



THE MIDDLE EAST AND NORTH AFRICA: A YEAR IN TRANSITION

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Introduction: This Quick Note is based on the longer report entitled “Looking Ahead after a Year in Transition” that was issued by the Chief Economist’s Office of the Middle East and North Africa region of the World Bank.² Egypt, Libya, Tunisia, and Yemen are given special attention because each of them experienced a revolution and a major political change in 2011 and is undergoing a process of political transition toward democracy. Note that other MENA countries are covered as well, though not with the same level of attention.

In each of the four focus countries, the transition authorities have been charged with implementing agreed time-bound actions leading to democratic elections for new constitutions, presidents and/or parliamentary bodies. The process is underway with varying degrees of speed.

In Tunisia, the process of conducting an election for a Constituent Assembly to preside over the transition and draft a new constitution to govern the conduct of presidential and parliamentary elections is underway and Tunisia’s new elections are now expected to be held no later than June 30, 2013.

In Egypt, the transition to elected government (itself transitional) underpinned by a new constitution was

much quicker, with parliamentary and presidential elections concluded within the 18 months following the fall of the Mubarak regime. However, the country lacks a full constitution and parliament, and the transition framework remains uncertain, having been reshaped multiple times by a series of constitutional declarations, laws, decrees, legal challenges and court rulings. More worrisome has been the recent political violence over a controversial decree issued by President Morsi and continuing turmoil over the constitutional referendum set for December 15, 2012.

Libya held elections in July 2012 with the National Assembly assuming power shortly thereafter. Despite sporadic violence, the country and its new Prime Minister Ali Zeidan are working on developing a process for drafting the new Libyan constitution. The country, barring major disruptions, appears to be on track to adopt its new constitution in 2013.

In Yemen the GCC brokered an agreement for an orderly transition and the new government led by President Hadi is overseeing a two year transition period that is to end with elections. Still there is much work to be done, including establishing a National Dialogue Conference, a new constitution, a referendum to ratify it and a decision on a new electoral system. Though the process is delayed it continues apace.

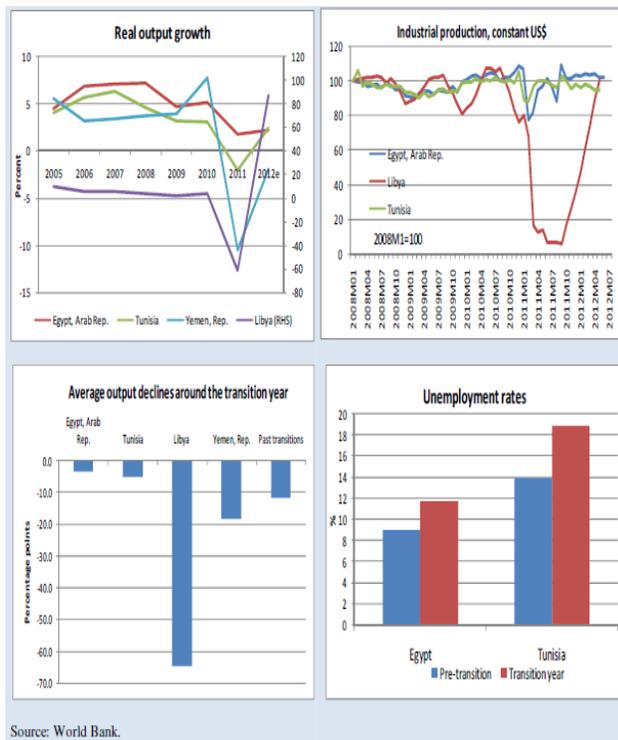
The Economics of the Transition: Egypt, Tunisia, Libya and Yemen are recovering after a period of economic growth decelerations accompanying the Arab Spring uprisings of 2011 (see Figure 1). Economic recovery was relatively quick, with industrial production recovering in a matter of months and, in the cases of Egypt and Tunisia, the

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² World Bank. 2012. *Looking Ahead After a Year in Transition* Middle East and North Africa Region, Economic and Development Prospects, World Bank, Washington D.C.

2011 growth dips were smaller than the average growth declines observed around the year of transition during past transitions to democracy. Importantly, the growth decelerations and recovery have taken place in a weak global environment, with events in the Eurozone posing particular challenges to Tunisia, and to a lesser extent, Egypt.

Figure 1



Source: World Bank.

The transition process in these countries started in late 2010 with the uprising in Tunisia, followed quickly by protests in the other three countries in early 2011. In each of the four economies the uprisings were rooted in dissatisfaction over lack of voice and accountability, lack of jobs and opportunities, especially for young people, and a multitude of governance problems, particularly corruption, hampering opportunities for unconnected businesses. The transition process is now underway with varying degrees of speed and is far from complete. Uncertainty about the reform process and outcomes remains a binding constraint to private investment.

Consequently, in most post-revolutionary economies of the region, growth remains below potential and is lower than growth during the period immediately preceding the Arab Spring

uprising, with negative consequences for unemployment and poverty outcomes.

Macroeconomic Fundamentals and the Transition:

Macroeconomic fundamentals weakened in the four countries as growth declined and governments responded to social demands with expansionary fiscal policies that have driven up fiscal deficits to unsustainable levels, increased the government debt burden and put upward pressure on real interest rates. Official foreign exchange reserves declined, in some cases steeply, in a move by governments to avoid currency depreciations, as exports, especially tourism receipts, contracted and investors remained on the sidelines. High oil prices helped Libya and Yemen, but have exacerbated current account imbalances and fiscal deficits in Egypt and Tunisia.

Other Oil Importers:

Domestic pressures coupled with a challenging global environment and spillovers from regional events weighed heavily on the 2012 economic performance of some oil importers such as Jordan, Lebanon, and Morocco. Sluggish global growth, particularly in the Euro area, adversely affected export receipts, tourism revenue and FDI flows, and coupled with high international oil and food prices, weakened their external balances. Notably, Jordan and Lebanon have been affected by the conflict in Syria, whereas Morocco has been impacted by a weak harvest season. Fiscal deficits are expected to persist as growth decelerates and fiscal commitments inflate government expenditures.

Oil Exporters:

High oil prices have supported economic growth in the GCC countries and Iraq. In 2012 economic growth of the GCC oil exporters will average 5.1 percent and of Iraq it will reach slightly above 11 percent. As a group, developing oil exporters other than those recovering from unrest are expected to grow at a much weaker pace of just half a percent, reflecting the impact of export restrictions on Iran. Rising public spending however has increased considerably the fiscal breakeven price of oil, leaving the GCC economies' fiscal positions vulnerable to varying degrees to a negative oil price shock.

Regional Economic Growth Prospects:

The regional growth prospects for 2013 reflect weaker global economic activity, especially in the EU, and moderating oil prices (see Table 1). Regional

economic activity is expected to grow on average by 5.5 percent in 2012 and 3.5 percent in 2013.¹ The growth deceleration into 2013 largely reflects much weaker activity in oil exporting countries, which will grow at an estimated average of 3.4 percent in 2013 down from 6.5 percent in 2012. Libya is expected to grow faster than the average for the oil exporting group, but its growth will also decelerate in 2013 relative to 2012. By contrast, oil importers' economic growth will accelerate from an estimated 2.6 percent in 2012 to an estimated 3.7 percent in 2013, but Egypt and Tunisia will be growing slower than the average for the group.

Risks to Growth: Prolonged political and policy uncertainty and political and social unrest are serious downside risks to this macroeconomic outlook. Uncertainty is a key obstacle to investment

and trade, particularly trade in services. Services exports have been an area of relative strength for MENA and the sector was booming prior to 2011, but concerns about security have triggered a major contraction in tourist arrivals to the region, leading to a jump in unemployment in countries such as Egypt and Tunisia. Unemployment has also increased in these countries as migrant workers returned home from places in unrest, notably Libya. Strengthening fundamentals to bolster macroeconomic stability will also be crucial to growth throughout developing MENA, while elevated international food commodity prices remain a concern.

Table 1

	Real GDP Growth				Fiscal balance				Current account balance			
	2010	2011	2012e	2013p	2010	2011	2012e	2013p	2010	2011	2012e	2013p
	(Annual percentage change)				(in percentage of GDP)				(in percentage of GDP)			
MENA	5.0	3.5	5.5	3.5	0.1	2.3	2.6	1.4	7.9	10.8	9.9	8.9
Excluding Post-Revolutionary Economies	5.0	5.3	3.7	3.5	0.7	4.7	5.1	3.4	9.0	13.4	11.9	10.8
Developing MENA	4.7	0.1	6.0	2.6	-3.4	-5.3	-6.6	-5.5	1.7	0.3	-1.7	-0.3
Developing Post-Revolutionary Economies	4.8	-4.4	13.2	3.5	-3.1	-10.7	-8.6	-9.1	2.5	-3.5	1.0	-1.1
Other Developing MENA	4.7	2.5	1.4	2.1	-3.5	-3.1	-5.6	-4.0	1.3	1.8	-3.0	0.1
Oil Exporters	5.1	3.9	6.5	3.4	1.8	5.0	5.6	3.8	11.2	15.2	14.4	12.4
Excluding Post-Revolutionary Economies	5.1	5.4	3.7	3.3	1.5	6.0	6.5	4.3	11.0	16.3	14.7	12.9
GCC	5.3	7.2	5.1	4.4	4.2	11.2	13.3	8.7	15.2	23.1	23.3	18.5
Bahrain	4.1	1.8	2.0	2.8	-6.6	-2.3	-4.7	-5.1	3.4	4.2	4.4	7.0
Kuwait	2.3	6.0	5.5	3.0	16.5	30.6	31.0	25.1	19.4	41.4	44.2	39.5
Oman	4.8	3.8	5.0	4.0	6.9	7.6	6.5	5.0	7.9	16.8	14.0	10.0
Qatar	16.6	18.8	6.0	4.6	2.7	7.2	8.6	5.4	26.3	28.1	26.3	25.0
Saudi Arabia	5.1	7.1	6.0	5.0	5.1	13.0	16.5	6.8	14.6	26.5	26.5	16.8
United Arab Emirates	3.2	4.9	3.5	4.0	-2.1	2.9	5.0	7.0	7.7	9.2	10.3	10.4
Developing Oil Exporters	4.8	-2.1	9.3	1.6	-1.5	-3.5	-5.1	-3.3	6.0	4.5	2.1	3.4
Post-Revolutionary Economies	4.7	-36.7	57.9	5.0	5.6	-17.1	-5.1	-3.2	14.4	-7.8	10.9	4.6
Libya	3.5	-61.1	87.0	6.0	10.3	-26.9	-2.0	-1.4	22.6	-11.8	16.9	8.5
Yemen, Rep	7.7	-10.5	-1.9	2.9	-5.2	-5.6	-12.7	-7.9	-4.4	-3.0	-3.3	-5.9
Rest of Developing Oil Exporters	4.8	1.8	0.5	0.9	-2.7	-1.9	-5.1	-3.3	4.6	5.9	0.2	3.2
Algeria	3.3	2.5	3.1	3.0	-1.9	-4.0	-6.0	2.0	7.5	9.5	5.4	11.4
Iran, Islamic Rep	5.9	1.7	-1.4	-1.1	-1.8	-2.6	-5.1	-5.9	5.9	5.2	-1.7	-0.5
Iraq	0.8	9.9	11.1	13.5	-9.1	7.4	-3.1	-1.2	-1.8	7.9	0.1	5.8
Syrian Arab Republic	3.2	-3.0	...	...	-1.3	-3.5	...	...	-5.1	-2.2	...	...
Oil Importers	4.7	2.4	2.6	3.7	-6.7	-8.5	-9.1	-9.8	-5.8	-7.0	-7.9	-7.3
Post-Revolutionary Economies	4.8	1.2	2.2	3.2	-6.8	-8.7	-10.3	-11.8	-2.5	-2.2	-3.9	-3.7
Egypt, Arab Rep	5.1	1.8	2.2	3.1	-8.1	-9.8	-11.0	-13.0	-2.0	-1.2	-3.1	-2.9
Tunisia	3.0	-2.0	2.4	3.6	-1.1	-3.5	-6.6	-5.9	-4.8	-7.3	-7.8	-7.5
Rest of Oil Importers	4.6	4.4	3.3	4.6	-6.5	-8.1	-7.4	-6.6	-10.7	-14.2	-14.2	-12.8
Djibouti	3.5	4.5	4.8	5.0	-0.5	-0.7	0.5	0.9	-5.8	-12.6	-12.1	-11.9
Jordan	2.3	2.6	3.0	3.5	-7.7	-12.7	-10.7	-9.3	-11.3	-19.0	-18.9	-14.2
Lebanon	7.0	3.0	3.5	4.2	-8.2	-6.5	-6.9	-6.9	-22.8	-21.9	-20.1	-19.2
Morocco	3.6	5.0	3.0	4.9	-4.7	-6.9	-6.1	-5.1	-4.5	-4.9	-9.0	-8.4
West Bank & Gaza	9.8	9.9	6.2	5.6	-17.6	-16.5	-14.5	-13.3	-25.9	-36.7	-30.7	-26.8

Source: World Bank. Fiscal year data are reported for Egypt and 2011 data for Lebanon are estimates.

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