

Middle East and North Africa

Recent developments

Before the start of the political upheaval in the Middle East and North Africa, developing countries of the region had been poised to improve economic performance over 2011-12, returning to GDP gains of near 5 percent.¹ Indeed, lack of tight international connections in finance and non-oil goods trade allowed developing Middle East and North Africa² to experience less adverse effects from the financial crisis and global recession of 2008-09 than other developing regions. But recovery in 2010 disappointed, with regional growth falling below expectations to 3.1 percent, the slowest growth among developing regions in a year of buoyant gains for developing economies.

The Arab Spring. Revolutions and unrest have disrupted economic activity across almost every country in the region over the first months of 2011, and will continue to restrain growth in a number of countries at least for the year, and potentially for more. For those parts of the region where unrest has been less marked, higher oil prices (linked tightly to developments in the Middle East and North Africa) will be a boon for some and a drag on growth for others. And higher food prices will exact an increasing toll on external balances across all countries. Economic and social impacts are likely to be substantial in the short term as production, trade, services and other elements of economic activity slip; and fiscal revenues, tourism and FDI receipts come under increasing pressure. Consumers will be further affected as inflation heats up, tied among other factors to developments in oil and food prices.

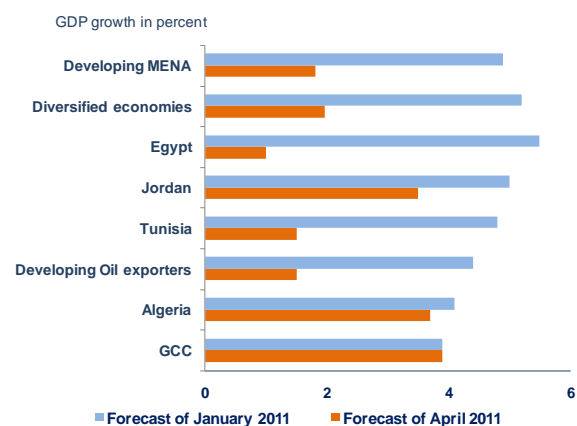
Taking current- and anticipated developments for 2011 into consideration, a comparison of the January 2011 projections with revised forecasts prepared in April, yields a sobering conclusion. GDP growth for the developing region is likely to suffer a 3.1 percentage point mark-down for the year, from gains of 4.9 percent expected in

January to 1.8 percent anticipated in April.³ Those economies hardest hit include Egypt (down 4.5 percentage points), Tunisia (3.3 points) and Jordan (1.5 points) (figure MNA.1).

Political-economy developments in countries where protests- and authorities' responses occurred earliest—Tunisia and Egypt—could play a strong role in shaping other outcomes in the region. And as evidenced from the first months of 2011, there are a variety of political responses across the Arab world. Progress may be more likely in countries like Tunisia, as well as in the monarchies (Jordan and Morocco) where popular pressure will continue to have well-established channels in which to be expressed. In the broader view of the World Bank, if these political events and economic externalities are followed by sound transitions to better governance structures, in looking forward, they should provide a unique opportunity to change Middle East and North Africa's political and social landscape (table MNA.1).⁴

The parameters of political and economic disturbance in 2011. With the exception of several GCC economies, every country in the region has been affected—to varying degrees by

Figure MNA.1 GDP growth marked down by 3.1 points in 2011 for developing Middle East and North Africa



Source: Middle East and North Africa Poverty Reduction and Economic Management Unit, World Bank.

the Arab Spring. Among important observed and anticipated economic developments for 2011:

- Oil prices are likely to remain high amid the Libyan crisis and market fears of potential supply disruptions tied to unrest in larger oil exporters;
- Oil exporters that are less troubled by protest (e.g. Algeria, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) will likely see windfall gains from higher oil prices—but net fiscal revenues will be reduced by use of funds for financial packages intended to address social unrest;
- Oil importers will suffer—especially those that choose to provide energy and food subsidies. Higher food prices will accentuate inflation pressures.

- Egypt, Tunisia, Libya, and potentially Syria, will be most affected, as continued uncertainty, economic disruption and lapse in tourism revenues dampens growth in the former two, while Libya—and to a lesser degree, Syria—may face prospects of prolonged violence or civil war. Those countries which have experienced the longest protests will suffer lower growth- with investment coming to be particularly adversely affected.

Developing Middle East and North Africa's growth edged lower in the second half of 2010—and for the year. Early indicators for 2011 point to a substantial slowdown.

The initial strong rebound in global trade and production, particularly among the regions' main Euro Area trading partners, and rising oil prices underpinned GDP gains for developing Middle

Table MNA.1 Middle East and North Africa forecast summary

(annual percent change unless indicated otherwise)							
	98-07 ^a	2008	2009	Est. 2010	Forecast 2011	2012	2013
GDP at market prices (2005 US\$) ^b	4.1	3.7	2.8	3.1	1.9	3.5	4.0
GDP per capita (units in US\$)	2.6	1.9	1.1	1.5	0.2	1.9	2.3
PPP GDP ^c	4.3	4.1	3.1	3.0	1.7	3.6	4.0
Private consumption	4.4	5.1	4.5	4.4	3.2	3.5	4.2
Public consumption	3.2	9.1	12.6	8.3	8.6	7.3	7.0
Fixed investment	6.0	7.7	1.0	-3.8	-2.4	3.4	5.9
Exports, GNFS ^d	5.2	4.6	-4.9	4.6	3.7	4.4	2.0
Imports, GNFS ^d	7.1	11.4	-7.8	3.6	2.4	6.9	7.1
Net exports, contribution to growth	-0.2	-2.2	1.0	0.4	0.5	-0.7	-1.7
Current account bal/GDP (%)	7.5	7.7	-1.1	1.4	5.6	5.7	4.3
GDP deflator (median, LCU)	4.8	12.2	3.0	5.5	11.5	7.3	5.3
Fiscal balance/GDP (%)	-1.0	-0.3	-4.1	-4.3	-3.2	-2.3	-1.8
Memo items: GDP							
MENA Geographic Region ^e	3.8	4.4	1.5	3.2	2.8	3.8	4.1
Resource poor- Labor abundant	4.1	6.6	4.8	4.5	2.5	4.0	5.0
Resource rich- Labor abundant	4.2	1.8	1.4	2.2	1.4	3.2	3.2
Selected GCC Countries ^f	3.4	5.3	0.0	3.3	4.0	4.2	4.3
Egypt	4.3	7.2	4.7	5.2	1.0	3.5	5.0
Iran	4.9	1.0	0.1	1.0	0.0	3.0	3.0
Algeria	3.5	2.4	2.4	3.3	3.7	3.6	3.5

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.

g. Estimate.

Source: World Bank.

East and North Africa during the first half of 2010. But a world-wide “growth pause” in production during the third quarter- and slumping demand in Europe during the second half of 2010 came to the fore (see Main Text) and dampened the region’s non-oil exports to Europe, slowed tourism arrivals from earlier heady rates while crimping remittance flows to the Maghreb and Egypt in particular. These developments preceded the start of popular unrest in early 2011.

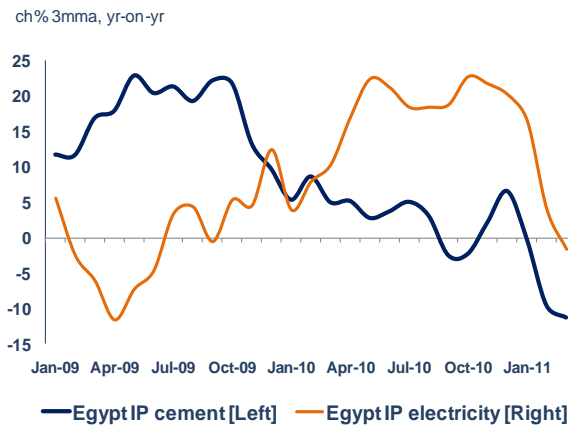
Industrial production for the diversified economies (proxied in some cases here by electricity generation) slowed from rapid gains in early 2010 to fall fairly sharply during the first quarter of 2011.⁵ Egyptian cement production for example, traced a path of output responding to easing domestic and foreign demand, from growth of 20 percent in late 2009 to declines averaging 15 percent over the first quarter of 2011; on a smoothed basis, cement output dropped 11.3 percent in March (3mma, y/y). In contrast, the decline in Egyptian electricity generation highlights the initial effects of the reform demonstrations in Cairo and the attendant broader disruption to economic activity, halving from robust 8 percent gains in early 2010 to below 4 percent the first quarter (figure MNA.2a)

Among other diversified economies,

manufacturing production in Tunisia performed well until late 2010, but by March 2011 had fallen 9.3 percent on a smoothed basis (y/y), with output of textiles and clothing declining at a steeper 15 percent rate. Lebanon highlights a case of faltering production growth over the course of the second half of 2010, due to a cyclical decline after a period of unprecedented boom, especially in construction and real estate. Developments in the region and uncertainty regarding political developments in the country yielded a falloff in electricity generation of 3.3 percent in the first quarter (y/y); Jordan’s path of recuperating output growth became more volatile but re-crossed the line to positive growth in March (figure MNA.2b).

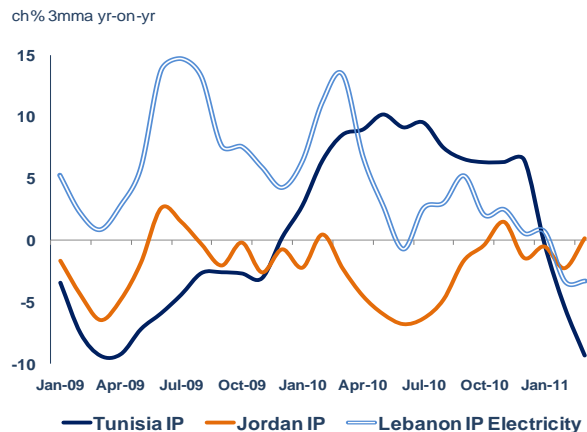
Merchandise trade. Market conditions have been difficult for the diversified group, with main export destinations in the European Union undergoing generally sluggish GDP growth and weak demand for exports from the region. But most recent data suggests a renewal of export growth for several countries, a favorable note in the current environment. Almost mirroring production trends, Egyptian exports shifted from growth near 25 percent at the start of 2010 to modest decline in February 2011, but of encouragement, to a sharp upturn in March reaching an 11 percent smoothed year-on-year pace. Exports of Lebanon dropped by 8 percent as of March, down from 20 percent gains in the

Figure MNA.2a Egypt: Early indicators of disruption to economic activity



Source: Egypt CAPMAS, through Haver Analytics.

Figure MNA.2b: Activity begins to falter in other diversified economies as well



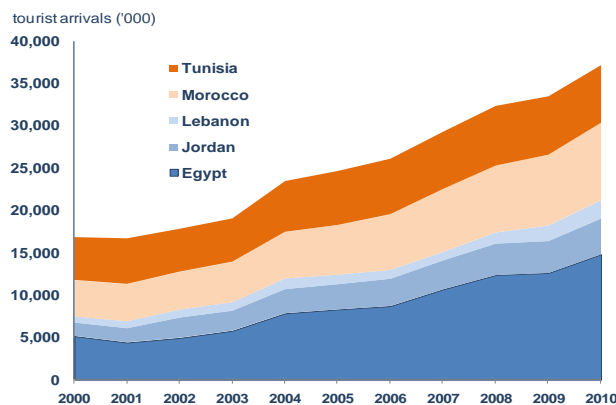
Source: National Agencies through Haver Analytics.

spring of 2010. For Tunisia, textiles and clothing shipments declined by some 7.5 percent in March (smoothed, y/y)—likely a combination of supply difficulties in production and weaker demand in export markets. But overall exports are reviving quickly to a 15 percent pace as of April. Conditions have been difficult for Morocco and Jordan, but both countries have seen exports perform buoyantly, in a 20 to 30 percent range, due to strong global demand for phosphates (inputs to fertilizers and other goods and materials) (figure MNA.3).

Tourism—a mainstay for the region exerting negative economic effects in 2011. For Lebanon, Morocco, Tunisia, Jordan and Egypt, as well as GCC-members Bahrain and the United Arab Emirates, international tourism constitutes a key contributor to GDP, with fiscal revenues benefitting as well. Tourism is a key driver for local employment growth directly—and through second-round effects—while spurring domestic and foreign investment in tourism and related facilities. For the GCC economies, tourism is providing an important path for diversification.

Before the onset of the political uprising, tourism in the broader Middle East and North Africa region was booming, with arrivals in 2010 up by 10.2 percent to 98 million persons; and for the country sample in figure MNA.4a, a jump of 11 percent to 37 million arrivals (figure MNA.4a).

Figure MNA.4a Middle East and North Africa tourism boomed in 2010

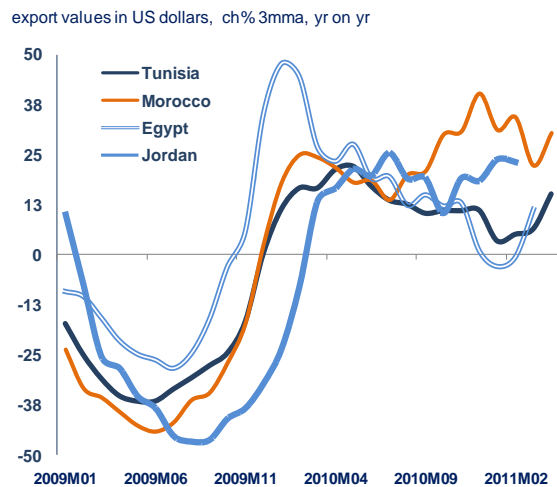


Source: United Nations World Tourism Organization and National Agencies.

This represented an impressive rebound from the 2009 recession, with tourist arrivals improving from 3.5 percent growth in the previous year. Performance in Egypt was particularly vibrant, with a 17.5 percent gain in arrivals and 16.5 percent jump in receipts.

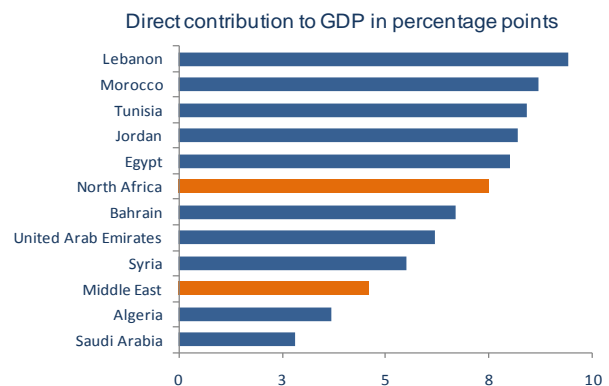
Looking at developments in 2011, with data covering just a few months of the year, tourism

Figure MNA.3 Exports from the diversified economies generally slacken in the second half of 2010 and into early 2011



Source: National Agencies through Haver Analytics, Tunisia: INS, Morocco: Customs, Egypt: CAPMAS, and Jordan: DoS.

Figure MNA.4b Tourism’s contribution to GDP was large in several Middle East and North Africa countries (2010)



Source: World Travel and Tourism Council and World Bank.

arrivals appear to have fallen dramatically. Both Egypt and Tunisia, for example, have reported a 45 percent decline in arrivals between the first quarter of 2011 and the like period of 2010. Such large-scale falloff in arrivals (and related receipts), if sustained could exact a heavy toll on growth in countries where tourism contributes a substantial share of GDP (figure MNA.4b). Estimates of the direct contribution of tourism to GDP appearing in the figure are produced by the World Travel & Tourism Council (WTTC), an industry group working closely with the United Nations World Tourism Organization (UNWTO).⁶ In addition to the direct impact of tourism on the economy, second-round effects can be quite large, as tourism is a labor intensive sector with many interconnections with other branches of the economy; and in recent years tourism has attracted much related investment, both domestically and from abroad.

The less-than-favorable tourism reports from Egypt and Tunisia to date, together with preliminary projections of a potential 18 percent drop in tourism-related receipts during Egypt's FY-2011⁷, would imply (using WTTC impact factors) a 1.1 percent direct loss in GDP for the year. Second-round and induced effects could carry GDP lower by an additional 1.1 points—an adverse tourism contribution to GDP of 2.2 percentage points. As earlier noted, Egypt's growth—pre-to-post the beginnings of the 'Arab Spring'—had been marked down by 4.5 points (see figure MNA.1), implying non-tourism related factors (disruptions to production and other economic activity) may account for the remaining 2.3 points of the slowdown. A similar range of assumptions for tourism revenues/arrivals in Tunisia, Morocco, Jordan or Lebanon would likely result in broadly similar outturns.

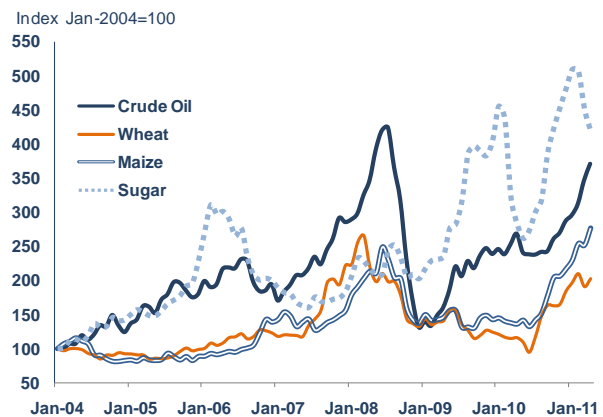
Worker remittance flows to the developing region faltered during the global recession of 2009 (as remittances did for all developing regions) by some 7 percent to \$32.2 billion, as employment conditions in host countries in Europe, the GCC and elsewhere deteriorated.⁸ Hardest hit at the time were Egypt and Yemen, each facing a decline of more-than 18 percent. As recovery advanced within the region and

abroad in the first half of 2010, remittances for the year grew by 6.5 percent (with Egypt up 8.1 percent to \$7.7 billion) stronger than the 5.6 advance for developing countries in aggregate. Looking forward, the World Bank's Migration and Remittances Unit expects Egypt to garner a modest 0.8 percent gain during 2011, while remittance inflows to Tunisia are seen to drop by 2.5 percent. For developing Middle East and North Africa overall remittances increase 3.5 percent, slowest among developing regions, with stronger recovery in 2012 (5.4 percent)—still sub-par contrasted with the region's historic standards (average growth of 14 percent over 2000-2008).⁹

Large shifts in international prices and terms of trade carry differing effects across the region.

Heightened market uncertainty regarding oil supply accentuated by the outage of Libyan crude, served to increase the price of benchmark Brent oil to above \$120/bbl in April 2011, a 33 percent increase from December 2010 levels, with the World Bank average price registering \$116/bbl for the month (figure MNA.5 and Commodity Annex).¹⁰ A number of commodity analysts suggest that about \$20/bbl of the increase in price relates to tension in the region; the remainder reflects strong world demand for oil. Given the continued fluidity of the political economy in the region, the outlook for crude oil

Figure MNA.5 Wheat, maize and sugar double from recent troughs....oil increases 3-fold



Source: World Bank.

prices remains highly uncertain, but under a ‘base case’ the price of oil is likely to remain at high levels, averaging \$107/bbl in 2011, and easing only slightly to \$98/bbl by 2013.

A quickening pace of increase in internationally traded food prices—notably maize and wheat—is tied in good measure to supply disruptions, and together with higher crude oil prices is pressuring inflation across an increasing number of countries (figure MNA.5). A key factor underpinning the rise in food—likely the most important—has been increasing production costs due to higher energy prices. Since June 2010, wheat prices have risen 113 percent and maize 109 percent. Sugar prices had earlier ratcheted upward (86 percent from June 2010 to January 2011) due to Brazilian use of sugarcane in generating bio-fuels, resulting in a degree of shortage of sugar for use in food products. For the region, cereals (notably wheat) and sugar imports account for 58 and 75 percent of domestic consumption, respectively. And for these foods alone, costs to the region have amounted to \$19-per capita or 0.3 percent of GDP.^{11 12}

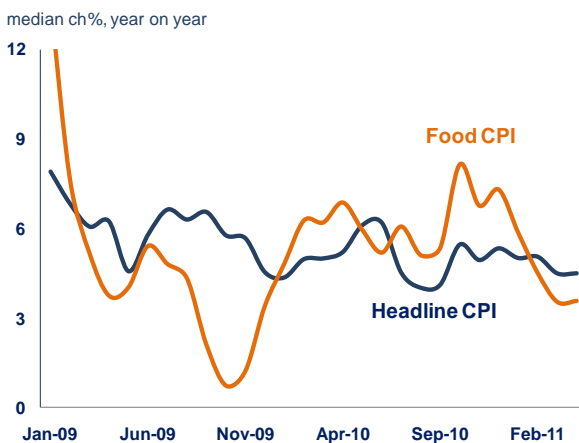
Tied to higher wheat and oil prices, as well as government outlays that have tended to increase liquidity within economies, inflation picked up across both diversified economies and oil exporters of the region. For developing Middle

East and North Africa in aggregate, median inflation accelerated from 4 percent in August 2010 to 5.1 percent by February 2011 (year-on-year)—but eased to 4.5 percent by April on a recent softening in food prices. Indeed, food prices for the group reached peaks of 8.2 percent in October 2010 before diminishing to 3.6 percent in April 2011 (figure MNA.6a).

Higher inflation is reducing purchasing power and dampening the pace of consumer spending in both oil importers and exporters, augmenting the disruption of economic activity and output otherwise pressuring households in the region. Several economies among the diversified group—Morocco and Tunisia—rely on rain-fed agriculture, with wheat crops often exposed to adverse weather; these economies are now experiencing escalating import bills and pass-through to headline inflation.

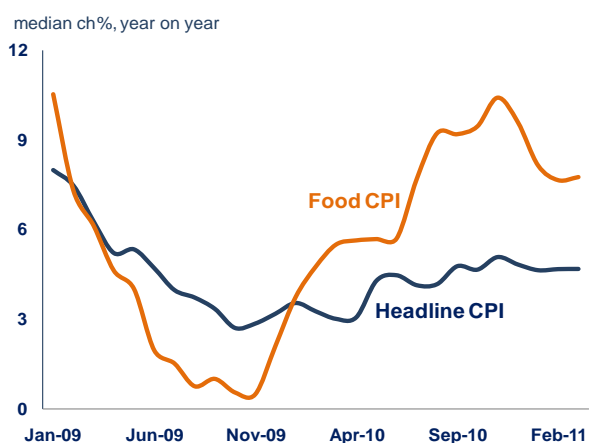
For the diversified economies, food prices led headline prices through most of 2010, but the food CPI eased from 7.7 percent in October to dip below headline CPI by February 2011. As of April food prices were increasing at a median 3.6 percent pace for the group against overall inflation of 4.5 percent—pointing to the likelihood of higher domestic costs emerging in countries in transition—Egypt, Tunisia and others.

Figure MNA.6a Food CPI in developing Middle East and North Africa now lags median headline inflation



Source: World Bank; Haver Analytics.

Figure MNA.6b Middle East and North Africa oil exporters inflation led by rising costs of imported food

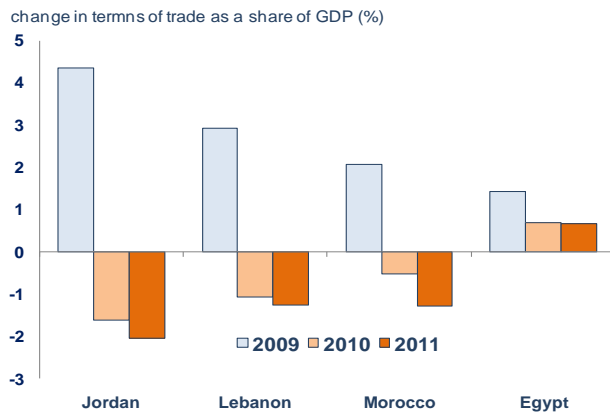


Source: World Bank; Haver Analytics.

Among oil exporters, headline and food price inflation have ramped-up much faster, given exceptionally high import dependence for food and feedstuffs in a number of economies (figure MNA.6b). For oil exporters (developing as well as GCC), food prices continue to lead overall CPI, with the former standing 7.8 percent above year-earlier levels in March 2011; the latter up 4.7 percent. Food price increases span a wide range from Bahrain (2.7 percent in March (y/y)), Saudi Arabia (5 percent), Kuwait (10 percent), to Iran (26 percent). Price developments in Iran, especially since December 2010, are due to a combination of international food price hikes and a removal of domestic subsidies.

Terms of trade developments for Middle East and North African groups are tightly linked to international price movements and the underlying commodity composition of goods trade. For the diversified economies, the direct impact of the first “food crisis” of 2008 cost the group some 2.2 points of GDP (with Jordan an exception) as prices ratcheted much higher. But the loss was more-than offset during the global recession of 2009 for most countries with softening oil and food prices. During 2010 and 2011, the terms of trade are anticipated to deteriorate in Jordan, Lebanon, and Morocco, with both oil and food prices rising. The diversified economies in aggregate are likely to face a fairly moderate decline of 0.8 percentage points of GDP in 2010-11 (figure MNA.7a).

Figure MNA.7a Several diversified economies suffer terms of trade losses in 2010-11



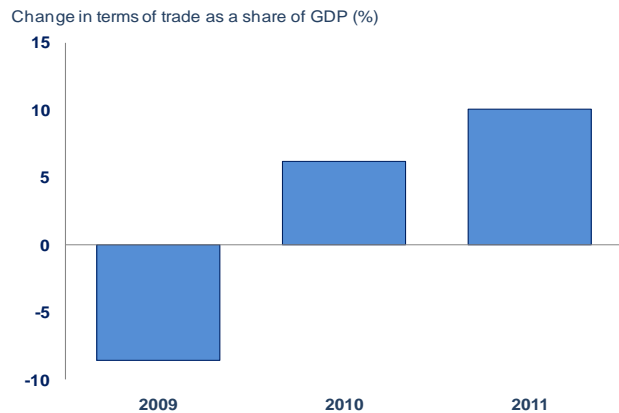
Source: World Bank.

In contrast with the differentiation of terms of trade displayed across the diversified group, the aggregate of oil exporters (including GCC) experienced cumulative gains of 16.2 percent of GDP over 2010-11, 6.2 percent- and a large 10 favorable movement in 2011 and 2012 respectively (figure MNA7.b). The run-up in hydrocarbons receipts as a share of oil exporter’s GDP in 2011 exceeds that of the last boom year of 2008 at 42 percent versus 40 percent. Whether the large boost to domestic incomes will result in stronger GDP growth, will depend on the policy of the authorities in the current environment, to save or dispense the windfalls via subsidies or public works projects. It will also depend on the import propensity of the new spending. Evidence over 2011 to date suggests that substantial portions of these funds will be expended domestically.

FDI and portfolio flows to the region likely to fall sharply amid rising risk aversion.

Foreign direct investment (FDI) inflows to the developing region, increasingly originating in the GCC economies, had been a welcome source of new capital, attracted not only to tourism and related facilities but also to industry (oil and gas, and other), services (telecoms) and real estate (table MNA.2). Countries tending to benefit most from FDI were Egypt, Tunisia, Morocco and to a lesser degree, Jordan and Lebanon. At peak dollar volumes in 2008, FDI amounted to \$29.3 billion or 3.1 percent of regional GDP.

Figure MNA.7b Oil exporters enjoy two years of windfall revenues in 2010-11



Source: World Bank.

Capital flows to developing Middle East and North Africa held up exceptionally well during the recession of 2009 and over the course of 2010 (figure MNA.8), amounting to \$26 billion in 2009, an increase of \$6 billion, and the equivalent of 0.6 points of GDP. Other flows stepped up to offset a \$4 billion falloff in FDI during 2010—including issuance of sovereign bonds from among others Tunisia and Lebanon, and an increase in official lending to the region.

Following the onset of political disturbance, financial market risk premia increased, implying tighter financing conditions for sovereign- and corporate borrowers. Spreads on Egyptian sovereign credit default swaps (CDSs) increased by 100 to 150 basis points through February and March 2011. Equity bourses were hard hit from Egypt to Dubai (UAE) to Morocco, with MSCI dollar-based indexes dropping by double digits. Egypt's market capitalization plummeted 14.5 percent during the week before the exchange was

closed on January 28.

Financial projections for 2011-2013 prepared by the World Bank suggest a sharp falloff in net capital flows in 2011, followed—under assumptions of a gradual equilibration of political conditions in the region—by fairly rapid resumption of flows to reach recent pre-turmoil levels by 2013 (table MNA.2). In particular, FDI is seen to almost-halve from \$20-to \$10.7 billion in 2011, as GCC and other investors adopt a ‘wait and see’ perspective to political–economy developments. Indeed, the focus of the GCC, less affected by political unrest and bolstered with new revenues, may turn “inward” for a time to bolster domestic demand and infrastructure investment. The recently announced \$20-billion Gulf Development Program for Bahrain and Oman is an example of this emerging trend.

Net private flows in 2011 are viewed to drop by a substantial 83 percent to \$4.1 billion from \$28

Table MNA.2 Capital flows to the Middle East and North Africa

\$ billions											
	2003	2004	2005	2006	2007	2008	2009	2010e	2011f	2012f	2013f
Current account balance	34.7	49.5	58.9	68.9	74.2	70.5	-10.8	15.4	68.1	74.2	60.2
as % of GDP	8.2	10.2	10.7	10.8	9.6	7.7	-1.1	1.4	5.6	5.7	4.3
Financial flows:											
Net private and official inflows	13.5	13.0	19.4	14.4	29.4	21.1	27.8	28.0			
Net private inflows (equity+private deb	15.6	16.4	22.4	25.7	28.4	22.9	25.5	25.1	4.1	22.1	29.6
..Net private inflows (% GDP)	3.7	3.4	4.0	4.0	3.7	2.5	2.7	2.3	0.3	1.7	2.1
Net equity inflows	10.2	10.4	19.2	28.2	25.5	29.7	25.6	21.5	11.0	17.9	23.2
..Net FDI inflows	10.0	9.7	16.8	27.2	27.6	29.3	24.4	20.1	10.7	17.4	22.6
..Net portfolio equity inflows	0.2	0.7	2.4	1.0	-2.1	0.4	1.2	1.4	0.3	0.5	0.6
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	-6.9	4.2	6.4
....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	-25.1	-47.8	-39.3	-45.5	-55.6	-48.2	7.3	-32.0			
Change in reserves (- = increase)	-23.2	-14.7	-38.9	-37.8	-48.0	-43.4	-24.2	-11.3			
Memorandum items											
Workers' remittances	20.5	23.2	25.1	26.5	32.1	36.0	33.6	35.6	36.9	38.9	

Note:

e = estimate, f = forecast

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

Source: World Bank.

billion in 2010—a falloff equivalent to 2.1 percent of regional GDP. Thereafter, a revival of FDI is hoped to lead private flows back into a range near \$20 billion, with new opportunities for investment emerging in the region. Clearly risks to this projection are numerous, and in particular, a more extended period of time may be required before international and local risk aversion regarding the region is diminished.

Economic developments and policy among the diversified economies.¹³

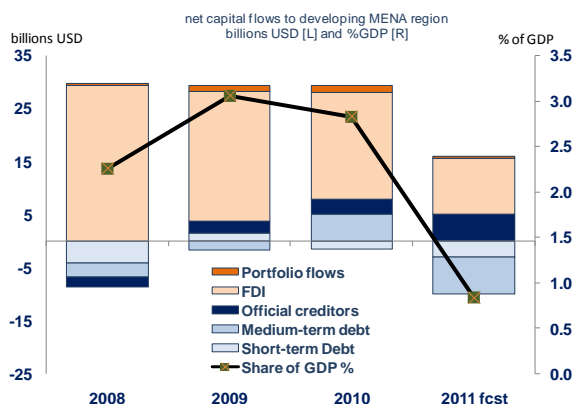
A stronger start to 2010, and a sufficiently diverse set of outturns across countries, meant that GDP growth for the diversified group faltered by just 0.3 points from 2009 outturns to 4.5 percent in 2010—still notable as a 0.4 percentage point mark-down from earlier expectations.

- Until recent political events, the *Egyptian* economy showed strong signs of recovery from the global recession, during which Egypt’s GDP advanced 4.7 percent against an increase of 1.9 percent for all developing countries. Consumer spending and increasing activity in construction, tourism and communications were driving forces for growth, which moved up to 5.2 percent in 2010. Egypt is facing a more prolonged period of political uncertainty with signs emerging during early 2011 of disruptions to production, widening trade deficits, falling tourism and

weaker worker remittances; FDI flows are likely to decline substantially. Unemployment reached 11.9 percent during the first quarter of 2011, and may increase further as a result of disruptions to activity, but also as some 183,000 overseas workers have returned—and are continuing to return from Libya.¹⁴ Against this background, GDP growth is anticipated to drop sharply to 1 percent in 2011. Recent reports regarding financial support from international organizations and bilateral donors is encouraging.

- The *Tunisian* revolution, removal of former President Ben Ali and dissolution of the ruling party and Parliament have been significant developments. GDP is anticipated to be hard hit by declines in production and in services activity (tourism), such that growth of 1.5 percent is a likely outturn for 2011. The interim government has undertaken short-term measures to support business and the labor market; and with \$1 billion multi-donor package the financial situation should remain manageable.
- In *Jordan*, political tensions are occurring while economic recovery remains weak. GDP growth of 3.1 percent characterized 2010, based on weak consumption and a drop in public investment. In February, Moody’s and S&P both downgraded Jordan’s debt outlook rating, raising the cost of capital for the Kingdom. To address social concerns the King launched initiatives related to corruption and improving governance and the government increased social spending and subsidies on the order of 2.1 percent of GDP. In *Lebanon*, the government of National Unity formed in November 2010, collapsed on January 12, 2011 blocking further policymaking. Still the economy grew by a rapid 7 percent in 2010 on the back of domestic demand fueled by foreign financial inflows. A key risk is that traditional Lebanese political rifts could re-emerge amid the regional unrest of 2011.
- And in *Morocco*, the King announced potentially significant constitutional and political reforms in response to a series of popular protests in more-than 52 cities during late February 2011. The announced proposals

Figure MNA.8 FDI viewed to halve from \$20- to \$10 billion in 2011



Source: World Bank.

appear to be short of the youth movement's demands, but are supported by political parties. The economic outlook remains generally favorable with a sustainable macro- and financial framework. GDP growth could pick up in 2011 based on gains in domestic demand, in part funded by increased subsidies for food and fuel.

• **Oil exporter's windfall eclipses 2007-08.**

Middle East and North African developing and GCC oil exporters¹⁵ appear set to eclipse the hydrocarbon revenue windfalls of 2007-08 during the course of 2011 (figure MNA.9). The cumulative increase in oil export receipts over 2010-11 amounts to \$370 billion or 37 percent of oil exporter-GDP, with total revenues expected to peak at \$845 billion in 2011. Several large exporters (including Saudi Arabia) have begun to advance production modestly to offset the loss of Libyan crude, and combined with the 36 percent gain in crude oil price for the year, resulting export receipts are anticipated to increase within a range of \$85 billion for Saudi Arabia to \$10 billion in Oman. The aggregate result contrasts with top receipts of \$735 billion during 2008, with the buildup in revenues having accrued to \$245 billion over 2007-08.

Within the region, such massive revenue gains for oil exporters offer authorities the means to increase spending of various forms to mitigate the potential for protest and social unrest. Saudi Arabia for example, pledged to provide unemployed Saudi nationals with financial support for a year, helping its young population cope with structurally high unemployment. The Saudi Government issued a number of such orders with a total cost of SR135 billion (\$36 billion) for the first year; possibly accumulating to \$100 billion over 10 years.

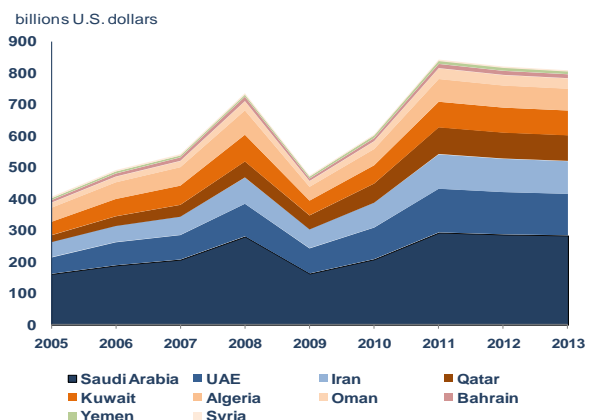
Developing oil exporters face economic as well as social challenges against a broadly favorable international background

The group of developing oil exporters in the region, Algeria, Iran, Syria, and Yemen, form a group of economies troubled by political protest and/or forms of repression on the part of

authorities over a range of intensity (from most severe in Yemen and Syria, to latent popular dissatisfaction in Iran, and to a lesser degree in Algeria). Growth for the aggregate of oil exporters dipped from 2.2 percent in 2009 to 1.4 percent in 2010. Gains across the group ranged from 1 percent in Iran to 3.3 percent in Algeria, with Yemen an exception, as the coming online of an LNG train boosted growth to 8 percent in the year. OPEC members GDP gains were dampened by constraints in hydrocarbons output in support of price targets, but were supported by stronger growth in non-oil GDP. All oil exporters benefited from the 28 percent gain in oil prices in 2010 (to \$79/bbl from \$62/bbl in 2009).¹⁶

- Although protests in *Algeria* have not coalesced into revolutionary style movements as in some neighboring countries, Algeria's anticipated \$72 billion in crude oil and natural gas exports in 2011 remains somewhat vulnerable to political unrest which could disrupt shipments. GDP gains in 2010 were grounded in moderate advances for the oil sector and non-oil growth of some 5.3 percent—reflecting strong multiplier effects associated with public infrastructure programs. Authorities have mitigated the chances of unrest by increasing food subsidies and microcredit loans; adding public sector jobs and promising more sustainable employment in other sectors of the economy. Though

Figure MNA.9 Middle East and North Africa oil revenues build by \$370 billion over 2010-11



Source: World Bank-COMTRADE and International Energy Agency.

spending has added a degree of stress to the fiscal position, new oil revenues should more than compensate in the near term. With OPEC likely to expand output over the next years, Algeria should be well placed to participate more fully in energy markets, while keeping domestic demand buoyant.

- The recent upturn in unrest in the Middle East appears to have briefly reinvigorated *Iran's* 'Green Movement', however there was no substantial effects on the economy as protests were quickly suppressed. Despite improvements in global oil markets, *Iran's* growth has weakened over the last two years as a result of a major tightening of monetary policy in mid-2008 that led to a slowdown in growth in 2009; a large-scale subsidy reform program that went into effect in December 2010, and the effects of the 4th round of international sanctions against the country taking hold. GDP growth registered a meager 0.1 percent during 2009, and remained weak at a 1 percent gain in 2010. The approved 2011 budget contains a major fiscal stimulus package that pushes budgetary spending up sharply (46 percent), to counter subsidy reforms and sanctions, putting additional pressures on already accelerating inflation.
- *Syria* (more recently) and *Yemen* have joined *Libya* closer to the fulcrum of popular protest and severe, violent repression by authorities in the region. Economic developments will likely move into second-tier consideration until some form of resolution is found to the violence and civil-war like conditions in *Yemen* and repression by *Syrian* authorities. Neither country is a major exporter of crude oil (*Syria* about \$4 billion) and *Yemen* just commencing gas production and exports amounting to \$8 billion in 2010.

Medium-term outlook

Political economy developments within the region appear likely to result in less disruption to economic activity in those oil-exporting economies least exposed to unrest and more aggressive popular calls for reforms. At the same time, the international environment has come to

favor Middle East and North African oil exporters with terms of trade moving largely against regional oil importers, but intensified for all countries by the surge in international grains prices.

As highlighted in figure MNA.10, the net result of regional and international developments is a strong compression of GDP growth for the aggregate of developing countries in the region, moving down by 1.2 percentage points between 2010 and 2011 to 1.9 percent. The step-down in growth for oil exporters (0.6 points in the year) to 1.4 percent, compounds the sharper downturn for diversified economies (2 points), dominated by markdowns from pre-'social revolution' projections for several countries (figure MNA.1 earlier). The diversified economies in aggregate are expected to fall from growth of 4.5 percent in 2010 to 2.5 percent in 2011.

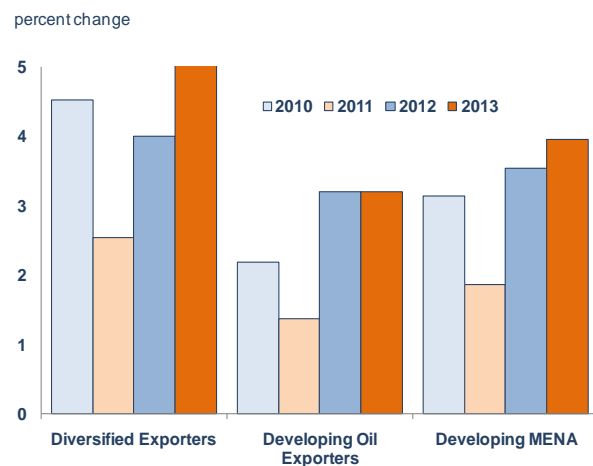
Differences in current account balances between the groups for 2011 are presented in table MNA.3—with oil exporter surpluses rising from 5.4-to 12.6 percent of GDP from 2010 to 2011, vis-à-vis increased deficits of some 0.8 points for the diversified economies to 4.8 percent of GDP. On fiscal accounts, deficits increase to more-than 7 percent of GDP in 2011 for the diversified exporters given the drain on government revenues associated with declining tourism and potentially increased subsidies to cover higher food and fuel costs; for developing oil exporters, fiscal deficits narrow by 1.7 points to 0.5 percent of GDP.

Political economy transitions will be crucial for the economic outlook. Under the assumption that some form of "normalization" takes place across countries—a revival in domestic demand becomes feasible, as does the ability of economies to participate in a rebound in international activity, through goods trade, tourism and investment flows. On these grounds views for GDP growth over 2012-13 are moderately optimistic for the developing region—though still below pre-'Arab Spring' expectations—at 3.5 and 4 percent respectively.

Regional growth in this phase is likely to be

driven by the diversified economies, 4 and 5 percent gains over the period respectively, led by 5 percent advances in Egypt by 2013, and by improvements in performance for Morocco, Jordan, Lebanon and Tunisia to similar rates of growth. Domestic demand contributes fully 7.8 points of growth in these years, with net exports influenced by a catch-up in import demand, dampening GDP gains by about 3.3 percentage points. Developing oil exporters experience a more modest growth pickup to 3.2 percent in 2012-13 powered by public spending programs in both Algeria and Iran. As the current run-up in oil prices turns to a modest gradual decline over the period current account surplus for the group eases from 12.6 percent of GDP in 2010 to 9.7 percent by 2013, in part due to strong import growth tied to large infrastructure and social development programs.

Figure MNA.10 Growth returns to 4 percent by 2013 under favorable assumptions



Source: World Bank.

Table MNA.3 Middle East and North Africa country forecasts

(annual percent change unless indicated otherwise)	98-07 ^a	2008	2009	Est. 2010	Forecast		
					2011	2012	2013
Algeria							
GDP at market prices (2005 US\$) ^b	3.5	2.4	2.4	3.3	3.7	3.6	3.5
Current account bal/GDP (%)	28.9	20.0	0.3	9.4	17.8	17.4	12.0
Egypt, Arab Rep.							
GDP at market prices (2005 US\$) ^b	4.3	7.2	4.7	5.2	1.0	3.5	5.0
Current account bal/GDP (%)	0.9	-0.9	-2.3	-2.0	-2.9	-2.4	-2.0
Iran, Islamic Rep.							
GDP at market prices (2005 US\$) ^b	4.9	1.0	0.1	1.0	0.0	3.0	3.0
Current account bal/GDP (%)	10.3	15.7	4.2	6.0	14.5	14.0	12.0
Jordan							
GDP at market prices (2005 US\$) ^b	5.6	7.6	2.3	3.1	3.5	4.0	5.0
Current account bal/GDP (%)	-2.3	-9.6	-5.1	-4.3	-8.0	-6.8	-6.0
Lebanon							
GDP at market prices (2005 US\$) ^b	2.8	9.3	8.5	7.0	4.8	5.0	6.0
Current account bal/GDP (%)	-17.5	-13.7	-21.5	-15.4	-15.6	-15.6	-15.0
Morocco							
GDP at market prices (2005 US\$) ^b	3.7	5.6	4.9	3.3	4.4	4.5	5.0
Current account bal/GDP (%)	1.4	-5.2	-5.0	-4.2	-4.0	-3.5	-3.0
Syrian Arab Republic							
GDP at market prices (2005 US\$) ^b	2.9	4.5	6.0	3.2	1.7	3.0	3.0
Current account bal/GDP (%)	3.0	0.3	-5.7	-4.4	-5.3	-4.8	-4.5
Tunisia							
GDP at market prices (2005 US\$) ^b	4.5	4.5	3.1	3.7	1.5	3.5	4.5
Current account bal/GDP (%)	-2.8	-3.8	-2.9	-4.8	-6.2	-4.0	-3.8
Yemen, Rep.							
GDP at market prices (2005 US\$) ^b	3.5	3.6	3.9	8.0	3.0	4.0	4.0
Current account bal/GDP (%)	2.5	-4.6	-10.7	-4.4	-4.0	-4.0	-3.4

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.

c. Estimate.

d. Forecast.

Source: World Bank.

Risks

Among the numerous challenges facing the region at this critical time, are wide variations in the set of possible political-economy outcomes that could result from the series of reform movements and differing responses of authorities over 2011, from lower growth scenarios associated with limited or unsuccessful reform, to higher growth scenarios linked to deeper and swift changes. The outcomes of such developments in the Middle East and North Africa would carry effects well beyond the geographic boundaries of the area, as the oil market (for one) would act as a powerful channel for transmission to the global economy.

The ongoing fiscal crisis in the Euro Area presents an external risk for the region, which if continued or intensified would imply a longer period of sub-par exports and growth for the Maghreb economies. Moreover, if risk perceptions regarding the broader Middle East and North Africa region have “hardened” due to safety and other concerns, a risk that the flow of tourist arrivals from Western Europe might be lost for an extended period of time is one of concern.

And should oil prices remain at higher levels for a longer period of time, emergence of newer energy sources (affordable at prices over \$100/bbl oil equivalent), such as solar/ocean, Canadian tar sands, U.S. shale gas and improvements to enhanced recovery techniques could yield faster-than earlier anticipated competitive pressures for hydrocarbon exports in the medium to longer terms.

Notes:

1. Global Economic Prospects: “Navigating Strong Currents”. The World Bank. January 2011. Internet. And “Sustaining the Recovery and Looking Beyond”, A Regional Economic Outlook. Middle East and North Africa Region. The World Bank, January 2011.
2. 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, the Syrian Arab Republic, Tunisia and Yemen. Data is insufficient for the inclusion of Djibouti, Iraq, Libya 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 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 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. See “Middle East and North Africa Economic Recovery Weakened in the Midst of Arab Uprisings”, A Regional Economic Update. Middle East and North Africa Region. The World Bank. April 2011.
4. See Arab World Brief: Shamshad Akhtar. Vice President, World Bank, Middle East and North Africa region. February 2011.
5. The types of growth rates discussed in this section and throughout the report, and appearing in accompanying figures—range from simple year-over-year (y/y) percentage change: $gy/y = ((X_t/X_{t-1}) - 1) * 100$; a ‘smoothed’ yr/yr rate, which helps to even out volatility to highlight underlying trends: $sgr = (((average(X_{t-2}:X_t) / (average(X_{t-14}:X_{t-12})) - 1) * 100)$, and a seasonally adjusted annualized rate (saar) which annualizes (i.e. multiplies— or raises to the power-4) the relationship between consecutive 3-month averages to obtain a clearer picture of most recent trend developments. $saar = (((average(X_{t-2}:X_t) / (average(X_{t-5}:X_{t-3}))^{**4}) - 1) * 100$.
6. See ‘World Tourism Impact Data’. World Travel & Tourism Council (WTTC). London. 2011. www.wttc.org for definitions of ‘direct-, indirect, and induced’ impacts of

tourism on the national economy. And 'UNWTO World Tourism Barometer'. United Nations' World Tourism Organization. Madrid. April 2011.

(including Qatar and UAE), Algeria, Iran, Syria and Yemen. Data for Iraq and Libya is not available at this time.

7. World Bank preliminary projections. Middle East and North Africa Poverty Reduction and Economic Management Unit. May 2011.
8. Worker remittances as presented in this report are sourced from the World Bank's Migration and Remittances Unit (DEC/PREM). The definition of 'remittances' compiled by the Unit differs from that of the IMF's Balance of Payments (BOP) construct: in particular, to the BOP transfer item 'worker remittances' is added BOP factor income items 'compensation of employees' and 'migrant transfers' (on both the credit and debit sides). Data is reported as gross receipts (credit) or payments (debit) presented in calendar-year U.S. dollars.
9. See 'Migration and Remittances Factbook 2011'. World Bank. Migration and Remittances Unit. November 2010.
10. The World Bank average price of crude oil is a simple average of Brent, Dubai, and WTI benchmarks.
11. Middle East and North Africa 'Knowledge and Learning Note'. Number 38. World Bank. Middle East and North Africa Department. March 2011.
12. It should be noted that the high price of sugar on international markets served to shift Brazilian producers of sugar cane from directing output toward ethanol production, to the refined sugar market. Indeed, Brazil is now *importing* ethanol from the United States as an additive to local fuels.
13. 'Economic Monitoring Notes'. World Bank. Middle East and North Africa Department. Spring 2011.
14. As of March 14, 2011.
15. The group is comprised of all GCC members
16. Expressed as World Bank average price.