

## Middle East and North Africa

### Recent developments

The developing countries of the Middle East and North Africa region were less affected than other developing regions by the global recession, in part because of the region's limited financial integration, but also due to its export mix, which is concentrated in products (oil, materials and light manufactures) that were not as sharply affected by the crisis as capital goods- and, in turn, as the economies which produce them.<sup>1</sup> Reflecting a muted downturn, the region's recovery in 2010 was also more subdued than for other developing regions.

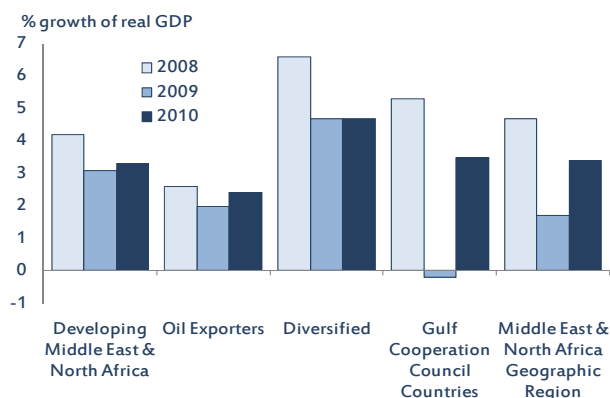
The upturn in 2010 reflected both an improved external environment and the ongoing effect of earlier stimulus measures. Higher oil prices tended to benefit oil exporters, while the growth rebound in the Euro Area and high-income Gulf Cooperation Council (GCC) helped boost remittances and exports in the region, particularly among the diversified economies.

*Growth edged higher in 2010.* With the rebound in world trade and production, upward pressure on oil prices and recovery of the Euro Area to growth in 2010, GDP gains for developing Middle East and North Africa picked up modestly from 3.1 percent in 2009 to 3.3 percent in 2010.<sup>2</sup> The diversified economies of the region, those with close ties to the GCC and those with tighter linkages to Europe, experienced a pick-up in exports that supported an upturn in growth for most countries. But overall, the GDP of these countries grew somewhat less quickly than in 2009 (4.7 versus 4.8 percent) mainly because agricultural production growth in the Maghreb was weaker than in 2009. This overall stability masks much improved bounce backs in Egypt, Jordan and Tunisia. Oil exporters saw moderate gains ranging between 1.5 to 2.5 percent in 2010, dampened to a degree by self-imposed limits on hydrocarbons output in support of OPEC price targets (Figure R4.1).

Developing oil exporters and the GCC benefited from a substantial 28 percent gain in dollar-denominated oil prices in the year to \$79/bbl from \$61/bbl in 2009. And for the high-income countries, a gradual process of financial consolidation is underway in the wake of Dubai's crisis of 2008-09. The GCC emerged to growth of 3.5 percent from a decline of 0.2 percent in 2009. A broader measure of GDP performance for the geographic region (including the high-income countries) moved up to 3.4 percent in the year from 1.9 percent at the depth of global recession (Table R4.1).

*Sources of growth.* Several factors in 2010 helped to shift the principal source of growth for the diversified economies further toward domestic demand (particularly private and government consumption), as the contribution to growth from net trade waned. Stimulus packages were slow to unwind in 2010 and therefore continued to support household spending, public-sector infrastructure projects, and, through spillover effects, private investment in the year.<sup>3</sup> Moreover, worker remittances to developing Middle East and North Africa picked up by 5.3 percent in 2010 to \$35.5 billion, much stronger than earlier expected, augmenting household incomes and offering support for consumption

**Figure R4.1 Developing Middle East and North Africa region less adversely affected by crisis and recession than many others**



Source: World Bank.

growth of 4.6 percent in the year. Private consumption accounted for 3.4 points of 4.7 percent GDP growth in 2010, up from 3.1 points in the year preceding.

For the developing oil exporters, the shift in sources of growth during 2010 was similar to the diversified economies, but amplified by weak overall export volumes (0.7 percent growth). This contrasts with large-scale public-sector infrastructure and consumption support programs that lifted construction, engineering and domestic production activities, in turn supporting household spending and overall non-oil activity. Indeed, imports surged by 14 percent for the group, leading net exports to subtract 2.3 points from GDP growth.<sup>4</sup> The exception to this rule is Yemen, where the coming online of LNG exports in 2010 expanded the hydrocarbons sector by almost 50 percent and underpinned GDP growth of 8 percent in the year.

*Turnaround in the external environment.* Among the more favorable factors supporting growth in 2010 were the increase in oil price; recovery in the Euro Area; a modest increase in capital flows to the region and stronger recovery in tourism and remittances. On the downside, the U.S. dollar price of internationally-traded food prices jumped, notably for wheat-, maize and other grains. As the developing region most dependent on imported food, these increases are particularly worrisome, especially for those countries where currencies are fixed to the dollar. Financial conditions among the GCC improved fairly slowly across the year, limiting faster growth in remittances and other flows to the developing countries of the region.

Oil prices firmed by \$17 per barrel on average during 2010, on the back of stronger demand in emerging markets, expectations of improved future global demand, and continued supply restraint on the part of OPEC. The increase

**Table R4.1 Middle East and North Africa forecast summary**  
(annual percent change unless indicated otherwise)

	95-06 <sup>a</sup>	2007	2008	2009	Est.	Forecast	
					2010	2011	2012
GDP at market prices (2005 US\$) <sup>b</sup>	4.4	5.9	4.2	3.1	3.3	4.3	4.4
GDP per capita (units in US\$)	2.7	4.1	2.4	1.4	1.6	2.6	2.8
PPP GDP <sup>c</sup>	4.4	6.2	4.1	3.1	3.3	4.2	4.4
Private consumption	4.1	7.0	5.3	4.8	4.3	4.7	5.0
Public consumption	3.3	2.0	8.4	19.1	7.1	6.8	6.3
Fixed investment	6.6	11.6	9.7	5.0	5.0	4.8	5.1
Exports, GNFS <sup>d</sup>	4.9	5.6	-0.8	-14.1	3.8	5.3	6.3
Imports, GNFS <sup>d</sup>	5.7	12.3	12.0	-3.1	12.6	6.8	7.9
Net exports, contribution to growth	-0.2	-1.9	-4.4	-3.9	-3.3	-1.0	-1.2
Current account bal/GDP (%)	2.9	10.6	6.5	-1.2	0.3	1.0	0.0
GDP deflator (median, LCU)	5.2	7.3	14.7	2.0	8.6	5.3	5.0
Fiscal balance/GDP (%)	-1.5	0.0	-0.3	-4.2	-4.4	-3.4	-2.4
<b>Memo items: GDP</b>							
MENA Geographic Region <sup>e</sup>	4.0	4.6	4.7	1.9	3.4	4.1	4.4
Resource poor- Labor abundant <sup>6</sup>	4.3	5.9	6.6	4.8	4.7	5.2	5.6
Resource rich- Labor abundant <sup>7</sup>	4.4	5.9	2.6	2.2	2.4	3.6	3.6
Selected GCC Countries <sup>f</sup>	3.6	3.0	5.3	-0.2	3.5	4.3	4.2
Egypt	4.4	7.1	7.2	4.7	5.1	5.5	6.0
Iran	4.8	7.8	2.3	1.4	1.5	3.0	3.0
Algeria	4.0	3.0	2.4	2.4	2.4	4.1	4.1

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

b. GDP measured in constant 2005 U.S. dollars.

c. GDP measured at PPP exchange rates.

d. Exports and imports of goods and non-factor services (GNFS).

e. Geographic region includes high-income countries: Bahrain, Kuwait, Oman and Saudi Arabia.

f. Selected GCC Countries: Bahrain, Kuwait, Oman and Saudi Arabia.

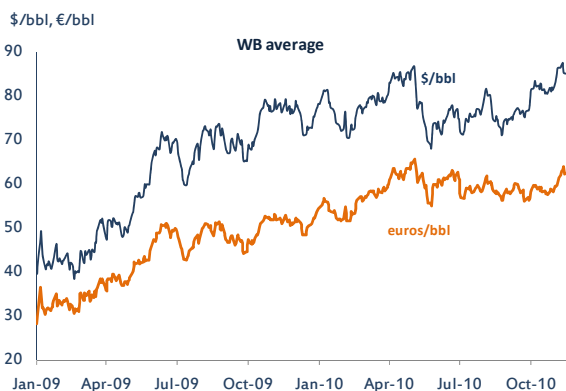
Source: World Bank

occurred despite more-than sufficient global crude oil and product stocks, and is driven in part by the weaker dollar and a “search for yield” on the part of international investors, treating oil (see discussion in main text) as an “asset class” of interest (Figure R4.2). The oil price rise directly benefits regional oil exporters; and indirectly- (in theory) regional oil importers, in the form of improved remittance flows into the diversified economies. But benefits must be weighed against associated adverse shifts in terms of trade.

Overall the region’s oil revenues increased 28 percent from \$450 billion in 2009 to \$575 billion in 2010. The increase helped push the current account- and fiscal positions of most exporters back into positive territory – though 2010 fell well short of 2008 peaks. The divergent results are tied to the degree of restraint placed on crude oil production and/or difficulties for several exporters in maintaining current output levels against physical-, technology or resource limitations. Saudi Arabia bore the brunt of production cutbacks during 2009-10; currently 35 percent of Saudi oil capacity is idle (Figure R4.3). Oman has been able to boost crude oil output using enhanced recovery techniques, and is not bounded by OPEC quotas. During the year oil production increased by between 1.5 and 2.5 percent across the GCC and developing oil exporters.

For the latter group, the upturn in oil revenues will provide only partial support for GDP

**Figure R4.2 Daily oil price in dollars & euros**

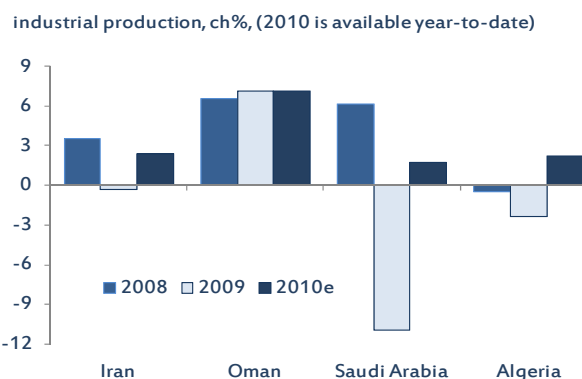


Source: World Bank

growth, as most countries have focused attention on raising domestic demand. In *Algeria*, an expansionary fiscal policy will keep the budget position in deficit for some time (9.5 percent of GDP in 2010), as the second phase of the Public Infrastructure Program comes online. GDP is likely to repeat the moderate 2.4 percent gain of 2009 with technical production difficulties continuing in the oil sector. GDP growth placed at 1.5 percent in *Iran* for 2010 is likely to remain on the weaker side moving forward, in part because of increased economic isolation. In *Syria*, a net oil importer since 2008, growth picked-up from 4 percent to 5 percent in 2010 due to improved agricultural output in the wake of drought. Fiscal stimulus remains in the pipeline—as rising public investment, public sector wages and transfers are compensating for higher fuel prices. And in *Yemen*, the long awaited Liquefied National Gas Production Facility began operation in 2010, now producing at 90 percent capacity. Despite currently depressed international gas prices, the project is expected to yield \$20-to \$30 billion over its 20-year lifetime, offering needed revenues for the low-income economy.

The upturn in GCC oil revenues in 2010 has helped spur demand. In *Saudi Arabia*, government and quasi-government investment spending supported growth of 3.7 percent up from 0.2 percent in the year preceding. *Kuwait* is projected to register positive growth in 2010 (1.9

**Figure R4.3 Oil output, largely curtailed in 2009 begins to increase in 2010**



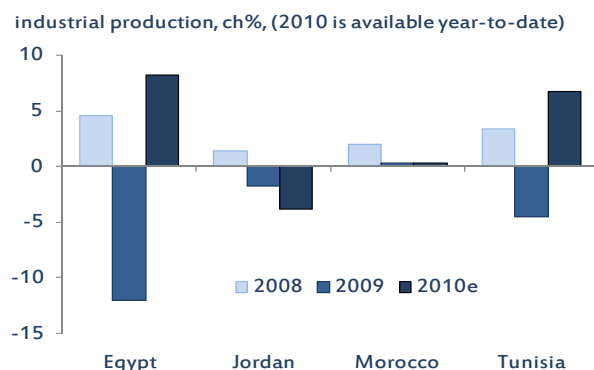
Source: World Bank

percent) after a 4 percent decline in 2009, the sharpest downturn among the GCC. And in the *United Arab Emirates* (UAE), the Dubai crisis dominated the policy agenda. Following a 7 percent GDP advance in 2008, GDP dropped 2.5 percent in 2009 and is expected to pick-up 2.4 percent in 2010.

The moderate easing of growth for the *diversified economies of the region* was in part due to slow growth among their major trading partners—the European Union members and GCC member states. But a number of one-off, or special factors restrained growth from what could have been stronger outturns. In *Egypt*, for example, GDP improved from the 4.7 percent gain of 2009—strong for a period of global recession—to 5.1 percent in 2010; but this contrasts with rates near 7 percent in the immediate pre-crisis period. Industrial production recovered sharply, growing at an annualized pace of 8.5% between January and August 2010. However, industrial production has since decelerated in line with the slow down in global growth in the third and fourth quarter of 2010 (Figure R4.4).<sup>5</sup> *Morocco's* GDP growth is likely to register 3.5 in 2010, a falloff from the 4.9 percent advance of 2009, as the agricultural sector is showing lower output levels following record production in 2009. There have also been adverse terms of trade developments related to the rising cost of oil and wheat imports.

In *Tunisia*, industrial production is moving

**Figure R4.4 For diversified group varied production outturns for 2010**



Source: World Bank

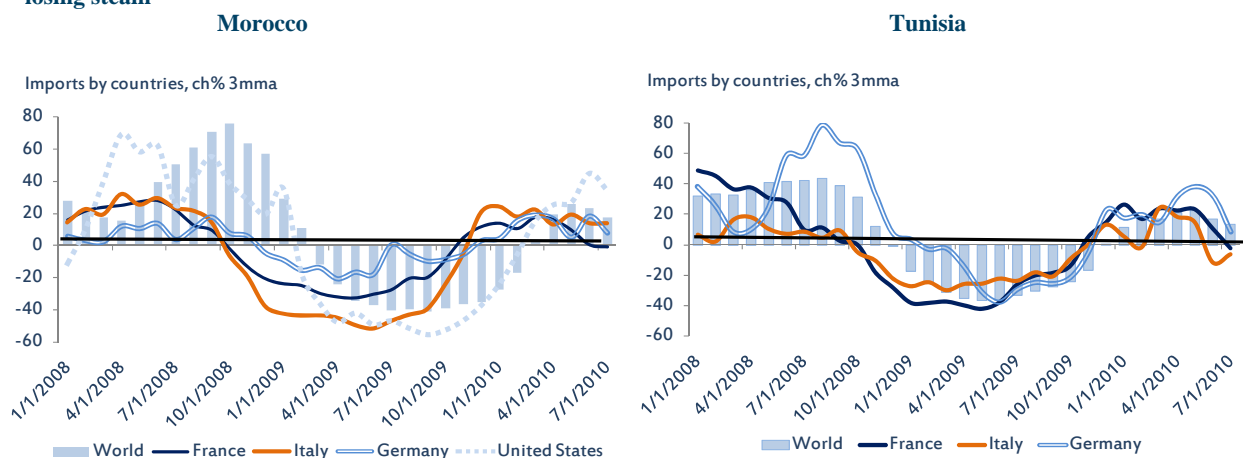
higher in 2010, up 6.7 percent over the year through September on an upturn in domestic and foreign demand for manufactures. Consumption is underpinned by rising incomes, and policy measures are geared to promote competitiveness and improve the business climate for Tunisian firms. Key public investments are making substantial contributions to economic activity. Growth is expected to reach 3.8 percent in 2010, contrasted with the 3.1 percent advance of 2009. And in *Jordan and Lebanon*, recovery appears to be fairly well on-track. For the former, with tight links to the GCC, growth in these economics is improving—but as remittances, other income flows and FDI will likely take time to recover, growth may remain below potential for a time.

*Economic revival in the Euro Zone.* Following a record 4.1 percent decline in Euro Area real GDP in 2009, activity is likely to recoup to a 1.7 percent pace in 2010 (see main text), led by strong growth in Germany, and in broader terms, by good export performance—and increasingly in improved domestic demand. Though not a stellar recovery, and one hindered by continuation of substantial sovereign fiscal and debt difficulties among smaller Area members, import demand accelerated over the course of 2010, offering export opportunities for the diversified economies of Middle East and North Africa—notably, Morocco, Tunisia and Egypt.

The rebound of activity in the Euro Area, and recovery in Morocco's exports of specialized products including phosphate acid and fertilizers, up 80 percent in October (y/y), and fish exports (7 percent) has underpinned overall exports from the Maghreb. The Euro Area accounts for between 60-70 percent of goods exports, remittance receipts and tourist arrivals for these countries, with the United States also accounting for a substantial share. In Morocco for example, dollar exports increased 23 percent in October 2010 on a year-on-year basis. Similarly Tunisian total exports were up 17.2 percent as of June, with shipments to Germany gaining momentum (Figure R4.5).

*Remittances and tourism.* There was a surprising pick-up in worker remittances and tourist

**Figure R4.5 Morocco sees export recovery notably to the United States while Tunisia’s export rebound appears to be losing steam**



Source: IMF, Direction of Trade Statistics, and Haver Analytics

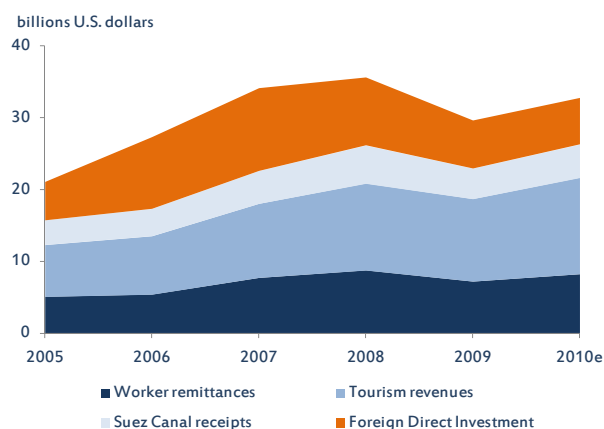
arrivals in 2010 that provided additional support for growth—particularly for household consumption. The upturn in tourism is offering potential for job creation, incentives for infrastructure improvement and new development. These improved flows have been particularly evident in Egypt in 2010, but most countries of the developing region participated in the upturn. After *remittances* growth in the region peaked at 13.2 percent in 2007 (equivalent to \$32.1 billion) receipts fell by 6.3 percent during the 2009 recession. Declines were largest for Morocco (9 percent), Egypt (9 percent) and Jordan (5 percent)—a substantial proportion of Jordanian GDP (Table R4.2, top panel).

World Bank estimates for 2010 suggest that the dollar value of remittances to the region increased 5.3 percent to \$35.5 billion, on recovery in Europe and to a lesser degree, the GCC economies. Largest gains were recorded by Egypt (25 percent), Lebanon (8.2 percent) and Jordan (5.3 percent). *Tourism* is another key element in the forces propelling growth in the Middle East and North Africa, representing on average \$32 billion or 3.5 percent of the developing region’s GDP over the past three years. After falling 4 percent globally in 2009, the United Nation’s World Tourism Organization estimates that arrivals will increase by as much as 13 percent for the region—with

arrivals to the Middle East rising 20 percent, and up 6 percent for North Africa in the first half of 2010 (Table R4.2 bottom panel).<sup>6</sup>

Egypt offers a prime example of the importance of ancillary external revenues (including FDI) as a financial offset to deficits in the balance of trade, and a support for growth in domestic demand and economic activity across sectors of the economy (Figure R4.6). Trade deficits averaging \$20 billion per year are usually fully offset by the aggregate of remittances, tourism, and Suez Canal dues; and FDI, through the financial account, offers further financing

**Figure R4.6 Egypt’s ancillary revenues more than offset average trade deficits**



Source: World Bank, Government of Egypt, UNCTAD

Table R4.2 Middle East and North Africa, remittances and tourism-related revenues, 2000-2010e

	2000	2005	2007	2008	2009	2010e
<b>Remittances inflows (\$mn)</b>						
<b>MENA Region</b>	<b>15,323</b>	<b>25,078</b>	<b>32,145</b>	<b>35,937</b>	<b>33,660</b>	<b>35,455</b>
growth per year (%)		10.4	13.2	11.8	-6.3	5.3
share of GDP (%)	4.2	4.5	4.3	3.7	3.5	3.5
Egypt	3,067	4,330	6,321	8,560	7,806	9,753
Lebanon	1,582	4,924	5,769	7,181	7,558	8,177
Morocco	2,161	4,590	6,730	6,895	6,271	6,447
Jordan	1,845	2,500	3,433	3,794	3,597	3,789
Tunisia	796	1,393	1,716	1,977	1,966	1,960
Yemen	1,228	1,283	1,332	1,411	1,378	1,471
West Bank and Gaza	1,010	705	1,085	1,220	1,261	1,307
Other Middle East and North Africa	3,634	5,353	5,759	4,899	3,823	2,551
<i>Memo items: MNA ex Egypt</i>	12,256	20,748	25,824	27,377	25,854	25,702
growth per year (%)		11.1	11.6	6.0	-5.6	-0.6
MNA share of global remittances (%)	16.1	13.1	11.5	11.1	11.0	10.9
<b>Tourism arrivals and revenues</b>						
<b>MENA Region</b>						
<b>Arrivals - Thousands</b>	<b>21,155</b>	<b>31,831</b>	<b>38,308</b>	<b>42,982</b>	<b>44,034</b>	<b>49,777</b>
<b>Tourism expenditure in the country - US \$ Mn</b>	<b>11,898</b>	<b>21,102</b>	<b>30,885</b>	<b>34,015</b>	<b>33,886</b>	...
growth of arrivals per year (%)		8.5	9.7	12.2	2.4	13.0
growth of revenues per year (%)		12.1	7.9	10.1	-0.4	...
revenue share of GDP (%)	3.2	3.8	4.1	3.5	3.5	
<b>Tourism arrivals</b>						
Egypt	5,116	8,650	9,788	12,294	12,293	13,758
Morocco	4,278	5,843	7,408	7,879	8,341	9,375
Syria	2,100	3,571	4,158	5,430	6,092	7,615
Tunisia	5,058	6,378	6,762	7,049	6,901	6,970
Jordan	1,580	2,987	3,431	3,729	3,789	4,547
Lebanon	742	1,140	1,017	1,333	1,851	2,221
Other Middle East and North Africa	2,281	3,262	5,744	5,268	4,767	5,291
<i>Memo items: MNA ex Egypt</i>						
Arrivals - Thousands	16,039	23,181	28,520	30,688	31,741	36,019
Tourism expenditure in the country - US \$ Mn	7,241	13,896	20,558	21,911	22,401	...
growth of arrivals per year (%)		7.6	10.9	7.6	3.4	13.5
growth of revenues per year (%)		13.9	21.6	6.6	2.2	...

Source: Remittances: World Bank, Tourism: United Nations World Tourism Organization & World Bank estimates

support for possible overruns in trade.

*Foreign direct investment.* If 2010 outturns for remittances and tourism arrivals are “upside surprises”, then the near-12 percent decline in FDI inflows to the developing countries of Middle East and North Africa has to be considered a “downside” development. FDI established average growth of 32 percent between 2000 and 2005 and reached \$35.3 billion, or 3.7 percent of GDP in 2008. Egypt, Lebanon, Iran and Jordan are key recipients (Table R4.3, top panel). The Dubai financial crisis served to disrupt these flows. Outbound FDI from the GCC halved from 2007 levels by 2009 (Table R4.3, bottom panel). Developments among GCC economies suggest that the likelihood of a quick return to the halcyon days of 2007-08 is small, though signs of economic

recovery and financial improvement are emerging. Increasingly, flows may begin to take place across developing countries of the region, as trade and production agreements among Middle East and North Africa countries-, and between Middle East and North Africa and the European Union begin to gather momentum. Even at reduced levels, FDI continues to dominate overall financial flows to the region.

*Net capital flows to Middle East and North Africa.* Private capital flows to the developing Middle East and North Africa region increased modestly (by 1.2 percent, or \$320 million) to \$25.8 billion during 2010; this in contrast with the sharp pick-up in flows into East- and South Asia (Table R4.4).<sup>7</sup> Moderate gains in portfolio equity and medium-term debt flows were almost wholly offset by the decline in FDI noted for the

**Table R4.3 Middle East and North Africa, foreign direct investment flows, 2000 to 2010e**

	2000	2005	2007	2008	2009	2010e
<b>Foreign Direct Investment inflows (\$mn)</b>						
<b>Middle East and North Africa Region</b>	<b>5,628</b>	<b>22,523</b>	<b>32,646</b>	<b>35,248</b>	<b>32,170</b>	<b>28,350</b>
growth per year (%)		32.0	20.4	8.0	-8.7	-11.9
share of GDP (%)	1.4	3.5	4.3	3.7	3.3	2.8
Egypt	1,235	5,376	11,578	9,495	6,712	6,500
Lebanon	964	2,624	3,376	4,333	4,804	4,650
Iran	194	3,136	1,670	1,615	3,016	2,900
Jordan	815	1,774	1,950	1,965	2,382	2,500
Algeria	438	1,081	1,665	2,656	2,390	2,000
Tunisia	752	723	1,532	2,638	1,688	1,700
Morocco	221	1,620	2,825	2,466	1,332	1,500
Other Middle East and North Africa	1,009	6,189	8,050	10,080	9,846	6,600
<i>Memo items: Middle East and North Africa ex Egypt</i>	4,393	17,147	21,068	25,753	25,458	21,850
growth per year (%)		31.3	10.8	22.2	-1.1	-14.2
Middle East & North Africa share of developing country FDI (%)	16.1	13.1	11.5	11.1	11.0	10.9
<b>Foreign Direct Investment outflows (\$mn)</b>						
<b>Gulf Cooperation Council (GCC)</b>	<b>18,888</b>	<b>10,690</b>	<b>44,247</b>	<b>34,342</b>	<b>20,382</b>	...
growth per year (%)		-10.8	103.4	-22.4	-40.6	...
share of GDP (%)						
Kuwait	-303	5,142	10,156	8,858	8,737	...
Saudi Arabia	1,550	78	12,730	1,450	6,526	...
Qatar	17,210	352	5,160	6,029	3,772	...
United Arab Emirates	423	3,750	14,568	15,800	2,732	...
Other GCC	8	1,368	1,633	2,205	-1,385	...
<i>Memo items: GCC ex Kuwait</i>						
FDI outflows (\$mn)	19,191	5,548	34,091	25,484	11,645	...
growth per year (%)		-22.0	147.9	-25.2	-54.3	...

Source: Foreign Direct Investment: World Bank, and United Nations, UNCTAD

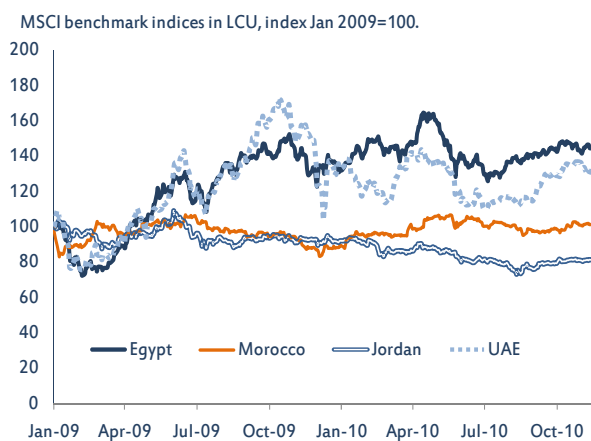
Note: FDI inflows include those to Iran and Lebanon, not included in developing totals elsewhere.

year. Equity flows increased for a second year in succession favoring the bourses of Egypt and the UAE. For the UAE market, improvements were centered in fall 2010 as the Dubai World restructuring was settled and banking results improved (Figure R4.7). Medium and long-term private debt flows increased by \$6.7 billion, with issuance of \$2.3 billion in international bonds and the undertaking of syndicated bank borrowing of some \$2.7 billion. Net flows from official creditors increased by \$620 million to \$2.9 billion in the year. But the decline in FDI by 15 percent to \$20.8 billion dominates the flow of capital to the region.<sup>8</sup> Looking forward, the World Bank anticipates a resumption of growth in FDI over the period through 2012, with a continued—albeit more moderate—pickup in portfolio equity and private debt.

### Medium-term outlook

*Global oil markets* (see Commodity annex for

**Figure R4.7 Bourses in Egypt and UAE performing well in 2010**



Source: Morgan Stanley, World Bank data.

more detail) remain in excess supply in production and refining, with non-OPEC producers having met almost all increased demand in both 2009 and 2010 (production was

**Table R4.4 Net capital flows to Middle East and North Africa**  
\$ billions

	2003	2004	2005	2006	2007	2008	2009	2010e	2011f	2012f
Current account balance	22.2	37.9	59.8	69.1	81.4	63.0	-8.9	19.6	5.1	-1.0
as % of GDP	5.2	7.8	10.8	10.9	10.7	6.6	-0.9	1.8	0.4	-0.1
Financial flows:										
Net private and official inflows	13.5	13.0	19.4	14.4	29.4	21.1	27.8	28.7		
Net private inflows (equity+debt)	15.6	16.4	22.4	25.7	28.4	22.9	25.5	25.8	32.4	33.1
...Net private inflows (% GDP)	3.7	3.4	4.0	4.0	3.7	2.4	2.7	2.4	2.8	2.6
Net equity inflows	10.2	10.4	19.2	28.2	25.5	29.7	25.6	22.2	25.4	30.1
...Net FDI inflows	10.0	9.7	16.8	27.2	27.6	29.3	24.4	20.8	23.3	27.8
...Net portfolio equity inflows	0.2	0.7	2.4	1.0	-2.1	0.4	1.2	1.4	2.1	2.3
Net debt flows	3.4	2.6	0.2	-13.7	3.9	-8.6	2.2	6.5		
..Official creditors	-2.1	-3.4	-3.0	-11.2	1.1	-1.8	2.3	2.9		
....World Bank	-0.3	-0.6	0.0	-0.8	1.0	-0.3	0.9	1.8		
....IMF	-0.6	-0.5	-0.7	-0.2	-0.1	-0.1	-0.1	-0.1		
....Other official	-1.2	-2.3	-2.3	-10.3	0.2	-1.4	1.4	1.2		
..Private creditors	5.4	5.9	3.2	-2.5	2.8	-6.8	-0.1	3.6	7.0	3.0
....Net M-L term debt flows	0.9	2.7	2.9	-1.7	-0.7	-2.7	-1.7	5.0		
.....Bonds	0.7	2.8	2.5	0.8	0.7	-0.8	0.5	2.3		
.....Banks	-0.2	0.0	1.3	-1.3	-0.2	-0.5	-1.2	2.7		
.....Other private	0.4	0.0	-0.9	-1.2	-1.2	-1.3	-0.9	0.0		
....Net short-term debt flows	4.6	3.2	0.3	-0.8	3.5	-4.2	1.6	-1.4		
Balancing item /a	-12.5	-36.2	-40.2	-45.7	-62.8	-40.7	5.3	-37.0		
Change in reserves (- = increase)	-23.2	-14.7	-38.9	-37.8	-48.0	-43.4	-24.2	-11.3		
Memorandum items										
Workers' remittances	19.9	22.6	23.6	25.1	32.0	36.0	34.0	35.0	37.0	40.0

Source: World Bank

Note:

e = estimate, f = forecast

/a Combination of errors and omissions and transfers to and capital outflows from developing countries

up 0.9mb/d each year) leaving little room for OPEC members to increase output. Growth in global oil demand is expected to remain moderate at 1.5 percent per year in the near term, with non-OPEC oil supplies projected to continue increasing at about the same pace, implying about 0.5mb/d increase for OPEC.

Despite recent upticks in oil price, world prices are projected to remain between \$70-90/bbl in the medium term, with OPEC producers stepping up sales from their ample spare capacity to meet any additional demand not supplied by non-OPEC producers. OPEC is not expected to allow prices to rise beyond this point for fear of inducing additional non OPEC supply or demand substitution. Globally there are no medium-to longer run supply constraints (2020); and a long-term upper-range of \$80/bbl is consistent with the end-cost of developing additional oil capacity, notably from oil sands in Canada.

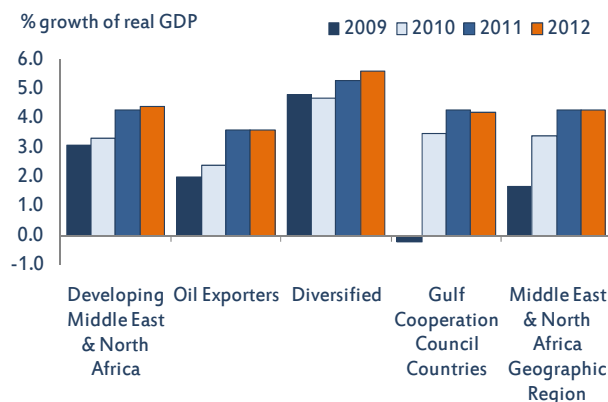
As a result, incomes among oil exporting

countries are unlikely to benefit from a substantial exogenous boost over the forecast period. *Developing oil exporter* growth is expected to inch-up to 3.6 percent in 2011-12, on continued strength in domestic demand. Net exports should continue to exert drag, given hefty imports related to infrastructure projects (Figure R4.8). The current account surplus of developing exporters is projected to ease from about 5 percent of GDP in 2010-11 toward 3.5 percent in 2012, as large-scale spending and imports offset oil revenue gains. For the high-income *GCC economies* recovery will depend on oil markets, but also on international financial and growth developments, given the increasingly diversified nature of economies such as the UAE, Bahrain, and Kuwait. GDP gains for the group are expected to register 4.3-and 4.2 percent in 2011 and 2012, on stronger government-investment and household spending.

Given a pickup in growth among the GCC and a leveling-out of economic activity in key export



**Figure R4.8 Growth in developing Middle East & North Africa region to reach 4.5% by 2012**



Source: World Bank

markets by 2012 (in the Euro Area near 2 percent; the United States closer to 3 percent), prospects for the *diversified economies* are fairly buoyant. GDP growth for these countries is anticipated to accelerate to a 5.6 percent pace by 2012. Growth approaches 6 percent in Egypt, 5 percent in Morocco and Tunisia, and averages 5.5 percent in Jordan and Lebanon by 2012. This is grounded in a firming of goods exports; stronger remittance and tourism receipts; return of stronger FDI inflows, and domestic policies oriented toward further opening of trade and domestic service sectors. For the geographical region, projections point to growth picking up to 4.3 percent during 2011-12, fostered in part by a healthier financial and economic environment among the GCC economies.

## Risks

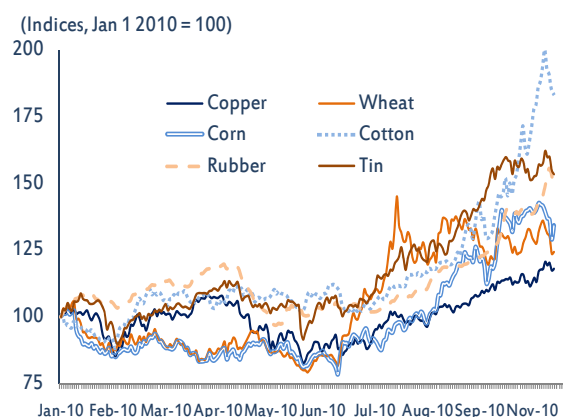
Though risks to the baseline forecast may be viewed as many, two appear to stand out:

- Risks for recovery in the OECD countries, notably for the Euro Area, have heightened with the onset of sovereign financial difficulties. But risks to European growth linked to coming imposition of austerity measures to rein-in fiscal deficits are also of some concern. For the diversified exporters of the Maghreb, in particular, with tight trade links to the southern tier of the Euro Area (Italy, France and Spain), further

disruptions related to fiscal difficulties would put Maghreb exports at risk. And in the United States, quantitative easing monetary policies are raising uncertainties in exchange and commodity markets.

- The ratcheting up of food prices is of exceptional concern for the broader Middle East and North Africa region. Prices for all non-energy commodities have escalated of late, with fundamental pressures on cereals prices due to the loss of Russian and Ukrainian exports to the world market (Figure R4.9). Food imports account for a very large proportion of Middle East and North Africa imports, notably in the Maghreb and Egypt. Such imports range from 17 percent of the import bill in Algeria to 7 percent in Tunisia; cereals account for 7.5 percent of Algeria's bill to 4 percent in Tunisia (Figure R4.10). The region is effectively still in "recovery mode" from the food crisis of 2008.

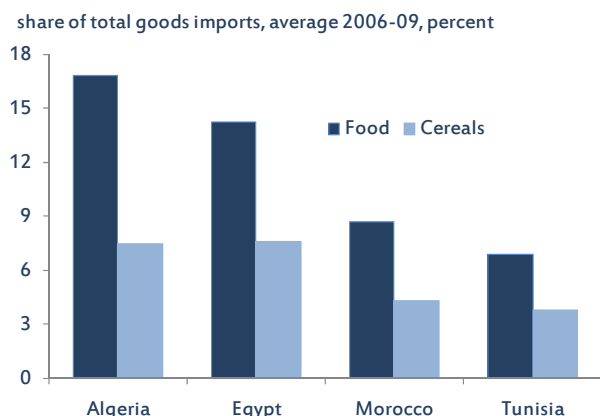
**Figure R4.9 Metals, raw materials and agricultural prices surge—on the weak dollar and other factors**



Source: Commodity exchanges through Thomson-Reuters/Datastream

## Notes:

1. See "Sustaining the Recovery in Times of Uncertainty", A Regional Economic Outlook. Middle East and North Africa

**Figure R4.10 Food and cereals are a large proportion of the import bill in the Maghreb and Egypt**

Source: U.N. Comtrade Database

Region. The World Bank, October 2010.

- The low-and middle income countries of the region included in this report are Algeria, The Arab Republic of Egypt, The Islamic Republic of Iran, Jordan, Lebanon, Morocco, Syria Arab Republic, Tunisia and Yemen. Data is insufficient for the inclusion of Djibouti, Iraq and the West Bank and Gaza. The high-income economies included here are Bahrain, Kuwait, Oman and Saudi Arabia. Data is insufficient for the inclusion of Libya, Qatar and the United Arab Emirates. The group of developing oil exporters includes Algeria, the Islamic Republic of Iran, the Syrian Arab Republic and Yemen. The diversified economies of the region (oil importers) may be usefully

**Table R4.5 Middle East and North Africa country forecasts**  
(annual percent change unless indicated otherwise)

	95-06 <sup>a</sup>	2007	2008	2009	Est. 2010	Forecast 2011	Forecast 2012
<b>Algeria</b>							
GDP at market prices (2005 US\$) <sup>b</sup>	4.0	3.0	2.4	2.4	2.4	4.1	4.1
Current account bal/GDP (%)	8.2	22.5	20.2	0.0	4.6	6.2	3.4
<b>Egypt, Arab Rep.</b>							
GDP at market prices (2005 US\$) <sup>b</sup>	4.4	7.1	7.2	4.7	5.1	5.5	6.0
Current account bal/GDP (%)	0.4	0.3	-0.7	-1.7	-4.1	-3.2	-2.7
<b>Iran, Islamic Rep.</b>							
GDP at market prices (2005 US\$) <sup>b</sup>	4.8	7.8	2.3	1.4	1.5	3.0	3.0
Current account bal/GDP (%)	7.2	20.1	13.2	3.4	6.1	6.7	4.4
<b>Jordan</b>							
GDP at market prices (2005 US\$) <sup>b</sup>	4.8	8.5	7.6	2.3	4.0	5.0	5.5
Current account bal/GDP (%)	-0.2	-16.2	-8.7	-4.3	-4.6	-5.4	-4.5
<b>Lebanon</b>							
GDP at market prices (2005 US\$) <sup>b</sup>	2.6	7.6	9.3	9.0	8.0	7.0	6.0
Current account bal/GDP (%)	-19.6	-6.4	-13.7	-21.9	-23.6	-22.6	-21.7
<b>Morocco</b>							
GDP at market prices (2005 US\$) <sup>b</sup>	4.4	2.7	5.6	4.9	3.5	4.4	5.1
Current account bal/GDP (%)	0.7	-0.3	-6.4	-5.1	-3.2	-2.9	-1.4
<b>Syrian Arab Republic</b>							
GDP at market prices (2005 US\$) <sup>b</sup>	3.2	4.2	5.2	4.0	5.0	5.5	5.6
Current account bal/GDP (%)	2.9	1.1	-3.6	-4.5	-3.9	-3.4	-3.2
<b>Tunisia</b>							
GDP at market prices (2005 US\$) <sup>b</sup>	5.0	6.3	4.6	3.1	3.8	4.8	5.0
Current account bal/GDP (%)	-3.0	-2.6	-3.7	-2.8	-4.8	-4.1	-3.0
<b>Yemen, Rep.</b>							
GDP at market prices (2005 US\$) <sup>b</sup>	4.9	3.3	3.6	3.9	8.0	4.1	4.2
Current account bal/GDP (%)	3.1	-7.0	-4.6	-9.7	-0.6	1.7	-0.7

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.

Djibouti, Iraq, Libya, West Bank and Gaza are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

b. GDP measured in constant 2005 U.S. dollars.

Source: World Bank

segmented into two groups: those with strong links to the GCC (Jordan and Lebanon), and those with strong EU links (The Arab Republic of Egypt, Morocco and Tunisia).

3. For example, in Tunisia, government food and fuel subsidies (part of mitigation efforts from the global food price crisis of 2008 which hit the Middle East and North Africa region hard-the largest food importing region in the world) helped to support household consumption to stronger gains. Public infrastructure projects continue, and the 2010 budget carries a cushion of 1.5 percent of GDP for potential fiscal support measures should the external environment (notably growth in Europe) take a turn to the downside.
4. For example, in Algeria, non-oil growth advanced 9.3 percent in 2009, supported by the on-going Public Investment Program (PIP), yielding the first fiscal deficit in more than a decade. Algeria is continuing with expansionary fiscal policies, with the second phase of PIP slated at \$285 billion over 2010 to 2014, focusing on improved access to and the quality of basic services; upgrading housing, transport and utilities.
5. Industrial production (IP) figures herein are sourced from the World Bank- Development Prospects Group high-frequency database. For IP, manufacturing, mining and utilities share in GDP (factor cost) is used to establish a real dollar value (in 2005 prices) for production. This is moved forward using available industrial production indicators from Thomson-Datastream, Haver Analytics, the International Monetary Fund and other electronic sources. The original series are often sourced from country-specific statistical agencies or central banks.
6. “World Tourism Barometer”, Interim Update, August 2010. United Nations World Tourism Organization.
7. Capital flows to the developing MENA region include net flows to: Algeria, Djibuti,

the Arab Republic of Egypt, the Islamic Republic of Iran, Jordan, Lebanon, the Syrian Arab Republic, Tunisia and the Republic of Yemen. Table R4.4.

8. Table R4.3 earlier includes FDI inflows for the Islamic Republic of Iran and for Lebanon, which are not part of the overall capital flows Table R4.4.