Introduction

Welcome to this session on the Middle East and North Africa (MENA) region. I am the new World Bank Vice President for the Region about 3 months in office. To me MENA is a fascinating landscape. It is regrettable that the Region is often in the headlines for all the wrong reasons. It’s perceived as a place of endless conflict, where people live in fear and private investors shy away, some say the region is a closed society and the region is not open to integration etc. On the contrary, the Middle East and North Africa is a region of real economic, social and cultural achievements, both historically and in present times. The Region has great potential that is being unleashed and holds promise for a great future.

The MENA Report we present today, talks about some of these achievements and promises. It shares with you the Region’s efforts to address the crises in the short-term and invest in economic reforms that will create productive jobs, and make the region more entrepreneurial and quick to seize opportunity.
MENA’s Economic Outcome and Outlook

I have been struck by resilience of MENA region to the Triple F-phenomena – the food, fuel and financial crises. Despite the adversities and noise, the Region grew by almost 6.2% growth in 2008 (higher than average for developing countries) in the backdrop of rising oil prices and buoyant construction activity.

Of the triple F events, in the first round, MENA has been most impacted by the food crisis as the Region exhibits high population growth and high food imports dependence. Inflation shot up to 11% in 2008 compared to an average of 5% over the past decade -- not only eroding the incomes more sharply in lower quintiles, with food budgets absorbing an ever larger chunk of the poor’s income.

As 2009 unfolded, inflation fell in MENA as global commodity prices came down, but the impact of crisis deepened and permeated. Real GDP growth is expected to slow down to 2.2% -- less than half of the average pre-crisis trend due to decline and uncertainties in trade, oil prices, remittances and tourism etc. Demand for trade services declined, hitting Suez Canal traffic in Egypt and port hubs in Dubai and Djibouti.

The key message we retain from all this is: the MENA region has weathered the triple crisis well so far, but the crisis presents an immediate danger of rising unemployment and resurgence of poverty, and highlights the urgency of deepening the structural reforms needed to address MENA’s critical long term development challenges, namely creation of productive private sector jobs for a growing labor force and management of scarce common resources, especially water.

Underlying the economic growth averages and broader picture, I would like to share some interesting inferences and dilemmas:
First, the impact of the crisis depends on countries’ exposure to affected markets and commodities as well as on economies’ initial macroeconomic conditions and policies. Some counter intuitive evidence is important to share: the resource rich countries with higher sovereign wealth base have had a sharper slowdown – one can argue that these countries are perhaps more globally integrated than the others, but the reality is that growth in these economies is driven by one or two commodities, and as such they exhibit a higher degree of vulnerabilities. On the other hand, Qatar which has attempted to quietly transform itself is growing in double digits and is likely to record an astounding growth of 18.6% in 2010 buoyed by the coming on stream of gas plants. Meanwhile, some non-GCC countries such as Tunisia and Morocco seem to be facing the crisis relatively well despite feeling the ripple effects of recession in Europe, as they had gradually diversified their economies and adopted sound macroeconomic policies before the crisis.

Second, while MENA may appear resource rich, there are a number of countries (Egypt, Lebanon, Syria, Jordan and Djibouti, and Yemen) that do not have the fiscal space to accommodate further stimulus or further ease monetary policy without risks to inflation. These countries need to urgently spur private sector activity and focus stimulus packages on investment that generate jobs and rationalize subsidies to reach exclusively the poor.

Third, the first order impact of the financial crisis in MENA was limited to GCC countries whose financial sectors were more open to global financial centers. But, luckily, GCC countries’ initial conditions – especially the financial cushion built with past oil surpluses – allowed them to respond. Most notable is a decline in GCC stock markets in the last 2 quarters of 2008. Also, GCC sovereign funds are estimated to have lost 27% of their portfolio value over 2007 to 2008 with losses
reaching 40% among funds that heavily invested in global equities and borrowing spreads rose.

Growing Potential Social Distress

The potential for social distress due to the economic slowdown is worrisome. Loss of jobs and lack of emerging opportunities for fast growing new entrants in labor market are already visible. ILO estimates indicate that in 2009 unemployment is expected to rise by 25% in Middle East and by 13% in North Africa relative to 2007. Rising unemployment is a common problem and continues to haunt even industrialized countries even though there are emerging signs of economic recovery. What is different in MENA is that present events will add to the stock of 20 million jobless. What has been thus far comforting to the Region was its relatively low level of poverty incidence, but this masks the challenges posed by the bulging number of people living just above the poverty line and in remote or disadvantageous terrains.

Short term economic stimulus packages focusing on fiscal measures and monetary easing are expected to put the region on path of economic recovery in 2010 and real GDP is forecasted to rise to 4%. This scenario factors in global recovery. Notwithstanding, based on past evidence and experience it is key to recognize that the public sector alone does not guarantee jobs for all or reduction of poverty.

Recognizing these challenges, the World Bank has been working closely with the stakeholders in the Region to restore confidence in the private sector and provide a conducive investment environment for

---

1 Overall, less than 5% of MENA’s population lives on less than US$1.25 a day but some 19% lives on less than US$2 a day. Moreover a considerable share of the population hovers just above the poverty line. For example in Egypt and Morocco the number of vulnerable people falling into a narrow band between US$2 and US$2.50 is as large as the number of those who fall under the US$2 poverty line.
firms. The World Bank recent survey on Doing Business highlights the need for alleviating hurdles for businesses, but what is encouraging is that UAE and Egypt are among the global top 10 reformers\(^2\).

At the end of the day, a vibrant private sector with appropriate investments in SME development and focus on promoting employability of Youth through quality education and skill development will help in bridging the gap between labor supply and demand of work force, while financially and socially sustainable social safety nets and access to microfinance will help reduce poverty.

**World Bank Response**

Responding to its client countries in the Region, the World Bank has worked on five fronts.

- One, WB has lent close to $1.8 billion in FY09 and is positioned to lend over $3 billion in line with the growing demand of the Region in the current year.

- Two, more than half of the flows in FY10 will be quick disbursing transactions supporting structural reforms that would help crisis mitigation, strengthening of financial markets with focus on improving access to development finance, infrastructure development, and social safety nets.

- Three, WB has accelerated and broadened its analytical and technical advisory support to provide advice on critical macroeconomic and sector issues and policy frameworks.

---

\(^2\) Egypt has been among the top 10 reformers for 4 out of the past 7 years.
• Four, IFC has been very proactive to revive the private sector, recapitalize banks and provide microfinance support.

• Five, WB and stakeholders are working to promote regional integration in MENA which should augur well for economic growth and prosperity of the region.

In conclusion, let me repeat that the MENA region has weathered the triple crisis well so far, but the crisis presents an immediate danger of rising unemployment and resurgence of poverty, and highlights the urgency of deepening the structural reforms needed to address MENA’s critical long term development challenges, namely creation of productive private sector jobs for a growing labor force and management of scarce common resources, especially water.

Countries’ ability to stimulate their economies and rebound in the post-crisis era will be enhanced if they use the opportunity of the crisis to ease infrastructure bottlenecks and restructure ineffective yet expensive subsidies. Looking at longer term challenges, this recent crisis, as well as previous ones, have brought to the fore the need to introduce an efficient investment regime, promote trade and financial diversification, and launch programs for meeting Region’s energy requirements and security and strengthen social safety nets—many of these topics have been well researched and supported by a range of the World Bank programs—to reduce MENA countries’ vulnerability and improve their flexibility to respond to future shocks. Economic recovery however would critically depend on the depth and length of the global economic recession and success of the countries to launch well coordinated structural reforms that restore private sector confidence.
The World Bank has a long partnership with the MENA region and our work is being focused on these main long term development challenges.

Let me now turn to Auguste Kouamé who will graphically reinforce the messages provided.