

Regional Summary: Middle East and North Africa

Overview

Economic activity in the developing **Middle East and North Africa** region has been dominated by the political turmoil of the “Arab Spring” and strong oil prices. The political turmoil has seriously but selectively disrupted growth across the region. The region now faces two sets of tensions and uncertainties, the possibility of continued or intensified political turmoil, and the prospect of a deterioration of conditions in high-income Europe, which is already having effects on goods trade, commodity prices, tourism and other export revenues.

GDP for the developing countries of the region is estimated to have increased 1.7 percent in 2011, down from 3.6 percent in 2010. Growth is likely to remain subdued in 2012, at about 2.3 percent, in both oil exporters (partly reflecting weaker oil prices) and oil importers, many of which (Morocco, Tunisia, Egypt) have very close economic ties to high-income Europe, and others (Jordan and Lebanon) with closer links to the Gulf Cooperation Council (GCC) countries. Growth is projected to accelerate to 3.2 percent by 2013, as FDI and investment revive, traditional revenue streams (tourism and migrant remittances) normalize, and civil unrest in several countries is assumed to abate.

Though several countries in the region – including Tunisia, Morocco, and Jordan – appeared to be on or close to the cusp of positive or improved growth in late 2011, the onset of the financial crisis in the high-income countries has likely delayed that event. For the developing net-oil importing countries, prospects are dampened by limited fiscal space, depleted of reserves and continuing social tensions in several countries.

Developing oil exporters (if not in internal conflict) are better positioned to withstand the brunt of the crisis, as incomes and government revenues are bolstered by still high oil prices. Hydrocarbon revenues for the geographic region as a whole totaled \$785 billion in 2011, with developing oil economies (Algeria, Iran, Syria and Yemen) absorbing \$50 billion of the \$200 billion increase in the year. While fiscal positions in these countries remain sustainable at current prices, should oil prices decline sharply as they might, if external conditions deteriorate significantly, governments could be forced to cut into spending.

External capital flows to developing countries in the region declined sharply during the course of the year. FDI (mainly from the GCC) flows were down nearly 40 percent, while equity and bond flows are estimated to have dropped in the third and fourth quarters to levels only half as large as in 2010. However, official aid from the GCC and others is restoring a good portion of (and in some cases more than 100 percent of) lost liquidity to several economies in the region – and helping some of the transitioning economies to meet fiscal shortfalls.

Risks and Vulnerabilities

Extreme uncertainties face the region, in having to address both the continuing threats of protest and a real crisis in the Euro Area. The Middle East and North Africa is highly exposed to an exacerbation of the European crisis, with strong and broad links through trade, tourism arrivals, migrant remittances, and to a lesser degree, finance.

Trade. The region will feel the bulk of effects of slower European, and global, growth through the trade channel, especially oil, but also in manufactured goods. Both oil-importing economies and the developing oil exporters (Iran excluded) have strong export links with the European Union, notably Syria, with 80 percent of fuel shipments destined for the EU-25, and Algeria, with substantial shipments to the EU and the United States.

Commodity prices. Oil importers within the region might see fiscal shortfalls ease substantially in the case of a significant slowdown; while oil exporters would be affected by both weaker demand but also

lower revenues due to lower prices. Assuming that financial shortfalls can be met through international capital markets, GDP impacts could range between -0.8 and -1.2 for oil importers and -0.2 and -0.6 percent for oil exporters.

Tourism. The decline in tourist arrivals to the region has been unprecedented. Syria has been hardest hit, with the number of visitors dropping by 80 percent in 2011, followed by Jordan (57 percent), Tunisia (55 percent) and Egypt (30 percent).

Remittances. Migrant remittances held up relatively well in 2011, increasing by some 2.6 percent. While weaker conditions in European labor markets would have been expected to reduce income transfers to home countries, data suggest that the dollar value of these flows increased by \$500 million for each of Egypt and Morocco and \$100 million in Lebanon. Jordan and Tunisia suffered only moderate declines. At the same time oil revenues have powered the GCC economies to robust GDP gains in 2011, helping to underpin activity, employment and remittance outflows.

Policy Recommendations

On balance, risks are to the downside for the region, given the extensive exposures of so many countries to Europe and a dependence on commodity prices. Countries will need to take decisive action to formulate a broad reform agenda—aimed at fostering inclusive growth, while maintaining economic stability, to build confidence, anchor expectations and reap the longer-term benefits of this historical transformation.

Middle East and North Africa forecast summary

(annual percent change unless indicated otherwise)

	98-07 ^a	2008	2009	Est. 2010	Forecast		2013
					2011	2012	
GDP at market prices (2005 US\$)	4.2	4.1	4.0	3.6	1.7	2.3	3.2
Algeria	3.5	2.4	2.4	1.8	3.0	2.7	2.9
Egypt, Arab Rep.	4.3	7.5	4.9	5.1	1.8	3.8	0.7
Iran, Islamic Rep.	4.9	2.3	3.5	3.2	2.5	2.7	3.1
Iraq		9.5	4.2	0.8	9.6	12.6	10.2
Jordan	5.6	7.6	5.5	2.3	2.5	1.7	3.0
Lebanon	2.8	9.3	8.5	7.0	3.0	3.8	4.4
Morocco	3.7	5.6	4.8	3.7	4.3	4.0	4.2
Syrian Arab Republic	3.3	4.5	6.0	3.2	-3.0	-1.5	2.5
Tunisia	4.5	4.6	3.1	3.0	-0.5	2.5	3.2
Yemen, Rep.	3.5	3.6	3.8	8.0	-6.0	-2.6	3.6

Source: World Bank.

World Bank forecasts are frequently updated based on new information.

Djibouti, 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.