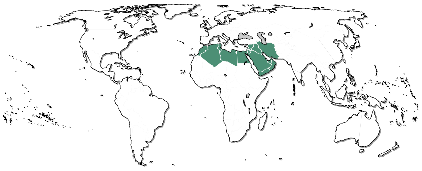
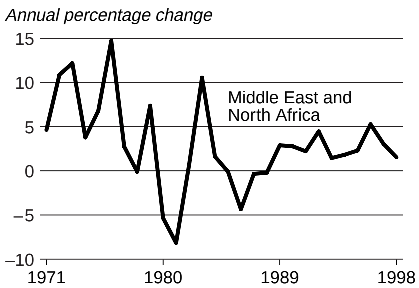
Middle East and North Africa



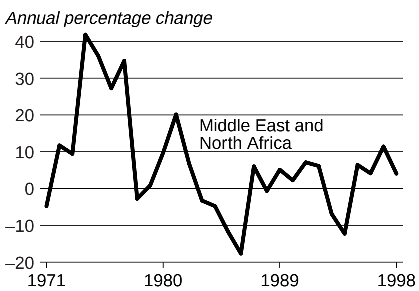
GNP per capita, 1997: $2,070

GDP growth rates, 1971–98



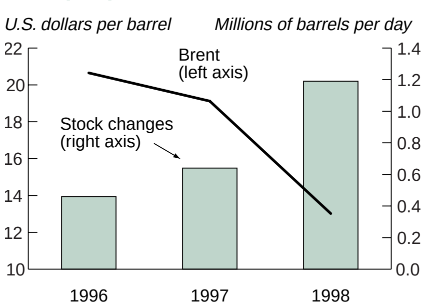
Source: World Bank.

Import volume growth rates, 1971–98



Source: World Bank.

World crude oil stock changes and spot prices, 1996–98



Sources: International Energy Association, Economist Intelligence Unit, and World Bank Development Prospects Group.

Recent developments

Real GDP growth in the Middle East and North Africa region slowed to 1.5 percent in 1998 from 3.1 percent in 1997. The slowdown was mainly the result of a sharp fall in oil prices, which translated into a 24 percent decline in the terms of trade and a reduction of income equivalent to nearly 6 percent of GDP. Growth in export volumes also slowed from 8.3 percent in 1997 to 3.4 percent in 1998, and the current account balance swung from a $10 billion surplus to a $25 billion deficit. The effect of weak oil prices was felt primarily in the Middle East, which achieved no growth in 1998 following a 3.3 percent gain in 1997. By contrast, growth in the more diversified North African economies accelerated from 2.5 percent in 1997 to 4.7 percent in 1998. This improvement largely reflected a striking 9 percent turnaround in Morocco, where the predominantly agricultural economy grew by 6.8 percent as the drought came to an end.

The Middle East and North Africa region comprises a diverse set of economies, most of which are relatively closed and protected. The region has participated only modestly in the increasing integration of developing countries into the world economy. Intraregional trade, too, is low compared to other regions, accounting for less than 10 percent of total trade since the mid-1980s. Recently, several countries have undertaken reforms to open their economies and reduce restrictions on private sector economic activity, changes that are apparently enhancing investor confidence. For example, the *Institutional Investor* credit ratings have improved significantly since mid-1997 for the Arab Republic of Egypt, the Islamic Republic of Iran, Jordan, Morocco, and Tunisia, unlike most other regions. The improved investment environment in these countries contributed to a 10 percent increase in net FDI to the region in 1998, to $5.9 billion. Considerable potential exists for further FDI in a number of sectors, particularly in oil and gas, petrochemicals, agriculture, tourism, and infrastructure. However, political risk in some countries and restrictions on market access remain impediments to be overcome.

Debt indicators

The principal financial effect of the East Asian crisis on the region in 1998 has been transmitted through the sharp decline in the price of oil, which increased external financing requirements in a number of countries. Long-term external debt rose by close to 8 percent in 1998 to $161 billion, after declining in both 1996 and 1997. Private debt accounted for the greatest part of this increase, expanding from $43 billion in 1997 to $53 billion in 1998. Official debt, which accounted for 67 percent of the total, increased only marginally. At the end of 1998, the region accounted for about 10 percent of the outstanding long-term debt of developing countries, its average percentage share since the beginning of the decade.

Debt indicators deteriorated, owing to a combination of increased debt and lower exports. A striking increase in the ratio of debt to exports is estimated for 1998, to 137 percent from 103 percent in 1997, largely because of a significant fall in export earnings. Other debt indicators were more stable on the whole, as average growth for the region, albeit weak, remained positive. For example, the ratio of external debt to output increased only moderately, from 27.4 percent in 1997 to 28.6 percent in 1998.

Aggregate resource flows

Net resource flows to the Middle East and North Africa continued to climb for the third year in a row to a record level of an estimated $18 billion in 1998, compared with $7 billion in 1997, and an average of only $3 billion in 1995–96. Flows averaged $8 billion a year over the period 1990–95. The sharp increase in 1998 was largely the result of the doubling of net private flows to $16 billion, up from $8 billion in 1997.

Net private debt flows increased sharply in 1998, from less than $1 billion in 1997 to a record $9 billion. Commercial bank lending represented the greatest part of the additional flows in 1998, reaching close to $8 billion. Increased borrowing reflected the ability of some oil exporters—who retained market access because of their large resource endowments and substantial external assets—to limit the decline in expenditures that followed the drop in the price of oil. Net bond flows equaled $1 billion in 1998, about the same level as in 1997.

Equity flows decreased in 1998 to $7 billion, down from a record high of $8 billion in 1997. FDI to the Middle East and North African region actually increased from just over $5 billion in 1997 to $6 billion in 1998. Saudi Arabia, Egypt, and Morocco recorded the largest inflows among the countries of the region, with $2.4 billion, $1.8 billion, and $0.8 billion, respectively. However, net FDI inflows to the region remained at less than 1 percent of GDP in 1998, compared to 4 percent in East Asia and 3 percent in Latin America. Portfolio equity flows fell from $2 billion in 1997 to $1 billion in 1998. Spillover effects from the East Asian crisis and the subsequent liquidity crisis in Russia were manifest in significant declines in regional stock market indexes. Morocco's stock exchange, which achieved strong gains in 1998, was the main exception.

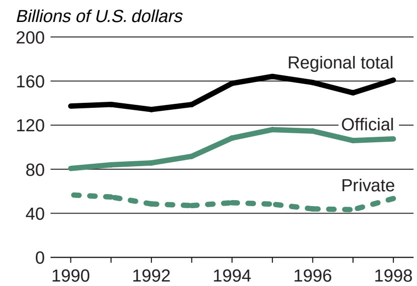
Official development finance recovered to $2 billion in 1998, compared to negative $1 billion in 1997, reflecting in part a rescheduling of Iranian debt. Despite this improvement, net official finance remained well below the $8 billion a year received in the first few years of this decade (in part because of Gulf War assistance). Official grants registered close to $3 billion for the fourth consecutive year in 1998 and continued to represent the largest share of official inflows, as they have throughout the 1990s. Overall, the composition of net resource flows has shifted dramatically in the 1990s, with official flows declining from more than 90 percent of the total in 1990 to less than 50 percent in 1995 and only 11 percent in 1998.

Prospects and risks

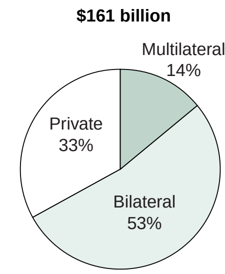
Growth in the Middle East and North Africa region is forecasted at 0.7 percent in 1999, rising to an average of near 3 percent in 2000–01. Per capita income will decline slightly over the period, compared to an average growth rate near 1 percent in 1996–98. For the Middle East, weak oil prices will be the primary determinant of near-term performance. For the more diversified economies of the Levant and North Africa (Egypt, Jordan, Lebanon, and Morocco), export receipts will reflect weaker growth in Europe and heightened competition from Eastern European and Asian competitors. Tight fiscal and monetary policies, combined with a fall in import prices (particularly for the oil-importing countries), are bringing down inflation, which is assumed to remain low over the forecast period.

Slow growth will increase financing requirements for both fiscal and current accounts deficits. Financing gaps will rise substantially in Algeria and the Islamic Republic of Iran, and despite expectations of new external financing (mostly official in the case of Algeria and private in the case of Iran), significant import compression will be required if external debt rescheduling is

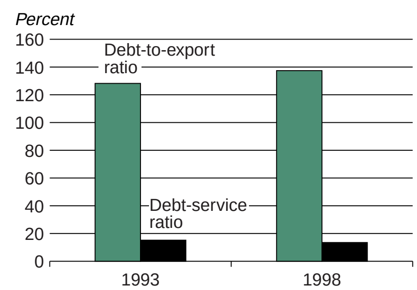
Long-term debt outstanding, 1990–98



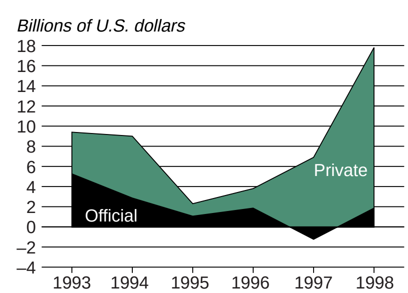
Sources of long-term debt, 1998



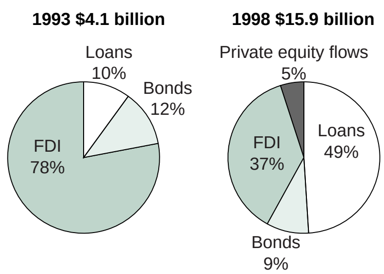
Debt indicators, 1993 and 1998



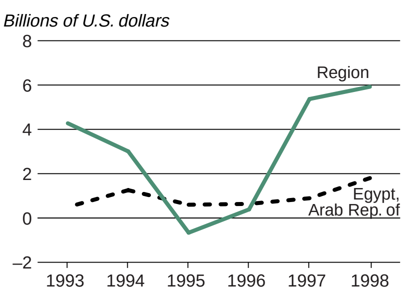
Aggregate net resource flows, 1993–98



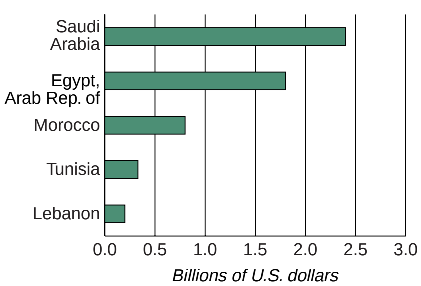
Composition of private flows



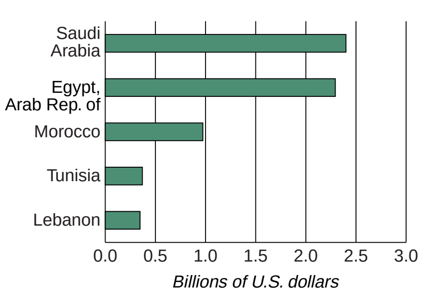
Foreign direct investment, 1993–98



FDI by country, 1998



Net private flows, 1998



to be avoided. In the more populous Gulf states, weakness in oil prices is putting government budgets under pressure at a time when labor market dynamics are resulting in high unemployment rates.[1] Modest restraint on the expenditure side may be needed, but in the near term, financing requirements are likely to be met through a combination of domestic and (if necessary) foreign borrowing, privatization receipts, private sector funding for infrastructure projects, and drawdowns of foreign assets. However, an extended period of low oil prices would eventually necessitate fundamental fiscal reform and adoption of more open trade regimes designed to foster international competitiveness.

Risks to this forecast include the potential for a more pronounced slowdown in industrial country growth, particularly in the EU, and a sharper, more protracted deterioration in world oil prices. A major setback to world growth and trade would negatively affect all Middle East and North African countries and, in particular, delay the realization of some gains from recent trade reforms that have been implemented in North Africa. The near-term situation in a number of Gulf countries appears especially challenging, given falling export revenues and large social programs combined with growing unemployment pressures.

Notes

1. Indeed, the region as a whole is facing an employment crisis, as more than 1 million people will enter the labor market next year, of which only some 200,000 are expected to find jobs. Consequently, some 800,000 will be unemployed. (*Source:* "The Middle East and North African Economy: An Overview" — MENA region write-up).

Middle East and North Africa forecast summary

(percent per annum)

					Baseline forecast		
Growth rates/ratios	**1988–97**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Real GDP growth	2.6	5.3	3.1	1.5	0.7	2.5	3.3
Consumption per capita	–0.5	3.0	–0.7	–1.1	–2.7	–0.4	0.6
GDP per capita	–0.1	2.9	0.5	–1.0	–1.8	0.0	0.8
Population 16–65 years	3.1	2.9	3.0	3.0	3.0	2.9	2.8
Median inflation[a]	8.2	7.1	4.1	3.7	3.7	4.3	4.9
Gross domestic investment/GDP	22.6	23.3	23.9	23.7	24.1	24.5	24.9
Budget balance	–4.7	–0.2	–1.7	–2.5	–2.9	–1.5	–1.4
Export volume[b]	5.5	3.6	5.1	–2.2	2.1	3.8	4.0
Current account/GDP	–2.5	2.5	2.1	–5.0	–5.8	–2.0	–1.1
Memo items							
GDP of oil-dominant economies	3.2	4.6	2.6	–0.3	–0.8	1.6	2.7
GDP of diversified economies	4.1	6.5	3.4	4.8	3.3	4.0	4.3

a. GDP deflator.
b. Goods and nonfactor services.
Source: World Bank baseline forecast, March 1999.