

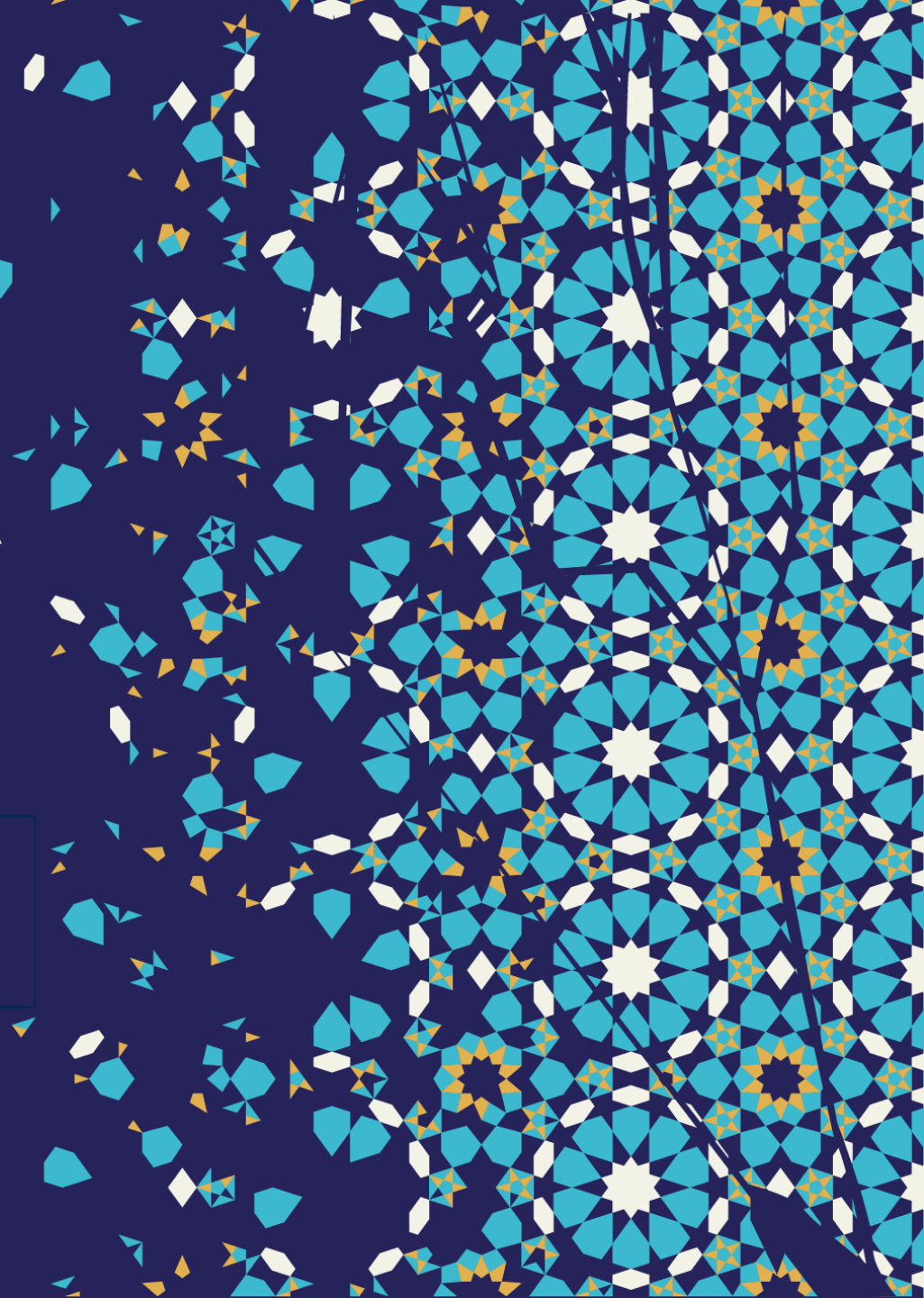
MENA ECONOMIC UPDATE - APRIL 2024

CONFLICT AND DEBT IN THE MIDDLE EAST AND NORTH AFRICA

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Rana Lotfi, Gianluca Mele, Ilias Suvanov, Asif M. Islam

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

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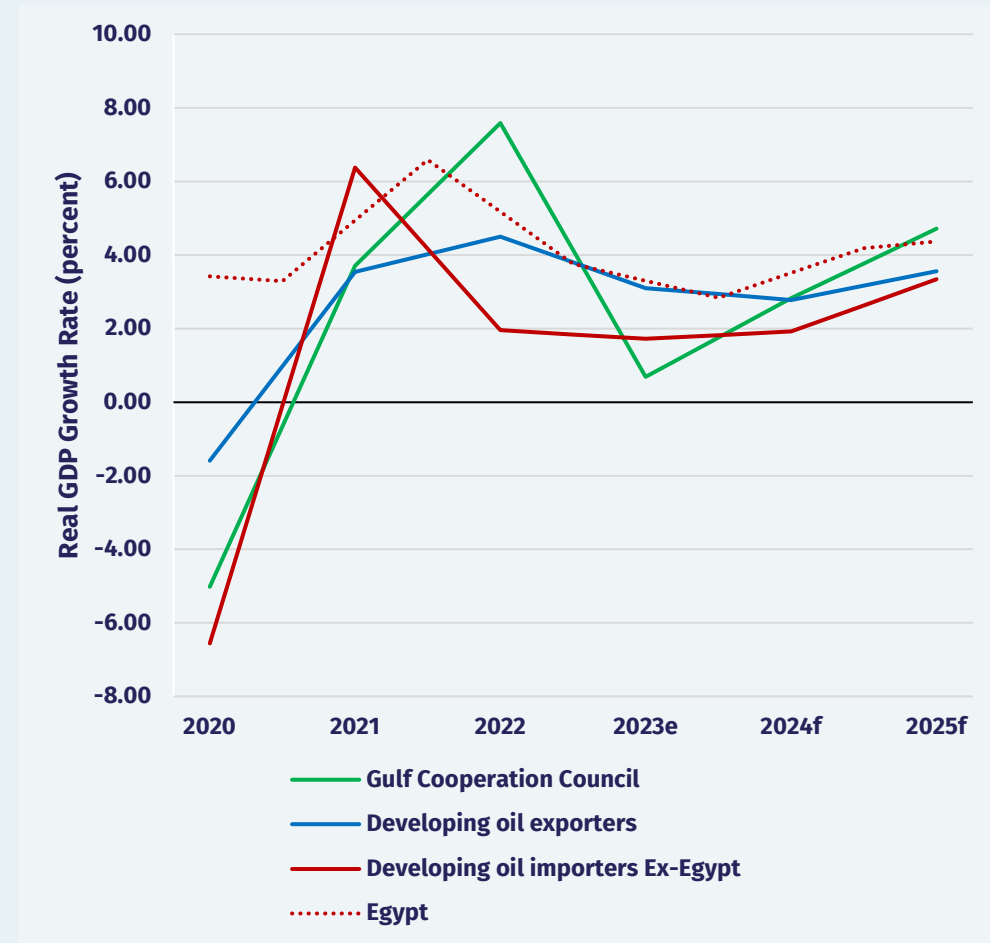


OVERVIEW OF KEY MESSAGES

- The tale of two MENA's has come to an end with a **return to pre-pandemic low growth in 2023**.
 - Oil exporters and oil importers in MENA grew at comparable rates in 2023 and are expected to remain this way in 2024.
- The **conflict** has led to massive loss of life and one of the largest economic shocks in recent history. GDP in Gaza plummeted by 86 percent in the final quarter of 2023. The outlook for the Palestinian economy is highly uncertain depending upon the conflict's evolution.
- Uncertainty in the region has also increased after October 7th and remains higher than in other EMDEs. So far, the **economic impact of the conflict on the rest of the region has been limited**. However, prolonged disruptions to maritime transportation, particularly through the Suez Canal, could increase shipping times and raise costs for several countries regionally and globally.
- Over the past decade, several MENA economies experienced increases in their debt-to-GDP ratios.
 - The pandemic accelerated debt accumulation, but the trend predates COVID. The level of indebtedness is much higher for oil importers in MENA than MENA oil exporters.
- Growing out of debt and inflating debt away seem to be more difficult for MENA oil importers, even when they are compared to other EMDE oil importers or MENA oil exporters.

THE MENA REGION'S MACROECONOMIC OUTLOOK

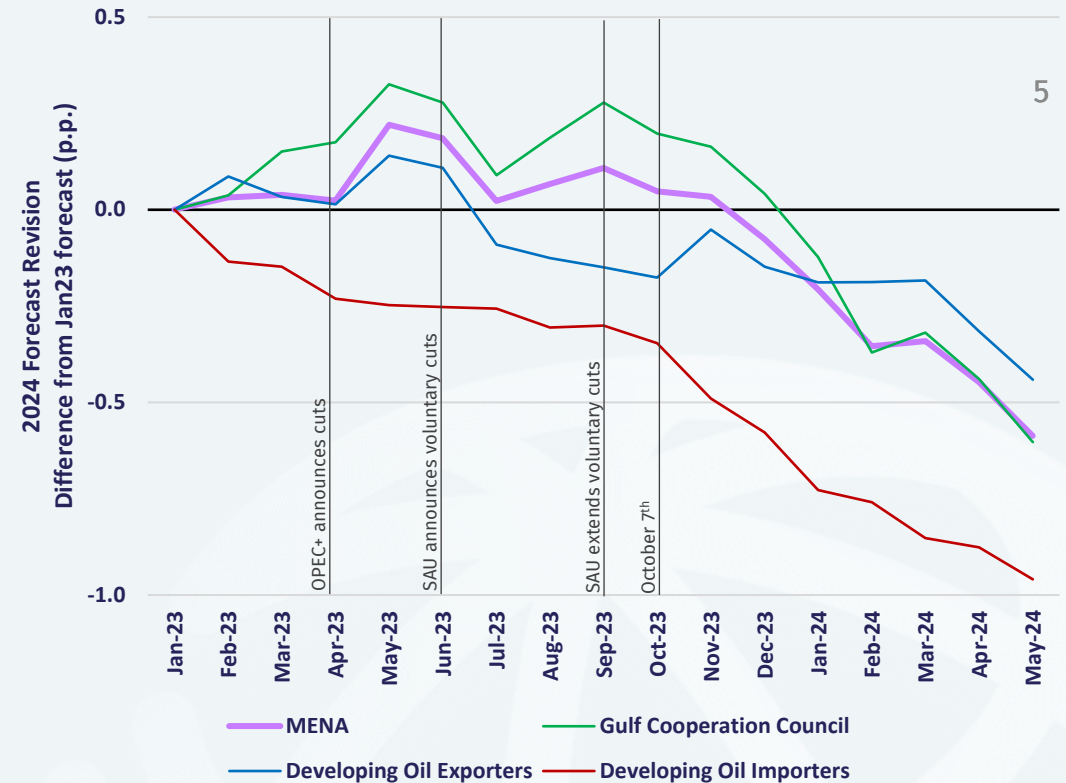
THE TALE OF TWO MENAS HAS ENDED WITH THE RETURN TO LACKLUSTER GROWTH



EXPECTATIONS HAVE SHIFTED WITH SUCCESSIVE SHOCKS

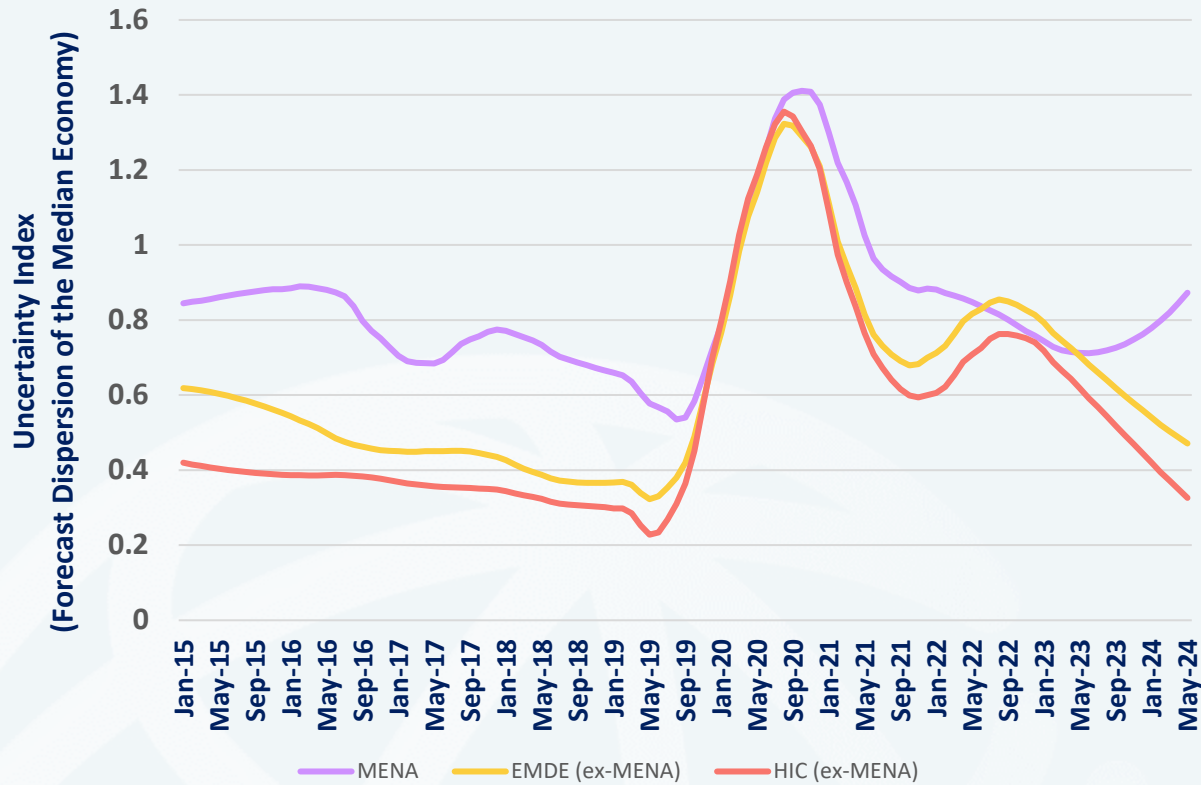
- Current forecasts reflect current expectations, but projections are being continually revised.
- Private sector forecasts allow us to look back and see how expectations evolved monthly over the past year.
- Private sector forecasts for real GDP growth in MENA have been revised down half of a percentage point relative to January 2023.
 - Oil importers in MENA and GCC economies saw sharp downward revisions since the start of the conflict in Middle East.

2024 Real GDP Growth Forecasts

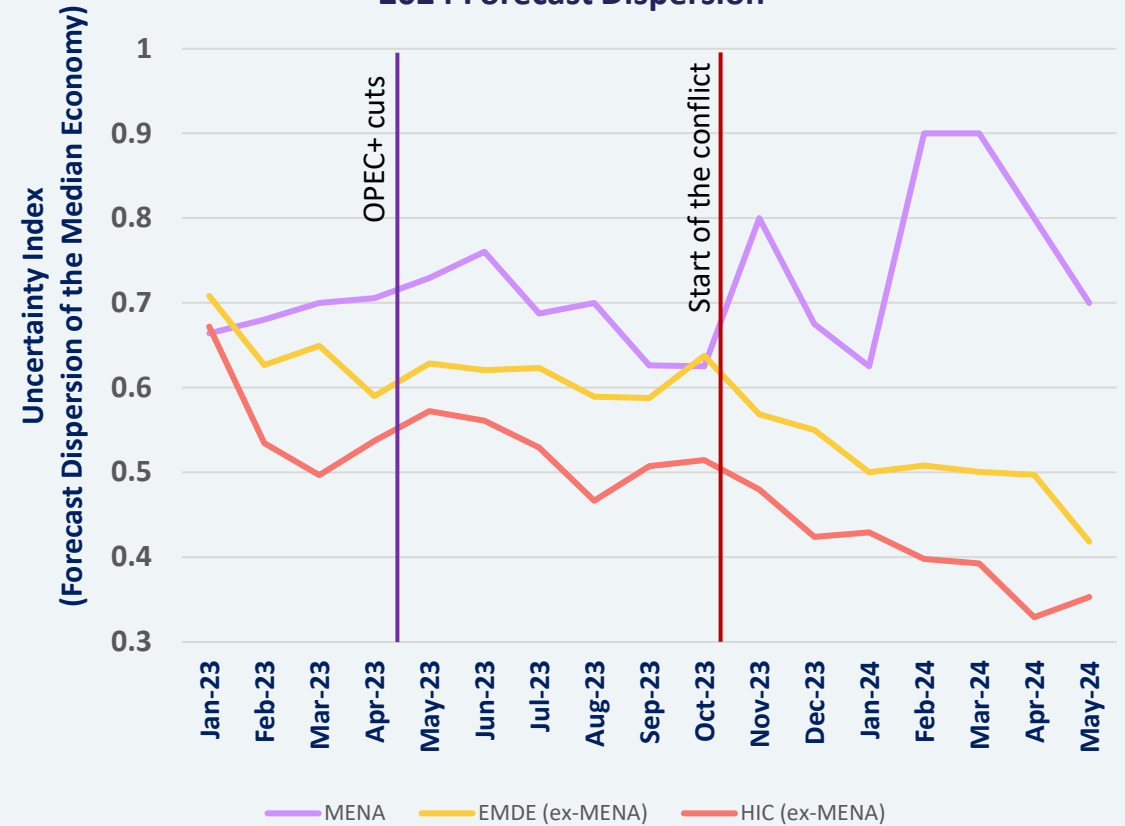


HEIGHTENED UNCERTAINTY IN MENA.. AGAIN

One Year-Ahead Forecast Dispersion



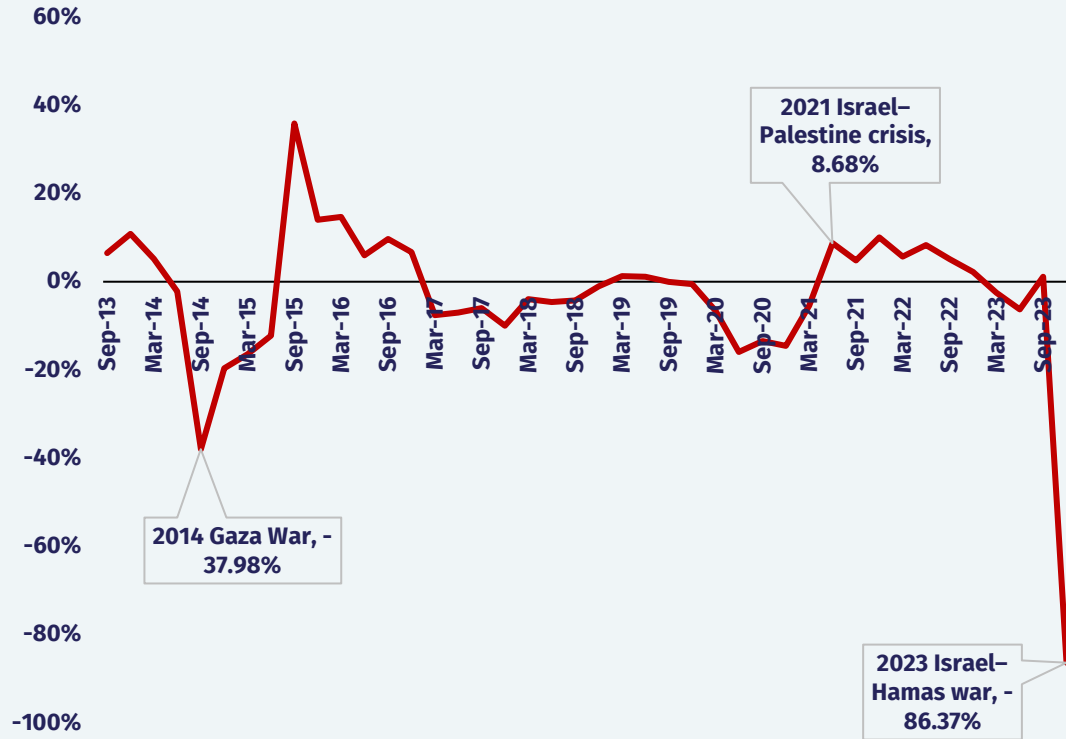
2024 Forecast Dispersion



ECONOMIC IMPACT OF THE CONFLICT IN THE MIDDLE EAST

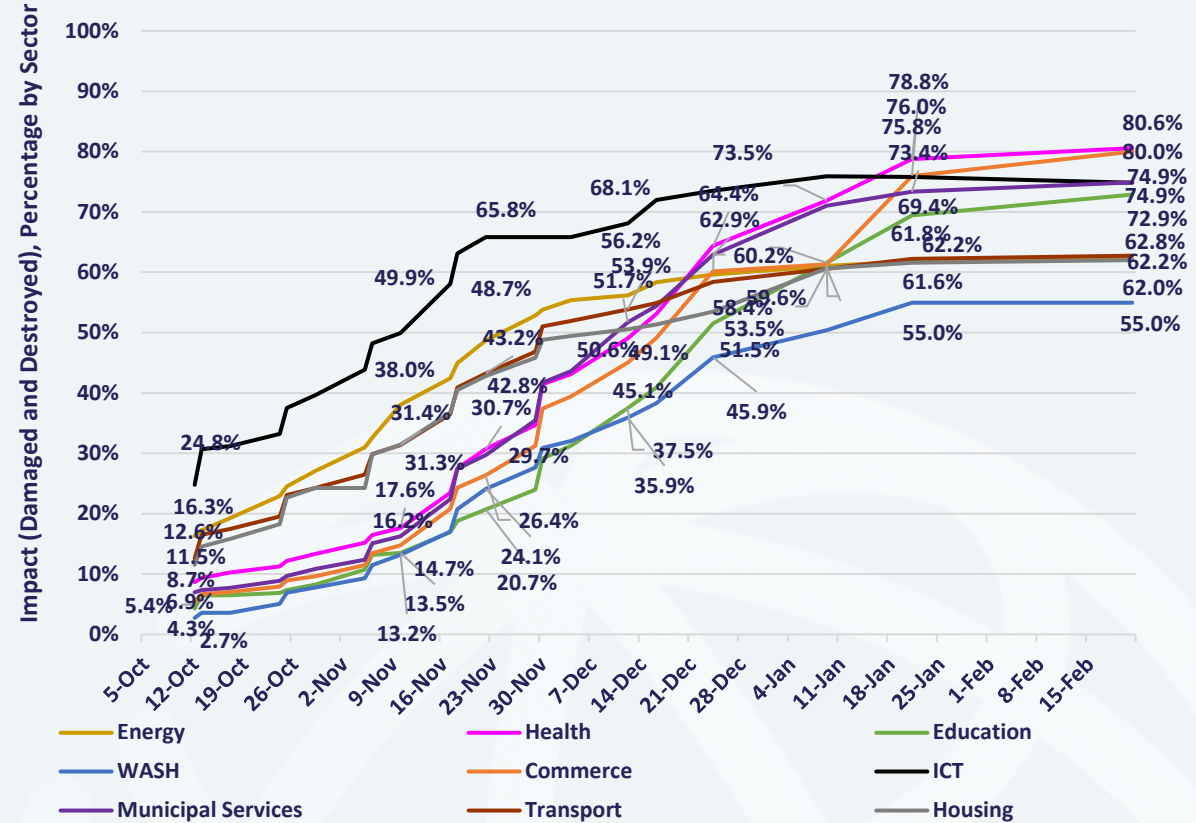
IMPACT ON GAZA'S ECONOMY

Gaza real GDP growth
(quarterly real GDP, yoy percent change)



Source: Palestinian Central Bureau of Statistics (PCBS)

Preliminary Damage Assessment by sector, Gaza



Source: IPSOS, based on satellite data (March 2024 data)

THE CONFLICT'S ECONOMIC AND POVERTY IMPACTS EXTENDS BEYOND GAZA

1. Production/Private sector affected/Income losses



- Due to increased restrictions in the West Bank, the private sector and labor markets are adversely affected. Since the start of the conflict **0.5m jobs lost** collectively in the West Bank and Gaza
- The Palestinian economy is projected to **contract anywhere between 6.5 and 9.4 percent during 2024**, depending on the severity/duration of the conflict and level of restrictions in place in the West Bank.

2. Worsened fiscal crisis



- The Palestinian Authority (PA) is facing a **full-blown spiraling crisis**, and the risks of fiscal collapse are on the rise. The financing gap for 2023 ballooned to -3.9 percent of GDP (against a pre-conflict baseline of -0.5%), and could double, or more, in 2024.

3. The effectiveness of social protection programs may be hampered



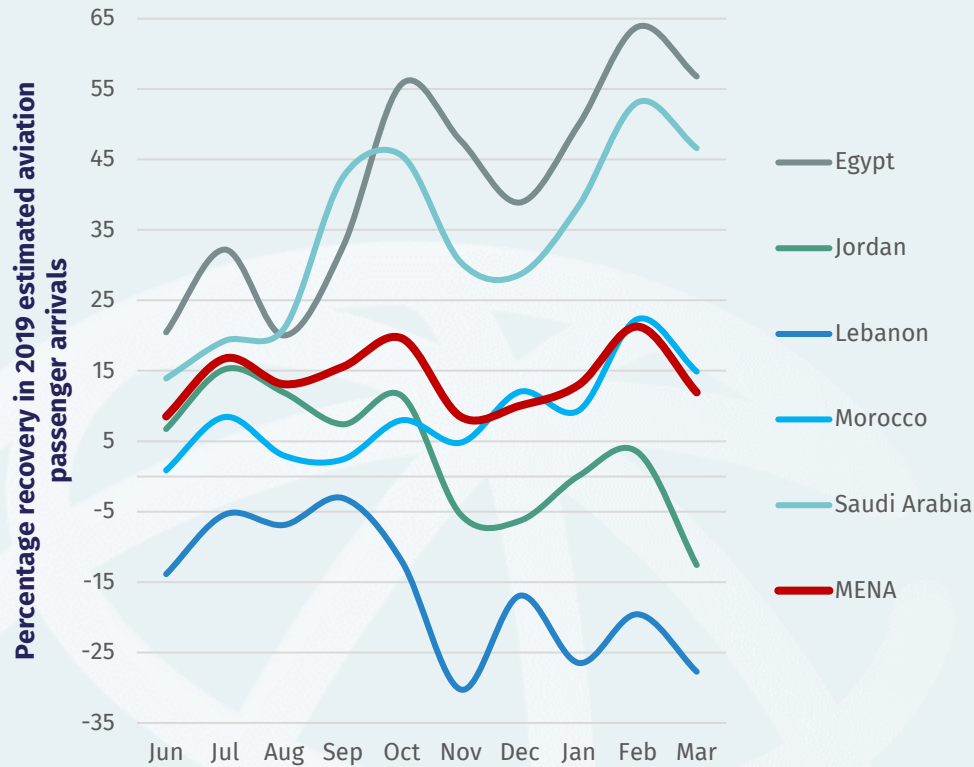
- The PA's fiscal crisis is also affecting social protection programs, in a context now marked by severe food insecurity and areas (in the north of Gaza) affected by famine.
- New figures from the 2023 household survey indicate that **poverty was already on the rise prior to the conflict** (32.8 percent – a significant increase from 29.2 percent in 2017. And in Gaza alone, it rose from 53 percent in 2017 to 64 percent in 2023 prior to the conflict). This raises serious concerns about the depth of poverty and the challenges ahead, when hostilities cease.



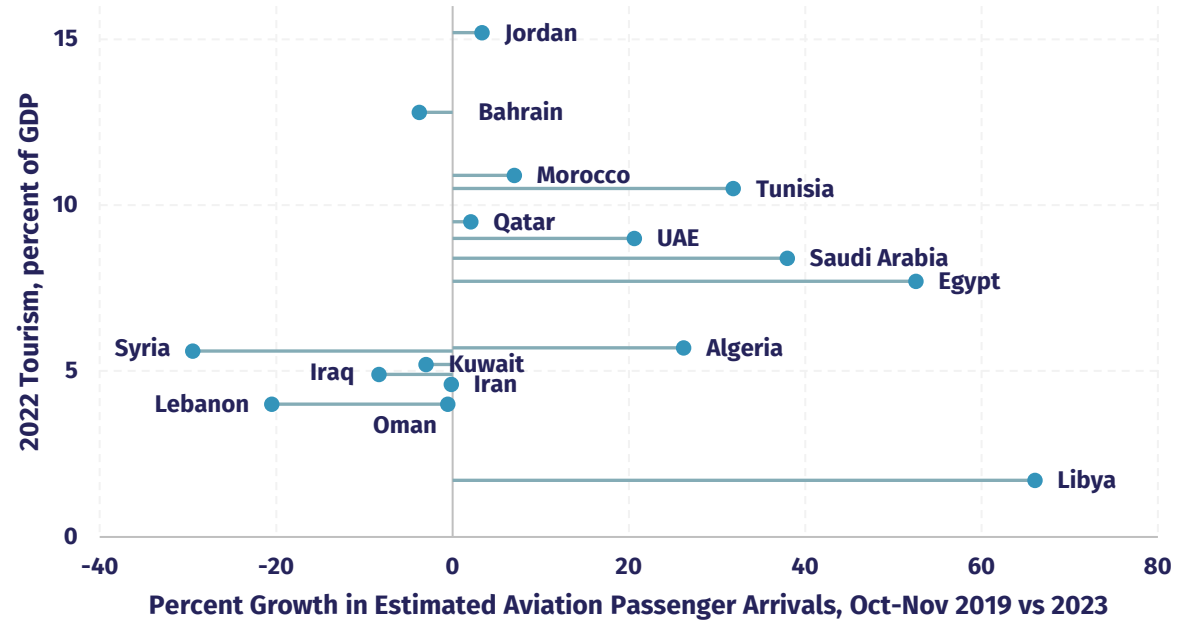
We conduct regular macro-monitoring. Every 2 months we've been publishing an update. The latest at the end of May
 (Visit: www.worldbank.org/en/country/westbankandgaza)

REGIONAL IMPACTS: A MIXED PICTURE

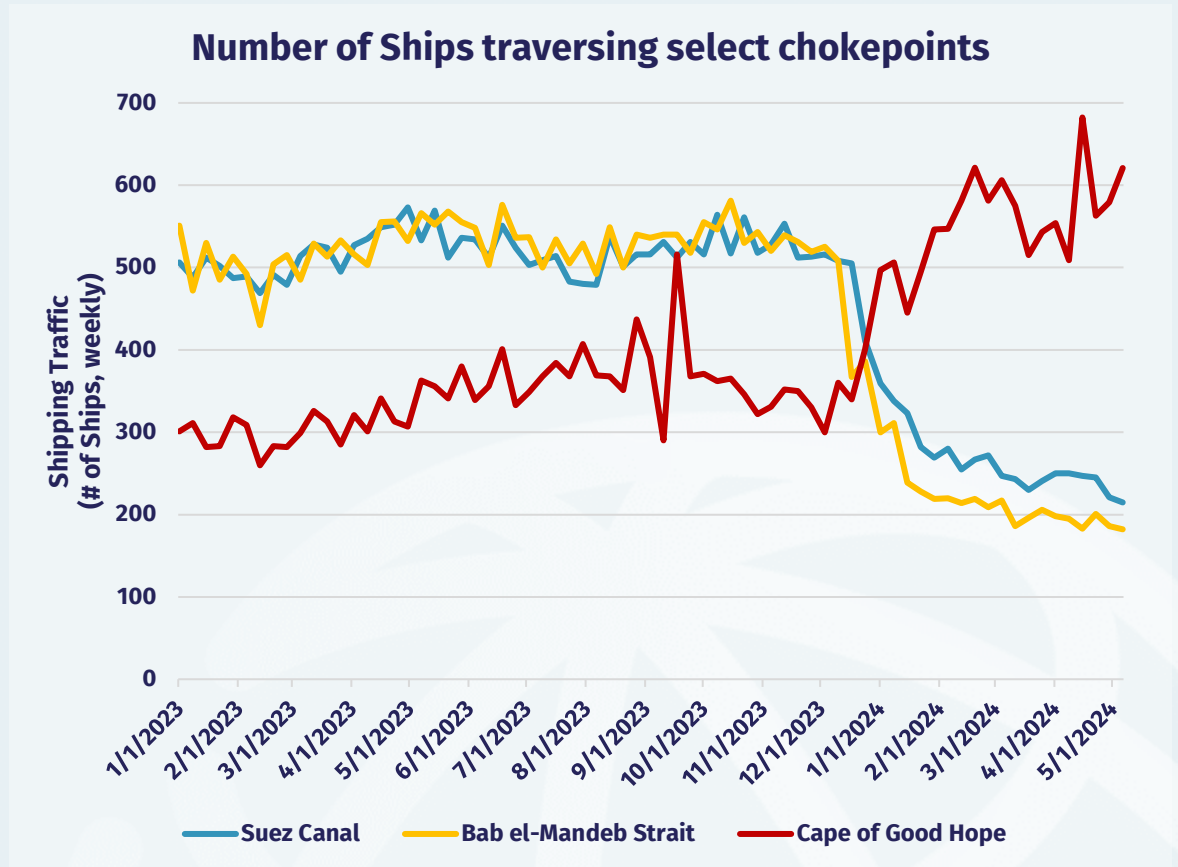
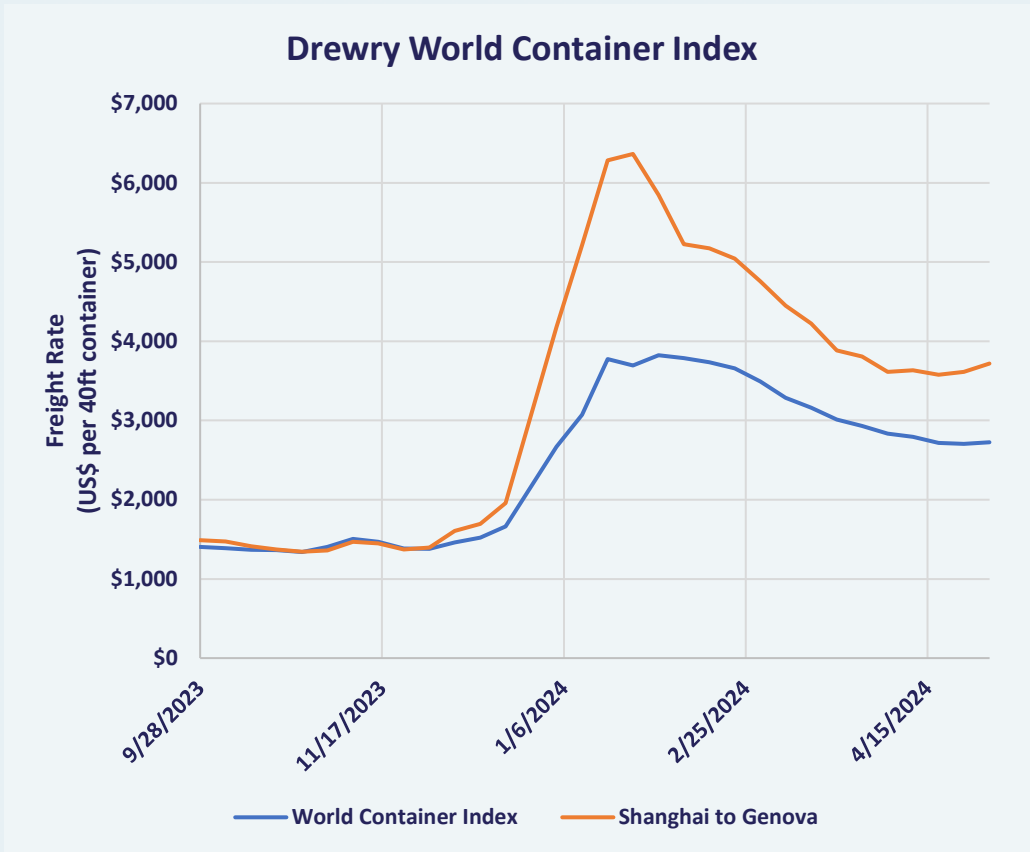
Change in estimated aviation passenger arrivals 2019 vs 2023, selected countries in MENA



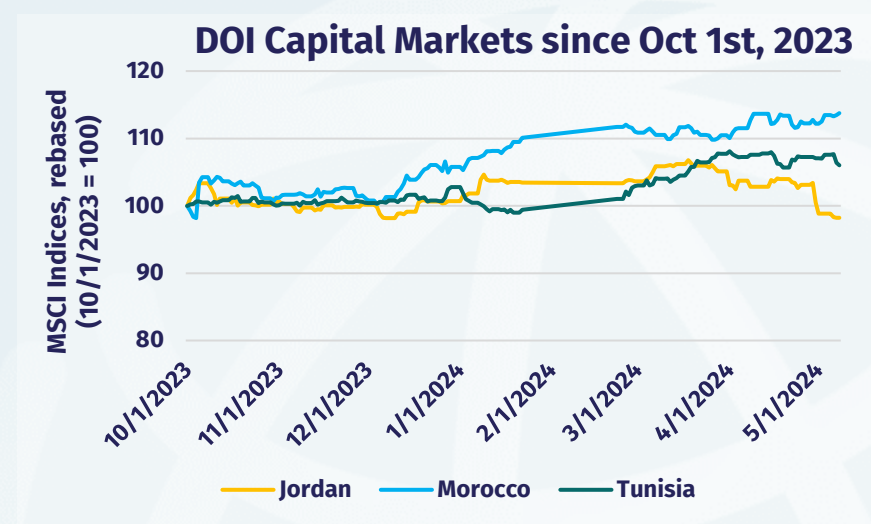
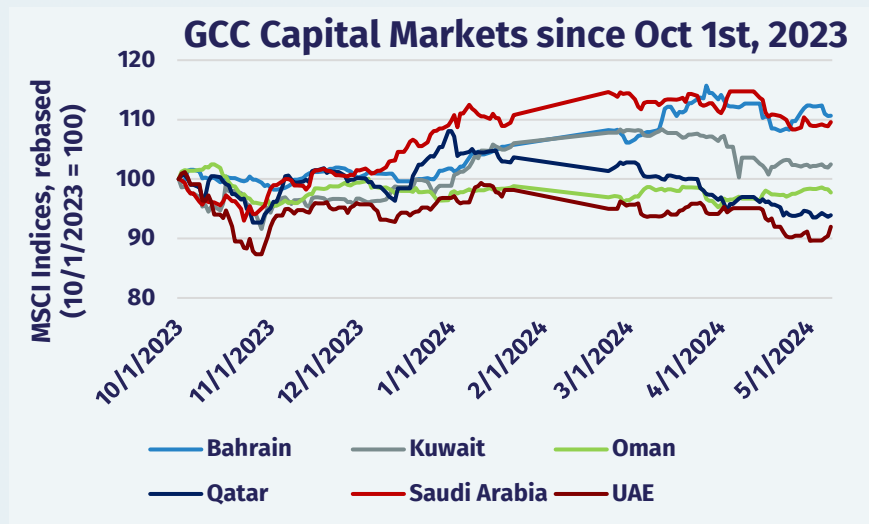
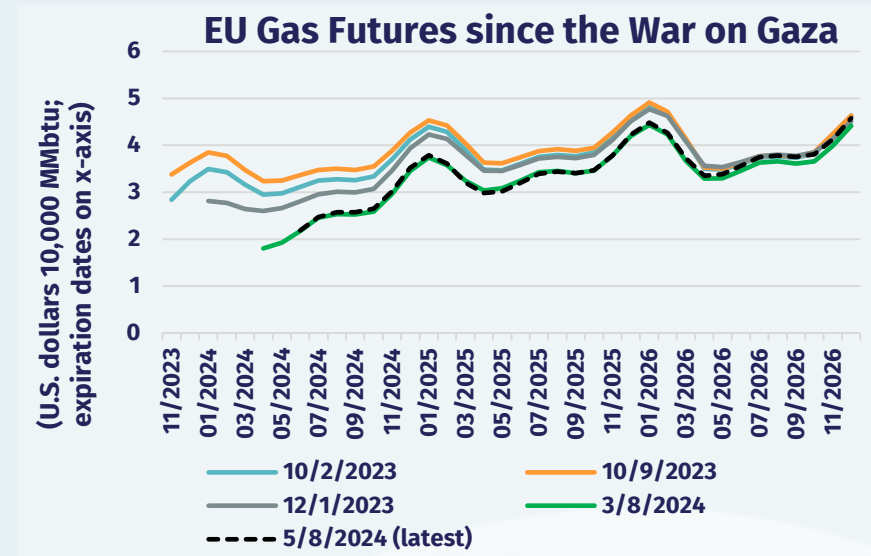
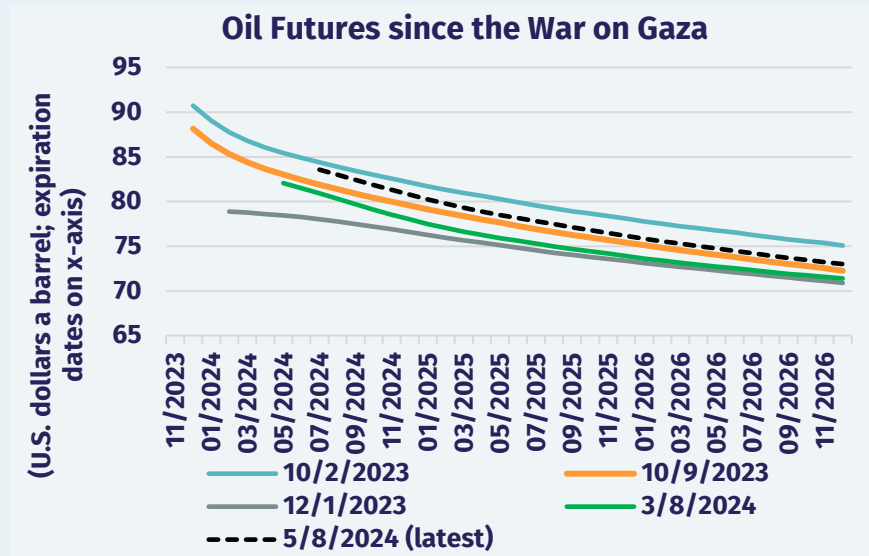
Change in estimated aviation passenger arrivals Oct-Nov 2019 vs 2023 and Tourism as a share of GDP



ATTACKS IN THE RED SEA AFFECTED THE TRAFFIC THROUGH SUEZ AND BAB EL-MANDEB



ENERGY AND FINANCIAL MARKETS HAVE BEEN GENERALLY STABLE DESPITE SHORT-TERM FLUCTUATIONS AFTER 10/7



PRE-EXISTING VULNERABILITY: PUBLIC DEBT

PRE-EXISTING VULNERABILITIES WERE HEIGHTENED BY THE CONFLICT: SPOTLIGHT ON HIGH PUBLIC DEBT

Increasing levels of debt across the board

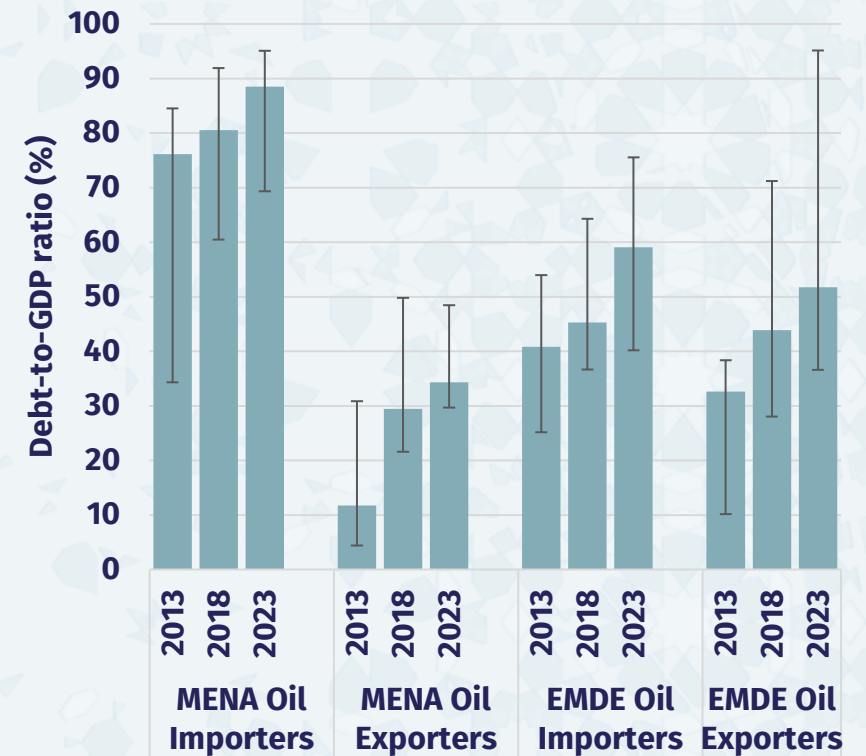
- Over the past 10 years, emerging markets and developing economies have experienced an increase in their debt to GDP ratios. MENA economies are no exception.

Debt accumulation trends predate COVID

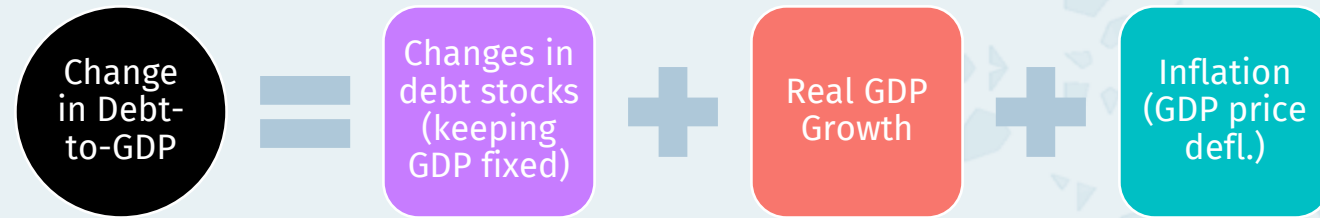
- The global pandemic accelerated indebtedness – especially among oil importers – but debt levels were already increasing before 2020.

Varying levels of debt within MENA

- Increases in debt is particularly concerning in the case of countries already facing high debt



CHANGES IN GROSS DEBT-TO-GDP RATIO: DEBT STOCKS, GROWTH, AND INFLATION



- **Rising debt stocks** ↑ debt-to-GDP
- **Real GDP Growth** ↓ debt-to-GDP (*grow out of debt?*)
- **Inflation (in the GDP price level)** ↓ debt-to-GDP (*inflate debt away?*)

DIGGING DEEPER: WHAT DRIVES CHANGES IN DEBT STOCKS

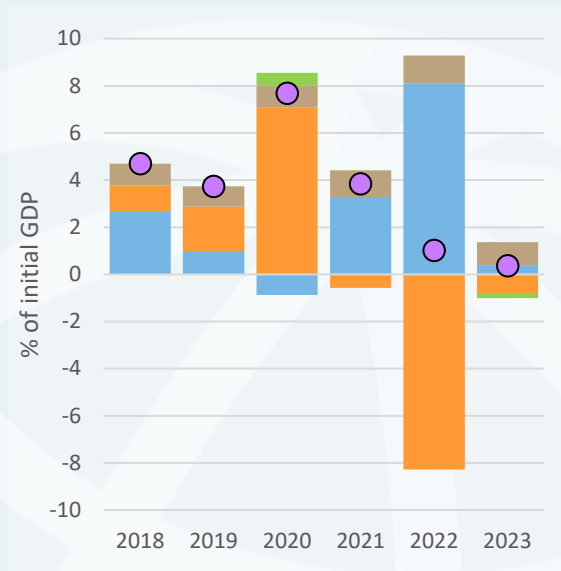


- **Primary Balance (deficits)**
- **Interest Payments**
- **Fluctuations in FX**
 - Affects the value of debt denominated in foreign currency
- **Other Factors: Stock-Flow Adjustments**
 - Below the line revenues/expenditures
 - Asset accumulation (e.g. SWFs)
 - Statistical discrepancies, and other factors

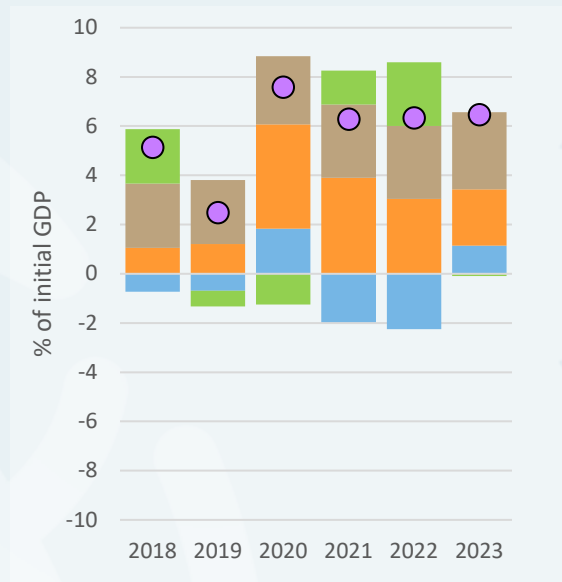
DIGGING DEEPER: WHAT DRIVES CHANGES IN DEBT STOCKS



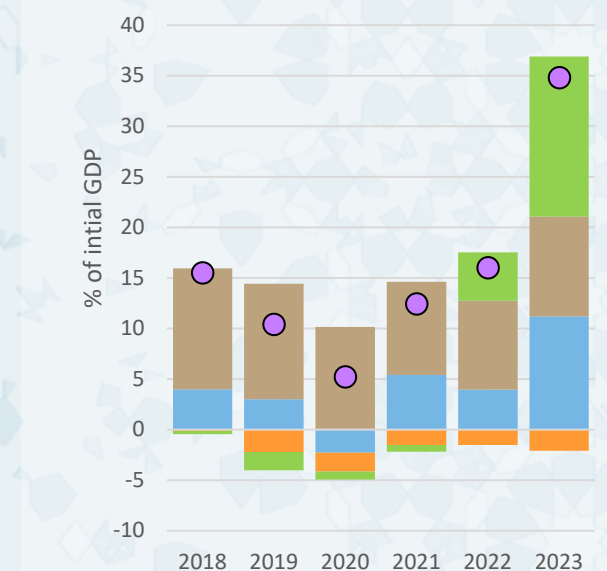
MENA Oil Exporters



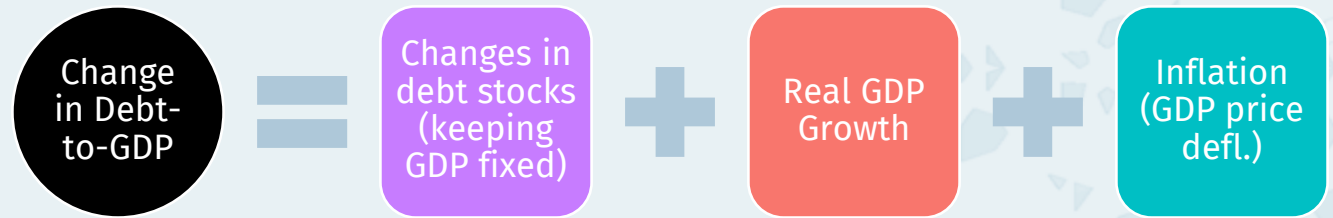
MENA Oil Importers (ex-EGY)



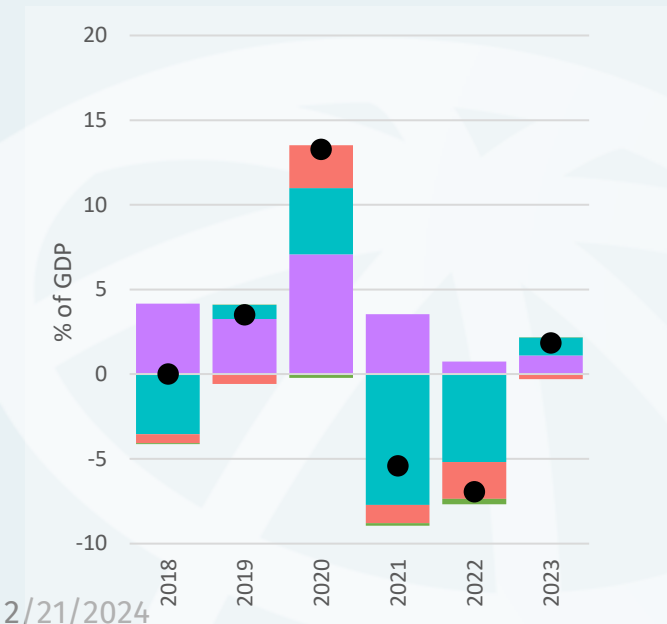
Egypt (Fiscal Year)



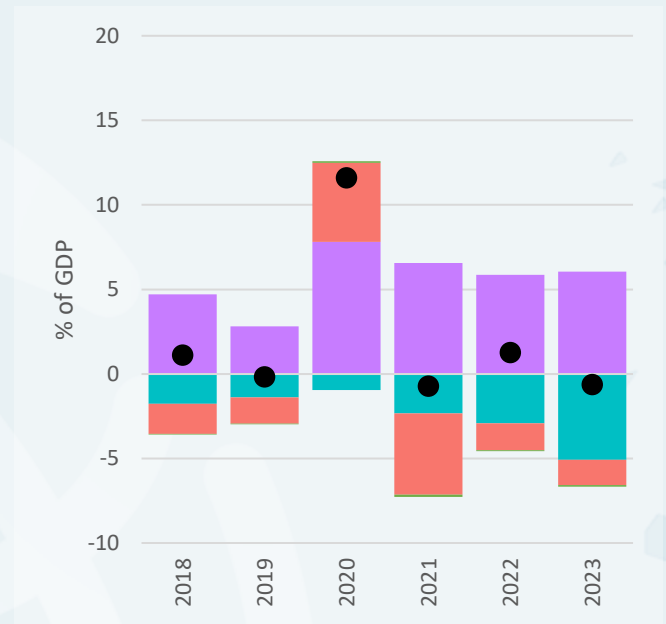
THE 'PUSH AND PULL' OF GROWTH AND INFLATION VERSUS RISING DEBT STOCKS



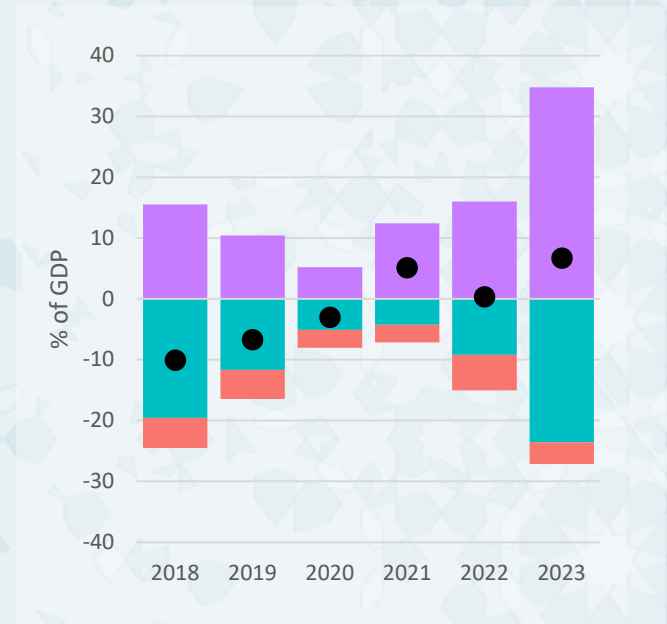
MENA Oil Exporters



MENA Oil Importers (ex-EGY)

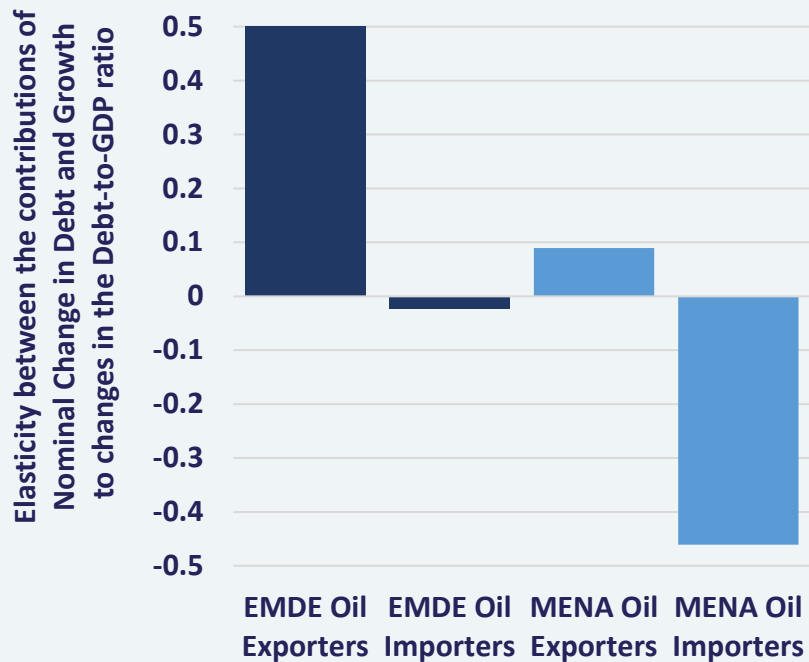


Egypt

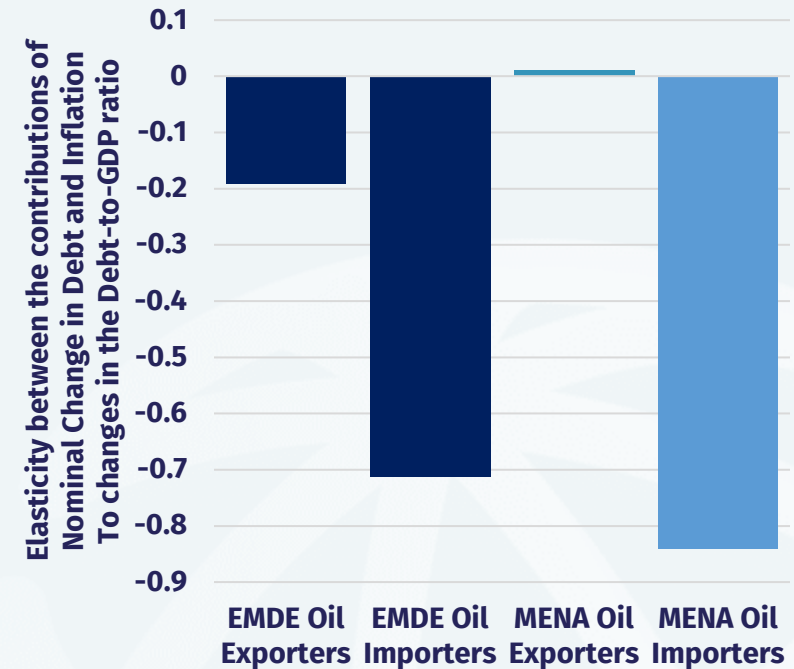


'GROWING OUT OF DEBT' AND 'INFLATING DEBT AWAY' HAS BEEN HARDER FOR MENA OIL IMPORTERS

About half of any decrease in Debt-to-GDP due to real growth is undone by increasing debt stocks



Almost all of any decrease in Debt-to-GDP due to inflation is undone by increases in debt stocks



'GROWING OUT OF DEBT' AND 'INFLATING DEBT AWAY' HAS BEEN HARDER FOR MENA OIL IMPORTERS

Two takeaways:

- To harness the ability to reduce indebtedness with growth or inflation, keeping rising debt stocks in check is a must.
- To the extent that the factors captured by the stock-flow adjustments are truly unaccounted for, debt transparency must be improved to have a clearer picture of what has been behind MENA's inability to 'grow out of debt' and 'inflate debt away'.

Change in **GDP**



Change in **DEBT**



Change in **DEBT**-to-**GDP** ratio

KEY TAKEAWAYS

- The humanitarian impact of the conflict on Gaza has been devastating. Gaza's economy has effectively come to a halt.
- The regional effects of the war remain uncertain. The extent of its impact hinges on whether the conflict escalates.
- **Uncertainty is high in the region**, and much ambiguity remains on how the conflict may further evolve.
- **High debt is a key pre-existing vulnerability among MENA oil importers** that could be exacerbated if the conflict were to escalate in the region.
- Increasing levels of indebtedness among MENA oil importers stemmed, partly, from the **inability to 'grow out of debt' or 'inflate debt away'**.
 - The effect of devaluations and other factors that are unaccounted for played a sizeable role.
- MENA oil importers: **growth should ideally come without massive increases in debt stocks**.
 - **Fiscal responsibility** (including below the line) must be part of the economic growth policy.
- MENA oil exporters: have made **good use of SWFs during oil upswings**. But debt levels are sensitive to the price of oil: decreases in the oil price can increase D/Y substantially (as it happened in 2020).
 - The real challenge remains **economic and fiscal revenue diversification**.

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