assets, however, cannot mitigate the risk of low future oil demand. Such risk has to be addressed through deep fiscal and structural reforms. Progress on the diversification agenda has been slow to a large extent, due to the political deadlock and repeated resignations of government which is hindering economic reform implementation. The projected elevated oil prices in the medium term could still play a key role in financing economic transformation and promoting sustainable, inclusive, and green growth. Key short- and medium-term risks include the potential impact from a deeper-than-expected global economic slowdown, oil price volatility, delay in fiscal and structural reforms, and labor shortages. These could hamper growth in both the oil and non-oil sectors as well as have a significant impact on macroeconomic balances. Direct adverse economic spillovers from the Russian invasion of Ukraine have been contained in Kuwait due to limited financial linkages and trade flow between both countries.

Recent developments

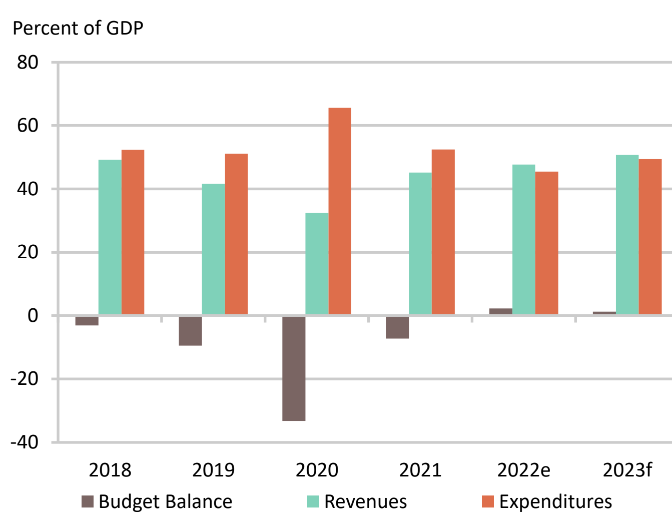
Economic growth rebounded sharply in 2022, reaching 7.9 percent year-on-year, driven by the strong performance of the oil sector which grew by 13.3 percent. However, signs of a slowing oil sector are evident since November 2022 and reflect OPEC+'s latest agreement on cutting production quotas. The non-oil sector continued its recovery trajectory in 2022, growing by 3.2 percent, supported by high oil prices, strengthening consumer spending, increased government spending, and restoration of projects suspended by the pandemic. Private sector credit grew by 7.7 percent in 2022—the fastest rate during the past 7 years—driven by the real estate, construction, and services sectors. Monetary policy tightening as well as government subsidies on food and energy helped to contain the level of inflation, which averaged around 4 percent in 2022. Supported by higher oil production and prices, the fiscal surplus is estimated at 2.2 percent of GDP during 2022. In November 2022, the National Assembly passed the 2022-23 General Budget with an estimated fiscal deficit of KWD 123.8 million (0.2 percent of GDP) based on an oil price assumption of USD 80 per barrel and an average oil production level of 2.7 million barrels/day. The government continues to implement measures to enhance Kuwait's public financial management (PFM) including financial technology improvement, digitalization, and green energy investment.

FIGURE 1 Kuwait / Annual real GDP growth



Sources: Kuwait CSB and World Bank staff estimates.

FIGURE 2 Kuwait / General government operations



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

The banking sector continues to be well-capitalized and liquid. Financial soundness indicators remain strong with non-performing loans estimated to reach 1.9 percent of total gross loans. Following tighter global financial conditions, the Central Bank of Kuwait raised policy rates from 1.6 to 4 percent (7 times) since March 2022, with the most recent hike in February 2023. Official reserve assets continue to stay at their comfortable levels, reaching KWD 14.8 billion (18 months of imports) in 2022.

The strong currency peg and higher oil receipts widened the current account surplus considerably during 2022, reaching 26.3 percent of GDP.

Kuwait's labor market continues to recover from the impact of the pandemic, although many indicators have not yet rebounded to their pre-pandemic levels. The labor force participation rate is projected to increase slightly to 71.7 percent in 2023 (ILO) but remains about 1.3 percentage points lower than in 2019. Unemployment rates are expected to remain relatively steady in 2023 at 1.2 percent among men and 6.4 percent among women, still higher than the 2019 rates by 0.2 and 0.5 percentage points, respectively. The shares of youth not in employment, education or training for 2022 suggest a faster post-pandemic recovery, as they are now estimated at 18.1 percent among men and 34.7 percent among women (below pre-pandemic shares by 0.6 and 0.8 percentage points, respectively).

Outlook

Economic growth is expected to slow to 2.7 percent in 2023 in response to a more cautious OPEC+ production approach and sluggish global economic activity. However, the newly established Al Zour refinery will support growth in the oil sector which is expected to reach 1.9 percent in 2023. Based on the recent trend, political uncertainty is projected to remain elevated and cause delays in deciding and implementing new infrastructure projects as well as in pushing the reform agenda forward. Kuwait's non-oil sector is anticipated to grow by 3.4 and 3.7 percent in 2023 and 2024, respectively; driven primarily by private consumption. Meanwhile, tighter monetary policy and declining global commodity prices will translate into lower inflation rates (to 2.6 percent in 2023, and 2.5 percent in the following two years).

Lower projected oil prices during 2023 will narrow the fiscal surplus to 1.3 percent of GDP—excluding investment income and FGF transfers. Softer projected oil prices will narrow fiscal balance surpluses and raise deficit concerns in the medium term. Implementing the economic diversification program and introducing the VAT, in line with other GCC peers, would enable Kuwait to diversify its revenues and enhance fiscal sustainability.

Monetary policy is projected to continue to closely follow the US Federal Reserve policy as the US dollar is the dominant currency in the Kuwaiti Dinar pegged basket. Despite possible further monetary policy tightening, domestic credit is expected to continue growing but at a slower pace.

Strong oil receipts and cheaper import prices should keep the current account surplus at comfortable levels during 2023 (21.9 percent of GDP) before moderating to an average of 20 percent of GDP in the medium term.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.9	1.3	7.9	2.7	2.6	2.4
Private Consumption	-4.5	3.2	4.8	3.4	3.1	3.0
Government Consumption	0.0	1.1	2.0	2.4	2.2	2.0
Gross Fixed Capital Investment	-4.6	3.9	4.4	3.5	3.0	2.9
Exports, Goods and Services	-13.3	2.2	12.1	3.4	2.4	2.1
Imports, Goods and Services	-4.0	5.7	5.3	4.7	2.8	2.5
Real GDP growth, at constant factor prices	-8.9	1.4	7.9	2.7	2.6	2.4
Agriculture	-3.8	0.5	1.1	1.2	1.3	1.3
Industry	-12.2	2.2	8.3	4.0	3.4	2.6
Services	-4.2	0.4	7.3	1.0	1.5	2.3
Inflation (Consumer Price Index)	2.1	3.4	4.3	2.6	2.5	2.5
Current Account Balance (% of GDP)	3.2	16.0	26.3	21.9	20.9	20.2
Fiscal Balance (% of GDP)[a]	-33.2	-7.3	2.2	1.3	0.3	-0.7
Revenues (% of GDP)	32.4	45.2	47.7	50.7	47.8	46.0
Expenditure (% of GDP)[a]	65.6	52.4	45.5	49.5	47.5	46.8
Debt (% of GDP)[a]	11.7	8.7	5.3	5.0	2.4	-1.3
Primary Balance (% of GDP)[a]	-32.1	-5.4	2.4	1.4	0.4	-0.7
GHG emissions growth (mtCO2e)	4.9	0.0	8.6	2.1	1.3	2.2
Energy related GHG emissions (% of total)	65.7	64.8	64.0	62.9	61.5	60.0

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

LEBANON

Table 1	**2022**
Population, million	5.5
GDP, current US$ billion	21.6
GDP per capita, current US$	3926.2
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	77.8
Total GHG emissions (mtCO2e)	23.8

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

The Lebanese economy remains in a severe depression amidst continued political deadlock, an institutional vacuum, and high uncertainty. In a context lacking agreement on a comprehensive crisis resolution plan, real GDP is estimated to have further contracted by 2.6 percent in 2022, while inflation averaged 171.2 percent, one of the highest rates globally. Subject to extraordinarily high uncertainty, and assuming the continued absence of adequate and comprehensive reforms all through 2023, real GDP is projected to further contract by 0.5 percent in 2023.

Key conditions and challenges

The Lebanese economy's four-year contraction in real GDP (2018-2022) has wiped out more than 15 years of economic growth. The lack of agreement and implementation of a comprehensive recovery plan is scarring the country's potential for recovery and compounding the physical, human, institutional, and social capital losses. With the government in caretaker status and following the failure to elect a new president upon the end of the president's term on October 31, 2022, Lebanon faces an especially deep institutional vacuum.

Financial losses in the banking system exceed US$72 billion, equivalent to more than three times GDP in 2021. The lack of an equitable banking resolution has compounded the economic costs of the crisis. In the meantime, usable gross foreign exchange reserves are gradually being depleted: between October 2019 (the onset of the crisis) and December 2022, they declined by US$22,745 million, to US$15,194 million (including US$4,796 million in foreign securities).

Absent a crisis resolution plan, the bulk of the economic adjustment continues to fall on the most vulnerable segments of the population. Rapid currency depreciation and triple-digit inflation rates continue to shape the unstable macroeconomic dynamics in the country, resulting in a severe erosion of purchasing power for the local labor force, pensioners, and retirees whose wages are denominated in LBP.

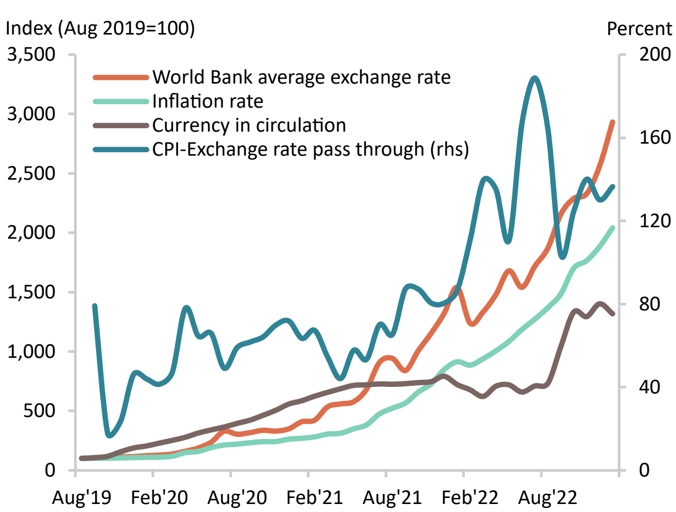
Preliminary data from the 2022-2023 Lebanon Household Survey (LHS) suggests that poverty continues to rise and household living conditions continue to deteriorate. The LHS is ongoing, with over 4,500 households interviewed to date. Around three out of every five households considered themselves to be poor or very poor. Households that do not receive any form of private remittances are even more likely to feel impoverished. While there are indications that adult (15+) employment rates have risen from a year ago, an increasing share of people are working in low-quality, informal jobs out of necessity.

Recent developments

In 2022, the economy continued to contract, albeit at a somewhat slower pace. Owing to better-than-expected high-frequency indicators data, we have revised our real GDP contraction estimate to 2.6 percent from a previous 5.4 percent for 2022. The BLOM-PMI index (capturing private sector activity) has inched up to 48.4 in 2022, up from an average of 46 percent in 2021; tourist arrivals have also increased by 57 percent (8M-2022).

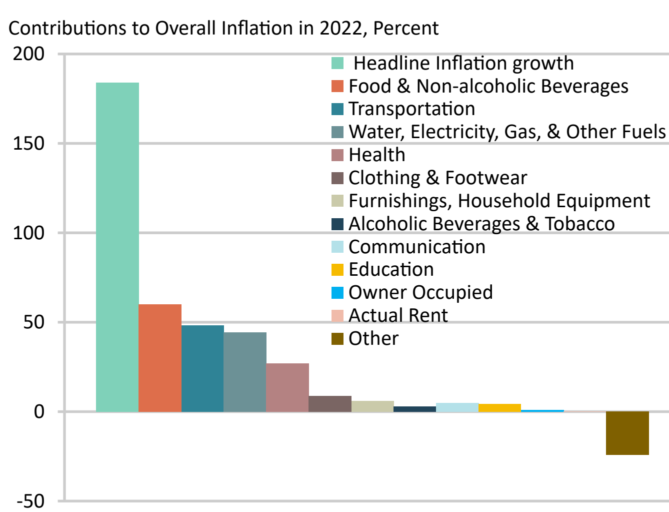
The overall fiscal balance is estimated to have recorded a narrow surplus of 0.3 percent of GDP in 2022, down from 1 percent of GDP in 2021. Revenues are estimated to have declined from an already low 13.1 percent of GDP in 2020 to 6.0 percent of GDP in 2022, one of

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



Sources: Lebanese authorities and World Bank staff calculations.

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



Sources: Lebanese authorities and World Bank staff calculations.

the lowest rates globally. This was more than offset by a larger decrease in total expenditures, which declined from 16.4 percent of GDP in 2020 to a record low of 5.7 percent of GDP in 2022, pointing to a massive hollowing out of the state amid an unprecedented crisis.

Testament to the continued atrophy of Lebanon's economy, the Lebanese Pound continues to depreciate sharply. By February 2023, the currency lost more than 98 percent of its pre-crisis value. Despite the central bank (BdL)'s FX interventions to attempt to stabilize the BNR (i.e., the banknote rate/parallel market) using its gross reserves starting in December 2021, the BNR averaged 31,102 LBP/US$ in 2022. The depreciation of the BNR has accelerated since the beginning of 2023, breaching 80,000 LBP/US$ amid rising tensions, bank strikes, and fewer FX interventions by BdL. Multiple exchange rates continue, creating distortions in the economy and rent-seeking opportunities. For the first time since 1997, BdL changed the official peg to the dollar from 1507.5 to 15,000, effective February 1, 2023.

Inflation averaged 171.2 percent in 2022, one of the highest rates globally, primarily due to the depreciation of the LBP. The rise in the food and non-alcoholic beverages category in the consumption basket was the highest contributor to inflation in 2022, averaging a 240 percent increase throughout 2022, and reaching a maximum of 483 percent (y-o-y) in January 2022.

Surprisingly, for a country in a protracted crisis and in sovereign default, Lebanon continues to run a sizable current account deficit driven by a widening trade-in-goods deficit. According to customs data for merchandise goods, imports grew by 39.7 percent (y-o-y) in 2022, combined with a 10.2 percent decrease in exports. In fact, imports to Lebanon reached USD19 billion in 2022, close to pre-crisis levels. Anticipated increases in custom duties and the customs duties exchange rate (which was increased to 15,000 LBP/USD at the end of 2022, have likely contributed to the substantive increase in imports of industrial goods (y-o-y increase of 45.8 percent) and have driven the hoarding of those goods in anticipation of a price adjustment. The quality of BoP data in Lebanon is historically weak.

One year after reaching a staff-level agreement, an IMF program remains elusive as the authorities have yet to complete any of the eight reforms required prior to starting the program. A fragmented parliament, coupled with a governmental and presidential vacuum casts further doubt on the ability to complete prior actions and secure a final agreement in the next few months.

Outlook

Subject to extraordinarily high uncertainty, real GDP is projected to contract by 0.5 percent in 2023. Our economic forecast pays heed to the persistent lack of political will for comprehensive reforms, and an institutional vacuum, both assumed to last throughout the whole of 2023. Inflation is expected to remain in triple digits, at 165 percent, persistently amongst the highest rates globally.

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

	2020	2021	2022e	2023f
Real GDP growth, at constant market prices	-21.4	-7.0	-2.6	-0.5
Private Consumption	-14.0	2.1	2.2	0.3
Government Consumption	-53.7	-76.0	-13.6	-14.5
Gross Fixed Capital Investment	-53.0	-67.6	-92.2	-58.9
Exports, Goods and Services	-53.7	13.1	0.3	-1.5
Imports, Goods and Services	-46.0	-12.2	3.5	-0.3
Real GDP growth, at constant factor prices	-15.9	-5.3	-2.6	-0.5
Agriculture	0.6	-7.1	-2.8	-0.5
Industry	-6.5	-6.9	-2.6	-0.5
Services	-18.3	-4.9	-2.6	-0.5
Inflation (Consumer Price Index)	84.3	154.8	171.2	165.0
Current Account Balance (% of GDP)	-9.3	-12.5	-20.6	-14.0
Net Foreign Direct Investment Inflow (% of GDP)	4.1	2.1	2.2	2.6
Fiscal Balance (% of GDP)	-3.3	1.0	0.3	-0.5
Revenues (% of GDP)	13.1	7.5	6.0	6.3
Debt (% of GDP)	179.2	172.5	162.6	183.5
Primary Balance (% of GDP)	-0.8	1.9	0.9	-0.3
GHG emissions growth (mtCO2e)	-19.4	-7.1	-9.5	-3.8
Energy related GHG emissions (% of total)	72.4	74.3	73.3	72.7

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

LIBYA

Table 1	2022
Population, million	6.8
GDP, current US$ billion	45.8
GDP per capita, current US$	6725.0
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	72.5
Total GHG emissions (mtCO2e)	120.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2006); Life expectancy (2020).

A fragile context undermines the adequate functioning of institutions. Armed clashes, protests, and inadequate maintenance disrupted oil production and export amid rising global prices. The economy contracted by 1.2 percent in 2022 because of conflict-related constraints to oil production. In 2022 fiscal policy turned highly expansionary, with total spending increasing by 49 percent and the public wage bill, specifically, by 53 percent. Higher food prices due to the impacts of Russia's invasion of Ukraine have increased pressures on vulnerable households.

Key conditions and challenges

A ceasefire and the formation of the Government of National Unity reflected potentially positive developments toward peace resolution. However, the absence of national elections and the creation of a competing government in 2022 have added complexity to the picture, with limited progress being made toward reaching an agreement on a roadmap for elections. While the security situation has overall experienced some improvements – which can bring some benefits to economic development – the war in Ukraine – on the other side – contributed to creating additional pressure.

The Libyan economy remains highly dependent on the oil sector. A disruption of oil production or a decrease in international oil prices can have a rapid and significant impact on growth and on the country's ability to repay its debt that exceeds US$32 billion, although the large foreign assets held in its sovereign wealth fund (the LIA) provide the country with a significant buffer.

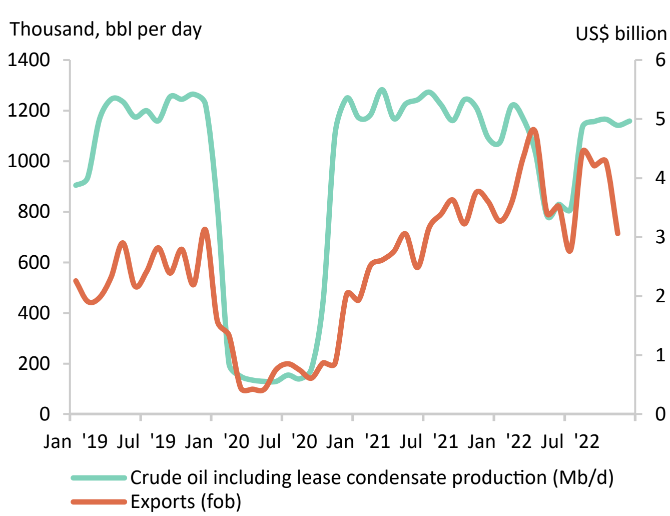
Recent developments

Renewed disruptions in the oil sector impacted both production and exports during April to July 2022. The Libyan Nation Army (LNA), based in the eastern region of Libya, imposed a blockade on oil production facilities, leading to a significant reduction in output (Figure 1). By April 2022, oil production had plummeted to 400,000 barrels per day (bpd), to then resume only in August. By January 2023, the production rebounded to 1.2 million bpd. Against this background, the economy contracted by 1.2 percent in 2022, with the hydrocarbon sector deflating by 12 percent. This decline, however, was partly offset by a 15 percent expansion of the non-hydrocarbon sector, under the massive fiscal stimulus implemented by the authorities. Total public spending increased by 49 percent, including 53 percent increase in public wages.

By the end of 2022, inflation, as measured by the REACH initiative's Minimum Expenditure Basket (see the Spring Libya Economic Monitor for more details and alternative measures of inflation), showed signs of moderation, although remaining elevated and mainly driven by the increases in food and housing prices, as well as electricity costs. The official inflation rate only captures price developments in Tripoli, and reached 4 percent by end-2022. The Minimum Expenditure Basket (MEB) indicates that prices peaked at 38.7 percent (year-on-year) in April 2022, to then hover around 20.7 percent by the end of the year.

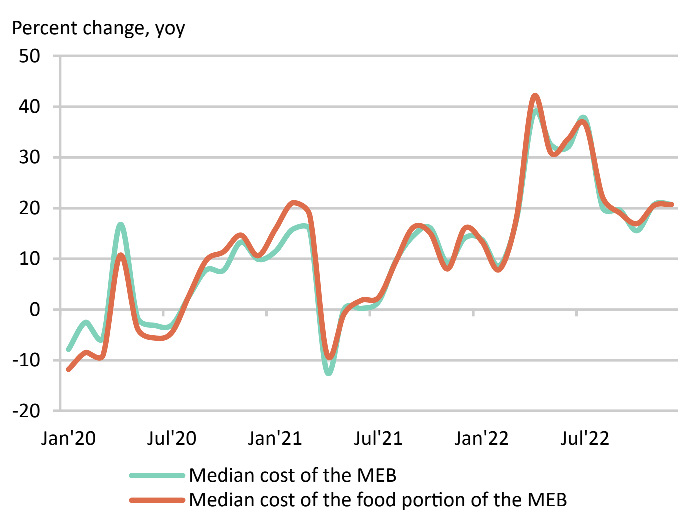
Libya's public finances lack both unity and transparency: the two competing governments have distinct budgets and severely limited financing options. This duality, coupled with the National Oil Corporation (NOC) holding oil receipts in an escrow account for several months

FIGURE 1 Libya / Oil production and exports



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

FIGURE 2 Libya / Inflation in the Minimum Expenditure Basket (MEB) and its food component



Sources: REACH and World Bank staff calculation.

during 2022, have created significant challenges to effective public financial management, resulting in uncertainty and inadequate allocation of fiscal resources. The Government of National Unity (GNU) reported a fiscal surplus of 2.5 percent of GDP in 2022. Public salaries represent 25.4 percent of GDP, making it the largest spending category, and salaries are on an increasing trend. Subsidies and transfers remain high, at 10 percent of GDP. Capital spending skyrocketed to 16.8 percent of GDP, from 9.3 percent in 2021, including an 8.1 percent GDP transfer to NOC to finance the maintenance and development strategy of oil fields. GNU's revenue increased by 26.3 percent, driven by hydrocarbon revenue, which accounts for 98 percent of the total revenue.

Despite high levels, public debt is considered sustainable assuming a continuation of hydrocarbon production at current lavels. Libya's total gross public debt amounted to 70.4 percent of GDP in 2022, also equivalent to 126 percent of government revenue. The Libyan Investment Authority (LIA), a sovereign wealth fund, owns assets worth US$ 68.4 billion as per the last available valuation in 2019.

Outlook

Due to the high degree of uncertainty and fragility that characterizes Libya, the World Bank refrains from producing quantitative growth and macro forecasts. The country's economic future hinges significantly on the prospects of peace and stability.

This being said, for 2023 Bank staff assume a low political equilibrium with no significant advances but in a continued context of relative security. The GNU announced its plans to increase NOC's hydrocarbon production; under this hypothesis, oil production could potentially reach 1.4 million barrels per day in 2023 and 2 million barrels per day within the next 3 to 5 years.

Additionally, growth of the non-hydrocarbon sector is also expected to support GDP expansion in 2023, as the increase in government expenditure and salaries will boost domestic demand. The resultant current account surplus is expected to partially alleviate part of the liquidity shortages and inflationary pressure.

Downside risks to the outlook remain elevated. Political tensions and competition between the rival governments will likely continue to impact the good functioning of state institutions, thus impeding the ability to deliver public services. A protracted global economic deceleration would reduce global oil demand, thereby translating into reduced exports and government revenues for Libya, with knock-on effects on economic growth, fiscal and current account balances, as well as foreign reserves.

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

	2020	2021	2022e
Real GDP growth, at constant market prices	-29.8	31.4	-1.2
Real GDP growth, at constant factor prices	-29.8	31.4	-1.2
Agriculture	-30.1	31.4	10.0
Industry	-34.6	45.0	-9.9
Services	-21.1	11.1	15.0
Inflation (Consumer Price Index)	1.4	2.8	4.6
Current Account Balance (% of GDP)	-9.8	13.9	14.5
Fiscal Balance (% of GDP)	-35.2	11.0	2.5
Revenues (% of GDP)	35.4	58.8	59.0
Debt (% of GDP)	238.2	87.0	70.4
Primary Balance (% of GDP)	-35.2	11.0	2.5
GHG emissions growth (mtCO2e)	-14.0	17.2	-5.8
Energy related GHG emissions (% of total)	25.5	35.3	29.0

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

MOROCCO

Table 1	2022
Population, million	37.5
GDP, current US$ billion	135.8
GDP per capita, current US$	3626.0
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.65)[a]	9.8
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	113.4
Life expectancy at birth, years[b]	73.9
Total GHG emissions (mtCO2e)	95.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014).
b/ WDI for School enrollment (2021); Life expectancy (2020).

Morocco has undergone a sharp deceleration due to domestic and international shocks: a drought and high commodity prices. This triggered supply-driven inflationary pressures that have broadened, disproportionately affecting poorer households. The authorities' anti-inflationary measures have included the maintenance of untargeted subsidies, regulated prices, and a moderate monetary tightening. Ongoing reforms should allow for a more cost-effective and equitable response to future shocks. Growth is expected to accelerate in 2023 as shocks begin to dissipate.

Key conditions and challenges

The government is implementing reforms to accelerate growth and inclusion. After universalizing access to the national health insurance scheme, a targeted cash transfer program is planned for 2023. Private sector reforms are also underway as the new Mohammed VI investment fund has become operational, a state holding will absorb and streamline Morocco's SOE sector, and a new Investment Charter has been approved.

After a long period of price stability, inflation has surged, particularly for food and energy products. The government has supported citizens' purchasing power with price subsidies on butane gas, electricity, flour, and sugar. However, these subsidies are costly. While dampening the effect of inflation, price increases were more pronounced for poorer households, given that food absorbs almost 50 percent of their consumption basket. Once in place, the new social protection system will provide more cost-effective and equitable instruments to mitigate the impacts of economic shocks.

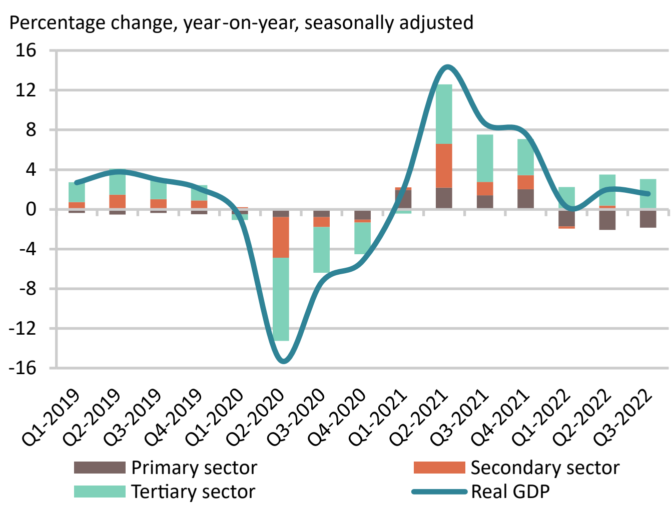
Morocco is heavily exposed to climatic shocks. Due to their impact on agricultural production, rainfall shocks explain 37 percent of GDP growth volatility, and the 2022 drought alone accounted for almost half of the deceleration that took place that year. Morocco has traditionally coped with water scarcity through dams and irrigation investments. But the latest drought has coincided with historically low water reserves, severely reducing the availability of water for irrigation. The government is accelerating desalination projects while exploring options to improve water valuation and rationalize demand.

Recent developments

Real GDP growth plummeted from 7.9 to 1.2 percent between 2021 and 2022. This deceleration unfolded asymmetrically: the agricultural sector contracted by 15.1 percent due to the drought; the manufacturing sector stagnated due to higher production costs and weaker global demand; services expanded by 5.1 percent, supported by the recovery of tourism. The commodity shock, Morocco's reliance on imported energy and food, and a stronger dollar increased the dirham-value of imports by 39.6 percent. Despite the solid performance of exports and workers' remittances, the current account deficit widened from 2.3 to 4.1 percent of GDP, a substantial part of which was financed with FDI inflows.

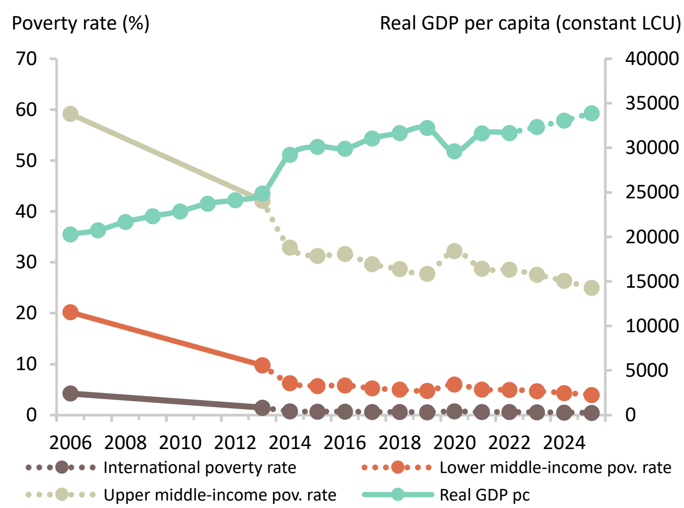
The supply-driven inflationary surge has become more broad-based, pushing core inflation to 8.2 percent in January 2023. Although the central bank has increased the policy rate by 100 basis points to 2.5 percent, monetary policy remains accommodative. The government's anti-inflationary policies have helped contain prices pressures for products that represent 22 percent of the consumption basket. But the budgetary cost of price subsidies

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



Sources: HCP and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

has increased to 3 percent of GDP. The dynamism of tax and non-tax revenues, however, allowed for a reduction of the budget deficit from 5.5 to 5.1 percent of GDP.

Ongoing shocks are having significant impacts on welfare. But the higher inflation undergone by poorer households could have increased poverty by up to 2.1 percentage points. The household confidence index has reached a 14-year low, with 83 percent of respondents declaring a deterioration of their living standards. In 2022, 174 thousand jobs were lost in rural areas, where the incidence of poverty is higher. Urban labor markets performed better, with 150 thousand jobs created in 2022.

Outlook

GDP growth is expected to accelerate to 3.1 percent of GDP in 2023 under the assumption of a return to an average crop. This would boost agricultural growth to 8 percent. Non-agricultural GDP growth is projected to decelerate from 3.2 to 2.5 percent due to weak global growth, tighter financial conditions, and the impact of inflation on consumption and investment. As the recovery of tourism firms is up, the services export should expand by 3.1 percent, while the manufacturing sector is more likely to be impacted by the European economic slowdown. Declining commodity prices should help contain inflation to 4 percent in 2022-2023. They will also contribute to a reduction in the current account deficit, from 4.1 to 3.7 percent of GDP. Despite the fiscal cost of the ongoing health and social protection reform, recent tax measures and the government's public asset monetization operations should lead to a slight reduction of the budget deficit from 5.1 to 4.6 percent of GDP. This trend should be maintained over the medium-term if the government succeeds at financing the new cash transfer program by withdrawing price subsidies, as currently planned.

Risks to this outlook are tilted to the downside. Although the beginning of the 2022-23 agricultural campaign has been relatively humid, the agricultural sector's performance will ultimately depend on how highly erratic precipitations evolve. Should a new drought materialize, the overall growth rate could drop by up to 1 p.p. Weaker global growth and new disruptions in commodity markets could dent Morocco's growth while continuing to feed inflation. Meeting the government's medium-term fiscal targets will depend on the success of asset monetization operations and politically challenging subsidy reform.

The rebound of agricultural production should help improve rural employment, and thus reduce poverty. But the persistence of inflationary pressures could continue to erode households' purchasing power and welfare. The new cash transfer program to be deployed later this year will help increase the disposable income of poorer households.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-7.2	7.9	1.2	3.1	3.3	3.5
Private Consumption	-5.6	8.2	2.2	2.4	3.1	3.3
Government Consumption	-0.5	5.6	5.4	6.7	3.5	3.1
Gross Fixed Capital Investment	-10.0	9.3	1.7	2.1	3.5	3.5
Exports, Goods and Services	-15.0	8.7	21.3	5.2	9.8	13.1
Imports, Goods and Services	-11.9	11.8	19.0	4.6	8.0	10.1
Real GDP growth, at constant factor prices	-7.0	7.8	1.2	3.2	3.3	3.6
Agriculture	-7.1	17.6	-15.1	8.0	2.5	4.0
Industry	-5.2	6.8	0.4	1.6	3.0	3.2
Services	-7.9	6.4	5.1	3.1	3.5	3.6
Inflation (Consumer Price Index)	0.7	1.4	6.6	4.0	4.3	2.3
Current Account Balance (% of GDP)	-1.2	-2.3	-4.1	-3.7	-3.5	-3.3
Net Foreign Direct Investment Inflow (% of GDP)	0.8	1.2	1.5	1.5	1.5	1.4
Fiscal Balance (% of GDP)	-7.1	-5.5	-5.1	-4.6	-4.0	-3.5
Revenues (% of GDP)	27.0	25.5	26.6	26.8	26.0	25.5
Debt (% of GDP)	72.2	68.9	69.4	69.0	67.9	67.5
Primary Balance (% of GDP)	-4.6	-3.4	-3.1	-2.6	-2.0	-1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.6	0.6	0.5	0.5	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	6.0	5.0	5.0	4.7	4.3	3.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.2	28.7	28.6	27.6	26.4	25.0
GHG emissions growth (mtCO2e)	-4.1	5.1	3.8	2.3	3.3	3.1
Energy related GHG emissions (% of total)	72.7	73.9	75.0	75.2	75.7	76.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2013) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

OMAN

Table 1	2022
Population, million	4.6
GDP, current US$ billion	109.8
GDP per capita, current US$	23987.3
School enrollment, primary (% gross)[a]	104.1
Life expectancy at birth, years[a]	74.8
Total GHG emissions (mtCO2e)	119.4

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

Supported by the revival of the hydro and non-hydrocarbon sectors, Oman's economy performed strongly in 2022. Despite the downturn in global activity, the outlook continues to be encouraging driven by increased production capacity and accelerated implementation of structural reforms. Fiscal and external balances are projected to remain in surplus but moderate in the medium term, placing debt on a downward trajectory. A breakout of new COVID-19 variants, uncertainty surrounding the global oil market, tighter global financial conditions, and increased inflationary pressures remain key challenges.

Key conditions and challenges

Oman's economy is continuing its recovery after the sharp pandemic-induced recession in 2020. Recognizing the macroeconomic uncertainty stemming from the twin shocks in 2020 that amplified fiscal and external vulnerabilities, the government committed to implementing strong fiscal and structural reforms under its Medium-Term Fiscal Balance Plan (MTFP) for 2020-24.

High hydrocarbon revenues and substantial fiscal consolidation under the MTFP have improved fiscal and external balances considerably. The fiscal adjustment includes both expenditure rationalization such as a lower wage bill, streamlining capital expenditure, subsidy reforms, as well as revenue reforms such as the introduction of a VAT. While central government debt sustainability improved due to high oil prices and fiscal adjustment, debt remains vulnerable to shocks (e.g., primary balance, GDP growth, exchange, and interest rate fluctuations).

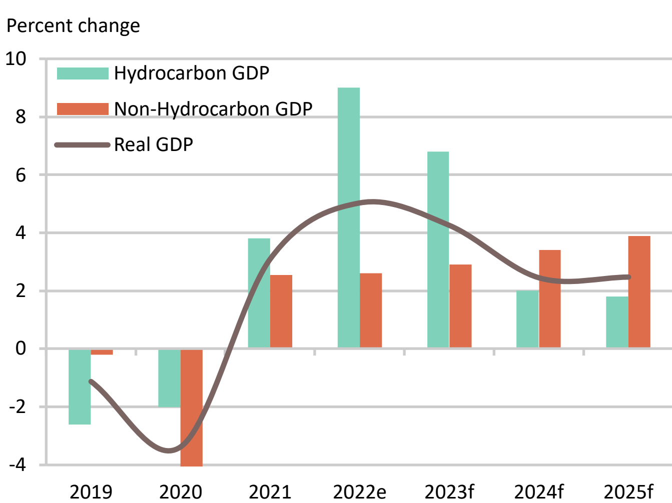
The economic outlook remains favorable, lifted by cyclical and structural factors including higher hydrocarbon windfall, accelerated implementation of reforms under Vision 2040 and MTFP, and planned investments. Picking up speed with climate adaptation, mitigation, and transition management could spur greener growth and mitigate climate risks. However, key risks to the outlook arise from recurring COVID-19 related-disruptions, the uncertainty surrounding the global economy and oil prices, tighter-than-expected global financial conditions, increased inflationary pressures, which could delay implementation of fiscal adjustment and heighten financing risks in the medium-term.

Recent developments

Oman's economy is recovering well from the COVID-19 shock largely thanks to the buoyant hydrocarbon sector and a strong recovery in high-contact sectors. Official data show that the real economy grew by 4.5 percent in the Q3 2022 y/y led by a 12 percent growth in the hydrocarbon sector. The non-hydrocarbon economy rebounded by 1.6 percent during the same period boosted primarily by the services sector. The latter grew by 5 percent due to the sharp expansion in transportation and storage sub-sectors. As such, overall GDP growth is estimated to edge up by 5 percent in 2022. Inflation accelerated to an average of 2.8 percent in 2022 reflecting the recovery of domestic demand and rising global inflationary pressures.

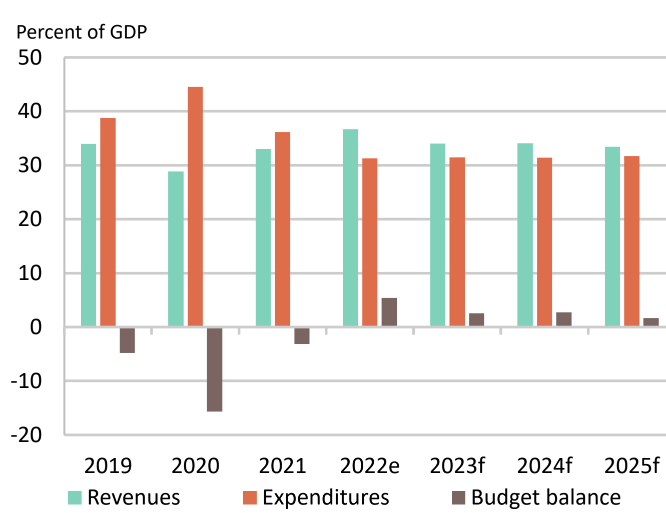
Oman's overall fiscal balance posted a comfortable surplus of over 5 percent of GDP by end-2022, the first surplus since 2013. This improvement stems from both the revenue and expenditure sides. A substantial increase in budgetary revenues (42.3 percent) during the first ten months of 2022 (10M-22) was spurred by higher hydrocarbon receipts (up by over 50 percent y/y) and the implementation of MTFP

FIGURE 1 Oman / Real annual GDP growth



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

FIGURE 2 Oman / General government operations



Sources: Oman authorities and World Bank staff projections.

measures. On the expenditures side, the government maintained fiscal prudence by containing the public wage bill and other current expenditures. As a result, Oman's fiscal position shifted to over US$3.0 billion surplus (3.1 percent of GDP) during 10M-22, against a US$2.6 billion deficit (3.0 percent of GDP) for the same period last fiscal year. The positive fiscal developments are estimated to have reduced the debt-to-GDP ratio to 43 percent in 2022—from over 62 percent in 2021.

Similarly, the trade balance surplus widened in the first 10M-22 to US$22 billion (20 percent of GDP) compared to US$9 billion (10 percent of GDP) during the same period of last year. The surplus is driven by higher merchandised exports, of which 75 percent is hydrocarbon-based. Higher hydrocarbon prices and fiscal adjustments are estimated to shift the current account balance into a surplus of almost 6 percent of GDP in 2022. As a result, gross foreign assets reached a record high of US$17.5 billion as of December 2022.

Based on ILO estimates, Oman's labor market continues a slow recovery from the impact of the pandemic but is not expected to fully rebound by 2023. The labor force participation rate and employment-to-population ratio are projected to reach 68.2 percent and 66.5 percent respectively in 2023, still around two percentage points below their 2019 levels. According to the most recent monthly statistical bulletin, employment has expanded faster in the private sector than in the public sector. The unemployment rate is expected by the ILO to remain elevated at around 2.5 percent, with recovery slower among women than among men. Unemployment rates continue to be higher among young adults, with the highest rates among young women (projected at 26.9 percent for 2023).

Outlook

Oman's economy is forecast to continue to grow driven by increased hydrocarbon production capacity, and accelerated implementation of structural reforms under Vision 2040, but at a slower pace as global demand for oil weakens. Overall growth is projected to moderate to 4.3 percent in 2023 and to slow down further thereafter, reflecting softening global demand. However, the hydrocarbon sector will remain the driving force of the economy, which is projected to grow by over 9 percent in 2023 aided by the development of new natural gas fields. The non-oil economy is anticipated to continue its recovery trajectory and grow by almost 3 percent in 2023 supported by frontloading of infrastructure projects, increased industrial capacity from renewable energy, and the tourism sector. Inflation is forecast to slow to an average of 2 percent during 2023-25 on rising interest rates, government subsidies, and lower commodity prices.

Despite the projected decline in the hydrocarbon prices in the forecast period, Oman's overall fiscal balance is expected to remain in surplus averaging nearly 2.3 percent of GDP in 2023-25 assuming continued implementation of fiscal adjustment measures under MTFP.

The current account is projected to remain in a comfortable surplus over the medium term as higher liquified natural gas exports will partially compensate for the decline in hydrocarbon prices. This will help Oman to rebuild its foreign reserves, which are projected to exceed US$24 billion in 2023-25 (6 months of imports), and improve the country's resilience against external shocks.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.4	3.1	5.0	4.3	2.4	2.5
Private Consumption	9.6	6.8	4.2	3.5	2.9	3.0
Government Consumption	-14.0	0.9	3.3	1.6	1.3	2.5
Gross Fixed Capital Investment	1.8	-1.5	4.6	4.1	3.0	3.1
Exports, Goods and Services	-14.6	14.2	13.0	6.0	3.5	3.2
Imports, Goods and Services	-8.9	2.7	6.6	5.2	4.8	4.9
Real GDP growth, at constant factor prices	-3.4	3.1	5.0	4.3	2.4	2.5
Agriculture	14.3	9.0	2.2	2.8	1.9	1.5
Industry	0.0	1.1	4.6	4.1	3.5	3.3
Services	-8.1	5.3	5.6	4.6	1.1	1.5
Inflation (Consumer Price Index)	-0.9	1.5	2.8	2.3	2.1	1.9
Current Account Balance (% of GDP)	-16.2	-4.9	5.7	3.5	2.3	1.6
Net Foreign Direct Investment Inflow (% of GDP)	4.7	5.0	-2.0	-1.0	-0.5	-0.2
Fiscal Balance (% of GDP)	-15.7	-3.2	5.4	2.5	2.7	1.7
Revenues (% of GDP)	28.9	33.0	36.7	34.0	34.1	33.4
Debt (% of GDP)	69.5	62.8	42.7	42.2	41.8	41.0
Primary Balance (% of GDP)	-12.6	0.0	8.1	5.4	5.6	4.7
GHG emissions growth (mtCO2e)	7.5	4.2	6.2	4.7	3.8	4.3
Energy related GHG emissions (% of total)	70.9	71.5	72.5	73.1	73.4	73.8

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

PALESTINIAN TERRITORIES

Table 1	2022
Population, million	5.0
GDP, current US$ billion	19.4
GDP per capita, current US$	3846.4
Upper middle-income poverty rate ($6.85)[a]	20.5
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	94.0
Life expectancy at birth, years[b]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

The Palestinian economy's post-pandemic recovery continued during 2022, albeit at a slower rate compared to the 2021 rebound. Despite a significant narrowing of the deficit in 2022, the fiscal situation remains critical, in a context of a rigid expenditure envelope and very low external aid. This has forced the Palestinian Authority to accrue large arrears to the private sector and public pension fund and to pay partial salaries to public employees. The outlook remains precarious and subject to political stability and security conditions.

Key conditions and challenges

The Palestinian economy remained stagnant for years prior to the recent crises emanating from the COVID-19 pandemic and the Russian invasion of Ukraine. During 2017-19, annual GDP growth averaged a mere 1.3 percent due to ongoing Israeli restrictions, recurrent hostilities, the internal divide between the West Bank and Gaza, and falling aid inflows. The economy, in recent years, has been driven by factor accumulation rather than improvements in productivity, and growing slower than the population, resulting in decreasing per capita incomes and rising poverty. Even though gross investment has been robust in recent years, the bulk of it has been channeled into non-tradable activities rather than sectors that could help boost growth and job creation. The combination of sluggish productivity and the complexity of political, security, and health risks have inhibited investment, with very low net FDI levels in the last 5 years.

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

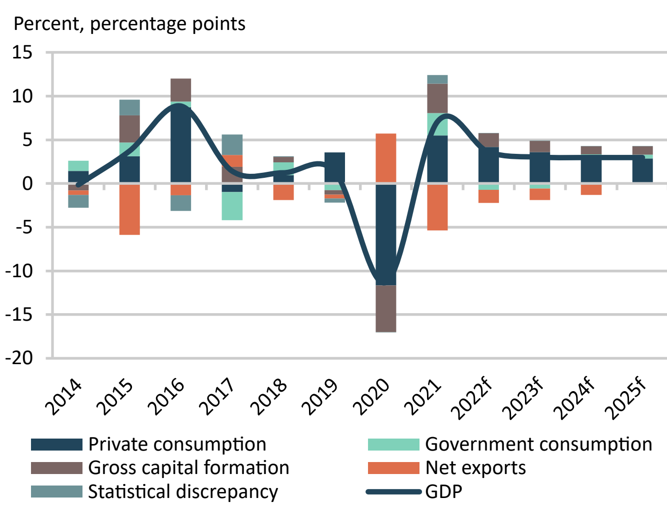
Recent developments

In 2022, the Palestinian economy continued its rebound from the COVID-19 shock, and real GDP growth reached 3.6 percent, year-on-year (y-o-y). The easing of COVID-related measures allowed the economy to expand driven by consumption, which in turn prompted the growth of the wholesale and retail trade sector, as well as services. The increase in the number of Palestinians working in Israel and the settlements also aided the recovery, as the average daily wage of these workers is more than twice as high as that paid in the Palestinian territories, implying a larger impact on aggregate demand. Despite this positive trajectory, the economy is yet to rebound to its pre-pandemic level.

Stronger aggregate demand, coupled with rising global commodity prices and the supply-side shocks determined by the war in Ukraine, generated an inflationary push that brought the CPI up to 3.7 percent (y-o-y) in 2022, from negative territory in 2020. On the other hand, the appreciation of the Israeli Shekel (i.e., the main currency in circulation in the Palestinian territories) contributed to mitigating inflation, in comparison to other countries in the region.

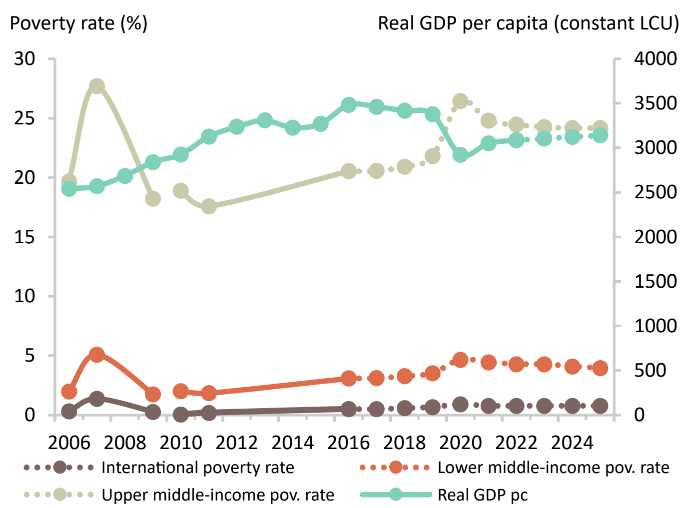
The economic recovery and reforms supported revenue mobilization, while the authorities kept public expenditure contained by reducing transfers, in 2022. Thus, the overall fiscal deficit (after grants)

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



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

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



Source: World Bank. Notes: see Table 2.

and after accounting for the deductions made by Israel from VAT and import taxes collected on behalf of the Palestinian Authority declined from 5.7 percent of GDP in 2021 to 1.8 percent in 2022. The deficit has been largely financed by the accumulation of arrears to the private sector, the public pension fund, and public employees (as the Palestinian Authority has been paying 80 percent of public sector salaries, while protecting the lowest earners, since November 2021).

Unemployment remained high in 2022, at 24.4 percent, despite marginal improvements from 2021. This overall rate, however, masks wide regional divergences. In the West Bank, unemployment stood at 13.1 percent in 2022, while it reached 45.3 percent in Gaza, reflecting the devastating implications of the movement and access restrictions on the Strip that have created a nearly closed economy.

Based on GDP per capita growth trends, it is estimated that the poverty rate spiked to 26.5 percent in 2020, an increase of around 6 percentage points from 2016 (latest available official data). As the impact of the pandemic receded over the course of 2021 the poverty rate is estimated to have declined to 24.5 percent in 2022. These rates represent a population of approximately 1.25 million people who are deemed poor.

Outlook

Growth is projected to soften over the forecast period. Under a baseline scenario which assumes: a continuation of the restrictions on movement and access, the persistence of the internal divide between the West Bank and Gaza, and stagnating aid levels, growth of the Palestinian economy is expected to hover around 3 percent over the forecast period, implying a stagnation in real incomes. Consequently, the poverty rate is projected to reach 24 percent by 2025.

On the fiscal front, revenues as a share of GDP are projected to further grow over the forecast period driven by the PA's continued efforts to implement the revenue strategy (2022-2025). On the spending side, fiscal expenditures are projected to decline gradually as a percentage of GDP given the authorities' plans to rationalize spending, especially on the wage bill. The overall fiscal deficit, including grants and deductions from clearance revenues, is thus expected to decline to 0.9 percent of GDP by 2025.

Downside risks remain elevated. A further decline in public consumption may negatively impact growth especially as the PA may resort to further spending cuts if aid levels do not recover. Following the recent election of a new Israeli government, tensions have increased as has uncertainty regarding political and security developments, which could exacerbate macro and fiscal risks. Internal decisions under discussion by the new Israeli government may negatively impact the Israeli currency and economy which, in turn, could weigh heavily on economic outcomes on the Palestinian side given the strong links between both economies.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-11.3	7.1	3.6	3.0	3.0	3.0
Private Consumption	-13.1	7.5	3.6	4.1	3.2	3.2
Government Consumption	0.3	10.3	-2.4	-2.6	2.2	2.3
Gross Fixed Capital Investment	-20.9	13.7	7.3	5.0	3.5	3.5
Exports, Goods and Services	-11.2	17.3	5.5	3.8	3.8	3.8
Imports, Goods and Services	-14.2	14.8	5.6	3.6	3.6	3.6
Real GDP growth, at constant factor prices	-12.0	6.2	3.7	3.0	3.0	3.0
Agriculture	-9.1	-0.7	-4.2	-2.0	-1.0	0.0
Industry	-19.4	4.5	7.7	3.0	3.0	3.0
Services	-10.0	7.5	3.4	3.5	3.4	3.2
Inflation (Consumer Price Index)	-0.7	1.2	3.7	1.6	1.2	1.2
Current Account Balance (% of GDP)	-12.3	-8.2	-8.9	-8.6	-8.5	-8.5
Net Foreign Direct Investment Inflow (% of GDP)	0.9	1.0	1.0	1.0	1.0	1.0
Fiscal Balance (% of GDP)	-7.5	-5.7	-1.8	-1.4	-1.2	-0.9
Revenues (% of GDP)	25.2	24.6	25.8	25.8	26.0	26.1
Expenditure (% of GDP)	32.6	30.3	27.6	27.2	27.1	27.1
Debt (% of GDP)	55.5	55.8	52.6	52.0	51.5	50.8
Primary Balance (% of GDP)	-7.1	-5.1	-1.1	-0.7	-0.5	-0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.9	0.8	0.8	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.7	4.4	4.3	4.3	4.1	4.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	26.4	24.8	24.5	24.3	24.2	24.2

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

QATAR

Table 1	2022
Population, million	2.9
GDP, current US$ billion	225.3
GDP per capita, current US$	78219.6
School enrollment, primary (% gross)[a]	102.2
Life expectancy at birth, years[a]	79.1
Total GHG emissions (mtCO2e)	137.3

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

The FIFA World Cup hosted in Qatar in November and December 2022 provided a near-term boon to the economy despite tightening global financial conditions and declining commodity prices. Large external and fiscal surpluses are anticipated in the medium term supported by the development of the North Field LNG expansion project. Key risks to the outlook include a breakout of new COVID-19 variants, tighter global financial conditions, and volatile energy prices. Diversification continues to be the main challenge for the economy.

Key conditions and challenges

The FIFA World Cup, which began in late November 2022, reportedly drew 3.4 million visitors in total. Travel, tourism and hospitality, and retail sectors have all gained momentum and received a major boost during Q4 2022.

The hydrocarbon sector continues to benefit from high yet moderating energy prices. Large surpluses in the external and fiscal balances are expected to remain for the next few years. The main driver of the economy will be the development of the North Field Liquified Natural Gas (LNG) expansion project. Over the forecast period, investment spending on this project will support overall economic growth. LNG production in 2026 and 2027 will rise substantially supporting industrial output and boosting exports.

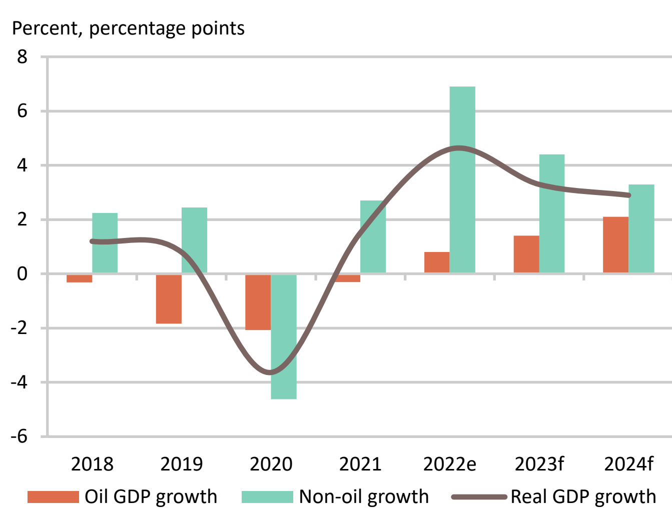
In the medium term, the greatest challenge that the country faces will be how to continue to diversify away from hydrocarbons. In the last ten years, the size of the hydrocarbon economy in relation to total GDP has declined but investments to expand LNG capacity over the next five years will reverse this trend. Within this context, additional structural reforms would boost Qatar's goal to further diversify its economy.

Recent developments

Qatar's Q3 2022 real GDP grew by 4.3 percent with contributions from both non-hydrocarbon (5.3 percent) and hydrocarbon (2.7 percent) sectors. The FIFA World Cup in November and December attracted 3.4 million spectators, including 1.2 million international visitors, leading to increased spending on tourism, food, and hospitality and boosting Q4 GDP growth. Despite a slight drop in the January PMI, the Future Output index rose to a three-year high indicating strong optimism for new business opportunities on the back of the World Cup. In the hydrocarbon sector, Qatar signed several long-term supply agreements in November, including the first Qatari-German LNG supply contract for at least 15 years, and the record-breaking 27-year deal with China. Qatar has already implemented the first phase of LNG production in North Field to increase production from 77 million tons to 110 million tons by 2025 and 126 million tons by 2027. This mega project will further expand Qatar's already dominant position in the LNG global market.

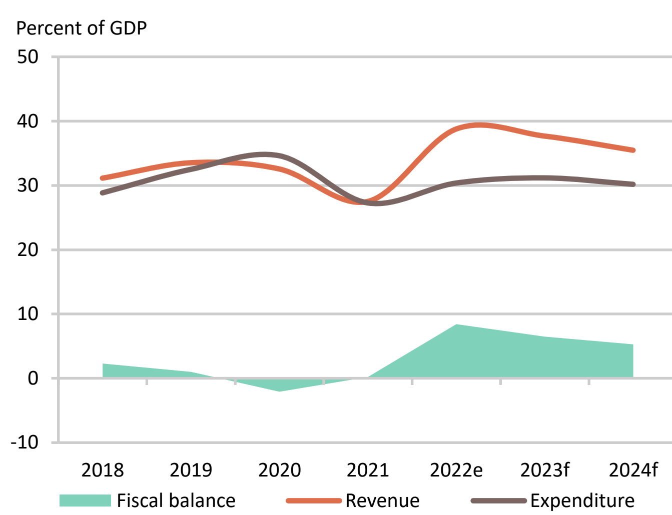
Higher domestic demand led to a significant increase in inflation, with consumer prices rising 5.9 percent in December. In mid-December, the Qatar Central Bank (QCB) raised its key policy interest rate by 50 basis points to 5 percent. The rise in interest rates and a strong currency (pegged to the US dollar) prevented a full passthrough of higher import prices

FIGURE 1 Qatar / Annual real GDP growth



Source: World Bank.

FIGURE 2 Qatar / Fiscal balance



Source: World Bank.

to consumers and businesses. The QCB maintained its policy rate in February, in contrast to the Fed's hike, as inflation eased to 4.2 percent in January as some domestic demand-side pressures associated with the World Cup started to fade.

High hydrocarbon prices have materially strengthened fiscal and external balances, resulting in a large fiscal surplus of 13.2 percent of GDP and an external balance surplus of 27.5 percent of GDP in Q3. In Q4, the large influx of World Cup tourists boosted services export revenues. International reserves and foreign currency liquidity witnessed its highest growth, reaching QAR 230 billion (USD 63.2 billion) at the end of December 2022.

Thanks to continued labor reforms, Qatar's labor market is strengthening. Labor mobility has increased following the dissolution of the kafala sponsorship system. Almost 350,000 applications to change jobs were approved between November 2020 and August 2022, significantly outpacing the estimated 27,000 people who changed jobs in 2018 and 2019. However, progress is still needed in communicating the new process for changing jobs and deterring retaliatory behavior by employers as well as improving working conditions. Expanded electronic monitoring of payments and more channels for raising complaints and resolving disputes have contributed to an increase in the amount paid out from the Workers' Support and Insurance Fund in 2022 relative to the previous year, but it can still take a long time for cases to be processed. As of October 2022, more than 70 private and public entities had established joint committees of management and worker representatives to facilitate social dialogue.

Outlook

Real GDP is estimated to slow down to 3.3 percent in 2023 after the strong performance registered in 2022, with the hydrocarbon sector expanding by 0.8 percent. The North Field expansion project is expected to boost the hydrocarbon sector in the medium term once the field enters commercial operation. Robust growth is anticipated during this year in the non-hydrocarbon sectors, reaching 4.3 percent, driven by private and public consumption. Consumer prices are projected to decelerate, averaging 3.2 percent in 2023, on the back of tightening global financial conditions and declining international commodity prices.

With falling, but still-high, international energy prices, the twin-balance surpluses are projected to narrow but remain large in 2023 compared to 2022. Specifically, the external and fiscal balances are projected to reach 15.9 and 6.5 percent of GDP in 2023, respectively. The strength of Qatar's hydrocarbon sector (currently the largest LNG exporter and third largest producer) underpins the strong performance of the economy. Although the bidding process related to the first phase of the expansion of the North Field intensified, there is no evidence that investments have been accelerated beyond what had been planned prior to the Russian invasion of Ukraine (i.e., an increase in LNG production by 60 percent by 2027).

The much-delayed introduction of value-added tax (VAT), now expected to come into effect during 2023, will offset some of the declines in hydrocarbon revenue and support the budget balance. Notwithstanding a softening of global hydrocarbon prices in the medium term, the expansion of LNG production through 2027 should boost the cumulative increase in Qatar's total GDP by at least 15 percent. However, the economy continues to face challenges and risks, including the potential emergence of new COVID-19 variants, fluctuations in energy prices, and tightening global financial conditions.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-3.6	1.5	4.6	3.3	2.9	3.1
Private Consumption	-5.6	3.4	5.1	3.0	2.6	2.6
Government Consumption	10.3	2.8	4.1	3.0	2.5	2.8
Gross Fixed Capital Investment	-3.1	2.3	3.1	2.4	2.1	2.3
Exports, Goods and Services	-6.8	2.4	5.4	5.1	4.9	4.5
Imports, Goods and Services	-2.7	4.7	6.5	6.1	6.1	6.0
Real GDP growth, at constant factor prices	-3.6	1.5	4.6	3.3	2.9	3.1
Agriculture	18.5	0.5	3.4	3.0	3.0	2.9
Industry	-3.2	0.7	5.2	3.9	3.1	3.1
Services	-4.4	3.1	3.3	2.2	2.6	3.0
Inflation (Consumer Price Index)	-2.7	2.3	5.0	3.2	2.1	1.8
Current Account Balance (% of GDP)	-2.5	14.6	22.5	15.9	12.1	10.9
Fiscal Balance (% of GDP)	-2.1	0.2	8.4	6.5	5.3	5.0
Revenues (% of GDP)	32.6	27.5	38.8	37.7	35.5	34.8
Primary Balance (% of GDP)	-0.3	1.8	9.6	7.5	6.3	6.0
GHG emissions growth (mtCO2e)	2.8	6.5	9.3	7.5	7.9	8.5
Energy related GHG emissions (% of total)	76.5	77.8	79.5	80.8	82.1	83.4

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

SAUDI ARABIA

Table 1	2022
Population, million	36.4
GDP, current US$ billion	1019.3
GDP per capita, current US$	27996.9
School enrollment, primary (% gross)[a]	102.1
Life expectancy at birth, years[a]	76.2
Total GHG emissions (mtCO2e)	771.4

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

Following the strong performance in 2022, economic growth is expected to taper off in 2023 driven by stagnant oil production, as part of OPEC+ agreed production schedule. Inflation remains contained supported by relatively strong US dollar, tight monetary policy, and a cap on domestic fuel prices. Elevated oil prices support twin-balance surpluses in the medium-term. A breakout of new COVID surges, volatile oil prices, and tighter-than-expected global financial conditions are key risks to the outlook.

Key conditions and challenges

The Saudi Arabian economy is dominated by oil, and a long-term diversification plan (Vision 2030) promotes structural reforms targeting strong, sustained, inclusive, greener, and service-led growth. Accordingly, the Public Investment Fund (PIF) is aiming to channel SAR150 billion (US$40 billion) annually into pushing the diversification agenda forward. Similarly, the Shareek initiative aims to generate about SAR5 trillion (US$1.3 trillion) of local investment by 2030, helped by the participation of some of the Kingdom's largest companies. Strong emphasis is also being placed on tourism development, with a view to boosting the sector's contribution to 10 percent of GDP by 2030.

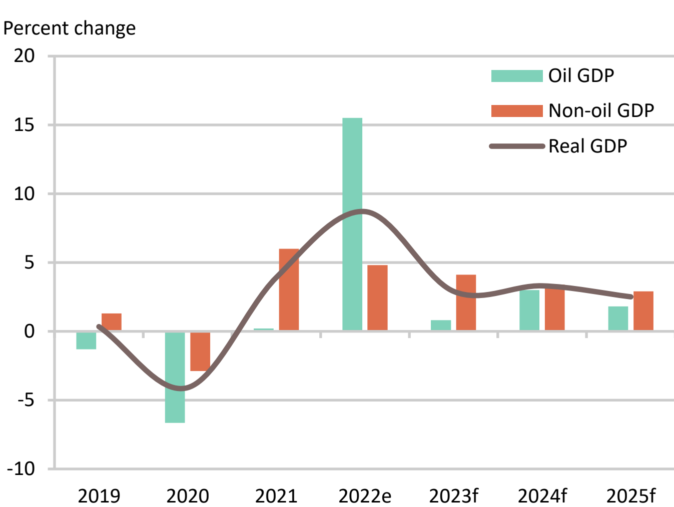
Development opportunities and risks are both numerous. On the upside, an improvement in China's growth prospects—following the abrupt abandonment of its zero covid policy—holds the promise of stronger demand in Saudi Arabia's main export market. On the downside, risks include: new COVID surges, lower oil prices due to reduced global activity (especially if the Russian invasion of Ukraine has lasting effects), tighter-than-expected global financial conditions, and procyclical pressures to spend oil windfalls and deviate from fiscal prudence. Delays or digressions in implementing structural reforms highlighted in the Vision 2030, either due to international shocks or because of the foreseen comfortable twin-balance surpluses, would reduce prospects for stronger long-term growth.

Recent developments

The Saudi Arabia economy grew at an impressive pace in 2022 despite weaker year-on-year growth in Q4, reflecting the OPEC+ decision to cut oil quotas from November onward. Official data suggest that the economy grew by 8.7 percent yearly—the fastest growth rate since 2011—supported by the oil sector which rebounded by a staggering 15.5 percent. Supported by robust consumer spending, loose fiscal policy, and improved labor markets, the non-oil sectors continued to expand, reaching 4.8 percent y-o-y in 2022. Headline inflation stayed moderate and well-below the levels recorded in other comparable countries, with a (monthly) peak of 3.4 percent being registered in January 2023.

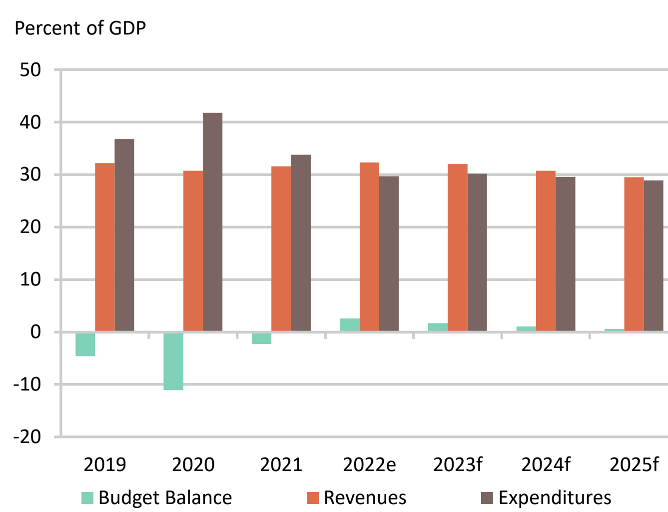
Ministry of Finance data indicate total actual outlays exceeding budgeted expenditures by around 19 percent in 2022. However, booming oil receipts more than compensated for the loose policy, resulting in a fiscal balance surplus of 2.6 percent of GDP—from a deficit of 2.3 percent of GDP in 2021. As a result, public debt fell by more than 5 percentage points in 2022, to hover around 25 percent of GDP. The Q3 2022 balance of payments data show a current account surplus boom, on the back of stronger oil receipts—marking

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and World Bank staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



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

the largest surplus recorded in eight years. However, the Saudi Central Bank's foreign reserves only increased by $1.6 billion which suggests that a significant share of oil revenues being rechanneled by PIF into investments abroad. Overall, the current account surplus is predicted to widen to 15.7 percent of GDP in 2022 on the back of higher oil prices and production levels.

The number of Saudis working in the private sector continues to increase. According to administrative data, the number of Saudi employees in the private sector in Q3 2022 reached 2.14 million, up from 1.91 million in Q4 2021. The number of non-Saudi nationals employed in the private sector also increased to 7.16 million in Q3 2022 from 6.17 million in Q4 2021. The overall labor force participation rate and employment-to-population ratio increased slightly from Q3 2021 to Q3 2022, while the unemployment rate decreased. The labor force participation rate among Saudis increased from 49.8 percent to 52.5 percent and the employment-to-population ratio among Saudis increased from 44.2 percent to 47.3 percent, while the same indicators decreased slightly among non- Saudis. Importantly, the labor force participation rate and employment-to-population ratio also continue to increase for Saudi women, reaching 37 percent and 29.4 percent, respectively in Q3 2022.

Outlook

Following a GDP expansion of 8.7 percent in 2022, economic growth is expected to decelerate to 2.9 percent in 2023. Stagnant oil production – as Saudi Arabia abides by OPEC+ agreed production quota – will constrain oil sector growth to 0.8 percent. However, as far as oil prices remain high, governments will have plenty of room to keep fiscal policy loose. Furthermore, the backdrop of high oil prices will support credit growth and soften the adverse impact of tighter monetary conditions on consumption. As a result, the non-oil sectors, which are expected to grow by 4.1 percent, will cushion the softening of the oil sector growth. Meanwhile, a relatively strong US dollar, restrictive monetary policy, and a cap on domestic fuel prices are predicted to curb potential upward pressure on prices, thus keeping inflation rate subdued at 2.4 percent.

Despite the continued expansionary fiscal approach and some reduction in oil receipts during 2023, the fiscal balance is expected to register a surplus of 1.7 percent of GDP—above government's forecast of 0.4 percent of GDP. As a result, and reflecting the reduced financing needs by the government, the debt-to-GDP ratio is expected to reach 24 percent of GDP. The off-budget capital spending by PIF will continue to remain substantial.

Even with the anticipated fall in oil export revenue in 2023, due to softening oil prices and production levels in Saudi Arabia, exports will continue to dwarf imports. As a result, the current account surplus is expected to continue in double-digits during the forecast period.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-4.3	3.9	8.7	2.9	3.3	2.5
Private Consumption	-8.1	9.4	6.5	3.6	3.3	3.0
Government Consumption	3.3	0.8	4.5	3.1	2.9	2.5
Gross Fixed Capital Investment	-10.4	10.1	10.0	7.2	3.3	3.3
Exports, Goods and Services	-10.6	1.0	18.5	1.8	4.2	2.9
Imports, Goods and Services	-19.8	8.3	17.4	5.4	4.3	4.3
Real GDP growth, at constant factor prices	-4.3	3.9	8.6	2.9	3.3	2.5
Agriculture	-1.7	2.6	3.0	2.0	2.0	2.0
Industry	-6.0	1.7	10.4	0.8	2.3	1.5
Services	-2.2	6.7	6.8	5.5	4.5	3.7
Inflation (Consumer Price Index)	3.4	3.1	2.5	2.4	2.2	2.2
Current Account Balance (% of GDP)	-3.1	5.1	15.7	11.0	10.6	10.3
Net Foreign Direct Investment Inflow (% of GDP)	0.1	-0.6	-0.9	-0.9	-1.0	-1.0
Fiscal Balance (% of GDP)	-11.1	-2.3	2.6	1.7	1.1	0.6
Revenues (% of GDP)	30.7	31.6	32.3	31.9	30.7	29.5
Debt (% of GDP)	33.7	30.9	25.7	24.6	23.7	24.2
Primary Balance (% of GDP)	-10.1	-1.3	3.5	2.7	2.1	1.6
GHG emissions growth (mtCO2e)	-0.7	3.6	3.8	2.5	3.7	3.1
Energy related GHG emissions (% of total)	69.8	70.8	70.9	71.2	71.8	72.2

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

SYRIAN ARAB REPUBLIC

Table 1	2022
Population, million	22.1
GDP, current US$ billion	12.4
GDP per capita, current US$	560.5
School enrollment, primary (% gross)[a]	81.7
Life expectancy at birth, years[a]	72.1
Total GHG emissions (mtCO2e)	50.3

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

Syria's real GDP contraction is projected to widen by 2.3 percentage points to 5.5 percent in 2023 as a result of the devastating earthquake that affected significant parts of Syria's northern and western territory; the additional contraction is primarily driven by the destruction of physical capital and disruptions in trade activity. Earthquake-induced displacement added about 20 percent to the staggering count of the 3 million conflict-induced internally displaced people (IDPs) already living in affected areas.

Key conditions and challenges

A decade-long conflict has had devastating socioeconomic consequences. Although the intensity of the conflict has declined from a peak in the mid-2010s, Syria continues to rank amongst the top countries in terms of violent deaths. More than half of Syria's pre-conflict population remains displaced, including 6.8 million IDPs and 6.9 million refugees abroad. The destruction of physical capital, casualties, forced displacement, and the break-up of economic networks have halved the size of the economy compared to 2010. Nighttime light emissions suggest that GDP has further contracted since 2021, particularly in regions where conflict is more intense.

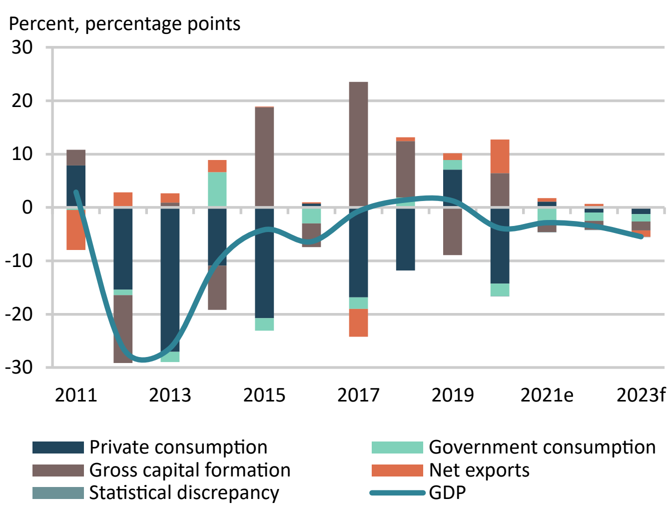
Severe drought, damages to the irrigation infrastructure, and high input costs have halved agricultural production since 2021. Economic instability in neighboring Lebanon and Türkiye, and U.S. sanctions towards Syria under the Caesar Act have further exacerbated crisis conditions. After a decade of war, a severely degraded healthcare system is preventing an effective response to a cholera outbreak that started last summer. With nearly half of the oil consumption and about one-third of cereal consumption being imported, higher commodity prices following Russia's invasion of Ukraine, have weakened Syria's external position, and are fueling inflation. The market exchange rate of the Syrian pound depreciated by about 76 percent against the U.S. dollar in 2022 alone. Currency depreciation has been accompanied by rising inflation, with food prices, as proxied by the World Food Programme's (WFP) minimum food basket price index, rising by 93 percent in 2022.

Syrian households face ever-growing challenges in coping with shocks. According to Humanitarian Needs Assessment Programme (NHAP) data, between 2021 and 2022, the share of households having to rely on at least one extreme negative coping strategy increased from 59 to 76 percent. Deteriorating welfare conditions are further reflected in a higher share of households having to reduce expenditure on essential items, being forced to take up high-risk and exploitative work, or even having to rely on child labor (Figure 2). In 2022, only 15 percent of households report having sufficient income to satisfy essential needs and close to 50 percent of households have had to sell their assets – either productive, unproductive, or both – in order to make ends meet.

Recent developments

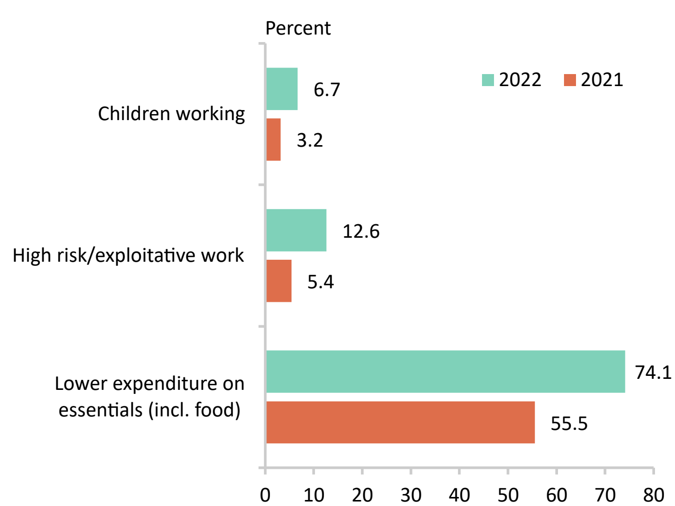
The 7.8 magnitude earthquake that struck the southern region of Türkiye on February 6, 2023, affected significant parts of Syria's northern and western territory. The human toll of the earthquake on the Syrian side of the border was significant, with approximately 6,000 people killed and 12,000 injured. Initial accounts indicate that approximately 600,000 people have been displaced by the earthquake, adding about

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



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

FIGURE 2 Syrian Arab Republic / Share of households relying on extreme coping strategies



Source: World Bank staff calculations based on the Summer 2022 HNAP demographic household survey.

20 percent to the already higher number of 3 million IDPs that already lived in the area affected by the earthquake

Earthquakes and aftershocks caused an estimated $5.2 billion in physical damages and losses in Syria, according to the World Bank Syria Earthquake 2023 Rapid Damage and Needs Assessment (RDNA). The governorate of Aleppo suffered the greatest damages (44 percent of total damages), followed by Idlib (21 percent). By sector, the largest physical damages were incurred in housing (24 percent of the total), followed by transport (19 percent of the total) and environment (16 percent of the total).

Prices have increased in the aftermath of the earthquake. According to the WFP, the nominal prices of key commodities in the food basket, comprised of bread, lentils, vegetable oil, sugar, and rice, increased by about 10 percent in all of the heavily hit governorates (Aleppo, Hama, Idleb, and Lattakia) two weeks after the earthquake. Even in regions that were not seriously impacted by the earthquake, the cost of food and other necessities also increased noticeably.

Outlook

Subject to extraordinarily high uncertainty, the Syrian economy, which was projected to contract by 3.2 percent in 2023 prior to the earthquake, is now projected to contract by 5.5 percent. On the production side, the earthquake would adversely impact the production capacity of the country, mainly through disruptions in physical capital and trade networks. On the consumption side, higher inflation, which is projected to rise from 44 percent to 60 percent as a result of supply chain disruptions and higher transportation costs, would lead to a contraction in private consumption. Earthquake-related reconstruction activity is expected to offset some of these losses, but there is significant uncertainty about the extent and pace of reconstruction.

The fiscal deficit of the Syrian government is projected to rise marginally from a pre-earthquake baseline of 8.6 percent to 8.8 percent of GDP; this is based on the assumption that social and infrastructure needs in the aftermath of the earthquake are largely met by foreign aid. The current account deficit is estimated to increase, rising from a pre-earthquake baseline projection of 2.5 percent to around 3.2 percent of GDP, due mainly to higher imports for reconstruction investment.

High levels of pre-existing welfare vulnerability limit households' capacity to cope with the impact of the earthquake hence exacerbating the risk of long-lasting welfare consequences.

Risks to the economic outlook are significant and tilted to the downside. These include, most notably, a slower-than-expected reconstruction effort, weak private investment, and limited humanitarian assistance for affected areas. GDP losses would be materially higher if reconstruction efforts are delayed.

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

	2020	2021	2022e	2023f
Real GDP growth, at constant market prices[a]	-3.9	-2.9	-3.5	-5.5
Inflation (Consumer Price Index)	114.2	118.8	70.1	60.0
Current Account Balance (% of GDP)	-3.2	-2.8	-2.6	-3.2
Fiscal Balance (% of GDP)	-8.4	-8.6	-8.4	-8.6

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

TUNISIA

Table 1	2022
Population, million	12.4
GDP, current US$ billion	46.7
GDP per capita, current US$	3782.6
National poverty rate[a]	16.6
Lower middle-income poverty rate ($3.65)[b]	2.2
Gini index[b]	32.8
School enrollment, primary (% gross)[c]	112.3
Life expectancy at birth, years[c]	75.3
Total GHG emissions (mtCO2e)	38.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021).
b/ Most recent value (2015), 2017 PPPs.
c/ WDI for School enrollment (2021); Life expectancy (2020).

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

Key conditions and challenges

A decade after the 2011 revolution, Tunisia faces increasingly difficult economic conditions. Limited reform implementation has left the economy closed to investment and trade and insufficiently equipped to exploit opportunities in the global economy. As growth and private job creation stagnated, the State stepped in as an employer of last resort and price stabilizer through subsidies. This has caused a deterioration of the fiscal situation under the weight of a large public sector wage bill, higher energy and food subsidies, and underperforming state-owned enterprises (SOEs). The COVID-19 pandemic first and the Russia's invasion of Ukraine more recently have exacerbated these weaknesses.

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

Recent developments

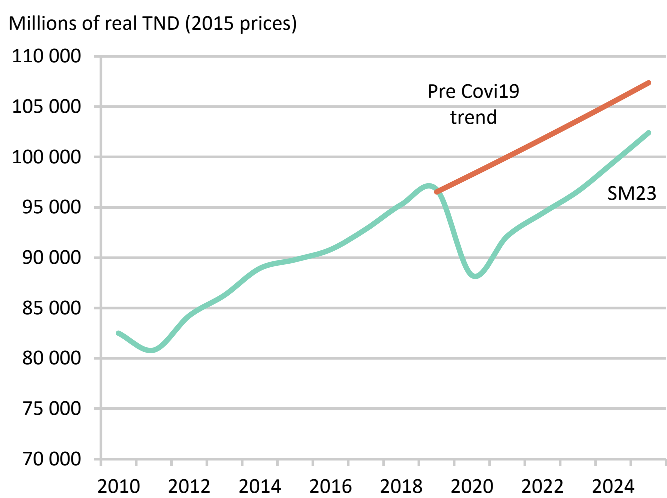
Economic growth has been modest since the sharp contraction in 2020 due to COVID-19 (-8.8 percent). The economy only expanded in real terms by 4.4 percent in 2021 and by 2.5 percent in 2022. The slowdown in 2022 started during the second quarter, a likely sign of the fallout of the war in Ukraine and higher global energy and food prices.

The commodity price hike raised the merchandise trade deficit to 15 percent of GDP in 2022, up from 10.2 percent in 2021 (compared to 13.5 percent in 2017-19). This increase drove up the current account deficit (CAD) from 6.0 to 8.5 percent of GDP in 2021-22, in spite of the encouraging trends in tourism receipts and even more in remittances (which reached 6.5 percent of GDP compared to 4.6 percent in 2017-19).

The increase in global commodity prices has also created additional pressures on public finances, mainly through the energy and food subsidy bill. This translated into continued pressure on public debt, which between 2017 and 2021 had already increased from 66.9 to 79.9 percent of GDP (without including government guarantees and SOE debts).

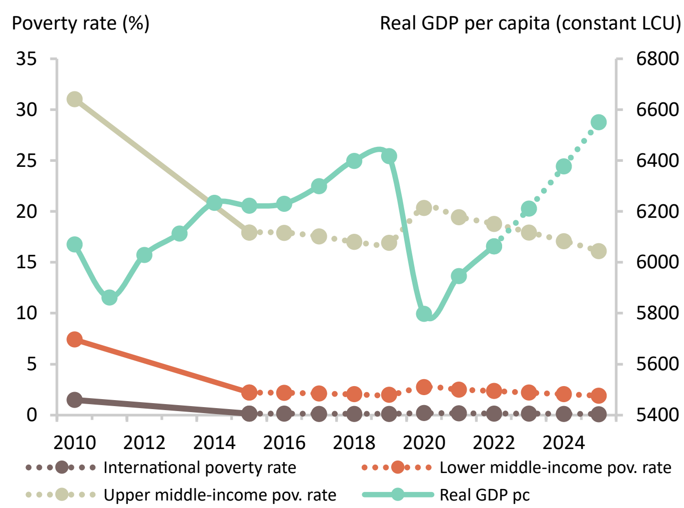
Banks' liquidity needs increased during 2022, largely driven by the financing

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



Sources: World Bank estimates and National Institute of Statistics.

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



Source: World Bank. Notes: see Table 2.

needs of the sovereign and also reflecting a renewed, albeit moderate, growth of credits to the economy.

Inflation has risen, driven by higher global energy and food prices and a weakening of the Dinar vis-à-vis the US Dollar. In February 2023, consumer price inflation increased for the 18th consecutive month to 10.4 percent, up from 10.2 percent in January and 6.4 percent in July 2021. Rising inflation pushed the Central Bank to raise its policy rate by 175 basis points since May 2022, to 8 percent. However, the real interest rate remains negative which leaves further room for maneuver.

Even with moderate economic growth, the unemployment rate declined to 15.2 percent in Q4 2022 from 16.2 percent a year ago, returning to pre-pandemic levels (15.1 percent in Q2 2019). This is still one of the highest rates in the region – and it is particularly high among youth and women - and it is associated with a slight year-on-year reduction in labor force participation (from 47 in Q4 2021 to 46.5 percent in Q4 2022). Hence the net job creation during the period has been low with a total of only 13,000 jobs being created, mainly in the services sectors. Out of these jobs, more than 80 percent were taken by female workers.

Outlook

With a projected growth rate of 2.3 percent in 2023, the economy appears to be slowing down relatively to the trend in 2021 and even in 2022. This reflects the challenging global environment and the lack of structural reforms. With this growth rate, real GDP would reach its pre-Covid 19 level in 2023. Growth is expected to eventually gain ground, but it remains modest at around 3.0 percent a year over the medium term, dragged by pre-existing structural weaknesses and the economic consequences of and uncertainty around the Russian invasion of Ukraine.

Tunisia's public finance and external account will remain precarious in the absence of an IMF program and external financing, and uncertain global conditions. The budget deficit is expected to decline somewhat to 4.6 percent of GDP in 2023 (compared to 6.6 percent of GDP in 2022), mainly driven by lower energy subsidies, a lower wage bill in real terms, and an increase in tax revenues, particularly indirect. Financing needs are expected to remain elevated at around 14.9 percent of GDP in 2023 due to significant external debt amortization.

The CAD is projected to moderate somewhat to 8.0 percent of GDP in 2023, mainly the result of improved terms of trade along with the continued strength of tourism receipts and remittances. With FDI projected to be relatively stable and minimal portfolio investments, foreign lending would still have to shoulder the financing of the CAD.

The 2023 growth forecast is subject to significant downside risks. Growth projections could be significantly lower should Tunisia not implement decisive fiscal and pro-competition reforms and/or should available financing not be sufficient to cover Tunisia's external needs, including as a result of protracted delays in finalizing the IMF agreement. If these conditions occur, it may be challenging to secure sufficient foreign currency in the economy, which could lead to pressures on the exchange rates and prices, exerting a negative impact on economic activity and employment.

Given our baseline growth projections, poverty using the $3.65/person/day line (in 2017 PPP term) is projected to decline from 2.4 percent in 2022 to 2.1 percent in 2024 and 1.9 percent in 2025. The share of poor and vulnerable at the upper-middle income country poverty line ($6.85/person/day in 2017PPP) is projected to decline under pre-Covid levels after 2024 and reaching 16.1 percent in 2025.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.8	4.4	2.5	2.3	3.0	3.0
Private Consumption	-5.1	3.0	4.3	2.2	2.9	3.1
Government Consumption	-4.1	2.2	-2.2	-0.4	-0.5	-0.5
Gross Fixed Capital Investment	-22.4	4.0	4.5	1.4	1.9	-1.7
Exports, Goods and Services	-20.0	11.8	5.9	5.0	7.1	4.2
Imports, Goods and Services	-16.6	10.9	9.5	3.0	4.6	1.4
Real GDP growth, at constant factor prices	-8.7	4.5	2.5	2.3	3.0	3.0
Agriculture	0.4	-2.7	2.0	1.0	3.0	2.0
Industry	-10.1	8.7	1.9	1.5	2.0	2.5
Services	-9.6	4.1	2.9	2.7	3.3	3.3
Inflation (Consumer Price Index)	5.6	5.7	9.1	10.5	10.0	9.0
Current Account Balance (% of GDP)	-6.0	-6.0	-8.5	-8.0	-8.4	-7.8
Net Foreign Direct Investment Inflow (% of GDP)	-1.4	-1.1	-1.4	-4.7	-4.9	-5.0
Fiscal Balance (% of GDP)	-8.7	-7.6	-6.6	-4.6	-3.4	-2.9
Revenues (% of GDP)	25.5	25.7	28.3	28.3	27.1	26.6
Debt (% of GDP)	77.8	79.9	79.3	76.1	71.7	68.7
Primary Balance (% of GDP)	-5.6	-4.8	-3.4	-1.3	-0.2	0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.2	0.2	0.2	0.1	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.8	2.5	2.4	2.2	2.1	1.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.4	19.4	18.8	17.9	17.1	16.1
GHG emissions growth (mtCO2e)	-3.6	2.8	3.7	3.9	2.5	2.0
Energy related GHG emissions (% of total)	70.5	71.0	71.5	72.0	72.1	72.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2015-NSHBCSL. Actual data: 2015. Nowcast: 2016-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2015) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2022
Population, million	9.5
GDP, current US$ billion	485.9
GDP per capita, current US$	51149.2
School enrollment, primary (% gross)[a]	115.4
Life expectancy at birth, years[a]	78.9
Total GHG emissions (mtCO2e)	268.0

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

The UAE's post-pandemic rebound continued strongly in 2022 supported by domestic and global oil demand. Growth is projected to slow in 2023 to reflect global economic downturn and cautious production schedule of OPEC+ alliance. The twin-balances surplus is projected to persist in the medium term while inflation moderates. Key risks to the outlook include a breakout of new COVID-19 variants, tighter global financial conditions, volatile oil prices, and external uncertainties.

Key conditions and challenges

UAE continues to be the region's trade, financial, and travel hub due to the progress made in economic diversification and reducing hydrocarbon dependency. However, the UAE will increasingly face greater regional competition for foreign investment, especially from Saudi Arabia and Qatar, as these countries adopt economic plans similar to Abu Dhabi's Economic and Environment Vision 2030 and Dubai's Industrial Strategy 2030.

Hydrocarbon activity continues to be the main source of government revenue. Steps towards diversifying public revenues are in progress with the introduction of VAT, and most recently, corporate income tax (CIT) and gradually phasing out of the business fee structure. The economic growth outlook of the non-oil sector is strong while elevated energy prices will continue to strengthen external and fiscal positions.

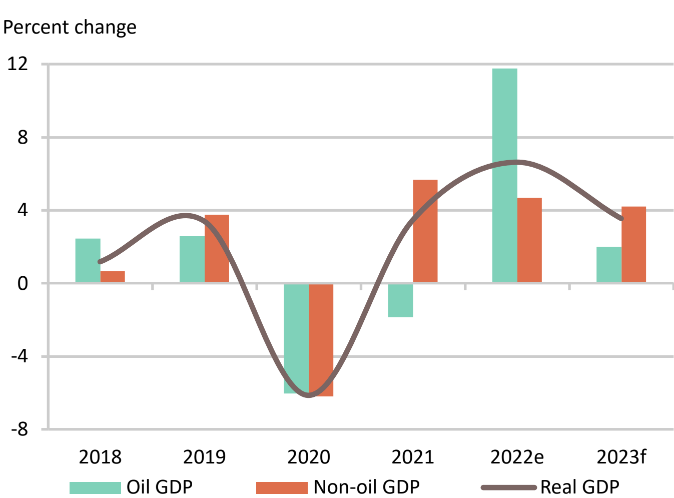
The main impact of extended Russia's invasion of Ukraine on UAE's economy will be through oil price volatility, global inflation, and shocks to the tourism sector. Domestic monetary policy is set to tighten further in line with the US Federal Reserve policy, which might dampen economic recovery and job creation. The main risks to UAE's economic growth are global uncertainty, evolution of the war in Ukraine, potential global economic slowdown, and disagreement among OPEC+ members on production quotas. In addition, delays or digressions in implementing structural reforms would reduce prospects for stronger long-term growth and employment.

Recent developments

UAE's economic performance was strong in 2022, estimated at 6.6 percent, driven by an increase in oil production and improvement in the non-oil sectors. Higher oil prices and loosening of OPEC+ quotas pushed oil production to an average of 3 mbpd in the first half of 2022. Meanwhile, non-oil GDP continued recovery in 2022, estimated at 4.7 percent, driven by strong growth in the construction and tourism sectors. Private consumption is expected to further support non-oil sectors with the launch of mandatory unemployment benefits for local and foreign workers. Business sentiment remains positive, although the global economic slowdown, rising interest rates, and inflation moderated the Purchasers Managers Index (PMI) slightly to 54.2 in February 2023. Headline inflation is estimated at 4.8 percent in 2022 to reflect strong consumption and investments.

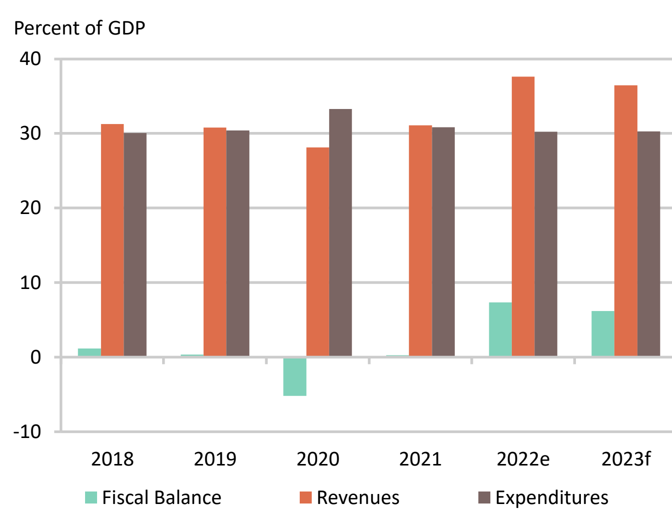
Following the Fed's tightening monetary policy, while maintaining the pegged exchange rate anchor, the Central Bank of UAE (CBUAE) increased the policy interest rates six times in 2022. Despite higher rates, the non-performing loans to gross total loans ratio continued its downward trajectory to reflect a strong economic recovery.

FIGURE 1 United Arab Emirates / Annual real GDP growth



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

FIGURE 2 United Arab Emirates / Public finances



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

The spike in oil prices and removal of fiscal measures related to the private sector support during COVID-19 contributed to further widen the fiscal surplus, which is estimated to reach 7.4 percent of GDP in 2022. Furthermore, higher oil receipts and non-oil exports strengthened the current account balance. Signing of free-trade agreements with large Asian and African markets will further strengthen non-oil exports and widen external balance surplus further.

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. The labor force participation rate is expected to reach 82.7 percent in 2023 (ILO), slightly above its 2019 level. Employment rebounded in 2022 to pre-pandemic levels and is expected to continue to increase in 2023. The unemployment rate is projected to be 2.7 percent for 2023, a decrease from the height of the pandemic but still not back to 2019 rates. Unemployment rates remain substantially higher among young adults ages 15-24 than among adults ages 25 and over. The gap is especially wide among women, with projected rates of 18.6 percent and 5.5 percent respectively for 2023.

Outlook

Economic growth in 2023 is expected to slow compared to 2022 due to a decline in global economic activity, stagnant oil production, and tightening financial conditions. Real GDP is projected to grow by 3.6 percent in 2023 before moderating slightly over the forecast period. The non-oil sector is anticipated to grow by 4.2 percent in 2023 supported by strong domestic demand; particularly in the tourism, real estate, construction, transportation, and manufacturing sectors. Growth will be further strengthened by the implementation of government's reform agenda and CBUAE's efforts to promote stability, efficiency, and resilience of the financial system. Following tighter OPEC+ production quotas, oil GDP is projected to grow by 2 percent in 2023 before rising to 2.8 and 3 percent in 2024 and 2025, respectively.

Stronger US dollar, tighter monetary policy, and falling global commodity prices will keep inflation rates subdued—hovering around 3.4 percent in 2023.

High oil revenues, supported by strong performance of non-oil sectors, will maintain the large fiscal balance surplus, which is expected to reach 6.2 percent of GDP in 2023. Implementation of fiscal revenue reforms, e.g., introduction of CIT, and maintaining prudent and well-coordinated emirate-specific fiscal anchors and rules should improve fiscal buffers and overall fiscal sustainability.

Bilateral free trade agreements with trading partners will open major markets, raising non-oil exports and offsetting the global headwinds. Therefore, it is expected that the current account balance will stand at 11.7 and 10.8 percent of GDP in 2023 and 2024, respectively, keeping the external account in a comfortable position as oil prices moderate.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.1	3.5	6.6	3.6	3.4	3.4
Private Consumption	-12.5	5.0	5.5	4.7	3.8	3.6
Government Consumption	0.7	1.4	3.4	3.3	3.2	3.2
Gross Fixed Capital Investment	5.8	5.4	5.8	3.7	3.5	3.4
Exports, Goods and Services	-7.0	6.7	8.4	4.3	4.4	4.4
Imports, Goods and Services	-6.4	8.8	7.4	4.9	4.8	4.7
Real GDP growth, at constant factor prices	-6.1	3.5	6.6	3.6	3.4	3.4
Agriculture	6.9	3.8	3.4	3.7	3.9	4.0
Industry	-5.5	1.3	8.8	3.4	3.5	3.6
Services	-6.9	5.6	4.7	3.7	3.2	3.2
Inflation (Consumer Price Index)	-2.1	0.2	5.1	3.4	2.1	2.1
Current Account Balance (% of GDP)	5.9	10.5	13.7	11.7	10.8	10.7
Fiscal Balance (% of GDP)[a]	-5.2	0.3	7.4	6.2	5.6	4.1
Revenues (% of GDP)	28.1	31.1	37.6	36.5	35.4	33.2
GHG emissions growth (mtCO2e)	-4.1	7.2	7.0	-0.5	1.0	2.2
Energy related GHG emissions (% of total)	72.6	73.6	74.9	74.6	74.4	74.4

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

REPUBLIC OF YEMEN

Table 1	2022
Population, million	33.7
GDP, current US$ billion	22.7
GDP per capita, current US$	674.4
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	64.7
Total GHG emissions (mtCO2e)	21.9

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

Economic conditions in Yemen remained highly volatile in 2022 due to both domestic and external drivers. Humanitarian needs worsened due to the economic effects of compounding crises, including Russia's invasion of Ukraine. During 2022, a temporary nationwide truce, external aid, rising oil prices, and some momentum on macroeconomic reforms supported growth. However, the truce expired in October 2022, renewing stress on macroeconomic stability. Downside risks for 2023 include the volatility of aid, scarcity of foreign exchange, and conflict-related developments.

Key conditions and challenges

Several developments supported economic activity in 2022: (1) a temporary UN-brokered truce; (2) the Internationally Recognized Government's (IRG) President transferring power to a Presidential Leadership Council; (3) KSA and UAE announcing a US$3.3 billion financing assistance package, including US$2 billion in deposits at the Central Bank of Yemen (CBY) Aden, contingent on an Arab Monetary Fund (AMF)-supported government's reform program; and (4) IRG monetary and fiscal policy reforms ushering in a relative exchange rate stability in Southern Yemen.

During Q4-2022, positive developments were reversed. In October, the truce expired without extension, and Houthis initiated a series of attacks on IRG oil export facilities. The attacks continue to constrain oil exports. As a result, IRG fiscal revenues and CBY-Aden foreign exchange reserves decreased. These developments also caused a decline in public expenditures – with civil servant salary payments in IRG-controlled areas taking a toll – a widening of the current account deficit, and the risk of renewed stress on the balance of payments and the currency, given the low level of CBY's FX reserves.

In February 2023, KSA deposited US$1 billion at CBY-Aden and UAE US$300 million, as part of the announced package. In spite of this, Yemen's external financing needs exceed available resources, already in 2023. Therefore, economic stability both in the short and medium run remains contingent on mobilizing additional and sustainable external financing.

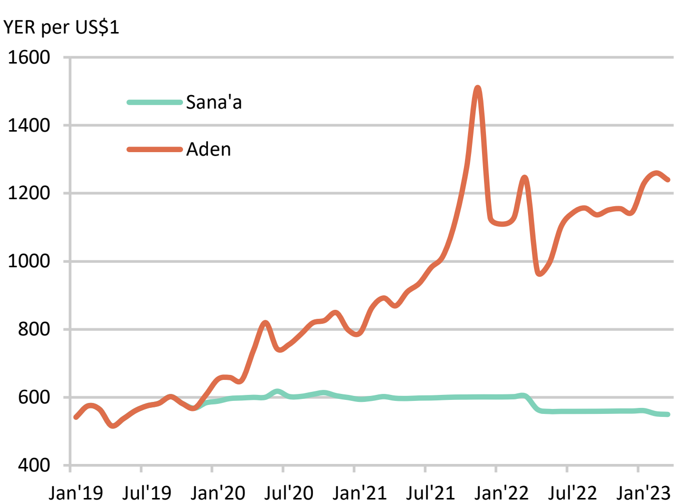
The conflict has heavily jeopardized oil sector activity as well as Yemen's capability to attract foreign investment. Non-oil activity suffers from essential services interruption and acute input shortages, compounded by double taxation (from Yemen's two fiscal authorities) pervasive corruption, uncoordinated policies, and the multiplicity of Yemen's institutions.

Declining civil salary payments and volatile humanitarian assistance have had disastrous impacts on Yemeni households' already precarious living conditions. As a result, food insecurity and poverty are widespread. High food prices make it difficult for households to meet their basic needs. Agriculture – the primary source of subsistence – continues to be highly exposed to disruptive climate, environmental, and pest-related events.

Recent developments

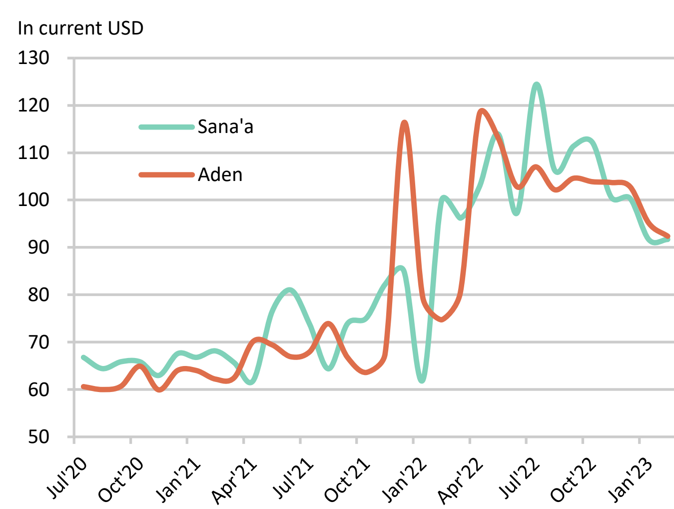
Amid a volatile year, according to IMF and WBG estimates, real GDP grew mildly, by 1.5 percent, in 2022. This tepid growth rate was nonetheless a notable improvement following two consecutive years of contraction. Growth was driven by private consumption and was financed mainly from remittances and official development aid; given Yemen's prevailing conditions, a large amount of unrecorded financial flows also finance economic activity. The

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



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

FIGURE 2 **Republic of Yemen** / Survival and Minimum Expenditure Basket Price in US$, monthly average



Sources: Yemen Joint Market Monitoring Initiative, Telegram Exchange Market Group and World Bank Staff calculations.

hydrocarbon sector acted as a drag on real GDP growth due to underinvestment and the Houthis' ongoing export embargo. An unprecedented series of torrential rains during the 2022 summer also impacted production, tapering economic expansion.

Regarding fiscal conditions, during the first three quarters of 2022, IRG was on track for a balanced budget; however, the expiration of the truce and subsequent oil export constraints significantly curbed revenues. As a result, IRG's fiscal deficit (cash basis) remained unchanged at 2.2 percent of GDP in 2022 compared to 2021. The deficit was financed through monetary sources, contributing to inflation/depreciation pressure during Q4-2022.

A combination of domestic and external factors pushed Yemen's import bill from 46.4 percent of GDP in 2021 to 59.7 percent in 2022, including (1) the economic rebound; (2) the operationalization of Hodeida port; and (3) global rising global commodity prices. Exports, remittances, and donor assistance increased, though significantly less than imports, resulting in a markedly wider current account deficit (14.0 percent of GDP) in 2022 (CBY Aden data.) The deficit was financed through one-off financial inflows, including the liquidation of CBY-Aden foreign currency reserve accounts held abroad and 50 percent of Yemen's quota from the IMF's latest SDR allocation. At end-2022, CBY-Aden's liquid FX assets stood at less than one month's worth of imports.

Encouraging reforms improved exchange rate stability in 2022. Regular FX auctions prompted greater exchange rate stability in the Aden market; however, declining sentiment due to the truce's expiry, and resumption of inflationary fiscal deficit financing, have renewed pressures on the currency, since late 2022.

The spike in global commodity prices affected Yemen's inflation rate, which rose to approximately 30 percent in 2022 (Joint Market Monitoring Initiative data), though unevenly between IRG and Houthis areas. Rising commodity prices, particularly food prices, negatively impact households purchasing power and consumption, leading to higher food insecurity and poverty.

Outlook

The macroeconomic outlook for 2023 remains highly uncertain, given the oil export constraints and ongoing truce negotiations. Economic stability in the short run hinges heavily on predictable and sustainable hard currency inflows and political/military developments. Even assuming oil exports resumption in H2-2023 at H1-2022 levels, we project real economic activity to contract by 0.5 percentage points during 2023. Should a lasting truce or peace arise, however, Yemen's economy could register more sustained growth within months of such an agreement, driven by an expected rapid rebound of transport, trade, financial flows and reconstruction financing. Over the medium term, growth is conditional on a peace agreement, prudent policymaking, and a robust reform and recovery effort backed by international reconstruction financing.

Risks include a resurgence of hostile activities caused by regional or domestic tensions, terms of trade shocks, and new natural disasters. In addition, policy inaction - reflecting political gridlock by various parties – remains a paramount risk to Yemen's outlook. Nevertheless, sustained government focus on monetary and macroeconomic stability and strengthening policy and institutional capacity can help improve immediate economic prospects.

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

	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-8.5	-1.0	1.5	-0.5	2.0
Inflation (Consumer Price Index)[a]	19.6	26.0	29.1	16.8	20.3
Current Account Balance (% of GDP)	-5.9	-5.1	-14.0	-21.0	-13.8
Net Foreign Direct Investment Inflow (% of GDP)	0.0	0.0	-0.4	0.6	0.5
Fiscal Balance (% of GDP)	-4.8	-2.2	-2.2	-2.6	-2.3
Revenues (% of GDP)	6.6	7.1	11.1	8.3	10.0

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

Macro Poverty Outlook

04/
2023

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