



OFFICE OF THE CHIEF ECONOMIST
MIDDLE EAST & NORTH AFRICA
THE WORLD BANK

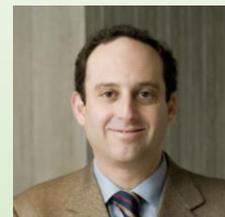
MENA ECONOMIC UPDATE - APRIL 2021

LIVING WITH DEBT: HOW INSTITUTIONS CAN CHART A PATH TO RECOVERY IN THE MIDDLE EAST AND NORTH AFRICA

Authors



ROBERTA GATTI
Chief Economist, Middle East and North
Africa, The World Bank



DANIEL LEDERMAN
Deputy Chief Economist, Middle East And North Africa,
The World Bank



HA MINH NGUYEN
Senior Economist, Office of the Chief Economist,
Middle East and North Africa, The World Bank



ASIF ISLAM
Senior Economist, Office of the Chief Economist,
Middle East and North Africa, The World Bank



RACHEL YUTING FAN
Economist, Office of the Chief Economist,
Middle East and North Africa, The World Bank



CLAUDIO ROJAS
Consultant, Office of the Chief Economist,
Middle East and North Africa, The World Bank



SULTAN ALTURKI
Consultant, Office of the Chief Economist,
Middle East and North Africa, The World Bank

Main Findings

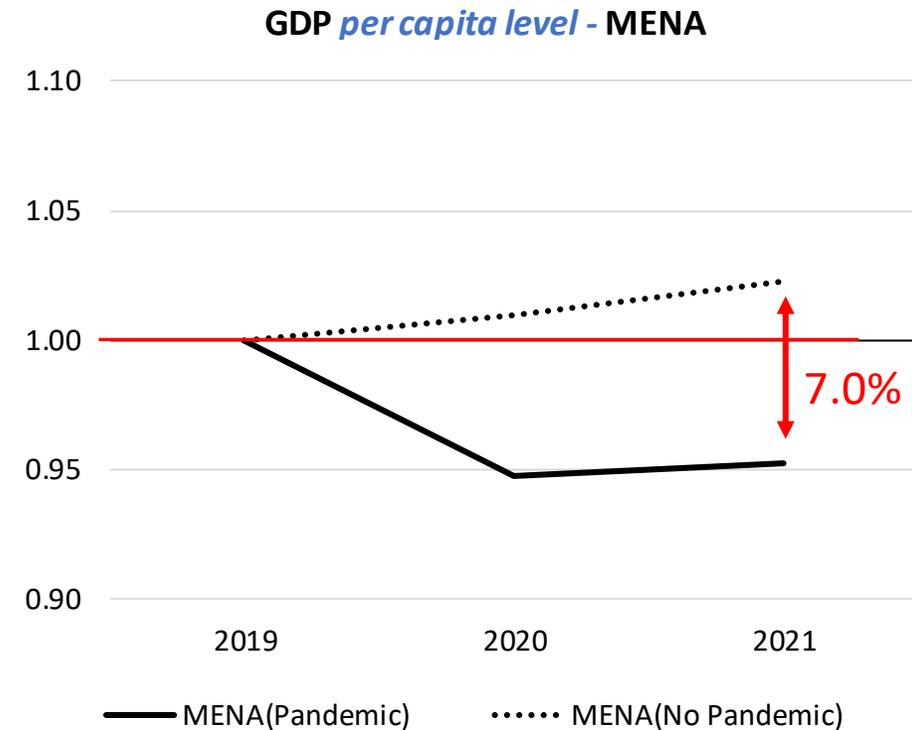
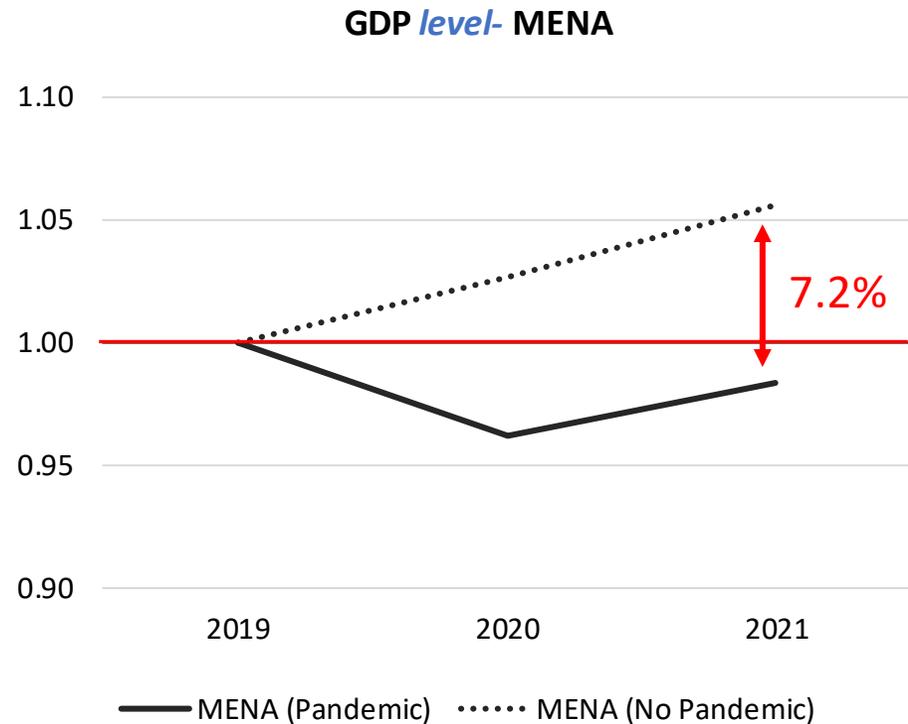
The Middle East and North Africa (MENA) region is still in crisis

MENA countries face a balancing act between short-term needs and long-run risks of public debt

Tough choices: public expenditure priorities depend on the phase of the recovery

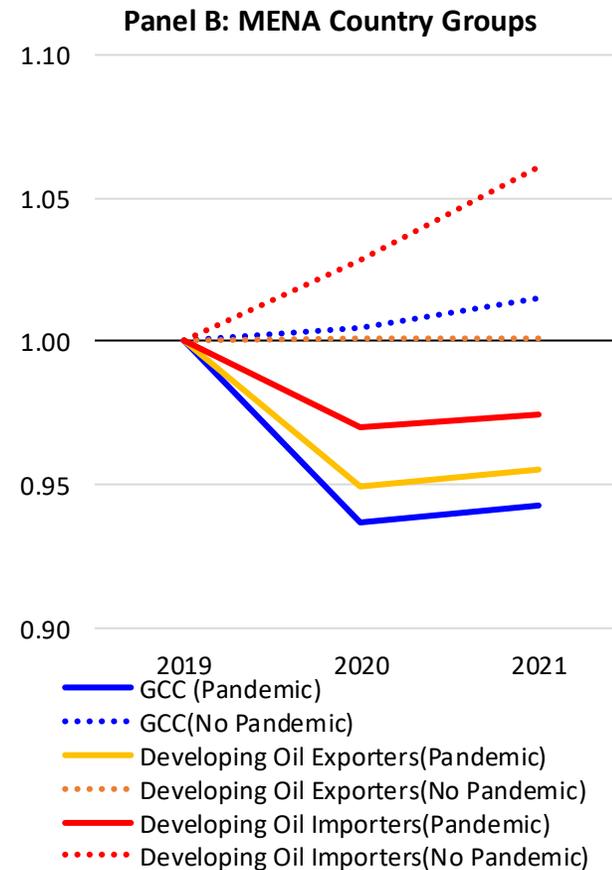
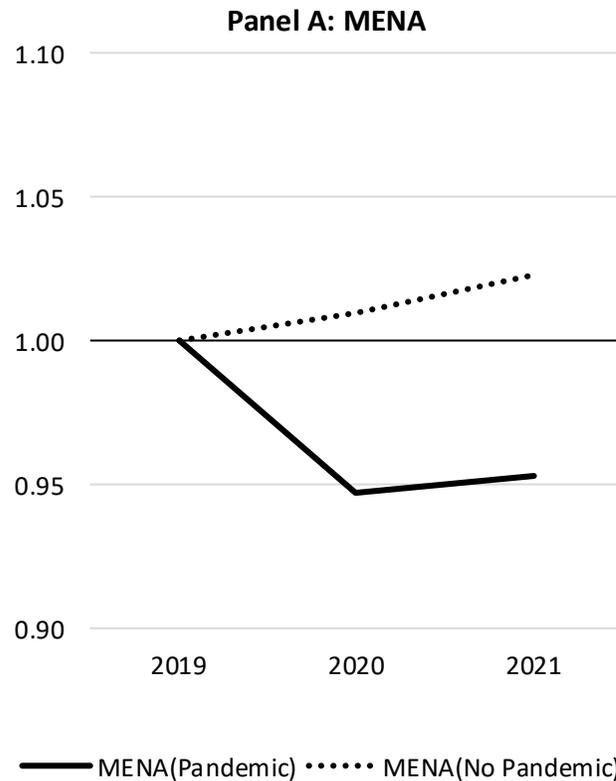
Sunlight can help! Transparency can help chart a path to lasting recovery for MENA

A Region Still In Crisis: Long-Lasting Losses in GDP



By 2021, the regional economy is forecast to be 7.2 percentage points below the “no-pandemic” GDP level, equivalent to **227 billion dollars**; **GDP per capita** (an indicator of the level of development that determines poverty) will still be **lower than the 2019 level by approximately 5%**

A Region Still in Crisis: GDP per capita Losses



Losses by 2021:

MENA: 7.0%

GCC: 7.3%

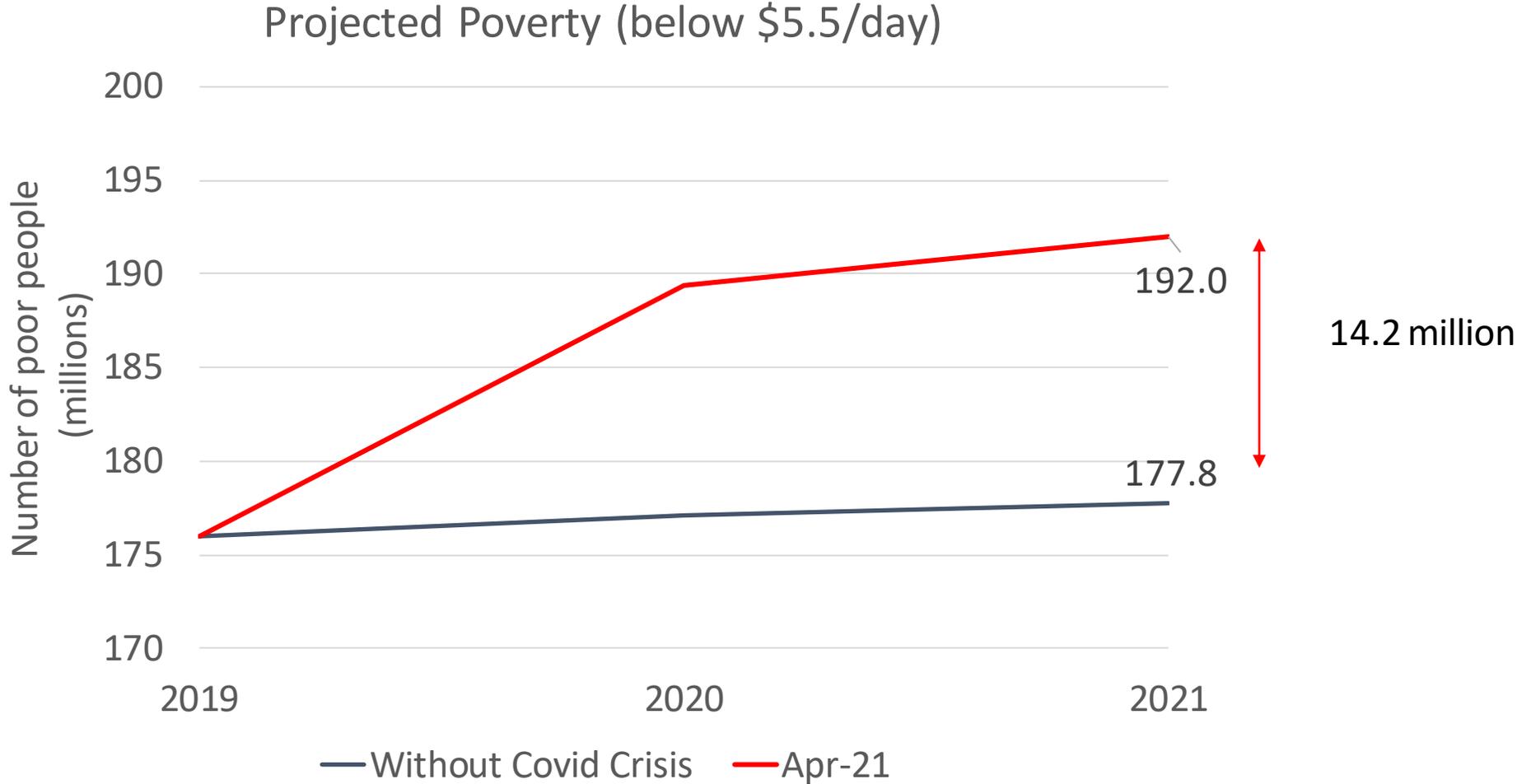
Middle-income oil exporters: 4.6%

Middle-income oil importers: 8.6%

Source: World Bank, *Macro and Poverty Outlook* (in April 2021 and October 2019) and World Bank staff's calculation.

Note: The dotted lines show forecast GDP per capita levels in the counter-factual case of no pandemic (based on GDP per capita forecasts in October 2019). The straight lines show forecast GDP per capita levels in the case of pandemic (based on GDP per capita forecasts in April 2021).

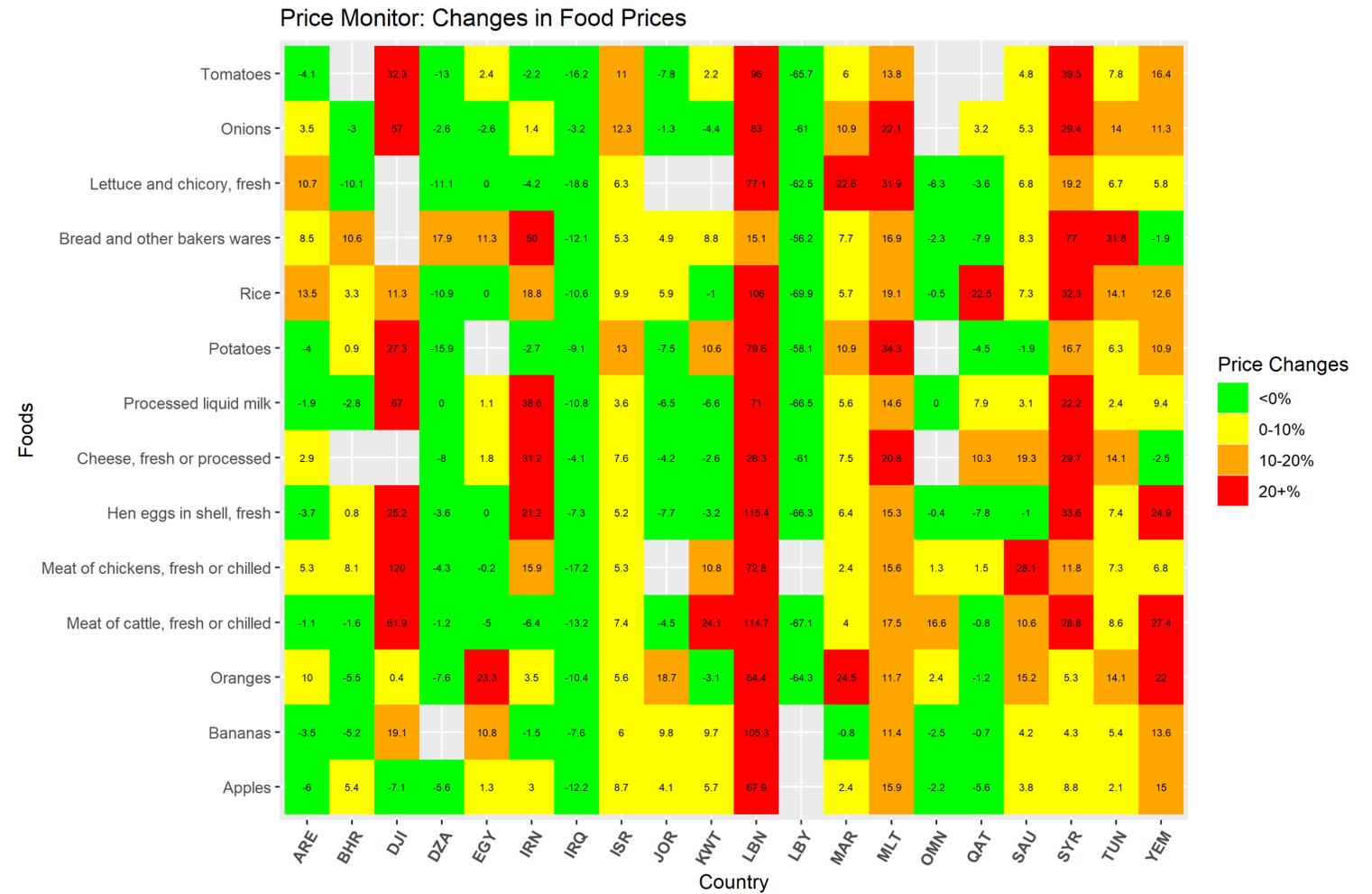
A Region Still In Crisis: Conservative Estimates Of Millions of New Poor



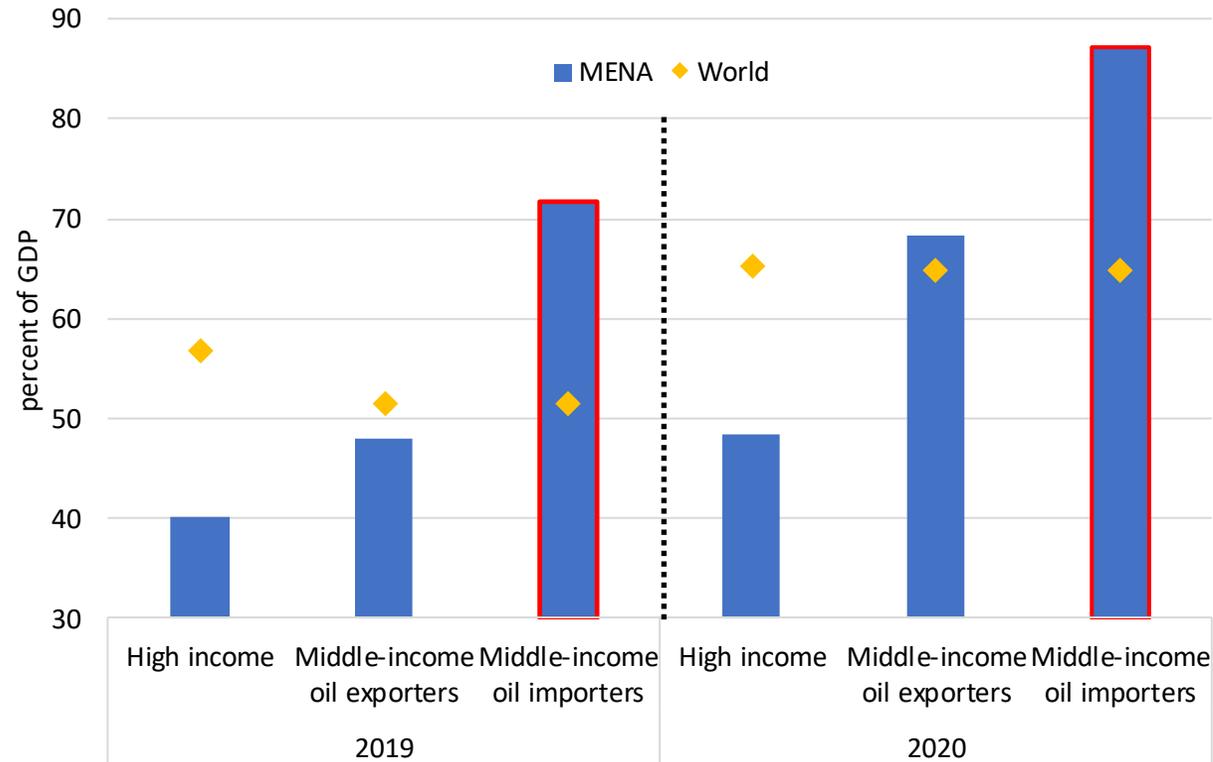
A Region Still In Crisis:

Regressive Food-Price Inflation

Feb 2020-March 2021



Walking the Tightrope of Rising Public Debt



Balancing act is most difficult among MENA's Middle-Income Oil-Importing economies.

Source: World Bank, *Macro and Poverty Outlook (April 2021)*

Note: Country groups are represented by median observation of the group. The bars show median debt of MENA country groups. The diamonds show median debt of the corresponding world's income groups. Debt data are generally not available for MENA low income (Yemen and Syria). The high-income group in MPO is limited to only countries covered by the World Bank.

This Report

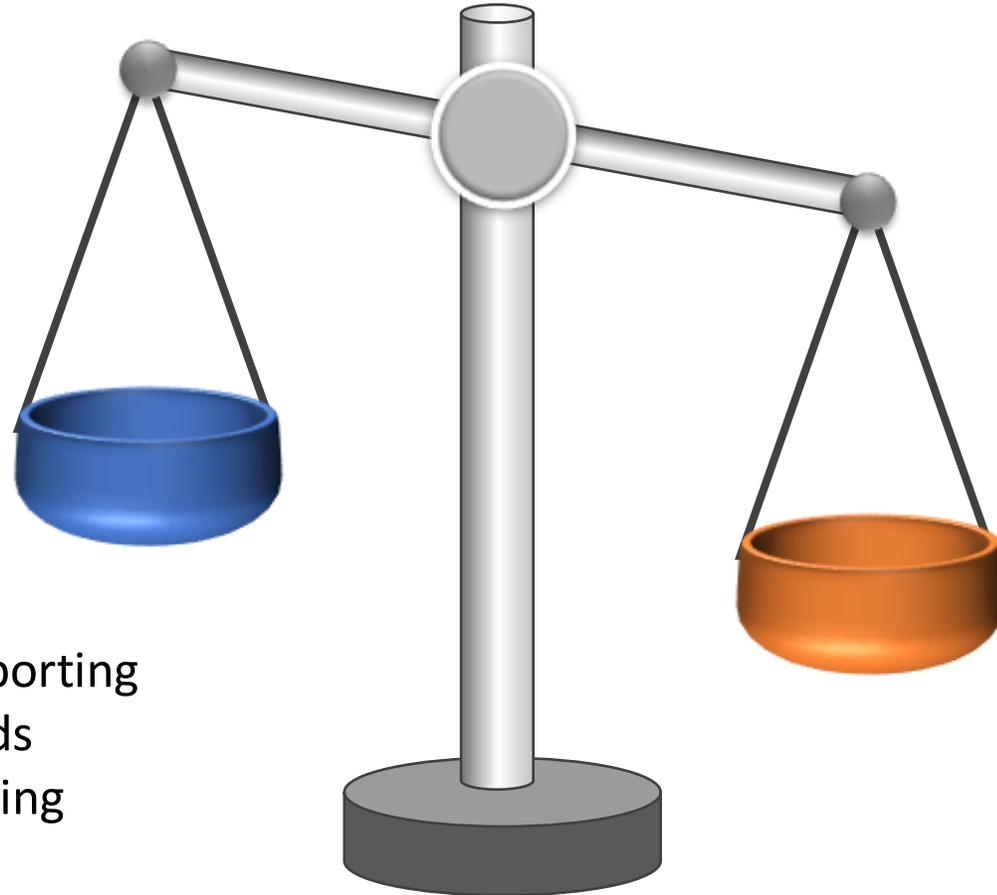
A Region Still In Crisis: Quantifies the socio-economic impact

Walking the Debt Tightrope: Articulates the tensions between short-term needs and long-term risks of public debt in a region that already had high levels of debt pre-pandemic

Tough Choices: Discusses priorities during the pandemic, after the pandemic, and beyond

Sunlight Can Help: Highlights the role of institutions, especially transparency, in charting a path to recovery for the Middle East and North Africa

Walking the Debt Tightrope: Tension between Short-term Needs and Long-term Costs of Public Debt



Short Term Needs

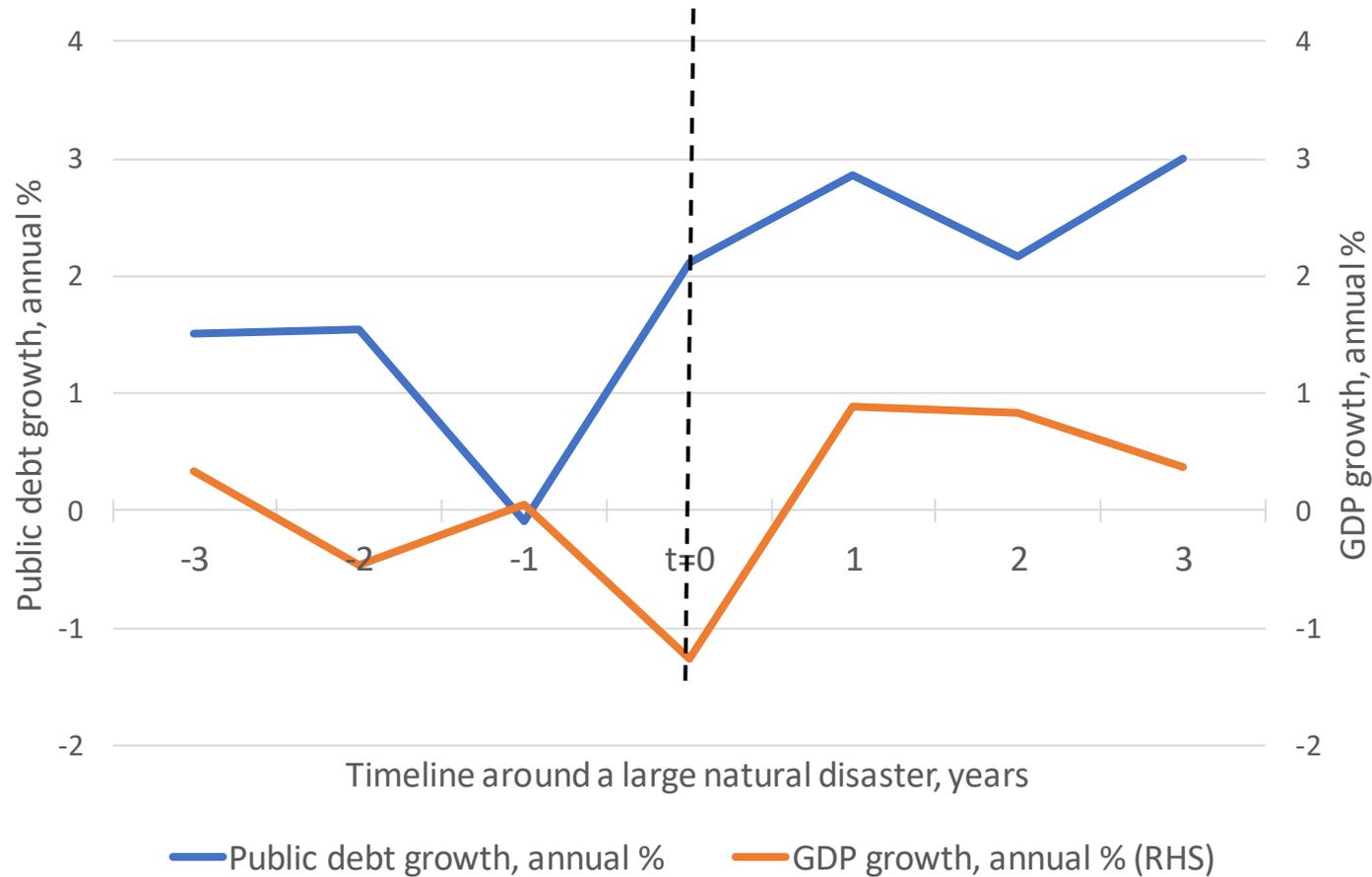
- Disaster Relief: Supporting firms and households
- Public Health Spending

Long Term Risks

- Crowding out of private investment (as interest rate rises)
- Crowding out of public investment as interest payments rise
- Macroeconomic vulnerability, rollover risk, and likelihood of costly debt crises

Walking The Debt Tightrope

Short-term Needs of Public Debt: Lessons From Disaster Relief



Historical Evidence:

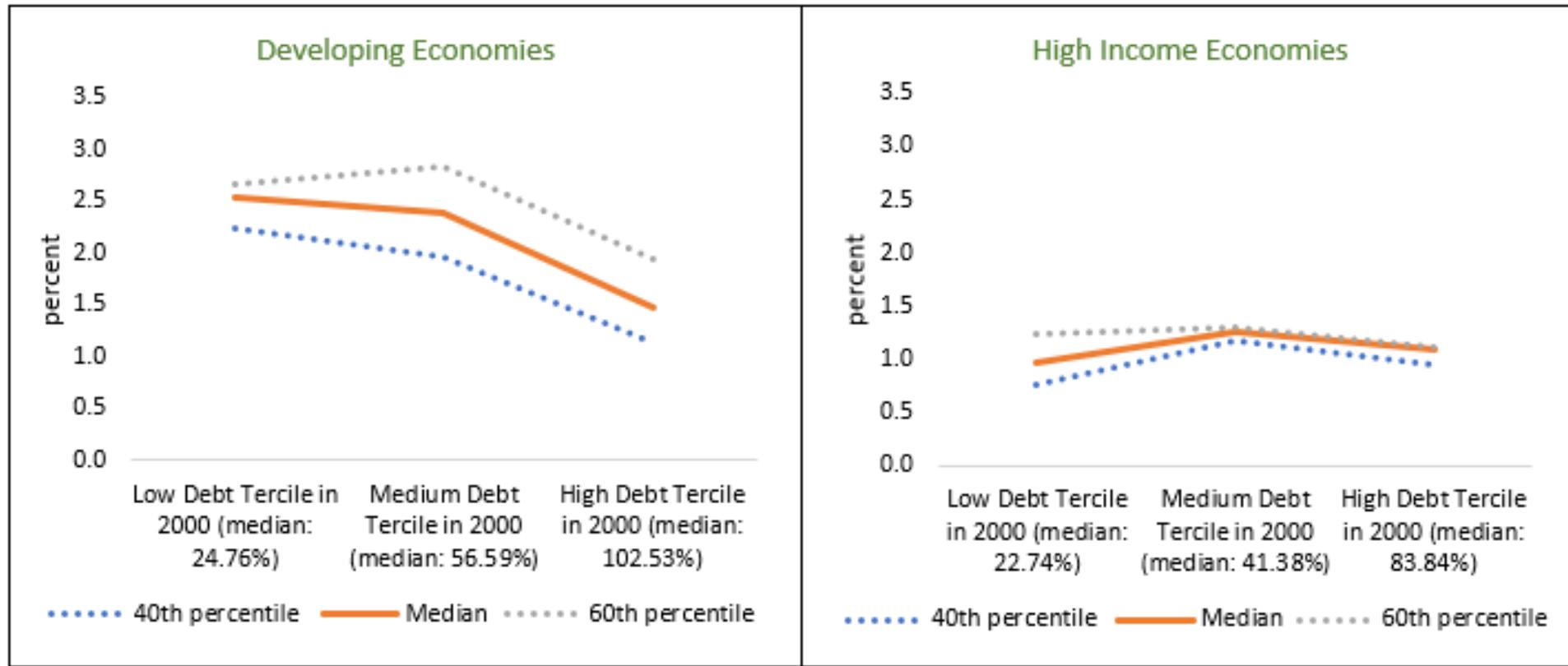
During and immediately after disasters, debt grows faster (>2%) in disaster economies than in control group (economies-years with no disasters)

Growth plummets during the disaster year but recovers in the aftermath relative to control group.

Walking the Debt Tightrope: Long-term Risks of Public Debt

Association between High Public Debt and Low Growth during 2000-2019

Median Annual per Capita Growth During 2000-2019 across Countries Ranked by Central Government Debt in 2000

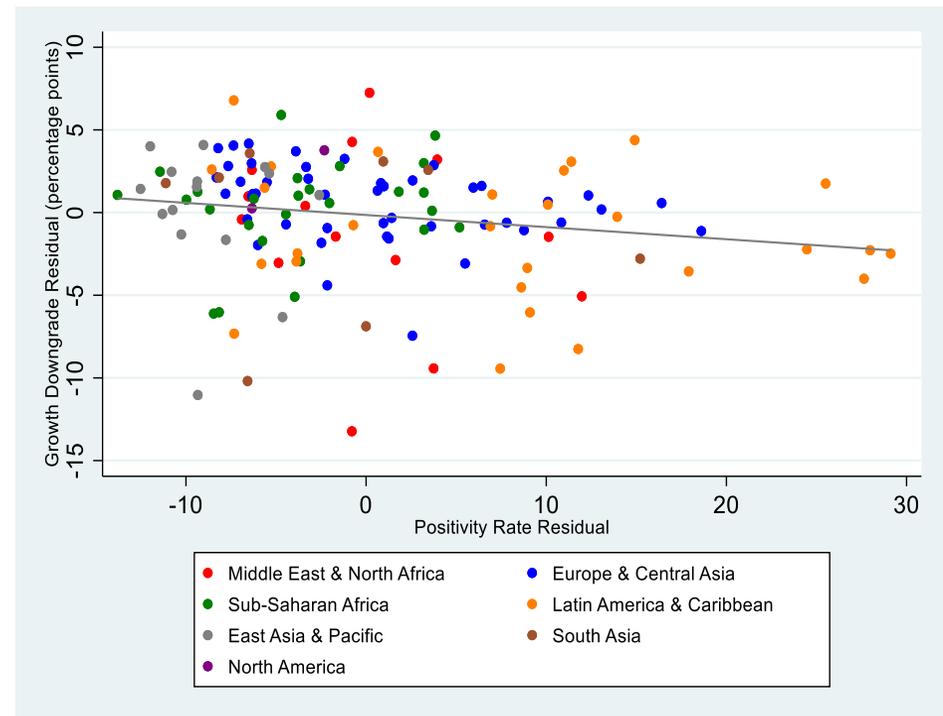


Priorities during the Pandemic: Public Spending for Disaster Relief and Public Health

- *During the pandemic:* disaster relief -- supporting households and firms
 - Aggregate demand stimulation might have little effect on GDP (the "fiscal multiplier") if the risk of Covid-19 remains
- Investment in public health to save lives and generate long-term gains
 - Disease surveillance and data transparency
 - Testing and contact tracing
 - Vaccination campaigns

➤ Also can reduce economic costs of the pandemic

Partial Correlation between Test Positivity Rates and GDP Downgrade



Sources: IMF, *World Economic Outlook*; *Worldometer*; Johns Hopkins University; World Bank, *World Development Indicators*; and World Bank staff calculations.

Note: The figure shows the *partial* correlation between 2020 growth adjustments between October 2020 and October 2019 and Covid-19 positivity rate (as of December 2020). The positivity rate is the number of Covid-19 cases as a percent of the total number of tests. Other explanatory variables include log of GDP per capita in 2019 (in U.S. dollars), total trade value in GDP in 2019 (percent), days since the first positive case until November 30, 2020, and tourism as a percent of exports in 2018.

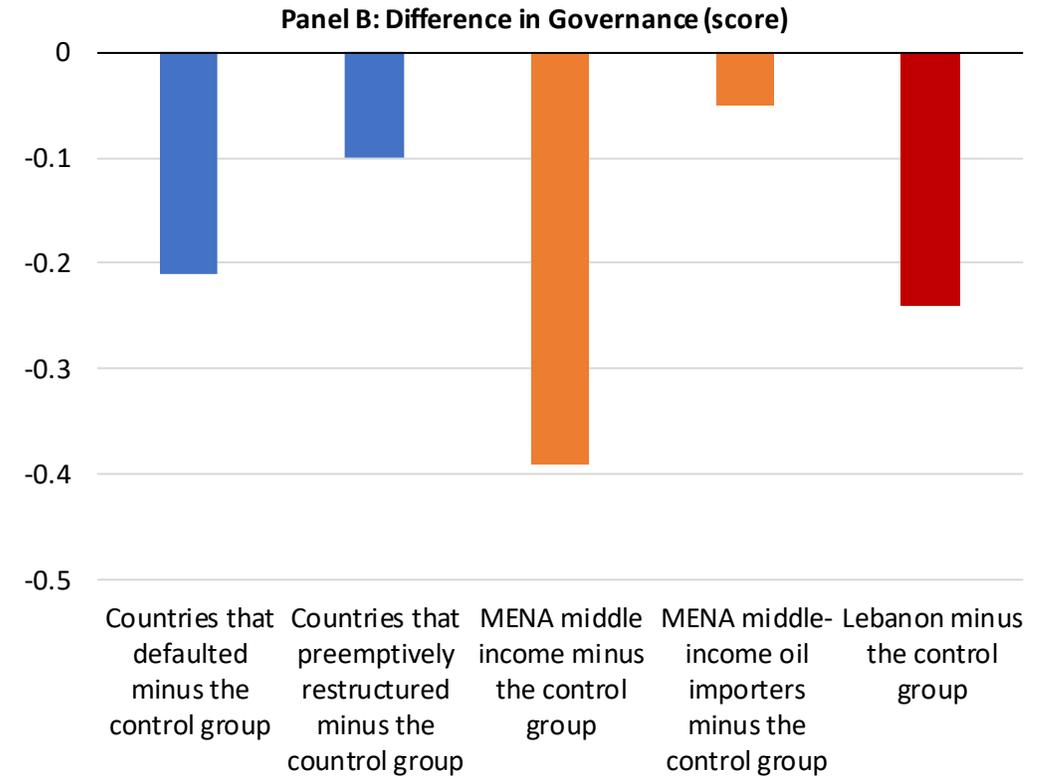
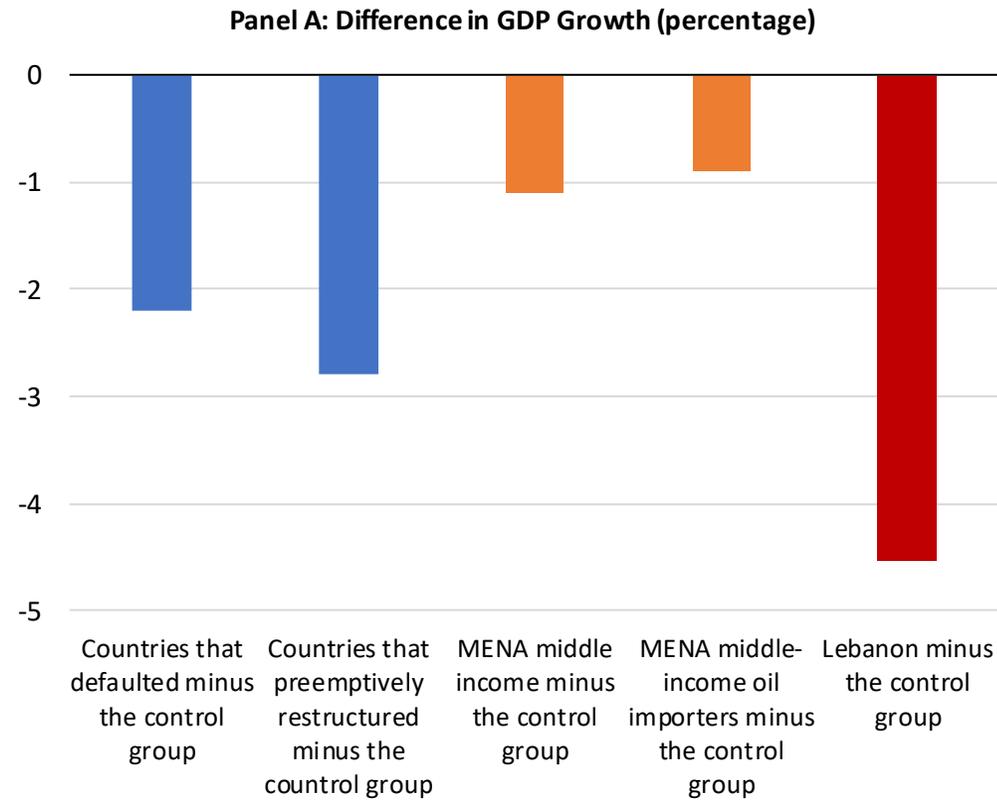
Priorities as the Pandemic Subsides

Factors that reduce the need and efficacy of traditional fiscal stimulus	Potential benefits of (targeted) stimulus – healing economic scars
<ol style="list-style-type: none">1. “Pent-up demand” can raise GDP without fiscal stimulus<ul style="list-style-type: none">• If consumers (e.g., foreign tourists) believe that the pandemic is over2. High debt has been associated with low fiscal multipliers (Huidrom et al., 2020)3. Fiscal multiplier of public investment is low when governance is poor (Izquierdo et al., 2019)	<ol style="list-style-type: none">1. Financial constraints prevent enterprise re-entry2. Scarring of idled workers, particularly the young entering the labor force3. Support schools to recover lost human capital

Mitigating the Costs of Public Debt after the Pandemic

- Refinance maturing debt on more favorable terms by enhancing debt reporting transparency
- Improving institutions: Indebted countries are more likely to enter costly debt-distressed periods when they experience low growth and weak governance.

Good Governance Can Help: Evidence from Episodes of Debt Distress



Note: Control group = developing countries with no debt distress (debt restructuring) episodes

Charting a Path to a Lasting Recovery:

Sunlight Can Help!

During the pandemic

Reduce costs

- Public health surveillance and transparency can reduce costs of the pandemic.

As the pandemic subsides

Raise investment's impact, accelerate recovery

- Transparency in public investment decisions can raise its impact on economic activity (GDP)
- Public health surveillance and transparency can accelerate the post-pandemic rebound (e.g., tourism; hospitality industries).

After the pandemic

Reduce costs, reduce risk

- Transparency can reduce borrowing costs. Good governance can reduce the risks of debt distress.



THANK YOU!

Appendix Table B1: World Bank's Growth, Current Account and Fiscal Account Forecasts

	Real GDP Growth percent				Real GDP per capita Growth percent				Current Account Balance percent of GDP				Fiscal Balance percent of GDP			
	2019	2020e	2021f	2022f	2019	2020e	2021f	2022f	2019	2020e	2021f	2022f	2019	2020e	2021f	2022f
MENA	0.0	-3.8	2.2	3.5	-1.3	-5.3	0.6	1.9	2.1	-3.8	-0.9	0.7	-4.2	-9.4	-6.6	-4.6
Developing MENA	-0.8	-2.8	2.3	3.7	-1.6	-4.1	0.6	2.1	-2.1	-4.6	-4.6	-3.5	-4.7	-7.6	-7.5	-6.4
Oil Exporters	-0.8	-4.2	2.3	3.4	-2.1	-6.0	0.5	1.7	3.8	-3.7	0.1	2.0	-3.6	-9.8	-6.3	-3.9
GCC	0.7	-4.9	2.2	3.3	-1.5	-6.3	0.6	1.9	6.2	-2.9	2.4	4.4	-3.6	-11.3	-5.7	-3.0
Qatar	0.8	-3.2	3.0	4.1	-1.0	-4.9	1.3	2.4	2.4	-2.5	1.7	2.7	1.0	-3.6	-2.3	2.7
United Arab Emirates	1.7	-6.3	1.2	2.5	0.2	-7.5	0.2	1.5	6.5	-1.5	2.9	4.9	-1.0	-8.0	-0.5	1.7
Kuwait	0.4	-5.4	2.4	3.6	-5.9	-6.2	0.8	2.2	16.4	-2.7	8.2	11.7	-9.8	-26.2	-22.6	-19.3
Bahrain	2.0	-5.4	3.3	3.2	-2.4	-8.7	0.3	1.5	-2.1	-9.5	-6.9	-4.6	-9.3	-17.5	-11.6	-9.4
Saudi Arabia	0.3	-4.1	2.4	3.3	-1.3	-5.6	0.9	1.8	6.6	-2.7	2.6	4.5	-4.2	-11.3	-5.6	-3.0
Oman	-0.8	-6.3	2.5	6.5	-3.6	-8.9	0.3	4.5	-5.5	-10.4	-8.1	-5.2	-9.0	-17.4	-6.8	-4.6
Developing Oil Exporters	-3.1	-3.1	2.4	3.6	-4.2	-5.1	0.6	1.8	0.0	-5.0	-4.9	-3.2	-3.6	-7.5	-7.6	-6.1
Iraq	2.4	-11.9	1.9	8.4	1.5	-14.9	-1.6	4.7	6.1	-12.9	-11.3	-5.6	1.4	-4.4	-5.4	-1.0
Iran, Islamic Rep.	-6.8	1.7	2.1	2.2	-7.9	0.5	1.0	1.1	0.6	-0.8	0.8	1.1	-3.7	-6.3	-6.7	-7.0
Algeria	0.8	-5.5	3.6	2.3	-1.2	-6.9	2.1	0.9	-10.0	-14.4	-12.1	-11.4	-9.6	-16.4	-12.1	-10.0
Developing Oil Importers	3.2	-2.2	2.2	4.0	1.7	-3.0	0.5	2.5	-5.6	-3.9	-4.3	-3.8	-6.6	-7.7	-7.5	-6.7
Lebanon	-6.7	-20.3	-9.5	..	-6.8	-19.9	-8.7	..	-21.2	-11.0	-6.7	..	-10.5	-4.9	-2.8	..
Jordan	2.0	-1.8	1.4	2.2	0.5	-2.7	0.8	1.9	-2.1	-7.2	-7.0	-6.0	-4.6	-6.7	-6.4	-5.4
Djibouti	7.8	0.5	5.5	6.0	6.7	-1.5	4.4	3.9	14.9	20.1	-1.5	-0.8	-0.5	-1.7	-1.9	-1.7
West Bank and Gaza	1.4	-11.5	3.5	3.2	-1.3	-13.6	0.9	0.3	-10.4	-6.5	-8.1	-8.3	-4.5	-7.6	-6.4	-5.7
Morocco	2.5	-7.0	4.2	3.7	1.2	-8.1	3.0	2.6	-4.1	-3.0	-3.5	-3.9	-3.6	-7.7	-6.5	-6.4
Tunisia	1.0	-8.8	4.0	2.6	-0.1	-9.8	3.0	1.7	-8.5	-6.8	-9.2	-9.0	-3.1	-10.0	-8.6	-6.8
Egypt, Arab Rep.	5.6	3.6	2.3	4.5	3.5	1.6	0.4	2.6	-3.6	-3.0	-3.4	-2.8	-8.1	-8.0	-8.2	-7.0
Memorandum																
Libya	2.5	-31.3	66.7	..	1.0	-32.2	64.6	..	11.6	-46.4	-6.2	..	1.7	-64.4	-9.0	..

Sources: Authors' calculations based on data from World Bank Macro and Poverty Outlooks, April 2021.

Note: e=estimate, f=forecast and NP=not presented. Data are rounded up to a single digit. Data for Egypt correspond to its fiscal year (July-June). Libya, Syria and Yemen are not included in the regional and sub-regional averages due to lack of data. Lebanon and Libya are not forecasted beyond 2021, due to high uncertainty.

Appendix Table B2 Panel B (Between April 2021 and October 2020):

	Real GDP growth (April 2021 - October 2020)			Current Account Balance (April 2021 - October 2020)			Fiscal Balance (April 2021 - October 2020)		
	2020e	2021f	2022f	2020e	2021f	2022f	2020e	2021f	2022f
MENA	1.3	0.3	0.4	1.1	2.3	2.3	0.7	1.3	1.1
Developing MENA	1.9	0.2	0.0	1.1	-0.1	0.1	2.0	1.1	0.9
Oil Exporters	1.6	0.4	0.6	0.9	2.9	2.9	0.8	1.6	1.6
GCC	0.8	0.4	0.7	1.1	4.2	3.8	-0.8	1.3	1.0
Qatar	-1.2	0.0	1.1	-1.5	0.8	0.8	0.0	1.5	1.4
United Arab Emirates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait	2.5	1.4	0.7	2.5	9.1	9.5	1.5	0.4	-3.9
Bahrain	-0.2	1.1	0.7	-1.6	-0.4	0.8	-4.1	-1.6	-0.7
Saudi Arabia	1.3	0.4	1.1	2.1	7.0	6.2	-1.3	2.2	2.7
Oman	3.1	2.0	-1.4	4.0	4.6	1.0	0.7	9.8	6.3
Developing Oil Exporters	3.0	0.3	0.5	0.7	-0.5	0.1	3.2	1.9	2.1
Iraq	-2.4	-0.1	1.1	-0.7	-3.3	-1.1	12.4	8.5	9.4
Iran, Islamic Rep.	6.2	0.6	0.5	-0.2	0.2	0.4	0.3	-0.1	-0.1
Algeria	1.1	-0.2	0.2	-1.0	3.6	3.2	-0.6	0.9	-0.4
Developing Oil Importers	0.0	0.1	-0.6	1.7	0.4	0.2	0.5	0.1	-0.7
Lebanon	-1.1	3.7	..	-6.6	-11.1	..	9.6	12.0	..
Jordan	3.7	-2.3	0.0	0.4	-0.6	-0.8	1.5	-0.8	-0.5
Djibouti	1.5	-1.6	-1.2	4.2	-17.8	-17.4	0.6	1.1	0.5
West Bank and Gaza	-3.6	1.2	0.8	2.8	2.0	1.8	-3.2	-2.1	-1.6
Morocco	-0.7	0.9	0.2	6.9	3.0	1.3	-0.1	-1.2	-2.2
Tunisia	0.4	-1.9	0.7	0.3	-2.9	-2.6	-1.9	-3.0	-2.1
Egypt, Arab Rep.	0.1	-0.1	-1.3	1.1	1.0	0.5	0.2	0.2	-0.1

Appendix Table B3: Overview of MENA's debt

		Public Debt		Public Domestic Debt		Public External Debt		Official External Debt	Public & Private External Debt		Interest Payments for Public Debt		Moody's Rating: Foreign Currency Long Term Debt	
		World Bank's MPO		World Bank's MPO		World Bank's MPO		World Bank's IDS	IMF's WEO		World Bank's MPO			
		2019	2020	2019	2020	2019	2020	2019	2019	2020	2019	2020	1/1/2020	1/21/2021
Gulf Cooperation Council	Qatar	57	64.1						131.4	161.3	1.6	1.8	Aa3	Aa3
	United Arab Emirates	20.1	25						76.7	97.5	0.3	0.3	Aa2	Aa2
	Kuwait	20.3	22.5						48.8	64.5	0.3	0.8	Aa2	A1
	Bahrain	102.3	132.4						226.4	254.6	4.5	4.9	B2u	B2u
	Saudi Arabia	23.1	32.8						23.2	29.9	0.8	1.2	A1	A1
	Oman	60.1	81.2						92.4	121.5	2.3	2.8	Ba1	Ba3
Other Oil Exporters	Libya	48.8	137.1											
	Iraq	48.2	69.3	23.3	34.4	24.9	35		30.9	40.5	1.2	1.1	Caa1	Caa1
	Iran	47.9	50.3					0.1	1.7	1.7	0.7	1		
	Algeria	45.6	51.4	45.0	50.8	0.6	0.6	0.8	2.3	1.9	0.6	0.6		
	Yemen	52.7		22.7		30		27.4	24.3	25.6	3.8			
Oil Importers	Lebanon	171	186.7	107.6	87.8	63.4	99	3.6	197.8	482.8	10	2.2	Caa2	C
	Jordan	97.4	109	58.3	64.1	39	44.9	19.0	68	77.6	3.5	4.1	B1	B1
	Djibouti	66.9	70.2	0.4	0.2	66.4	69.9	64.4	66	70.2	1.3	1.2		
	West Bank and Gaza	16.3	24.2	9.2	15.4	7.1	8.8				0.3	0.4		
	Morocco	64.9	77.8	50.9	58.4	14	19.4	19.8	33.1	39.2	2.3	2.5	Ba1	Ba1
	Tunisia	71.8	87.2	22.3	27.9	49.5	59.3	41.1	99.4	97.2	2.7	3.8	B2	B2
	Egypt	90.2	87.5	72.5	68.6	17.8	19	19.0	36	34.4	10	9.8	B2	B2
	World Median	51.9	63.2	19.6	22.7	26.8	30.3	20.0	50.5	59.2	1.6	1.9		
	High-income median	56.9	65.3	26.6	34.9	19.1	23.3		88.5	101.7	2.1	2.3		
	Middle-income median	51.5	64.9	20.0	23.0	27.4	32.4	19.0	47.3	54.3	1.8	2.1		
	Low-income median	52.5	50.5	17.6	18.7	26.8	29.7	24.4	31.4	32.1	1.1	1.3		

Source: World Bank Macro and Poverty Outlook (April 2021), World Bank's International Debt Statistics, IMF's World Economic Outlook

Note: Debt and interest payments are in percent of GDP. Official external debt includes debt held by international organizations (multilateral loans) and by foreign governments (bilateral loans).

Appendix Table B4: Characteristics of MENA's Economies

		Public Debt		Output Gap	Governance	Inflation		Exchange Rates Arrangement
		(% of GDP)		(percentage points)	(score)	(percent)		IMF
		World Bank's MPO		World Bank's MPO	World Bank	World Bank's MPO		
		2019	2020	2020	2019	2019	2020	2019
Gulf Cooperation Council	Qatar	57	64.1	-4.9	0.7	-0.9	-2.6	Conventional peg
	United Arab Emirates	20.1	25	-9	1.1	-1.9	-1.6	Conventional peg
	Kuwait	20.3	22.5	-5.5	0.1	1.1	0.9	Conventional peg
	Bahrain	102.3	132.4	-8.2	0.4	1	-2.6	Conventional peg
	Saudi Arabia	23.1	32.8	-5.6	0.1	-1.2	3.4	Conventional peg
	Oman	60.1	81.2	-8.3	0.4	0.1	-1	Conventional peg
Other Oil Exporters	Libya	48.8	137.1		-2	-3	-2	Conventional peg
	Iraq	48.2	69.3	-18.3	-1.4	-0.2	0.6	Conventional peg
	Iran	47.9	50.3	1.1	-0.9	41.3	36.9	Stabilized arrangement
	Algeria	45.6	51.4	-7.5	-0.9	2.3	2.1	Crawl-like arrangement
	Yemen	52.7		2.9	-1.9	10	26.4	Stabilized arrangement
Oil Importers	Lebanon	171	186.7	-19.1	-0.7	2.9	84.3	Stabilized arrangement
	Jordan	97.4	109	-3.9	0.1	0.8	0.3	Conventional peg
	Djibouti	66.9	70.2	-6.7	-0.8	3.3	1.8	Currency board
	West Bank and Gaza	16.3	24.2	-14.8	.	0.8	-0.7	
	Morocco	64.9	77.8	-10.1	-0.2	0.2	0.7	Stabilized arrangement
	Tunisia	71.8	87.2	-10.4	-0.2	6.7	5.6	Crawl-like arrangement
	Egypt	90.2	87.5	-1.2	-0.6	13.9	5.7	Stabilized arrangement
World Median		51.9	63.2	-6.7	-0.1	2.8	3	
High-income median		56.9	65.3	-8.6	1.1	1.1	1.5	
Middle-income median		51.5	64.9	-7.3	-0.4	2.8	2.6	
Low-income median		52.5	50.5	-4.1	-0.4	3.1	5.9	

Sources: World Bank, *Macro Poverty Outlook (April 2021)* and *World Governance Indicators*; International Monetary Fund, *Annual Report on Exchange Arrangements and Exchange Restrictions*.

Note: Output gap = growth in 2020 *minus* average growth from 2015 through 2019). Output gap for Libya is not calculated because of volatile output fluctuations; Governance is the average of Regulatory Quality, Government Effectiveness and Rule of Law. A lower score represents lower governance quality.