

Recent developments: The Middle East and North Africa (MENA) region experienced a strong economic recovery in the second half of 2021, bringing output back to its pre-pandemic level in some economies. Economic performance has been uneven across the region because of differences in the severity and effects of the pandemic.

In Saudi Arabia, expanding oil output has been accompanied by a recovery in the non-oil sector made possible by rapid vaccine progress. The pandemic had a relatively limited impact on the service sector in the Islamic Republic of Iran, while oil production and industrial activity rebounded. The Arab Republic of Egypt's economy grew at a faster rate than expected into fiscal year 2020/21, benefiting from robust consumption demand, growing remittances, and contained inflation relative to recent history. In Tunisia, an acceleration in COVID-19 cases in mid-2021, accompanying increased restrictions on mobility, and political uncertainty throttled the rebound last year.

Consumer inflation in the region remains below its long-run average, except in Lebanon and the Islamic Republic of Iran, reflecting weak demand, with still negative output gaps, and in many cases, fixed exchange rate regimes.

Outlook: As contact-intensive sectors recover and oil production cuts wane and supported by tailwinds of a generally accommodative policy environment, growth in MENA is expected to accelerate to 4.4 percent in 2022, an upward revision from June 2021, and moderate to 3.4 percent in 2023. The gap in average per capita income between MENA and advanced economies is projected to widen during the forecast horizon, however.

Higher oil and natural gas prices and increased production are expected to benefit energy exporters. Saudi Arabia's oil sector is expected to rebound strongly, boosting exports, while non-oil activity should benefit from high vaccination rates and accelerating investment. In Iraq, output is expected to expand by 7.3 percent in 2022 led by the oil sector. The growth rate in the Islamic Republic of Iran in 2022 has been revised upward due to a gradual recovery in the oil sector and the easing of COVID-19 mobility restrictions.

The short-term outlook has also improved for oil importers. In Egypt, output is expected to grow by 5.5 percent in the fiscal year ending June 2022, because of improved external demand from major trading partners, an expansion of the information and communications technology and gas extractives sectors, and gradual improvements in tourism. In Morocco, however, the economy is expected to grow by 3.2 percent in 2022, a slower pace than projected in June 2021, as agricultural output slows.

Risks: Further COVID-19 outbreaks, social unrest, high debt in some economies, and conflict could undermine economic activity in MENA. With less than two-fifths of the population of MENA fully vaccinated, concentrated in the region's high-income economies, economic disruptions related to the pandemic remain a major risk.

Changes to oil prices could undermine activity in the region with gains and losses accruing differently to oil importers and exporters. Underinvestment in the sector may limit the ability of oil exporters to take advantage of high oil prices. The rapid spread of Omicron may undermine global demand and lead to a retrenchment in oil prices.

The increasing frequency of natural disasters linked to climate change threatens to undermine lives and livelihoods in MENA. Over time, rising temperatures would reduce growing areas for agriculture and yields and exacerbate already-scarce water resources, undermining food security, forcing migration, lowering labor productivity, and raising the likelihood of conflict.

Middle East and North Africa Forecasts

(Annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f
GDP at market prices (average 2010-19 US\$)					
Algeria	1.0	-5.1	4.1	2.0	1.5
Bahrain	2.1	-5.1	3.5	3.2	2.9
Djibouti	7.8	0.5	5.1	4.3	5.5
Egypt, Arab Rep. ^a	5.6	3.6	3.3	5.5	5.5
Iran, Islamic Rep. ^a	-6.8	3.4	3.1	2.4	2.2
Iraq	6.0	-15.7	2.6	7.3	6.3
Jordan	2.0	-1.6	2.2	2.3	2.3
Kuwait	-0.6	-8.9	2.0	5.3	3.0
Lebanon ^b	-6.7	-21.4	-10.5
Libya ^b	2.5	-31.3	78.2
Morocco	2.6	-6.3	5.3	3.2	3.5
Oman	-0.8	-2.8	3.0	3.4	4.1
Qatar	0.8	-3.6	3.0	4.8	4.9
Saudi Arabia	0.3	-4.1	2.4	4.9	2.3
Tunisia	1.5	-9.2	2.9	3.5	3.3
United Arab Emirates	3.4	-6.1	2.7	4.6	2.9
West Bank and Gaza	1.4	-11.3	6.0	3.4	3.4

Source: World Bank.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

a. Refers to fiscal year. Please see regional annex for details on fiscal year reporting.

b. Forecasts for Lebanon and Libya beyond 2021 are excluded because of a high degree of uncertainty.