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2009 Economic Developments and Prospects

Navigating through the Global Recession

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Middle East and North Africa Region

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Abbreviations and Acronyms

bbl	Barrels
BOP	Balance of Payments
CAB	Current Account Balance
CPI	Consumer Price Index
DECPG	Development Economics Prospects Group (World Bank)
EAP	East Asia and Pacific
ECA	Europe and Central Asia
EIU	Economist Intelligence Unit
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreements
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
ILO	International Labor Organization
IEA	International Energy Agency
IMF	International Monetary Fund
ITC	International Trade Centre
LAC	Latin America and the Caribbean
LF	Labor Force
LNG	Liquified Natural Gas
MENA	Middle East and North Africa
MFN	Most Favored Nation
MSCI	Stock market index of 500 world stocks maintained by MSCI Inc
NGL	Natural Gas Liquids
ODA	Official Development Assistance Agency
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries

SA	South Asia
SAAR	Seasonally Adjusted Annual Rate
SSA	Sub-Saharan Africa
TOPIX	Tokyo Stock Price Index
UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNWTO	United Nations World Tourism Organization
VAT	Valued Added Tax
WBG	West Bank and Gaza
WDI	World Development Indicators
WTO	World Trade Organization

Overview

Introduction

The global financial and economic crisis that began in mid-2007 in the US and has now led to the first global recession since World War II is impacting MENA countries and compounding the impact of the generalized rise in commodity prices that peaked in mid-2008. There is no consensus on the causes of this "once in a lifetime" crisis. However, it is generally accepted that a combination of low interest rates in the US, strong global demand especially in emerging market economies, and large current account surpluses in some countries, provided impetus for the buoyancy and bubble in housing, commodities, and stock markets. Just as they were synchronized on the upside, these markets all experienced sharp declines in prices during 2007–08. This series of events are of direct consequence for MENA's economic developments in 2008 and prospects for 2009 and 2010.

The objective of this 2009 MENA Economic Developments and Prospects is to review the implication of the triple food-fuel-financial crisis for MENA economies. Chapter 1 reviews the year 2008 and the first few months of 2009. It discusses the impact of the global economic environment and MENA countries' responses to the initial impact of the food-fuel-financial crises. Chapter 2 reviews MENA countries' prospects for 2009 and 2010 and discusses policies that can be envisaged to mitigate the impact of the global financial crisis on the region. Chapter 3 goes beyond the short-term concerns about the current crisis and discusses structural factors that affect MENA countries' vulnerability to shocks and their flexibility and ability to respond to future crises.

The main conclusions of the report are: (1) the effect of the crisis depends on countries' exposure to affected markets and commodities as well as on their initial macroeconomic conditions and policies; (2) the impact of the global crisis on financial sectors in MENA has been limited so far to GCC countries whose financial sectors were more open to global financial centers but also happened to be in a good position to respond thanks to the financial cushion provided by past oil surpluses; (3) in terms of impact on the real economy, the MENA region held up well in 2008, with average GDP growth remaining steady while other regions experienced declining growth; (4) going forward, virtually all MENA countries face a serious risk of impact on the real economy, and countries' ability to 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 programs; (5) The recent crisis, as well as previous ones, have brought to the fore the need to implement structural reforms—many of which have been discussed in previous reports—to reduce MENA countries' vulnerability and improve their flexibility to respond to future shocks.

Impact of the Crisis on MENA's Financial Sector Was Limited

When the financial crisis hit the region in mid-2008, many countries in MENA were still grappling with the impact of the food and fuel crisis. High fuel prices benefited oil exporters, allowing

them to accumulate unprecedented surpluses in 2008 and strengthening Gulf oil exporters' position as global investors. The subsequent decline of oil prices in the second half of 2008 and apparent stabilization at around 50% of its mid-2008 peak, do not yet represent a serious threat to oil exporters although some of the region's non-GCC oil exporters will need a higher oil price to reach breakeven price level due to their high production costs. For non-oil exporters in the region, sky-rocketing fuel prices weighed heavily on their import bills as well as on fiscal outlays as most countries have maintained high levels of fuel subsidies. The impact of high food prices was also being felt across the region. Unlike earlier commodity price booms, the recent episode (2003 to 2008) involved all commodity groups. Commodity prices increased in a synchronized fashion starting in 2003 and continued to climb for some five years. In fact, the timing of the rise in agricultural prices points strongly to the impact of energy markets. Because MENA is a large importer of food, the inflationary impact of high international food prices was higher in MENA than any other region of the world—with 25% of inflation in MENA between December 2005 and December 2007 being caused by international food prices, more than twice the level for the next affected region. High food and fuel prices did not just strain households and governments' finances; they created social tensions in some countries as consumers were reacting to high inflation.

The early impacts of the global financial crisis on MENA's financial system were visible mostly in the high income oil-exporting countries of the GCC due to their strong links to global financial markets. In most other MENA countries, the banking sector has not been much affected to date, mainly because of its limited integration into global financial markets. Stock markets in GCC countries saw sharp decline in the last two quarters of 2008, mimicking trends in mature markets. Stock declines in other MENA countries were less severe. MENA sovereign funds, mostly in GCC countries, have also taken some losses on their investments in global financial institutions. Some early estimates by the Council on Foreign Relations suggest that GCC sovereign funds have, on average, lost 27% in portfolio value between December 2007 and December 2008, with losses reaching as high as 40% among funds that heavily invested in global equities. Borrowing spreads increased for MENA countries as much as for other emerging markets. However MENA countries were able to avoid going to the international bond market in the latter part of 2008 thanks to generally good balance of payments positions coming into the crisis, or thanks to relatively resilient tourism receipts, remittances and FDI.

The MENA region held up well in 2008 in terms of impact of the crisis on the real economy. The region as a whole saw a slight increase in GDP growth to 6.1% in 2008 compared to 5.6% the previous year. MENA's resilience to the crisis in 2008 is in stark contrast with other developing regions where growth fell from 2007 levels. The region's growth in 2008 was helped by high oil price for the year on average despite the sharp decline observed in second half of the year, and by strong growth in the construction sector. But signs of increasing weakness were apparent moving through the final quarter of the year and into the first months of 2009.

MENA's Short-Term Prospects Are Clouded by an Uncertain Global Environment

With the persistence of the crisis and the lackluster global economic environment going into 2009 and 2010, MENA faces prospects of a high impact of the global crisis on its real economy due to adverse developments or uncertainty in international trade, oil prices, tourism, remittances and international financing conditions. First, global trade volume is projected to decline sharply by 9.7% in 2009, the first decline since 1982 and the biggest drop in 80 years. The trade decline affects directly oil exports and oil revenues as well as exports of manufactured and other products from MENA; and MENA's trade related services such as the Suez Canal passage in Egypt and the use of the Dubai-operated port in Djibouti will be affected.

Second, oil prices are projected at $55.5 bbp in 2009 and $63 bbp in 2010, sufficient to avoid a

major crisis in oil producing countries, but much lower than the boom of 2008. Oil prices in 2009 are unlikely to be much affected on the upside by factors that contributed to high prices before mid-2008. Global demand is likely to remain low. With recent OPEC production cuts and with Saudi Arabia having increased its production capacity to 12.5 million barrel per day (thanks to recent investments), there is sufficient slack to absorb any decline in supply that might be caused by unanticipated supply disruptions in other markets. Similarly, speculation is unlikely to create pressure on the upside given the lack of appetite on stock markets. As a leading indicator of oil prices, global industrial production is projected to decline by 12% in 2009 following a sharp fall in the fourth quarter of 2008.

Third, even though tourism has been somewhat resilient, it has not been immune and a decline is expected in 2009. Apart from GCC countries which are expected to show positive albeit slower growth in tourism receipts in 2009 and 2010, other countries are likely to move to negative territories in 2009 but are expected to see some improvements in 2010.

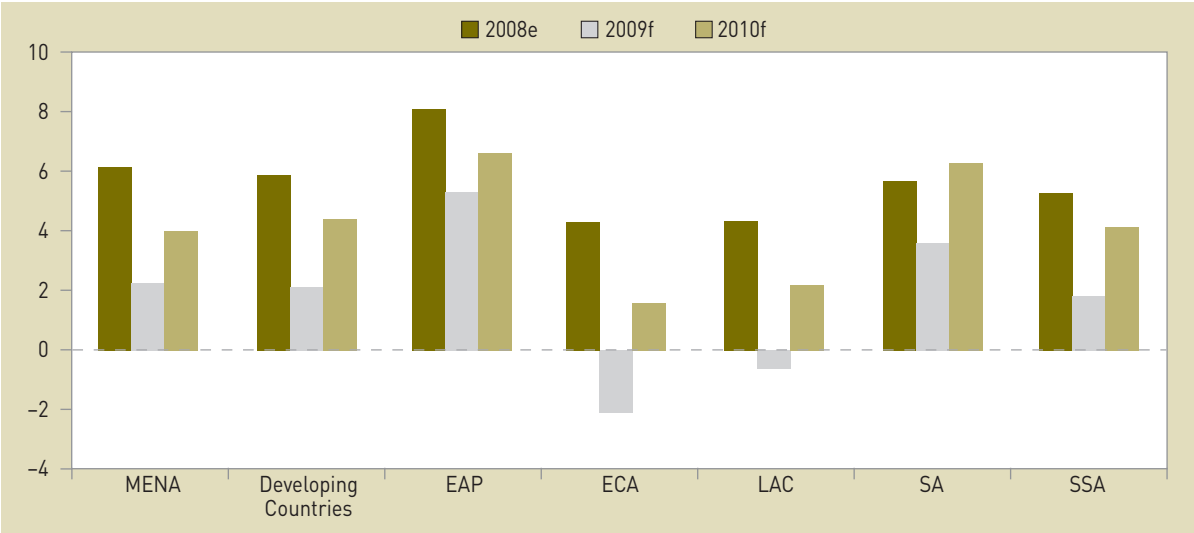
Fourth, although remittances proved resilient in 2008, they are projected to fall by 6.2% in MENA in 2009. Although this decline is consistent with global trends, it is likely to have a particularly large impact in MENA given the region's high dependence on remittances.

Fifth, like for most emerging markets and developing countries, external financing conditions will remain tight for MENA in 2009 and possibly 2010. Global FDI flows are projected to fall sharply in 2009, and MENA will be directly affected. FDI flows are low in MENA, and while they avoided a decrease in 2008, they are expected to decline markedly in 2009 as investors complete large projects that started before the global financial crisis and could not be easily interrupted without incurring large financial losses, and as new projects get postponed, cancelled or scaled back. As in many developing regions, short-term capital flew out of MENA quite suddenly in 2008. The phenomenon was more apparent in GCC countries that had both attracted short-term flows and had open capital accounts. With large stimulus packages in developed countries needing to be financed, there are fears that emerging market sovereign bonds will be crowded out by bonds issued by developed countries. Official development assistance (ODA) is expected to decline somewhat in 2009, with the risks that this will impose pro-cyclical forces in ODA dependent countries—such as Yemen, Djibouti, and West Bank & Gaza; with the synchronized global crisis, source countries, affected by the crisis, are likely to reduce ODA at a time when recipient countries need ODA increases to implement counter-cyclical fiscal policies.

With this backdrop, the MENA region is projected to see deterioration in its economic conditions in 2009 compared with 2008—a deterioration exemplified by a sharp decline in overall growth from 6.1% in 2008 to about 2.2% in 2009. This sharp decline contrasts with the situation in 2008 when the region was able to maintain a growth rate comparable to the previous year (2007) while all other regions saw a decline in their GDP growth rates in 2008. Moreover, despite the projected sharp decline in its GDP growth in 2009, MENA's growth rate is expected to be close to the developing country average of 2.1% in 2009 and is expected to rebound mildly to 4% in 2010 (figure 1). MENA's GDP growth in 2009 and 2010 is expected to be supported mostly by public consumption (helped by fiscal stimulus spending) in the face of sharp falls in private investment and exports. Current account balances and fiscal balances will deteriorate sharply in most countries largely due to a 50% decline in oil prices from the previous year's level. Some countries will nevertheless see an improvement in current account balances as sluggish domestic demand drives down imports more sharply than exports. Fiscal space will shrink significantly, as MENA governments continue to pay for subsidies and wage increases committed in 2008 in response to the food and fuel price increases or strive to pay for additional fiscal stimuli in response to the financial crisis.

For many MENA countries, inflation is likely to be the silver lining of the global financial crisis

Figure i: Regional Growth Rates, % 2008–2010



Source: World Bank data.

in 2009 and possibly in 2010 but this will not be sufficient to prevent the crisis from having serious social impacts. The decline in prices of global commodities, including food, and the strengthening of the dollar vis-à-vis major international currencies, have contributed to lowering consumer price indices across MENA. However, despite easing inflation, the human impacts of the crisis are likely to be significant in 2009–10. For one thing, economic slowdown has caused a weakening of the region's already lackluster ability to create jobs in the private sector; and the International Labor Organization (ILO) projects an increase in unemployment rate of about 25% in the Middle East and 13% in North Africa in 2009 compared to 2007.

At the country level, the economic impact of global slowdown will vary depending on the degree of economic integration with highly impacted regions or dependence on impacted commodities. Additionally countries' ability to respond will depend upon their fiscal space as well as their institutional capacity to implement sound macroeconomic and structural policies. With these characteristics in mind, the report organizes the countries in four groups for the purpose of analyzing the impact of the crisis.

- The GCC countries, or oil exporters with high hydrocarbon revenue per capita are highly exposed to oil and hydrocarbon price fluctuations, somewhat exposed to events in mature economies (through private flows), but do have fiscal space and some institutional capacity to implement macroeconomic and structural policies.
- Other oil exporters with relatively less hydrocarbon revenue per capita and relatively large populations are highly exposed to oil, face pressing social demands, have limited fiscal space, and limited institutional capacity to implement macroeconomic and structural policies.
- Non-oil exporters with significant financial flows with the GCC economic area or dependent on foreign development assistance are highly exposed to financial developments in the GCC and OECD countries (through public flows), have virtually no fiscal space and limited institutional capacity to implement macroeconomic and structural policies.
- Non-oil exporters with diversified economies and strong trade ties with the Euro area, are highly exposed to European and OECD countries (through trade), have limited fiscal space, but have good institutional capacity to implement macroeconomic and structural policies.

In virtually all *GCC oil exporters with large financial capacity relative to populations (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates)*, the sharp decline in oil prices since mid-2008 and depressed demand for oil on global markets will usher in significantly lower economic growth in 2009. For the GCC as a whole, growth is projected to decline sharply from an average of 5.7% during 2004–08 to 1.1% and 4.2% respectively in 2009 and 2010 (table i). The two MENA countries projected to enter recession zone, Saudi Arabia and Kuwait, are among the GCC. The UAE's growth prospects are lumbered by Dubai where the financial crisis has coincided with the bursting of the real estate bubble and sharp contractions in the construction sector and financial services. Qatar will stand out with a breathtakingly strong GDP growth projected to increase from 16.4% in 2008 to 18.2% in real terms in 2009, propelled by the coming on stream of major LNG plants. However, with their significant financial reserves, GCC countries are likely to be able to maintain countercyclical fiscal stances in 2009 and possibly in 2010 and ride the storm comfortably if oil prices stay above US$50 bbl throughout 2009 and 2010. While their fiscal revenues are projected to decline by 40% of GDP in 2009, expenditure is projected to remain at its 2008 level, leading to a sharp decline in fiscal balances, financed mostly with drawdown of past

Table i: Real GDP Growth, %, 2008–2010

Country	Estimate 2008	Forecast 2009	Forecast 2010
MENA Region	**6.1**	**2.2**	**4.0**
GCC countries	**6.3**	**1.1**	**4.2**
Bahrain	6.1	2.6	4.0
Kuwait	5.2	–1.2	2.4
Oman	6.2	3.0	3.8
Qatar	16.4	18.2	16.2
Saudi Arabia	4.6	–0.9	3.0
United Arab Emirates	7.4	0.3	3.3
Oil exporters with large populations	**5.6**	**2.7**	**3.5**
Algeria	3.0	2.2	3.5
Iran, Islamic Republic of	6.9	2.5	3.0
Iraq	9.8	6.9	6.7
Libya	6.3	2.9	4.8
Syrian Arab Republic	5.2	3.0	3.5
Yemen	4.0	7.7	5.0
Diversified exporters with strong GCC links	**6.1**	**2.5**	**4.2**
Djibouti	5.8	5.0	5.5
Jordan	5.5	2.5	3.5
Lebanon	6.5	2.5	4.5
Diversified exporters integrated with Europe	**6.5**	**4.0**	**3.9**
Egypt	7.2	3.8	4.2
Morocco	5.6	5.0	3.0
Tunisia	4.5	3.0	4.0

Source: National agencies and World Bank staff estimates and projections.

reserves. Capital expenditures in particular are expected to be sustained at high levels. Inflation is expected to ease to 7.6% and 4.7% on average in 2009 and 2010 respectively, down from 11.4% in 2008, partly because of a drop in world commodity prices in 2009 and the stabilization of the US dollar—to which most GCC currencies are pegged—against the euro and other world currencies. The external current account balance is expected to decline sharply to 13.2% and 16.7% of GDP on average respectively in 2009 and 2010 from its peak level of 33.6% in 2008 while fiscal balances will deteriorate sharply from an average of 26.6% of GDP in 2008 to 5.3% and 7.2% of GDP in 2009 and 2010 respectively.

As for o*il exporters with larger population relative to their oil wealth than GCC (Algeria, Iraq, Iran, Libya, Syria and Yemen)*, they will see sharp deteriorations in fiscal and external balances but will avoid recessionary growth in 2009–10. Oil GDP will decline sharply but non-oil GDP will help keep economic growth in positive territories. Real growth is projected to decline from an average of 5.6% in 2008 to 2.7% and 3.5% respectively in 2009 and 2010. Oil production provides them with significantly less wealth per capita than GCC countries. Moreover, these oil exporters entered the global financial crisis with weaker fiscal and external positions, and even those with large initial fiscal or current account surpluses are expected to see a sharp decline in 2009 as trade surpluses contract with lower oil prices and fiscal expenditures rise with costly policy responses to high food and fuel prices in 2008. Although public finances will benefit somewhat from declining outlays for fuel subsidies on account of lower oil prices, countries in this group will see large swings in fiscal balances from a group average of 5.5% of GDP in 2008 to a projected negative 6.6% and negative 1.8% of GDP in 2009 and 2010. Large swings will also be observed in current account balances from an average of 22.7% of GDP in 2008 to 2.2% and 3% of GDP respectively in 2009 and 2010. Due to a shrinking fiscal space, the government response in those countries appears thus far to be generally pro-cyclical, with a reduction of fiscal spending, as governments struggle to meet long-term social commitments (such as subsidies and income transfer programs) in the face of limited or lack of reserves in oil surplus funds (with the exception of Algeria and Libya). In addition to expensive social commitments, the policy response in this group of countries is likely to be constrained by long-delayed or hesitant structural reforms.

Non-oil exporting countries with strong economic linkages with GCC and/or aid dependent (Jordan, Lebanon, Djibouti, and West Bank & Gaza) are seeing a stagnation of financial flows from the GCC and face the challenge of mobilizing aid at a time when source countries are affected by the crisis. For countries in this group, growth is projected to slow on average to 2.5% and 4.2% in 2009 and 2010 compared with 6.1% in 2008. Inflation will ease to 5–6% from its high level of 12.5% in 2008. Countries in this group entered the crisis with generally weak macroeconomic frameworks characterized by high fiscal deficits, high debt levels, and tight external positions. The group's average fiscal balance will remain negative in 2009 and 2010 (around negative 4% and 2.6% respectively, compared to negative 8.4% in 2008). The average current account balance will remain in negative territories but will improve over 2008 and reach negative 9.9% and 6.9% of GDP respectively in 2009 and 2010. The improvements in fiscal and external balances will be driven by contractionary policies in the absence of space for large fiscal stimuli. The ability of countries in this group to fight the contractionary forces of the crisis will be dependent on fresh external flows or rollover of existing debt, combined with a rationalization of public expenditure patterns. With stock market contractions and lower oil prices ushering in reduced personal wealth in the GCC as well as reduced employment opportunities for migrant workers, remittances and FDI from GCC countries are reported to be declining in some countries of this group. Moreover, return of migrant workers from GCC countries could represent a challenge from the employment and social policy point of view.

Diversified economies with strong trade and tourism linkages with Europe and OECD (Morocco, Tunisia and Egypt) entered the

crisis in relatively good macroeconomic positions, initially saw limited impact of the crisis on their financial systems but are now seeing a significant impact on their real economy as recession deepens in their major export markets in Europe. Growth is expected to decline to about 4.0% in 2009 and 3.9% in 2010. Inflation should be contained at about 5.2% in 2009 and 4.3% in 2010. Recession in the EU, reduced tourism arrivals and weaker remittance flows are likely to cause sharp contraction in manufacturing SMEs in export-oriented sectors in 2009 and 2010. The average fiscal deficit in 2009 and 2010 is projected to remain at the 2008 level of about 4.5% of GDP. However, if the crisis persists, fiscal positions could turn out to be worse because weak export demand is affecting jobs in export-oriented SMEs, and unemployment is likely to increase and put further pressure on public finances as governments try to provide financial incentives to firms to maintain or to provide income transfers to affected households. The current account deficit is expected to average about 5% of GDP in 2009 and 2010. Countries in this group can build on their good track record of sound macroeconomic policies and structural reforms to mobilize financing needed to implement countercyclical policies. However, financing is likely to be constrained by market conditions. Public finances are being impacted, and it is not clear whether governments will be in a position to issue sovereign bonds given that spreads remain high (although they have declined markedly from their peaks in late 2008). It is expected that governments will increase their reliance on domestic borrowing and external financing from public sources.

MENA's prospects for 2009–10 remain subject to significant downside risks, and the endurance of MENA countries will be tested by the depth of the global crisis and the timing of global recovery. Three risks are worth highlighting. First, a deeper and more protracted global recession than currently envisaged or a delayed global recovery could continue to depress demand for MENA's exports of hydrocarbon and manufactures. Even if global growth turns positive again in 2010, the level of GDP will remain well below potential due to large spare capacity and necessary corrections in global consumption patterns. Second, unchecked protectionist tendencies from MENA's trading partners or among MENA countries could jeopardize MENA's contribution to global recovery through trade and affect MENA's growth and employment prospects in the short term. Third, there are risks that a sharp or persistent deterioration in MENA's real economy could affect the financial sector through feedback loop effects. If the crisis persists and affects the financial position of export-oriented SMEs and eventually other domestic firms, there is a risk that the balance sheets of domestic banks could deteriorate due to emergence or growth of non-performing loans.

In the second half of 2009 and in 2010, MENA countries' endurance in facing the impact of the crisis will very much depend on the depth and length of the global economic recession. The projections in this report assume that global recovery will occur in 2010. However, this cannot be taken for granted. In the scenario where the crisis lingers on in 2010 but does not deepen, oil prices could stay above levels that would help GCC countries avoid any hardship even if economic growth remains anemic. Apart from GCC countries, all other country groupings are likely to see serious hardship emerge, if the crisis lingers on in 2010. Not only economic growth would remain low, but government's ability to cushion the impact of the crisis on households and workers would be eroded by the long crisis. In the scenario where the crisis not only lingers on in 2010 but deepens, all MENA countries, including GCC countries could see their endurance seriously shaken by a combination of depressed commodity prices, exports, tourism, FDI and remittances.

Policy Options to Mitigate Impact of the Ongoing Global Recession

Dealing with Shrinking Fiscal Space

MENA countries face diverse situations in terms of remaining fiscal space and therefore ability to mitigate the impact of the financial crisis in the months ahead. The report uses the levels of fiscal deficit and public debt to assess fiscal

space. This suggests that half of GCC countries (Qatar, Oman and the UAE) have comfortable fiscal space, while the other half (Bahrain, Saudi Arabia and Kuwait) have some fiscal space but might be constrained by a moderate fiscal deficit (Kuwait) and/or a limited fiscal surplus (Saudi Arabia and Bahrain). Going forward, they will need to use their remaining fiscal surplus moderately. All other oil exporters (except Iraq) have some fiscal space that needs to be managed carefully going forward. Thanks to high oil revenues in the recent past, they have been able to maintain a low level of debt. Although they are all expected to run a fiscal deficit in 2009, they have some space to increase the level of public debt in hopes that oil prices will not fall below levels that jeopardize their governments' ability to accumulate surpluses and repay debt. However, in countries where debt issuance may be constrained by other factors than debt level, it may not be advisable to increase public debt. Countries with declining oil production (Yemen, Syria) should refrain from increasing their debt-to-GDP ratio as their repayment capacity may be constrained going forward.

Due to high fiscal deficits, most non-oil exporters have limited or no fiscal space. Some non-oil exporters (Lebanon, Jordan and Djibouti) have no fiscal space left. Lebanon in particular suffers from a high fiscal deficit combined with a high debt-to-GDP ratio. Among non-oil exporters integrated with European and OECD markets, Morocco and Tunisia have some fiscal space thanks to moderate levels of public debt, whereas Egypt has no fiscal space and will find it difficult to finance additional stimulus spending in 2009–10 over and above the package already announced by the authorities, unless it can secure low interest financing for the fiscal deficit. With falling fiscal revenues in almost all the countries in the region and with tightening external financing conditions, domestic public debt can be an appealing alternative for financing fiscal stimulus packages. However, MENA governments will need to carefully manage the risks of crowding-out the private sector. Moreover, in countries where the cost of servicing domestic debt is already high (Lebanon), the government may want to avoid adding to that cost.

Rationalizing Subsidies to Create Fiscal Space

One way of dealing with shrinking fiscal space is to rationalize existing subsidy programs. In fact, now may be a propitious time to rationalize MENA countries' high levels of subsidies and social spending that tie up a significant share of public resources that rarely benefit the social groups or sectors for which they are intended. In the majority of countries, all fuels and electricity are subsidized. While removing entrenched subsidies is not an easy task, and while there is no ideal time to do so, the time may be ripe for governments in MENA to rationalize their expensive subsidy programs. First, the argument can be made that the global financial crisis strengthens the case for restructuring poorly targeted safety net programs and other social programs in order to free up resources to finance critical social programs and job creation that would benefit the poor and those who are deeply or directly affected by the crisis. Second, as fuel and food prices have come down somewhat, the restructuring of subsidy program will not represent an inordinate increase in household expenditure for wealthy households who may have to forgo subsidies they formerly received. Finally, in some countries, subsidies have created heavy reliance on imports, public companies, rent-seeking situations, corruption and smuggling, which in turn have stifled competition and private sector development. The need to spur private sector activity and growth should be an important component of any stimulus package for economic recovery. So removing the "institutional bottlenecks" created by subsidy programs is yet another reason for using the opportunity of the crisis to rationalize subsidies in MENA.

However, subsidies should be rationalized with care so as to maintain—and perhaps increase—benefits to the poor. In some cases, price subsidies, especially food subsidies, do reach the poor and play an important role in their livelihood. Beyond subsidies, countries are considering other social spending for rationalization. Although not all the efforts are directly related to the global financial crisis, lessons from previous crises suggest that in restructuring social

spending, countries should favor projects that can act as automatic stabilizers such as means-tested social benefit programs whose extension will occur naturally and should be financed during downturns as more people fall below the eligibility threshold, and this will reverse as the economy recovers.

Removing Bottlenecks to Growth

To benefit from global recovery once the crisis is over, MENA countries will need to use the crisis as an opportunity to remove infrastructure bottlenecks and institutional constraints that have suppressed regional growth for decades. MENA's pre-crisis growth rate was higher than historical levels but compared poorly with other regions' growth rates. Given the large needs and low level of investment to date, care should be taken not to cut too sharply MENA's investment rates as a result of the crisis as seen in Argentina in the late 1980s and in 2001–02, or in Thailand in the late 1990s. Growth resumption in the MENA region is likely to be driven by an expansion of investments at home as well as foreign direct investment in, and export to, emerging and developing economies where the potential for incremental growth is largest. Recognizing the infrastructure challenge, some GCC countries (Saudi Arabia, Qatar and Bahrain) have committed to maintaining high levels of infrastructure spending to stimulate their economy.

The role of the private sector in infrastructure should be actively encouraged as part of MENA's crisis response framework. This is particularly important given the limited or shrinking fiscal space faced by many MENA governments. In the past fifteen years, a country like Egypt has taken slow but steady steps towards strengthening the role of markets in the allocation of resources. These policy changes have yielded a high return in terms of growth and employment, which shows that changes are possible. Tunisia has also had some success in private sector-led growth. But even in Egypt and Tunisia, and more so in most other MENA countries, much remains to be done to create a leveled playing field for all investors, domestic and foreign, public and private. In the post crisis era, countries with adequate infrastructure and a conducive business environment will have a particular edge over other countries as investors are likely to look for profit opportunities while taking minimal risks in order to make up for the losses of the crisis period. Despite the heavy impact of the crisis, Dubai appears to be well positioned to take advantage of a global rebound—although it is unlikely to regain the pre-crisis level of enthusiasm—helped by a high level of investment and a conducive business environment.

Policies to Reduce Vulnerability and Increase Flexibility to Respond to Shocks over the Long Term

The current global financial crisis and economic downturn is only the most recent shock to hit MENA economies, a region confronted with large terms of trade shocks, geopolitical shocks, frequent droughts, climate change and unstable security situations.

The region's exposure to and ability to rebound from economic shocks is a factor of underlying economic structures, the channels of integration into the global economy, and the policies that influence them. Over the long term, reducing vulnerability to economic shocks depends on a structural policy framework which can both lower exposure to systemic risk as well as increase the resilience of economies to cope with shocks when they occur.

Limited development of financial sectors

MENA's weak integration with global financial markets partially insulated the region from the first-round effects of the current economic downturn. But over the longer term, the region's ability to cope with shocks is hampered by the limited development of the financial sector, limited access to financial services by households and firms, and limited exposure to global financial markets.

Banks dominate the financial sectors of non-GCC countries, with non-bank financial

institutions significantly underdeveloped. As a result, a host of financial instruments for managing risk—from insurance products to financial derivatives—are not available to households and firms. Few private sector firms even utilize bank credit to finance investment, relying instead primarily on retained earnings. This disconnect of the financial sector from the real economy has meant the loss of one of the most effective tools an economy has for risk mitigation, through monetary policy. More generally, a well developed financial sector, which provides diversified funding sources for both individuals and enterprises for mitigating risks and insuring vulnerability, and in which households and firms can borrow to smooth the consequences of an economic downturn is critical to the broader economy's resilience—its ability to mitigate and manage the impacts from shock and adjust to the changing conditions present in a dynamic economy.

While global financial integration—limited outside the GCC—has implied relatively limited financial impacts from the current crisis, over the longer term, financial asset diversification in MENA countries will benefit from financial sector liberalization. International diversification allowed many of GCC countries to invest their oil surplus into foreign assets, thus avoiding flooding small domestic markets and avoiding overheating and asset bubbles. In addition, it allowed them to attract foreign investments into their hydrocarbon sectors and create international hubs for finance, trade logistics and business.

High exposure to terms-of-trade shocks

MENA also faces long-term vulnerabilities to shock on the trade side. Exports are highly concentrated around a few products. Among oil exporting countries, more than 85% of merchandise exports come from fuel. Among the region's non-oil exporters, the degree of export concentration is high, with the bulk of exports in either primary products or products of low technological structure, such as clothing, footwear, and textiles. Nor has export concentration fallen significantly over the past fifteen years. As a result, the MENA region leads the world in exposure to commodity price shocks. MENA also faces terms of trade exposure on the import side, primarily through the region's heavy dependence on food imports.

To deal with this food import dependency, likely a permanent source of external shock, MENA countries can better manage the exposure to food price fluctuations by increasing their use of future markets, future contracts and other modern instruments to hedge against supply risks, while ensuring that the impact of food price shocks is cushioned for those chronically food insecure households through well-developed and targeted safety nets. Universal food subsidies, prevalent throughout the region, are not well targeted to those in need. But they represent a serious fiscal burden, limiting the fiscal scope for other better-targeted programs.

On the export side, MENA countries can best manage their vulnerability by creating a trading environment which both develops competitiveness (allowing existing firms to better withstand global demand shifts), as well as advances export diversification in terms of product quality, geography, and diversification into service exports (as the GCC has undertaken). Achieving this broad level of diversification requires an equally broad portfolio of policies, including improving the incentives for goods and services trade, lowering the cost of critical backbone services to trade, and proactive policies to support trade.[1] MENA countries are poorly integrated into cross-border production networks, reducing the potential for higher FDI, the collateral knowledge spillovers that usually occur within production networks, and opportunities for expanding vertical integration. The reasons for this poor integration vary, but include low levels of FDI in manufacturing, poor regional integration (which might allow for important economies of scale), high logistics and transport costs, and for countries outside the GCC, Lebanon, Jordan and Yemen, still high trade barriers.

[1] Newfarmer, et al. 2009.

Lack of business flexibility limiting shock rebound

One of the greatest weapons against external shock is entrepreneurship. An economy in which the private sector is able to respond to market changes by innovating, diversifying production, and adopting new technologies when circumstances change is able to rebound more quickly after negative shocks. Several indicators suggest that the private sector in MENA is considerably less dynamic than in other regions, in ways that are important from an economic resilience perspective. At 19 years, the median local manufacturing firm's age is higher than any other developing region in the world, suggesting significantly weaker firm creative destruction in MENA. Furthermore, private sector resilience at the firm level depends on the ability to adjust activities to accommodate shock, and especially on the labor margin. Outside the GCC, however, the degree of labor flexibility in MENA is strikingly low, particularly from the standpoint of the difficulties with worker dismissal. Both features point to a more limited ability in MENA to self-restructure.

While the region as a whole has made progress in lowering some of the constraints to business activity, several areas of reform remain very low by international standards and have not been tackled by the region. Moreover, aside from specific rules and regulations, the lack of policy certainty and discretion in implementing the rules constrains investment in the region. Investors in MENA—especially managers of small and medium-sized firms— consistently point to policy uncertainty and an uneven playing field that favors some incumbent firms at the expense of new entrants and competitors. Corruption, anticompetitive practices, and regulatory policy uncertainty all rank high in the minds of business managers. In many countries, businesses also point to reform gaps in the regulatory environment, in access to finance, and in access to land. Rather than policies as they are appear on paper, a large part of the problem seems to lie with the unequal, discretionary, and preferential implementation of policies.

Governance and the ability to manage shock

This problem points to an overarching need for governance reform, not only for improving the business environment, but also for reducing vulnerability to shocks in general. Poor governance, in particular through domestic policy mismanagement, can directly and significantly contribute to volatility and the exposure to shocks (through high inflation, overvalued exchange rates, or sustained budget deficits, etc). Additionally, and related, governance sends key signals about credibility of policy and the ability for the economy to emerge from crisis, affecting both household and private sector responses. While good governance cannot ensure shocks will not hit, bad governance can arguably ensure that the impacts of shocks will persist.

Protecting the poor from shock

Finally, MENA countries are distinctly vulnerable to economic shocks from a poverty perspective. Although poverty in MENA is low relative to other regions, it is characterized by a significant number of people living above but close to the poverty line. As a result, the sensitivity of poverty to external shocks is high. Additionally, few countries in the region have well-developed, well-targeted safety nets. Nor does the region have well-developed mechanisms of social insurance.

The importance of access to data to predict and respond to shocks

Perhaps most fundamental, MENA's ability to respond effectively to the social impacts of economic shock is hindered by a general disinterest in systemic gathering and transparent dissemination of data. The ability to design safety nets and social insurance programs equipped to deal with a variety of sources of household vulnerability, as well as to monitor and respond to economic crises which occur, depends on access to a variety of reliable, high-frequency data. In this area especially, the MENA region falls short. Data collection is limited, and there are few sources which might aid in monitoring

social impacts of crisis. Moreover, access to information throughout the region is severely curtailed. As a result, the ability for MENA countries to design appropriate social policies to address the impacts of shock (or prevent them) is severely constrained. More generally, the ability for MENA to prevent future crises and design policies to respond to all of the potential impacts of economic shock will depend over the long run on the region's improvement in the collection and access to complete, timely, and reliable statistics.

Chapter 1

2008 – A Year of Wild Fluctuations in the Global Economy

Introduction

The mid-2007 crisis that started in the US subprime mortgage market quickly spread to financial markets in almost all industrialized economies. Following the collapse of the investment bank Lehman Brothers on September 15, 2008, the sub-prime crisis sent shock waves through equity and bond markets around the world, serving in large part to raise the cost of capital for domestic companies in both advanced and emerging markets, and placing an effective halt to investment outlays. Over the remainder of 2008, and into the first half of 2009, these events have transformed into the deepest global recession since World War II, carrying negative impacts on investment, production trade, and GDP across the globe, reinforced by the unprecedented simultaneity of the recession.

The global financial crisis followed the fuel and food crisis in 2008; and this combination of crises—the "triple F-crisis"—is clearly the most critical economic development of 2008 (at the global level, potentially, of the past 60 years) carrying important implications for future economic developments—and prospective regulatory change targeted toward world systems for finance, trade and investment. For MENA countries, as in virtually all regions of the world, the economic implications of these events and their effects on peoples' live are complex. Indeed, among world regions, MENA is the largest net-exporter of oil and the largest net importer of food. The events of 2008 will therefore carry substantial implications for the region in terms of economic outturns and prospects over the next years. Still, the region's economic performance was quite healthy on average for 2008, with GDP advancing 6.2% in the year, a pick-up from the 5.7% gains of 2007.

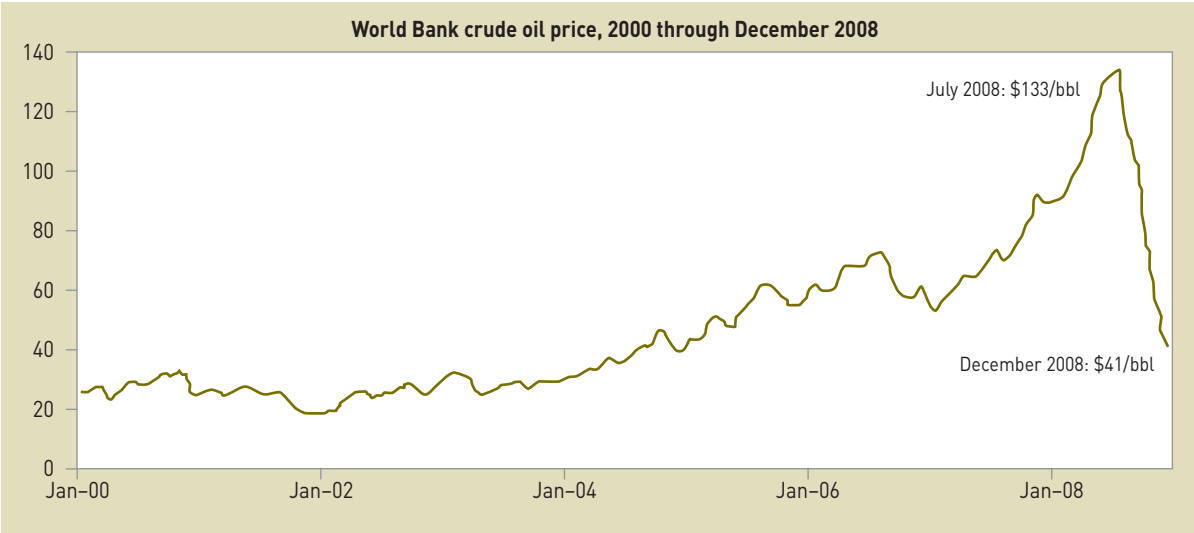
This MENA Economic Development and Prospects Report for 2009 (EDP-2009) reviews economic developments during 2008 and examines prospects for 2009 and 2010 for the MENA region within the context of the triple food-fuel-financial crisis. In the first chapter, Section I discusses the Triple-F crisis; Section II addresses the transmission of the crisis to the Middle East and North Africa region; Section III analyzes the impact of the crisis on the region; and Section IV covers policy responses to the crisis.

The Triple Crisis – Fuel-Food-Financial

The fuel-food crisis. Unlike earlier commodity price booms, the recent episode (2003 to 2008) involved all commodity groups. Commodity prices increased in a synchronized fashion starting in 2003 and continued to climb for some five years. Average commodity prices doubled in U.S. dollar terms (in part boosted by dollar depreciation), making this boom longer and stronger than any other in the 20th century. The initial acceleration in prices was at first visible in oil markets, and was quickly followed by developments in metals and minerals. After increasing some 6-fold from January 2002, prices peaked in July 2008 at $133/bbl[1] but thereafter plummeted by 70% to trough

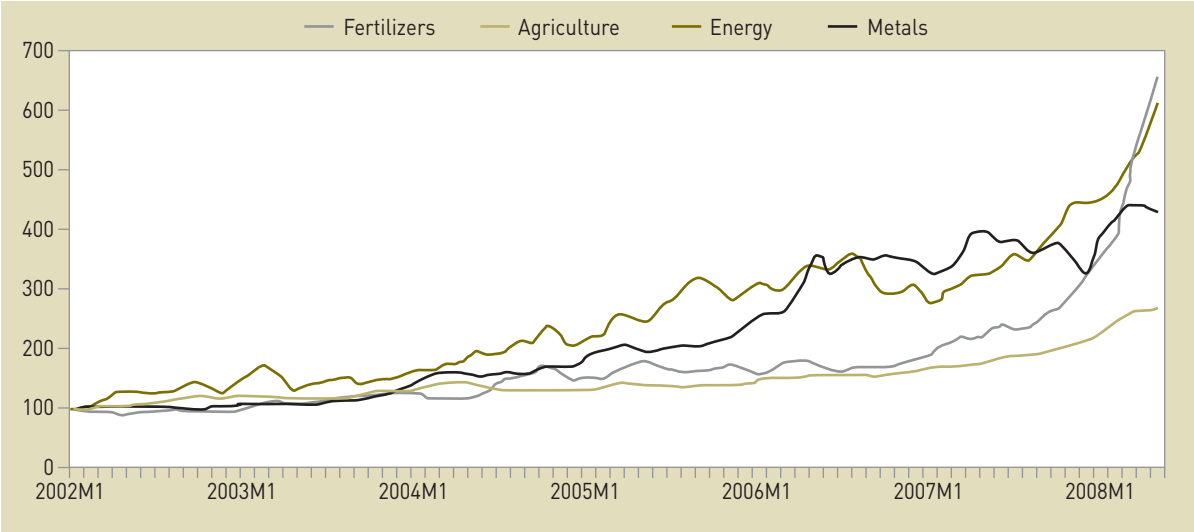
[1] Oil prices are presented on a World Bank definition, which is the simple average of Brent, Dubai and West Texas Intermediate.

Figure 1.1: Oil price surge unwound by plummeting global demand



Source: World Bank simple avg. of WTI, Brent and Dubai.

Figure 1.2: All commodites increased sharply at the same time



Source: World Bank, DEC Prospects Group.

at $41/bbl in December 2008. During early 2009, moderate increases within a range of $50 to $60/bbl have set in, supported by a number of factors on both the demand and the supply side (figure 1.1). The global financial and economic crisis also occurred on the heels of a world food and fuel crisis that saw internationally traded food prices reach historic highs in the middle of 2008. The real price of agricultural products remained fairly stable, especially in developing countries, but began to rise sharply in early 2007 (figure 1.2).

Following the oil shocks of the 1970s and 1980s, conservation efforts and substitution towards other sources of energy reduced demand for oil and depressed oil prices. With emerging market economies also seeing strong GDP growth, between 1995 and 2005, world oil

demand increased by nearly 14mb/d, with 8mb/d of that total being met by dormant capacity in the former Soviet Union and OPEC. As a result, underlying capacity was growing less than half as fast as demand throughout the 1990s, with shortfalls building with regard to any sustained increase in demand. Moreover, as energy prices moved higher, a distinct relationship began to emerge between energy and food/feedstocks, in part due to the increased importance of bio-fuels in U.S. and European consumption (box 1.1).

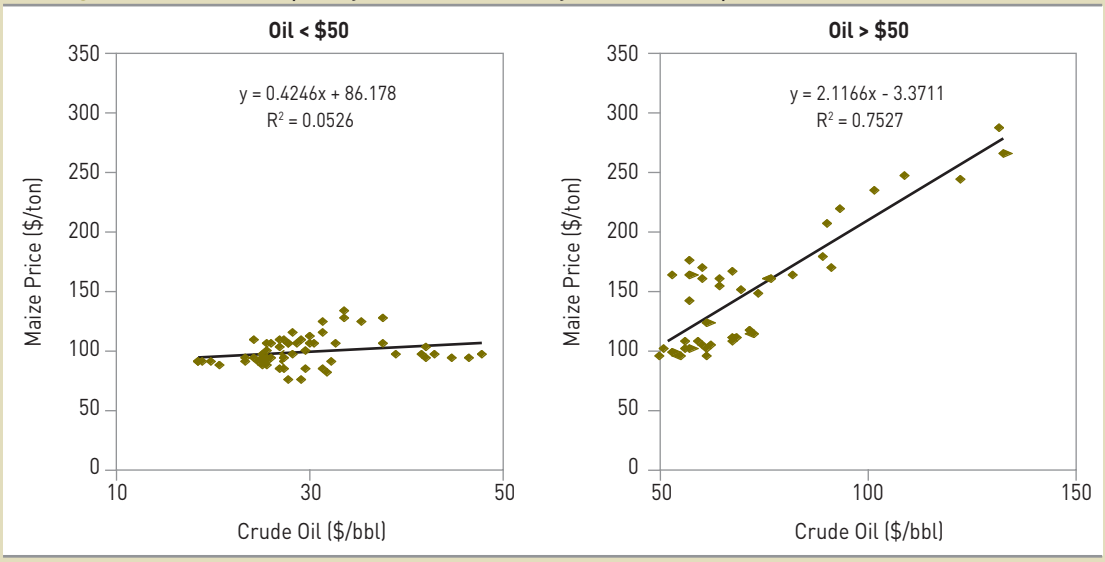
The cost of higher food and fuel for consumers in developing countries was equal to about $680 billion in 2008 ($400 billion related to oil and $280 to food). Internationally traded and dollar-denominated food prices increased by 54% between January 2005 and December 2007, and

Box 1.1: The food-oil conundrum

The timing of the rise in agricultural prices points strongly to the impact of energy markets. First, agriculture production, especially in the industrial countries, is energy intensive. The increase in oil prices raised the price of fuels to power machinery and irrigation systems, and fertilizers and other chemicals used on a widespread basis. In the United States, for example, fuel, fertilizer and chemicals accounted for 34% of maize production costs in 2007, and 27% of wheat production costs. Second, high oil prices sparked an increase in biofuel production in the United States and Europe that boosted demand for certain grains and oilseeds—contributing to rapid gains in their price over the course of 2007 and early 2008 (Mitchell, 2008). Overall, *two-thirds of the increase in world maize production since 2004 has gone to meet increased biofuel demand in the United States*, thereby reducing the quantity available for food and feed uses. Moreover, the increased demand for crops used for biofuels contributed to surges in other food prices by reducing the land allocated to other crops.

The relationship between agricultural and energy prices appears to depend on a threshold of energy costs ($/bbl) when the production of biofuels becomes economic and begins to increase quickly (box figure 1.1). At oil prices less-than $50/bbl, the relation between maize prices and that for oil appears to randomize. However, at crude oil prices above $50/bbl, maize prices display a strong, positive correlation with oil, suggesting both that biofuels policy (in countries such

Box figure 1.1: Future policy on biofuels may affect food prices



Source: World Bank simple avg. of WTI, Brent and Dubai.

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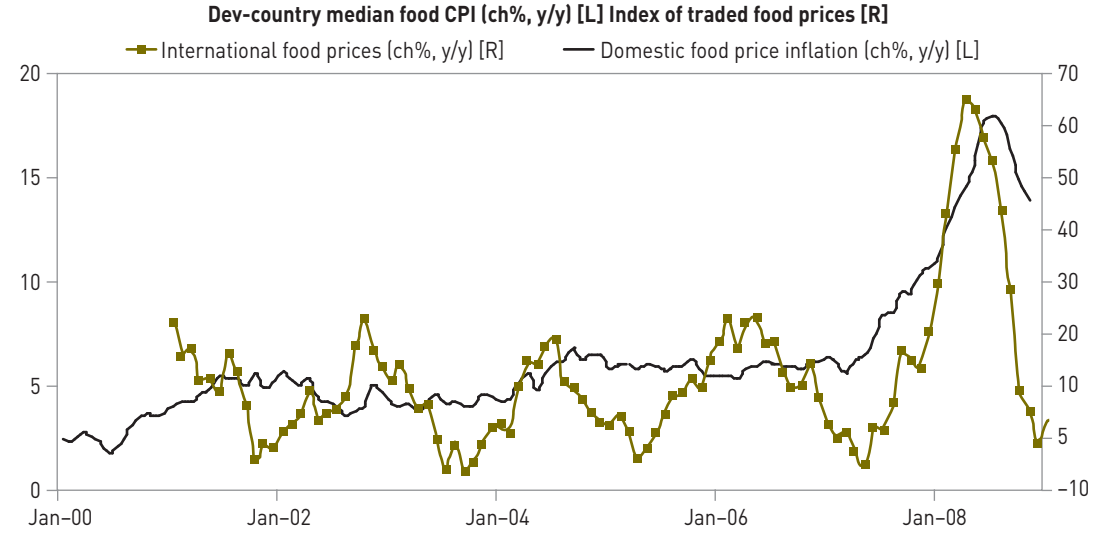
Box 1.1: The food-oil conundrum (*continued*)

as the United States and the European Union) may come to affect food prices adversely; and that the tight linkage between food and fuel poses an increasing risk for net food importing countries, given changes in global energy markets.

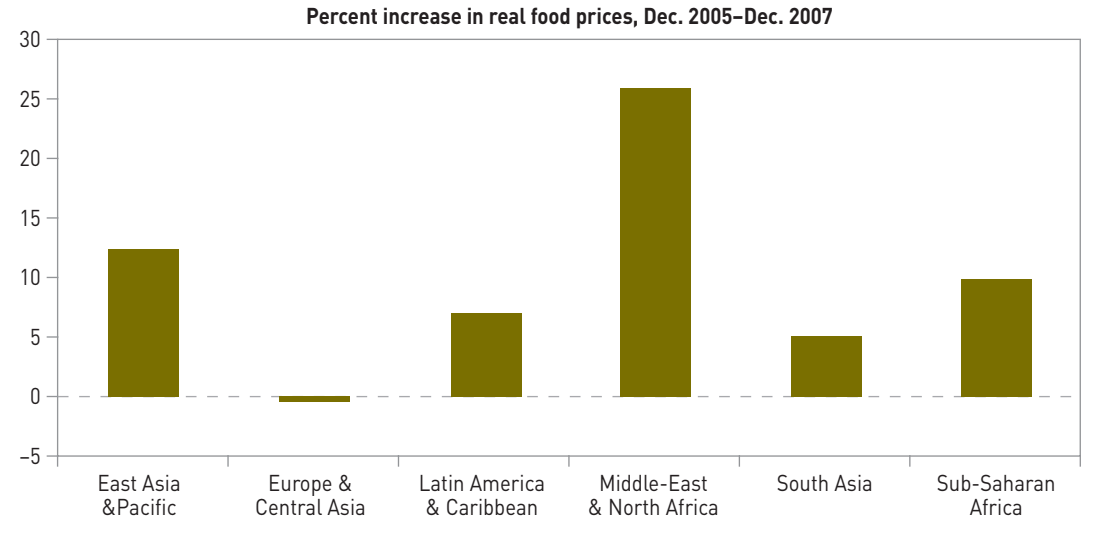
The extent of food price increases during the boom was probably exacerbated by the actions of governments, which impeded market forces that otherwise would have helped to attenuate the rise in prices and shorten the duration of the boom. Although the various subsidies and price controls that were in place or introduced likely muted the poverty impact of higher prices, they also reduced producers' incentives to increase output and consumers' incentives

Box figure 1.2: Internationally traded food prices boost local food CPI sharply



Source: World Bank.

Box figure 1.3: Overall effects tied to actual food price increases – MENA hardest hit



Source: World Bank, DEC Prospects Group.

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Box 1.1: The food-oil conundrum (*continued*)

to substitute less costly items in their food baskets, carrying world prices higher still. On a global basis, the climb of international food prices during the crisis period worked its way into domestic price levels, notably for agricultural commodities that were highly import intensive (box figure 1.2). And increases in fuel prices hit hard directly (as well as indirectly, as noted above). The direct effects of the escalation in internationally traded food prices were higher in MENA than in other world areas between 2006 and 2007, as the region is indeed the world's largest net food importer (box figure 1.3).

higher food prices took a toll on poverty. For the MENA region, the food price shock for rural poor populations amounted to a boost of 25.9% over the period, and with food taking up 64.5% of the consumption bundle for this group, purchasing power of households would have decreased by some 17% over 2 years in the absence of government support policies. Rough calculations suggest that, barring economic growth, a 30% increase in food prices in Egypt would have resulted in a 12 percentage point increase in poverty (in fact, poverty has dropped because there was sufficient economic growth). In Morocco a 14% increase in food prices would have yielded a 4 percentage point increase in poverty.

As the financial crisis emerged into the headlines, the suddenly and increasingly fragile international environment served to accelerate the already sharp falloff in commodity prices. By early 2009, oil prices were down nearly 60% from their July 2008 peaks, and non-oil commodity prices, including internationally traded food commodities, were off 35%. Lower food and fuel prices have cushioned the poverty impact of reduced activity to a degree, and helped to reduce the pressure on current accounts of oil importing developing countries. But at the same time, price changes have reduced the substantial surpluses among developing oil-exporters by as much as 17% of GDP in the MENA and Sub-Saharan African regions.

The financial crisis. The crisis that erupted in September 2008, following more than a year of financial turmoil, has evolved into a real-side crisis and a "human" one. Economic activity in high-income and developing countries alike fell abruptly in the final quarter of 2008, and that trend has continued into 2009. Unemployment is on the rise in industrial countries, and poverty is set to increase across low-and middle income countries, bringing with it a substantial deterioration in conditions for the world's most vulnerable. The crisis provoked a number of cascading developments. A broad liquidation of investments got underway, substantial loss in wealth was realized worldwide through equity market declines and falling home prices, bankers tended to tighten lending conditions, and uncertainty increased to unprecedented levels.

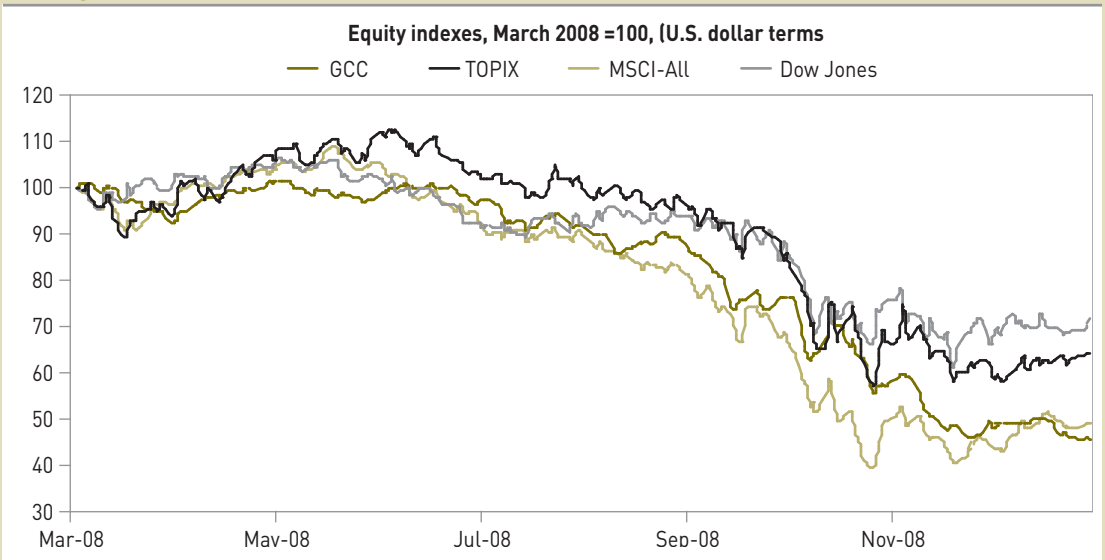
These factors prompted a global flight to quality, causing firms to cut back on investment expenditures, and households to delay purchases of big-ticket items. Funds were rapidly repatriated from emerging market assets to shore-up balance sheets of international investors and financial institutions in the high-income countries. This rapid increase in precautionary saving led to sharp declines in GDP during the fourth quarter of 2008, a development which intensified during the first quarter of 2009 (box 1.2).

The sharp falloff in commodity prices lessens one concern for MENA policymakers—inflationary pressures which had earlier escalated on the back of higher food and fuel costs. Nevertheless a potentially larger concern is now in play—much reduced oil revenues, contraction in oil GDP, and exceptionally sharp decline in demand from major trading partners for the diversified economies of the region. Still, GDP growth during 2008 was sustained at favorable levels—indeed close to record rates—in the MENA region by continued

Box 1.2: The global financial crisis

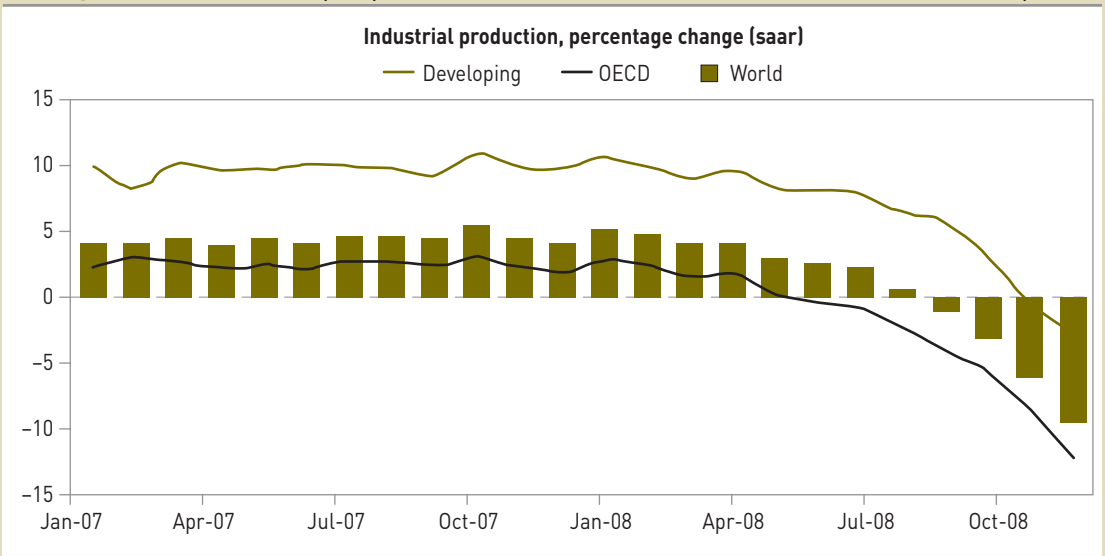
During the worst spate of financial turmoil over late 2008, global equity markets dropped 40 to 50% (in U.S. dollar terms). The MSCI-all developing index off was 38% from September through year-end; the GCC market index down 47%, contrasted with a 22% loss for the Dow Jones Industrials (box figure 2.1). Conditions in financial markets came to stabilize to varying degrees as policy actions by central banks and financial authorities to shore-up commercial banks and stem declines in lending flows came to support the a more favorable tenor for financial markets. Notably, equities stabilized toward end-2008, and stocks have shown more persistent gains in early 2009, as the freezing up of global liquidity appears to have eased. However, real-

Box figure 2.1: All bourses hit hard at the worst of financial crisis



Source: Morgan-Stanley.

Box figure 2.2: World output plummets ondecline in business investment and exports



Source: World Bank data through Thomson/Datastream.

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Box 1.2: The global financial crisis (*continued*)

side reverberations of these events have taken to the fore. World export volumes are anticipated to contract (by some 10%) for the first since the early 1980s, and production and GDP are slated for additional declines in 2009. Against this background, commodity prices should, with some exceptions, remain at low levels.

Private investment lies at the core of the global real-side downturn. Trade and production of manufactures (notably capital goods) have served as a critical transmission mechanism for a quick spread of the recession, first among the high-income OECD countries, then to the group of developing economies. Global economic activity (here measured by industrial production) dropped at a 10% annualized rate through December 2008 (saar)[2]; developing countries witnessed a crossing of the 'zero line' near the turn of the year but were restrained from deeper declines due to continuing gains in China. However, conditions affecting output among the industrial countries (export orders, unemployment, household spending and business investment), notably in Japan and the Euro Area continued to deteriorate during late 2008 and into 2009. Production was falling at a12% pace (saar) by year-end (box figure 2.2). Across countries, the sharpest declines in activity have been concentrated among those specialized in the production of durable and investment goods and in countries with serious macroeconomic vulnerabilities.

The extent of decline in global GDP is substantial. Of 25 low and middle income countries for which quarterly National Income Accounts data are available, 20 countries fell to negative growth during the final quarter of 2008 and this adverse momentum is continuing into the first months of 2009. Among the industrial countries, GDP declined by more than 6% in the United States during the fourth quarter of 2008, and by 5.7% in the first quarter of 2009 (saar). As Europe and Japan experienced unprecedented double-digit GDP declines in early 2009 (GDP off 9.7% in the Euro Area and 15.2% in Japan (saar)) this suggests a substantially deeper downturn in growth than had originally been anticipated by World Bank analysts and others.

strong public sector current—(subsidies and transfers) and especially investment spending during the first portion of the year. Notably, the financial fallout at the initial stages of crisis had little in the way of direct effects, outside of the GCC countries, and financial spillovers to the remainder of the region is likely to take some time. Europe, the diversified economies main export market, held up better than anticipated until the first quarter of 2009. Moreover, policy measures designed to deal with the food-fuel crisis for several countries, tended to shore up growth and consumption to rates that otherwise would have further exposed the countries to the initial effects of the new external shocks.

Transmission of the Crisis to MENA: A Four Country-Group Typology

Given the nature of the crises, vulnerability to shocks for individual economies within the region has depended on exposure to affected regions/groups of countries (e.g. key trade or remittances partners), or the degree of decline in revenues and effectiveness of oil resource management for oil dependent economies. Countries' vulnerability and ability to respond to the crises also depends on their initial fiscal and balance of payments positions, as well as external debt and social commitments. With these characteristics in mind, MENA countries can usefully be classified into four groups for the purpose of analyzing the direct and indirect effects of the triple crisis: (i) GCC countries, or oil exporters with high hydrocarbon revenue per capita, (ii) other oil exporters with relatively less hydrocarbon revenue per capita and relatively large populations, (iii) non-oil exporters integrated with the GCC economic area or dependent on

[2] Industrial production presented at annualized growth rates: saar—'seasonally adjusted annualized rate' is calculated as 3-month rolling average growth, converted to an annual basis; this provides a stronger view of momentum, and turning points in the data than might be produced by year-over-year growth comparison.

foreign development assistance, and (iv) non-oil exporters with diversified economies integrated with the Euro area (table 1.1).

Group characteristics and initial conditions

The Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. With GDP of some $800 billion in 2007, the high-income GCC economies comprise fully one-half of MENA regional GDP. As highly oil dependent economies (exports to GDP ratio of almost 60%), the GCC countries are exceptionally exposed to the boom and bust cycle in world petroleum demand and prices (the fuel crisis). OPEC's quota system for implementing changes to hydrocarbons output in

Table 1.1: Country group characteristics for analysis of the Triple-F crises

Country economic characteristics as of calendar year 2007	GDP in USD bn	GDP growth 2005–07	CAB % of GDP	Fiscal balance as % of GDP	Hydrocarbons-X % of GDP	Net hydro-x % of GDP	Key export % of GDP
GCC countries	**793.5**	**5.6**	**25.2**	**18.8**	**58.6**	**47.5**	
Bahrain	10.7	7.6	13.2	2.9	35.7	44.9	
Kuwait	109.7	7.4	45.6	39.2	58.4	—	
Oman	40.1	6.3	4.7	13.7	38.9	39.2	
Qatar	71.0	13.1	30.9	11.4	59.1	52.8	
Saudi Arabia	381.8	4.0	25.1	12.3	65.7	49.3	
United Arab Emirates	180.2	5.6	16.1	25.2	49.2	42.5	
Oil exporters with low per-capita revenues	**539.8**	**4.9**	**16.5**	**7.2**	**43.3**	**31.6**	
Algeria	134.4	3.3	18.1	11.4	52.2	39.7	
Iran	215.8	5.5	15.0	12.3	35.7	23.5	
Iraq	61.7	2.3	15.6	25.2	61.8	64.1	
Libya	69.7	6.1	33.9	26.2	57.1	—	
Syria	39.2	4.6	2.0	–3.5	9.1	12.0	
Yemen	19.1	3.9	–8.0	–4.0	25.6	25.6	
Diversified exporters with links to GCC	**41.6**	**4.0**	**–13.8**	**–10.4**	**0.1**	**2.5**	**..to GCC**
Djibouti	0.8	4.3	–8.2	–3.4	0.0	—	
Jordan	15.7	6.7	–17.0	–7.9	0.3	–16.8	11.8
Lebanon	25.1	2.6	–12.1	–12.2	—	–9.1	15.2
Diversified exporters integrated with EU	**241.7**	**5.6**	**–0.3**	**–4.7**	**1.1**	**–0.5**	**..to EU**
Egypt	131.9	6.1	0.3	–7.7	0.7	3.4	47.0
Morocco	74.9	4.5	–0.3	–0.2	0.3	–7.5	64.2
Tunisia	34.9	5.3	–2.6	–3.0	4.3	0.0	81.0
Memo items:							
MENA region	**1,616.6**	**5.3**	**17.6**	**10.8**	**43.4**	**32.3**	
Oil exporters	1,333.3	5.4	20.0	12.3	47.1	37.8	
Diversified exporters	283.3	4.5	–4.5	–3.6	1.2	–0.1	

Source: National Agencies, IEA, OPEC, IMF and World Bank staff estimates.

efforts to set a floor for global prices is exerting downward pressures on output in the oil sectors of the group.

Initial conditions for the GCC entering the period of the triple-crisis were favorable, with recent strong GDP growth (5.6% per year over 2005–2007), supported by large oil revenues (net-hydrocarbons of near 50% of GDP in 2007), and current—and fiscal balances well in surplus in 2007 and early 2008, reflecting the build-up in receipts over the past 5 years.

Oil exporters with relatively less hydrocarbon revenue per capita-and relatively large populations: Algeria, Iran, Iraq, Libya, Syria, and Yemen. All countries are characterized by large and/or growing populations with a demographic bulge among youth aged 16 through 24 placing continuing pressures on resources. The scale of social needs is highlighted for example in Algeria, where an estimated 1.2 million people are unemployed (an unemployment rate of 12%). Most unemployed are young: 75% are less than 30 years old and 90% are under 35 years. In Iraq, household surveys suggest that unemployment stands near 12% as well, again much higher among younger adults. About a third of all Iraqi wage earners are employed by the government and public sectors. GDP for the group is substantial, at $540 billion, dominated by Iran and Algeria.

The initial conditions for this group were positive. Reflecting the increasingly favorable circumstances for oil dominant economies during the years leading to 2007, this group displayed comfortable surplus margins on current accounts (16.5% of GDP) moving into the crisis period—though this masks diverse situations within the group with Libya's 34% current balance contrasting favorably with Yemen's deficit of 8% of GDP. The group's fiscal margins were substantially thinner than for the GCC group, reflecting expenditures on large scale social programs and infrastructure investments. As such, "fiscal space" to support economic stimulus programs would be more difficult to come by, notably for Iran, Syria and Yemen.

Non-oil exporters integrated with the GCC zone, dependent on transfers or official development assistance: Djibouti, Jordan, Lebanon, and West Bank and Gaza. This group of smaller non-hydrocarbon producing economies of the MENA region is characterized by tight links with the GCC through remittances, financial flows and services trade, as well as by a strong dependence on external financing, largely from official sources of assistance. Although affected directly by the run-up in food and oil prices during 2007 and 2008, effects of the financial crisis on this diversified group are likely to filter first through the GCC countries, in terms of growth impulses, expatriate employment opportunities and FDI flows.

In contrast with oil dominant economies, initial conditions for this group of economies were in a much deteriorated state moving into the peak of the food-fuel episode, and further into the global financial and economic recession. Current account balances in 2007 ranged from deficit of 17% of GDP in Jordan to 8.2% in Djibouti. All countries, save Djibouti, exhibited substantial fiscal shortfalls—again offering less fiscal space to provide countercyclical measures to the economic downturn.

Non-oil exporters with diversified economies integrated with the Euro-zone: Egypt, Morocco and Tunisia. Tight links have been forged with the European Union by these countries over the preceding 10 to 20 years in goods trade (EU-Mediterranean Agreements), *travaux a façon* (contract work with European manufacturers), services flows (tourism), remittances and, increasingly, elements of direct investment. EU shares of goods exports range from 47% for Egypt to a large 81% for Tunisia, increasing the exposure of these countries to economic developments on the Continent. Egypt, with a more diversified set of export destinations with larger shares for the United States, Central and Eastern Europe and East Asia (NIEs in particular) in its export markets as well as a more diversified product base (including hydrocarbons)may find some cushioning from the transmission effects of the crisis from this mix.

The profile of initial conditions for this group during 2007 appeared balanced, though Morocco

was suffering severe drought which required massive food imports. Current account positions were within range of balance, while with the exception of Egypt, fiscal space appeared to be comfortable to allow for prudent countercyclical measures.

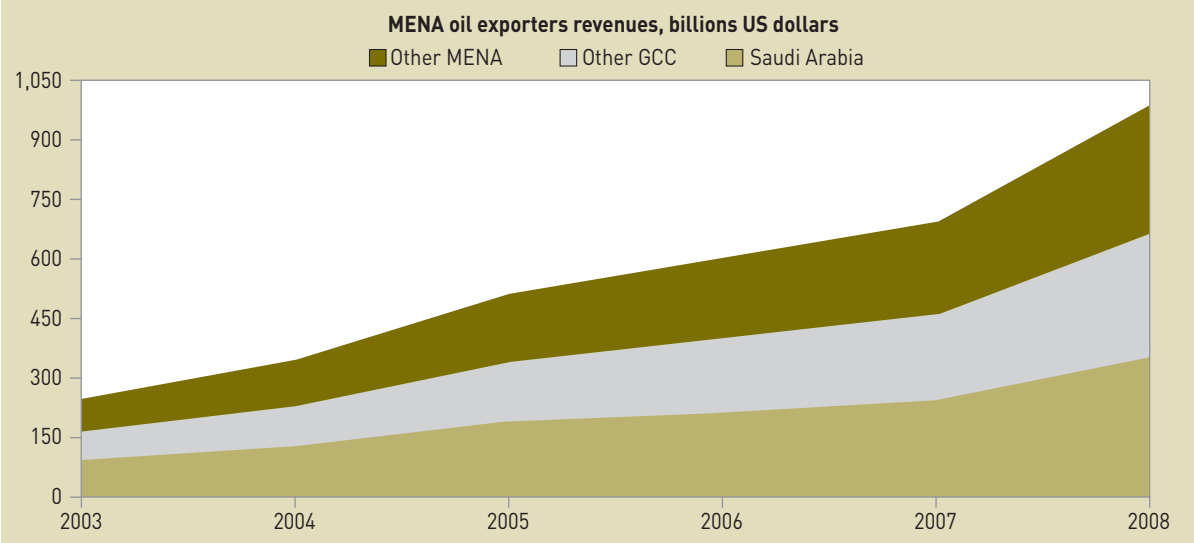
The Impact of the Crisis on the MENA Region: Growing with Oil, Slowing with Oil

MENA hydrocarbon revenues escalated sharply through mid-2008. Global oil prices moved substantially higher between 2002 and 2007, from $25-to $70/bbl, reflecting both the supply constraints and demand build that characterized the period. At the same time, crude oil production within the MENA region surged by a cumulative 18.6% from 2003 to 2006, and output of natural gas and natural gas liquids (NGLs) increased by some 13.2% per annum. These factors led hydrocarbon export receipts for regional oil exporters to jump from $250 billion in 2003 to an exceptional $700 billion by 2007, or from 37 to 53% of the group's GDP (figure 1.3 and table 1.2). Such revenues were sufficient to support 5.8% average GDP gains for MENA oil exporters between 2002 and 2007, as public current and capital spending accelerated quickly, notably in large infrastructure projects. GCC growth picked up to more than 7% during 2004–05, while the group of exporters with larger populations saw GDP gains increase to more than 4%, up from an average 2.8% over 2000 to 2002.

As the boom in all commodity prices came to affect the global economy in an adverse fashion over 2007 to mid-2008 and commodity demand began to falter, MENA oil receipts continued to move up to $995 billion for 2008 on average, though receipts began to decline sharply over the second half of the year. GDP growth for the region's oil exporters reached a recent record high during 2008 at 6.2%. However, important developments over the second half of the year have set the tone for a slacking in GDP for oil exporters, as well as the diversified economies of the region.

Commodity prices reversed course sharply at mid-year 2008. Non-energy commodity prices peaked in July 2008, up 50% over the preceding 12 months, and triple the level of 5 years earlier, while energy prices were up 85% over 12 months and 4.5 times the levels of 5 years earlier. Many of the factors which underpinned the jump in oil prices reversed, as the slowdown

Figure 1.3: Higher oil prices and MENA production yield windfall hydrocarbon revenues in 2008



Source: World Bank and International Energy Agency.
Note: "Other MENA" include all MENA countries except GCC countries.

Table 1.2: Exports of oil and gas in billions U.S. dollars, 1996–2010

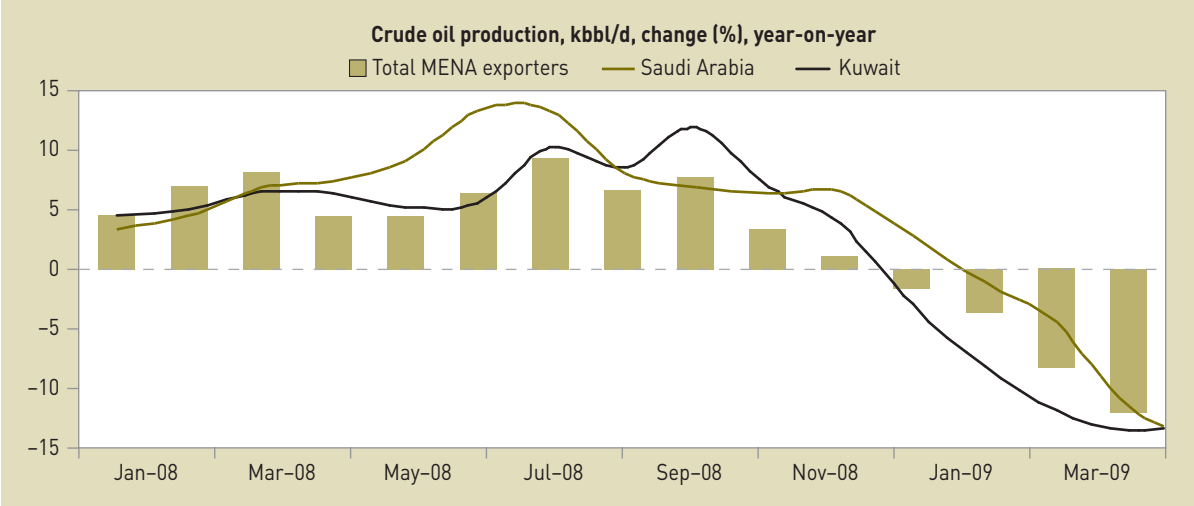
Country	1996–1999	2000–2006	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**129.9**	**339.9**	**701.4**	**994.1**	**428.1**	**428.2**
MENA (excl. Iraq)	**124.3**	**322.5**	**663.2**	**935.0**	**401.5**	**400.9**
	average	average				
GCC countries	**82.6**	**224.1**	**465.1**	**668.8**	**282.0**	**280.0**
Bahrain	1.1	2.3	3.8	4.9	2.2	2.2
Kuwait	11.8	28.8	64.1	93.9	38.0	37.0
Oman	5.5	10.2	15.6	21.9	10.6	10.8
Qatar	3.8	16.8	42.0	64.1	25.9	27.3
SaudiArabia	46.3	125.1	251.0	356.2	150.8	147.0
United Arab Emirates	14.1	41.0	88.7	127.8	54.6	55.7
Oil exporters with large populations	**44.4**	**113.1**	**233.5**	**322.5**	**143.0**	**144.9**
Algeria	11.4	32.4	70.2	96.6	42.0	42.0
Iran, Islamic Republic of	15.3	37.8	77.0	103.2	47.0	48.7
Iraq	5.5	17.4	38.1	59.1	26.6	27.3
Libya	7.9	18.3	39.8	54.7	24.3	23.9
Syrian Arab Republic	2.3	3.2	3.6	4.0	1.6	1.5
Yemen	1.9	4.0	4.9	4.9	1.6	1.5
Diversified exporters with strong GCC links	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Djibouti	0.0	0.0	0.0	0.0	0.0	0.0
Jordan	0.0	0.0	0.0	0.0	0.0	0.0
Lebanon	0.0	0.0	0.0	0.0	0.0	0.0
Diversified exporters integrated-with Europe	**2.9**	**2.6**	**2.7**	**2.7**	**3.1**	**3.3**
Egypt	2.3	1.6	0.9	1.5	2.0	2.2
Morocco	0.1	0.3	0.2	0.2	0.2	0.2
Tunisia	0.5	0.8	1.5	1.0	0.9	0.9
Note:						
Oil-exporting countries (excl. Iraq)	123.7	321.4	661.5	933.7	400.5	399.8
Oil-importing countries (excl. WBG)	0.6	1.1	1.8	1.2	1.1	1.1

Source: National agencies, WITS database, IEA, OPEC and World Bank staff projections.

in economic activity and fallout from the financial crisis induced massive price declines across all commodity sectors. By December 2008, crude oil prices dropped to $41/bbl—down nearly 70% from July peaks—while non-energy prices fell nearly 40%. World oil demand—which had grown on average by 1.4% or nearly 1.4mb/d between 2000 and 2007—fell slightly in 2008 (0.3%), the first annual decline since 1983. However, demand plunged in the fourth quarter, falling 2.2% or 1.9mb/d y/y.

Sharply lower prices induced deep production curtailment (figure 1.4). OPEC's quota

Figure 1.4: Crude oil production cuts widespread in MENA during late 2008



Source: IEA, World Bank

system for implementing changes to hydrocarbons output in efforts to set a floor for global prices will, in today's crisis environment, exert downward pressures on output in the oil sectors of the group. OPEC announced production cuts of more than 4mb/d since September 2008 in an attempt to stem the slide in prices and ballooning of inventories, but it takes time for the cuts to be implemented and impact markets. Saudi Arabia moved aggressively to reduce output, and has stated it will cut production further if needed. Under these circumstances, energy (and non-oil) commodity prices had come to stabilize broadly by early 2009.

Effects of the massive shift in commodity prices on MENA

GCC countries: GDP growth in the GCC countries stepped up to 6.3% in 2008, supported by record-high oil prices and increased oil production, particularly in Saudi Arabia, where output crossed 9.2mb/d by August. As a result, hydrocarbon revenues reached unprecedented levels for 2008 (near $670 billion), creating substantial fiscal surpluses, and underpinning strong public investment. Oil export revenues in Kuwait, Qatar, and Saudi Arabia increased by over 40% in 2008, contributing to large current account surpluses in all six economies, despite sharp increases in imports. The current account surplus position for the GCC was close to 34% of GDP in 2008.

However the fall in global oil price and choice to restrain production to provide a support level for prices will come at a high cost—especially in 2009. Strong revenue gains are likely to give way to much diminished current balance surplus positions, in several cases forcing the fiscal balance into red ink. Substantial revenue losses and increasing fiscal difficulties moving forward are likely to put a damper on investment outlays, save for projects already long in implementation. Flows of remittances, tourism and FDI to the diversified economies of the region are set to fall sharply during 2009.

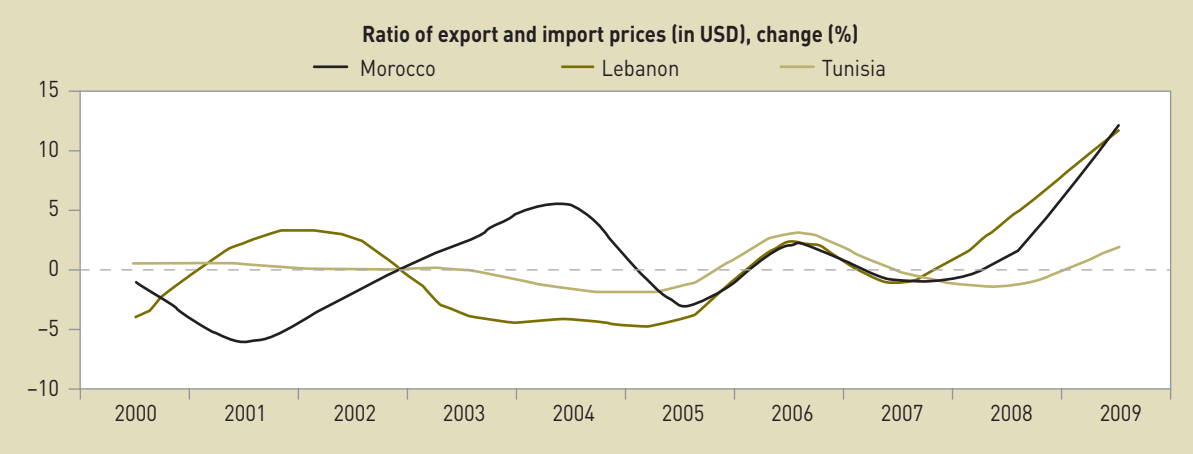
Other oil exporters: (with relatively less hydrocarbon revenue per capita and relatively large populations) have faced particularly difficult exposures to the run-up in global food prices and the later downturn in world oil prices. The former elicited policies in several countries to safeguard the poor from substantial hikes in basic food prices; and in some cases to respond to the accompanying upturn in inflation by tightening monetary policy. The sharp decline in oil prices has served to reduce budgetary revenues

severely in the face of continued demand for social—and infrastructure spending. Moreover, contraction of oil and gas output will place strong downward pressures on overall GDP growth into 2009, an element unlikely to change until prices find a point of stability at (likely) higher levels.

Diversified exporters: experienced terms of trade relief during the second half of 2008, (and here pictured) 2009, as both food and fuel prices declined sharply. The larger benefits are accruing to Morocco and Lebanon, highly dependent on both food and fuel imports (figure 1.5). At the same time, those economies most dependent on flows of remittances and aid from the GCC (Djibouti, Jordan and Lebanon) are expected to suffer a downturn in these flows as of the second half of 2008; while the recent strong trend in FDI emanating from the GCC, targeted toward industrial, commercial and residential projects in surrounding countries appears to be easing.

Current account balances shifting dramatically. As highlighted in table 1.3 (below),

Figure 1.5: Terms of trade relief for MENA diversified economies



Source: World Bank, DEC Prospects Group.

Table 1.3: Current account balance as % of GDP, 1996–2008

Country	1996–1999	2000–2005	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**—**	**16.1**	**21.1**	**17.5**	**22.7**
MENA (excl. Iraq)	**0.8**	**8.5**	**21.3**	**17.6**	**22.6**
	average	average			
GCC countries	**0.7**	**12.1**	**29.1**	**25.2**	**32.2**
Bahrain	–2.2	4.5	22.0	13.2	32.3
Kuwait	18.5	24.9	49.7	45.6	48.2
Oman	–6.2	9.2	14.3	4.7	16.3
Qatar	–16.5	17.1	28.3	30.9	37.1
Saudi Arabia	–2.4	10.6	27.9	25.1	35.5
United Arab Emirates	5.7	9.6	22.6	16.1	17.5

(*continued on next page*)

Table 1.3: Current account balance as % of GDP, 1996–2008 (*continued*)

Oil exporters with large populations	**3.9**	**9.9**	**20.0**	**16.5**	**22.7**
Algeria	3.1	12.1	24.8	18.1	24.2
Iran, Islamic Republic of	2.8	8.8	16.3	15.0	20.6
Iraq	—	10.5	15.3	15.6	26.7
Libya	12.3	17.5	45.8	33.9	39.2
Syrian Arab Republic	1.3	4.8	2.5	2.0	1.1
Yemen	–0.7	5.9	1.2	–8.0	–6.5
Diversified exporters with strong GCC links	**–14.7**	**–13.5**	**–11.8**	**–13.8**	**–22.0**
Djibouti	1.0	1.6	–8.8	–8.2	–6.7
Jordan	0.6	3.9	–11.3	–17.0	–27.5
Lebanon	–22.4	–22.9	–12.2	–12.1	–19.3
Diversified exporters integrated with Europe	**–1.4**	**1.0**	**1.6**	**–0.3**	**–6.1**
Egypt	–1.5	1.8	2.4	0.3	–6.7
Morocco	–0.4	2.3	2.0	–0.3	–5.4
Tunisia	–2.8	–3.4	–2.0	–2.6	–5.4
Note:					
Oil-exporting countries (excl. Iraq)	1.7	10.2	23.8	20.0	25.7
Oil-importing countries (excl. WBG)	–5.2	–3.8	–2.8	–4.5	–9.9
Memorandum items: Comparator regions					
MENA (excl. Iraq)	**0.8**	**8.5**	**21.3**	**17.6**	**22.6**
All Developing countries	**–0.8**	**1.9**	**4.1**	**3.5**	**2.7**
East Asia and the Pacific	0.9	3.7	8.7	10.4	8.9
Europe and Central Asia	–0.1	1.9	0.9	–1.0	–0.5
Latin America and the Caribbean	–2.6	0.1	1.6	0.5	–0.7
South Asia	–1.7	–0.2	–1.5	–1.6	–3.8
Sub-Saharan Africa	–1.8	0.5	1.6	–1.7	–0.6

Source: World Bank, IMF, National Agencies.

the effects of still-high oil prices in 2008, beginnings of improvement in the terms of trade for the diversified economies, as well as the initial negative impulses stemming from the slowdown in export markets (notably the United States and the European Union) began to hold sway over regional current account balances. Oil exporters as a group witnessed a pickup in the current account surplus' share of GDP to 25.7% during 2008, led by the GCC, where surpluses continued to burgeon, increasing to an unprecedented 32.2% of the group's GDP. For the group of oil exporters with large populations, there was a less dramatic but still substantial step-up in surplus to near 23% of GDP. Diversified economies with close ties to Europe have witnessed a steep escalation of deficits during the year, shifting from near balance in 2007 to deficit of 6.1% of GDP, a partial reflection of the effects of the food-fuel crisis of the 2006–08 period.

Repercussions from the global financial crisis in MENA

The impact on MENA's financial systems has been limited so far. Though "direct effects" of the financial meltdown in the mature markets appear to have been minimal for the GCC (little holdings of so-called "toxic assets" in local banking systems), equity and real estate markets were hit hard as the crisis intensified in the fall of 2008. As centers for employment of overseas nationals from many MENA countries, especially those of the Mashreq, adverse effects on remittances for home countries are now being felt. And a recent sharp step-up in GCC foreign direct investment (FDI) across a wide range of countries in the region may be at risk, given deterioration in fiscal and balance of payments positions for the group.

GCC stock markets declined in the last quarter of 2008 in similar magnitude as in the major developed economies. The decline in GCC stock indices was in part a result of repatriation of short term capital that had moved to the region on expectations that, to avoid the inflationary effects of a weakening dollar during 2008, GCC countries would be under pressure to discontinue their currency peg to the dollar. However, short-term capital left GCC markets (i) as the dollar regained some ground in the latter part of 2008, and food prices declined sharply, removing a portion of inflation pressure; (ii) as policy statements from the GCC bolstered confidence in the likelihood of a currency union in the medium term; and (iii) as investors losing money on their portfolios in developing countries decided to reduce their short term exposures in the GCC in order to rebalance their portfolios. The withdrawal of speculative financial inflows was less of a factor in Kuwait—usually an exporter of capital on both public and private accounts.

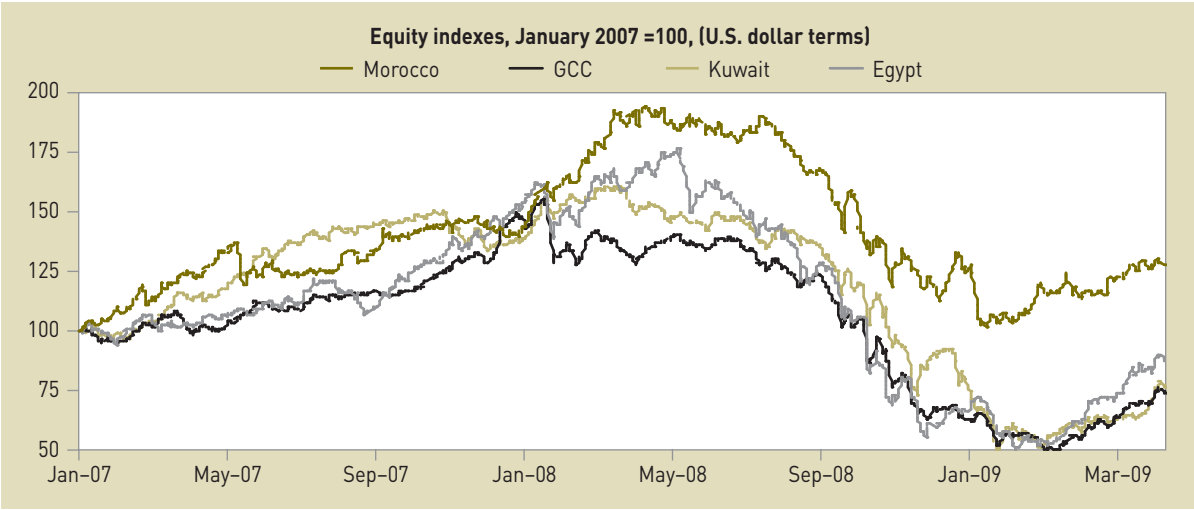
The outflow of short-term capital placed substantial pressure on GCC's financial systems. Stock market activities declined as a good part of the short-term capital had been invested in equities. Bank lending became more constrained as some foreign banks gradually withdrew or froze new lending. For example, in Saudi Arabia, the benchmark Tadawul All Share index reached a 2008 peak in January at nearly 11,700, while the index was in the 4,350 range in March 2009, a decline of 63%. The decline was especially sharp between late August and late November 2008, but the market has traded in a narrow range since then, in contrast to the continued declines on global stock markets.

Outside of the GCC, stock markets in other MENA countries declined as well, though generally not as sharply as for the former group. The main factors behind the decline in other bourses were fears of contagion from the GCC markets, and to a degree a drying-up of short-term capital flows from the GCC. Egypt is among the non-GCC markets that saw the sharpest decline. The Egyptian index peaked at 12,000 in April 2008 before declining sharply to 4,300 in December and further to 3,563 in February 2009 (a 66.3% decline). The year's performance had taken a first pounding in May 2008, after the removal of privileges of energy-intensive companies in free zones. Impacted by the aftershocks of the U.S. market collapse which followed the demise of Lehman Brothers, the Egyptian index fell by almost 30% in October (month on month), as panic selling from Arab and foreign investors took place.

In Jordan, the Amman Stock Exchange (ASE) index affected by the financial turmoil, declined by 9% in July and August before plunging 35% between August and December 2008. Tunisia and Lebanon appeared to have avoided sharp declines in stock indices. Tunisia's stock market followed the global downturn since October 2008 and, as of December 2008 it had lost almost the entire gain realized between January and September 2008. However, the Tunis Stock Index rose by 1.8% for the whole of 2008 (figure 1.6).

External financing has tightened. Sovereign, spreads increased markedly in 2008 for MENA countries, just as for other emerging market economies. However, the increase was not binding, as MENA countries were able to avoid going to the market in 2008, apart from Lebanon that was able to rollover maturing debt. Traditionally, MENA countries that issue sovereign bonds are

Figure 1.6: MENA equity markets show general decline with mixed country results



Source: Morgan-Stanley.

by and large the non-oil exporters (although Qatar and the UAE recently issued sovereign bonds in April 2009). Tunisia's sovereign spreads (EMBI Global spreads) increased dramatically to more than 600 basis points as of December 1, 2008, reflecting higher country risk resulting from the volatile global financial environment. Still, Tunisia's sovereign spread remains below the MENA regional average (close to 900 basis points). On the commercial side, spreads are known to have risen sharply as well, though Tunisia-specific data are not available. In Egypt, a Eurobond issuance scheduled for the first quarter of 2008 was postponed to July 2008 and then postponed again until "international markets stabilize".

Economic outturns for 2008

GDP growth held up in 2008 for several groups within the MENA region, and the region as a whole saw a slight increase in GDP growth to 6.1% in 2008 compared to 5.6% the previous year. MENA's resilience to the crisis in 2008 is in stark contrast with other developing regions where growth fell from 2007 levels (table 1.4 and figure 1.71). MENA's growth in 2008 was helped by high oil price for the year on average despite the sharp decline observed in second half of the year, and by strong growth in the construction sector. But signs of increasing weakness were apparent moving through the final quarter of the year and into the first months of 2009.

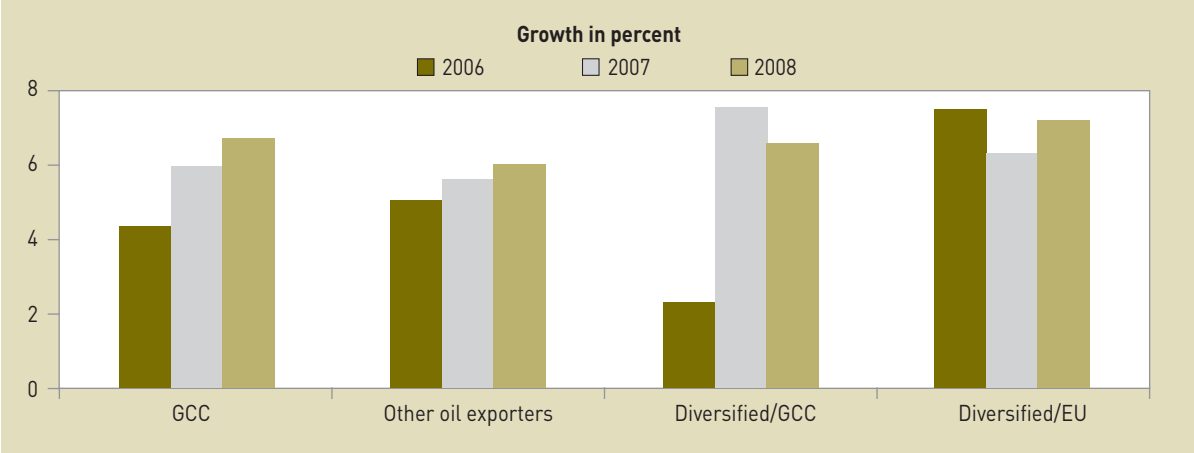
GDP growth in the resource rich GCC countries stepped up from 5.6% in 2007 to a recent high 6.3% in 2008, supported by record oil prices, increased crude oil production, public and private spending and rapid development in the construction sector. In nominal terms, GDP grew at an unprecedented rate of 32%, as the average price of crude oil for the year reached a record $97/bbl. Oil receipts provided considerable impetus to public spending, leading to an increase in investment in large scale infrastructure projects, particularly in Dubai and Doha, funded primarily by GCC central governments. Private consumption was also strong through 2008, fueled by public spending, high levels of employment and wage increases that ranged from 5% in Saudi Arabia to 30% in Qatar and UAE. However, since the third quarter of 2008, the global situation has altered considerably. A rapid downswing in revenues for the oil exporters and a sharp reversal in current account positions are in the offing moving into 2009. Investment projects worth almost $2 trillion had been planned in the 6 economies through to 2012, the large majority of which have been postponed or cancelled due

Table 1.4: Real GDP growth, 1996–2008

Country	1996–1999	2000–2005	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**—**	**4.7**	**4.7**	**5.6**	**6.1**
MENA (excl. Iraq)	**3.5**	**5.0**	**4.7**	**5.6**	**6.1**
	average	average			
GCC countries	3.0	5.5	4.0	5.6	6.3
Bahrain	4.0	6.0	6.7	8.1	6.1
Kuwait	1.2	7.6	6.4	4.4	5.2
Oman	2.9	4.8	6.8	6.2	6.2
Qatar	12.0	8.0	15.0	15.3	16.4
Saudi Arabia	2.0	4.0	3.0	3.5	4.6
United Arab Emirates	5.2	7.5	1.2	7.7	7.4
Oil exporters with large populations	**4.4**	**4.0**	**4.6**	**5.2**	**5.6**
Algeria	3.4	4.4	1.8	3.0	3.0
Iran, Islamic Republic of	3.8	5.5	5.7	6.2	6.9
Iraq	—	–70.2	6.2	1.5	9.8
Libya	1.3	4.2	5.9	6.8	6.3
Syrian Arab Republic	2.2	4.0	5.1	4.2	5.2
Yemen	5.8	4.3	3.2	3.0	4.0
Diversified exporters with strong GCC links	**2.8**	**4.3**	**1.9**	**7.1**	**6.1**
Djibouti	–0.7	2.5	4.9	4.8	5.8
Jordan	2.9	5.8	6.3	6.6	5.5
Lebanon	2.8	3.6	–0.6	7.5	6.5
Diversified exporters integrated with Europe	**5.0**	**4.2**	**6.9**	**5.9**	**6.5**
Egypt	5.1	4.0	6.8	7.1	7.2
Morocco	4.4	4.5	7.8	2.7	5.6
Tunisia	5.9	4.5	5.5	6.3	4.5
Note:					
Oil-exporting countries (excl. Iraq)	3.4	5.0	4.6	5.7	6.2
Oil-importing countries (excl. WBG)	4.2	4.4	5.4	4.9	5.5
Memorandum items: Comparator regions					
MENA (excl. Iraq)	**3.5**	**5.0**	**4.7**	**5.6**	**6.1**
All Developing countries	**4.2**	**5.4**	**7.7**	**8.2**	**5.9**
East Asia and the Pacific	6.2	8.2	10.1	11.4	8.0
Europe and Central Asia	2.0	5.6	7.4	6.9	4.3
Latin America and the Caribbean	3.6	2.7	5.5	5.8	4.3
South Asia	5.7	6.1	9.0	8.4	5.6
Sub-Saharan Africa	3.4	4.3	5.7	6.5	5.3

Source: National agencies and World Bank staff estimates.

Figure 1.7: GDP growth across MENA country groups varied, 2006–08



Source: World Bank data.

to the sharp narrowing of fiscal surpluses, and the tightening of credit markets globally. Fiscal spending is likely to remain high into 2009, as governments implement policies to fight off significant repercussions from the global recession on employment and private consumption.

For the oil exporters with low per-capita revenues and large populations, growth moved higher to 5.6% in the year from 5.2% during 2007 on the back of strong government spending in Iran, a step-up in output in Iraq to an estimated 9.8% and continued 3% advances in Algerian growth. GDP among the diversified economies of the region registered mixed results in 2008. The group tightly tied to developments in the GCC economies saw growth fade by a percentage point from 2007 to 6.1% in the year, as slower goods and services exports, FDI inflows and construction work in Jordan and Lebanon exacted a toll on growth. For the diversified economies with close links to Europe, GDP stepped-up from 5.8% to 6.7%, in part tied to Morocco's recovery from severe drought in the year preceding, but also powered by continued vibrant 7.2% growth in Egypt.

These more buoyant conditions are unlikely to persist however, and the onset of the financial crisis began to exact a toll on regional growth into year-end 2008 and 2009. Over the coming months, those elements which supported growth over the last five years are anticipated to unwind: oil prices to remain within a moderate range, the European export market moving toward near collapse, and slowing of services receipts and remittances will exact a toll on growth for both oil exporters and the more diversified economies of the region.

For the diversified economies, signs are that export volumes and values have declined sharply, down by as much as 35% in nominal terms since September 2008. Here the key element is the collapse of import demand in the Euro Area (as well as the United States) wherein the former, French import volume declined 19% during the first quarter of 2009, on the heels of a 12% contraction in the previous quarter (saar). Exports from Morocco dropped 45% from September 2008 through February 2009; those from Tunisia by 31%, and from Jordan by 18.4%. However, industrial production has held up better than in most other developing regions, with output over the same period down by some 5% in most countries in the region (notably the oil exporting countries) compared with 12% or more for the world as a whole. For example, Egyptian production stood 30% above year—earlier levels in November 2008; that in Jordan by 26% as of January 2009. As more recent data becomes available for these countries dominated

by exports to Europe, they will undoubtedly show substantial deterioration.

Decline in services, income and investment flows are beginning to affect the diversified economies. Countries such as Egypt, Morocco, Tunisia, Jordan and Lebanon derive both balance of payments support and needed supplemental domestic income through exports of services, notably tourism and business services, remittance receipts from workers abroad and importantly of late, much enhanced FDI flows, helping to underpin and catalyze domestic private and public capital expenditures. Such flows amount to substantial proportions of GDP for these countries. In Egypt for example, total flows represented 18.7% of GDP in 2007, of which remittances 5.7%, tourism 5.5%, and FDI 7.6%. Under current conditions in the global and regional environment, such income and investment flows are slated to decline in absolute terms in coming months and in proportion to GDP over the medium term, serving to widen current account deficits for recipient countries, while dampening domestic demand, as household spending and investment outlays lose important pillars of support.

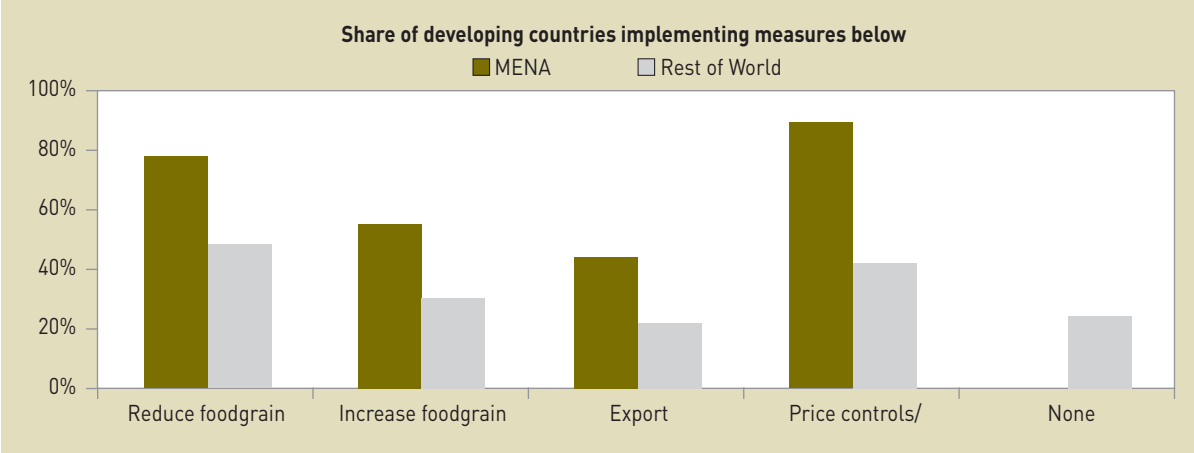
Inflationary pressures ease. A brighter spot within the generally darker tone of recent developments is a broad easing of inflation rates across almost all countries in MENA. This is tied in large measure to the unwinding of the earlier escalation in food and fuel prices, slowly coming to bear on "headline" inflation rates. Inflation moved into double digits in several countries linked to the food and fuel price increases, and authorities undertook measures to offset the most adverse effects on the poor, including increased subsidies, measures to boost incomes through higher civil service wages, and finally a move-up in interest rates in a number of countries to counter the inflationary impulse. For example, Tunisian CPI inflation softened to 3.1% in February 2009 (year-on-year) from 4.9% during 2008; Jordan to 1.5% from 14.9%; and Saudi Arabian inflation has dropped to 6% from the 10% pace recorded in 2008. The current easing of inflation pressures is serving to boost the purchasing power of the broader MENA population, setting the stage for an eventual turnaround in household spending, when economic conditions become less cloudy.

Policy Response to the Crisis

Helped by their large financial reserves, and taking advantage of declining inflation, GCC governments have intervened in financial markets to varying degrees and using various instruments to limit the local financial impact of the global crisis. At the same time, many countries that earlier suffered from the food-fuel crisis have taken policy steps to mitigate adverse effects on the poor, including subsidies, targeted income programs and other support measures. Eventually, in several cases, interest rates were increased to stem inflationary pressures which were increasing to worrisome levels. For these countries, including Morocco, Tunisia, Jordan and Lebanon, among others, initial conditions moving into the financial and real phases of the crisis were less than ideal.

In general terms, countries of the region responded to the triple F crisis using instruments and focusing on sectors where they perceived vulnerability to shocks stemming from the external environment, and which reflected the set of resources available to policymakers. The range of policy actions has indeed been broad. As documented in the 2008 MENA Economic Developments and Prospects report, some MENA countries focused on the food/fuel problem during 2007 and 2008, through subsidies and adjustment to benefits, also exploring overseas investment in agriculture, as grains prices reached all-time highs. The number and breadth of policy changes in MENA eclipsed those of other developing regions by a wide margin (figure 1.8). Though some of the adverse impacts on poverty in the region may have been diminished to a degree through these actions, food price changes globally may have been accentuated by these measures, collectively across countries and regions. Some countries, notably the GCC and others, focused on financial system stability using monetary policy, injecting liquidity or providing deposit guarantees to respond to the financial crisis (box 1.3). Some designed more comprehensive fiscal stimulus packages (e.g. Egypt), and others provided targeted support to vulnerable sectors,

Figure 1.8: Policy responses to food crisis were widepread in MENA region



Source: World Bank, DEC Prospects Group.

Box 1.3: Policy response to the financial impact of the crisis in GCC countries.

The collapse of Lehman Brothers placed increasing stress on GCC interbank markets. Central banks responded with stepped-up liquidity provision (as did central banks worldwide), usually allowing for a wider range of collateral than had been accepted previously.

UAE. A new $14 billion facility in UAE guarantees all deposits and local interbank loans of UAE banks. The Government of Dubai has begun to broker the merger of Amlak and Tamweel (large non-bank mortgage lenders), and the Central Bank of UAE has undertaken loans to mortgage lender Tamweel. The Federal Ministry of Finance announced a $19 billion 2-year direct deposit in local banks, while the UAE Central Bank commenced detailed review of local banks' balance sheets. Abu Dhabi releases "Vision 2030", affirming a long-term agenda of diversification and transition to a knowledge-based economy. The Government of Dubai makes first ever detailed budget presentation, which envisages a rising budget deficit (to about $1 billion) to help support local spending plans. Recurring media reports indicate significant retrenchment efforts among non-bank financial intermediaries and property developers. Government of Abu Dhabi provides $4.4 billion in Tier 1 perpetual bonds to 5 Abu Dhabi commercial banks. The Government of Dubai creates a new $20 billion 5 year bond issue, with the first $10 billion being sold entirely to the Central Bank of UAE. Prior to the sale, Borse Dubai indicates that it successfully refinanced $3.4 billion in debt. Dubai World continues to implement port & logistics sector investments in sub-Saharan Africa. UAE banks begin converting long-term government deposits into Tier 2 capital. Abu Dhabi registers to sell as much as $10 billion in bonds, with pricing to be disclosed later. Significant ratings downgrades for Dubai companies continue. Media reports indicate that the emirate's government is developing a strategy to disburse the $10 billion loan from the central bank.

Bahrain. Fexible dollar-dinar swap facility initiated in Bahrain. Central Bank of Bahrain begins accepting *Ijara* (leasing) sukuk as collateral without discount. Bahrain announces that it will issue a mixture of local currency and dollars, conventional and Islamic bonds for deficit financing. The central bank reduces reserve requirements.

Saudi Arabia: SAMA announces $40 billion liquidity facility while the government provides verbal deposit guarantee; Saudi government also makes long-term deposit of $2.7 billion in Saudi Credit and Savings Bank (SCSB, specialized credit provider for both low income households and SME mandates). SAMA cuts one of its

(*continued on next page*)

Box 1.3: Policy response to the financial impact of the crisis in GCC countries. (*continued*)

key interest rates from 0.75% to 0.50%. The statement signaled that the central bank was seeking to promote lending by discouraging the holding of excess reserves with it. Published data show a decline in SAMA net foreign assets, indicating that foreign liquid assets are being drawn upon to support domestic policy stimulus.

Qatar. The Qatar Investment Authority announces a program to take a 20% stake in all local banks. Qatar government-linked entities provide capital to Credit Suisse. The government of Qatar announces that it will offer to purchase the financial investment portfolios of commercial banks, a move apparently designed to forestall concerns about the accounting implications of the large losses on these portfolios. The government of Qatar announced a major expansion in the scope of its support for the banking sector, adding to previous measures which purchased capital in banks and allowed them to offload their investment portfolios, the government will now spend up to $4 billion (via the Central Bank) buying the real estate portfolios of banks at book value.

Kuwait. The Central Bank of Kuwait guarantees all deposits in Gulf Bank following revelations of trading loss. The deposit guarantee is later extended by legislation to all domestic banks. Government of Kuwait sends financial sector rescue package to National Assembly; the key element of the package provides guarantees to local commercial banks that provide refinancing for domestic companies, including investment companies. The Central Bank of Kuwait cut its benchmark discount rate to 3.0% from 3.5%, the 5th reduction since October 2008. The Kuwaiti financial firm Investment Dar defaulted on an Islamic bond by missing a periodic $100 million payment. The central bank of Kuwait cut its benchmark lending rate by 25 basis points to 3.50%.

Oman. Oman implements joint public-private stock market support fund.

GCC countries agree on a bailout for Gulf International Bank (GIB), a specialized investment/merchant bank which was founded by the 6 countries in 1975. GIB had branched into trading of residential mortgage backed securities and suffered significant losses on this portfolio

industries or centers of employment growth (e.g. Morocco, Tunisia).

Monetary measures and banking system support. With inflation easing, MENA countries were able to use a wide range of monetary measures in an attempt to stimulate the flow of credit and provide confidence to markets. The Central Bank of Egypt (CBE) recently began easing monetary policy. The CBE cut policy rates by 150 bps in February and March 2009 for the first time since May 2006, following a series of increases in these rates by 275 basis points between February and September 2008, initiated in part to stem food/fuel-import based inflationary pressures. The CBE notes that this decision reflects lower risks to domestic inflation, declining international commodity prices and weak prospects for global growth in 2009. Jordan's limited integration with global financial markets has buffered it from recent global financial turmoil, preventing major losses among banks or capital flight. The Central Bank of Jordan has taken pre-emptive steps to maintain confidence and support the domestic money market, including full guarantee of all bank deposits. In Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the UAE, steps have been taken to ease monetary conditions to the degree feasible. Lower reserve requirements, moderate reductions in benchmark interest rates and liquidity injections are planned or implemented as of this writing. In a related matter, the relative 'isolation' of Islamic finance from international markets may have served as an overall cushion for many economies in the region, especially for the GCC. And recent interest in the field may be prompting an eventual expansion of Islamic

banking practices to a wider global arena. However, Islamic finance does not guarantee the absence of risks; recently in Kuwait, a bank specializing in Islamic finance faced financial difficulties

MENA—largely implemented at the time of the food crisis can be grouped into two categories. First, as a response to the crisis, several measures were viewed as means of ensuring food availability on local markets at affordable prices. (As noted, MENA countries are net food importers and rely on imports to meet about 50% of their food needs). To ease the burden of the food price crisis, MENA governments maintained food subsidies, imposed price controls and restricted exports. During 2008 rice suppliers in Egypt were constrained to export only up to the amount they could import. This "export ban" has been extended until further notice. Yemen started providing wheat at a subsidized price, while expanding and reforming a targeted cash transfer program. A second group of policy actions were targeted to ease the impact of high prices on households, with some governments cutting import duties on certain commodities deemed critical for households' food consumption. For example, Morocco reduced wheat tariffs and started subsidizing wheat importers.

Chapter 2

The Global Economic Environment and MENA's 2009–10 Prospects: Mitigating the Impact of Global Recession

Facing an Uncertain Global Economic Environment

If 2008 was a year of large swings in financial and economic indicators with little impact on MENA, 2009 will see the first global recession since World War II with serious impact in MENA countries. As discussed in Chapter 1, the global financial crisis had a muted impact on MENA's financial systems and little impact on the real economy in 2008; however, in early 2009, signs have emerged that the global recession is having an impact on the real economies across the region. Although current projections suggest that a global recovery could happen in 2010, these projections remains clouded with uncertainties. Even if the global economy starts recovering in 2010, the impact of the recession on human and physical capital may linger on and jeopardize growth prospects in some emerging market economies. It is therefore important to seek to mitigate the short-term impact of the crisis in MENA.

Section I of this chapter will review the main characteristics of the global economic environment that will have an important bearing on MENA economies in 2009–2010. The impact of the crisis on MENA's prospects for 2009–10 will be analyzed in section II. Section III will discuss policies that can be envisaged to mitigate the impact of the crisis on MENA economies in the short-term.

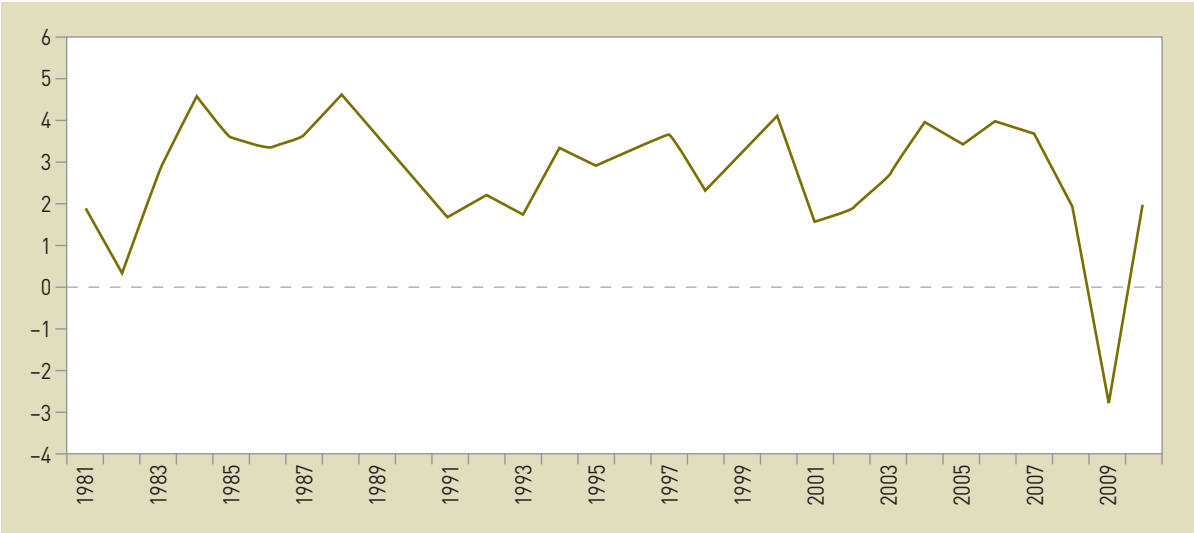
After a lackluster 1.9% global economic growth in 2008, the world economy is projected to shrink by 2.9% in 2009 before a weak recovery to 2.0% in 2010. (Figure 2.1). The recession that started in the second half of 2008 in advanced economies has been, and continues to be, rapidly spreading across the globe. Many developing countries which were initially decoupled from events in developed countries, have now joined the expanding list of economies forecast to contract in 2009. Out of 121 countries, the World Bank projects that 21 countries will experience negative growth in 2009—this compares with 5 countries in 2008.

Having by and large avoided the impact of the financial crisis on their financial systems as discussed in chapter 1, MENA countries face the prospects of seeing the global recession transmit to their real economy through various channels. The paragraphs that follow discuss possible global developments which may impinge on MENA's growth prospects in 2009 and 2010.

Oil prices are projected to be in the $55–63 bbl range in 2009–2010—levels that are above the breakeven point for most GCC oil producers but below breakeven point for some of MENA's non-GCC oil producers.[1] Several factors are

[1] The IMF estimates that the breakeven price is close to $57 per barrel for many MENA oil producers. Stark exceptions include

Figure 2.1: Global GDP growth rates: %, 1981–2010



Source: World Bank data.

likely to work to prevent oil prices from increasing significantly in 2009–2010. First, oil prices and global industrial production appear to be correlated and industrial production is projected to decline by another 12% in 2009.[2] (Figure 2.2). With depressed industrial production, demand for oil will remain low and oil prices are unlikely to increase markedly above current levels. Second, it is unlikely that speculation will be a strong factor in oil prices movements in the next couple of years. Recent additions to global oil production capacity—with Saudi Arabia's having increased its potential production capacity from 10.5 to 12.5 billion barrel per day—thanks to recent investments—along with excess production capacity that may have been created by recent production cuts by OPEC, will work to lull any speculative price increases, even in the face of possible isolated supply disruptions. Oil inventories in developed countries continue to be high—indicating a supply overhang.[3] Third, the securitization of commodities that contributed to oil price increases in 2003–08 is unlikely in the short-term, as capital markets remain depressed or recovering slowly from the doldrums of the 2008 crash. Moreover, tightening regulations in the aftermaths of the crisis and increased public intervention on global capital markets might work to limit the integration between finance and commodities. With lower prices (Figure 2.3) and weakened global demand, hydrocarbon export revenues—the mainstay of many MENA countries—is likely to decline sharply in 2009–10. However, current trends suggest that the price of oil will remain above breakeven level for most MENA oil producers.

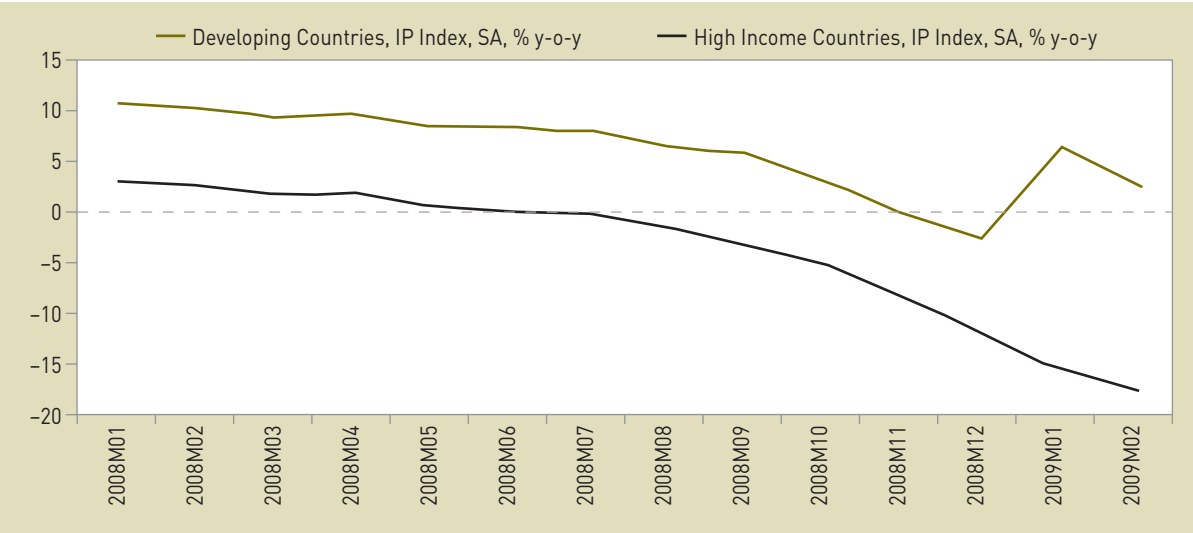
Global trade volume is projected to decline sharply by 9.7% in 2009, the first decline since 1982 and the biggest drop in 80 years (Figure 2.4).This sharp contraction in trade is likely to affect the MENA region in two major ways. First, the decline in global trade affects directly export of oil, oil-related products (such

Iraq and Iran with breakeven oil prices of $111 and $90 per barrel. Oil price at breakeven level is where a country would achieve fiscal balance. (see IMF, 2009a.)

[2] A study by Ewing and Thompson, 2007 shows that the crude oil prices are procyclical and lag industrial production by 1 month, as indicated by Hodrick-Prescott and Baxter-King or 2 months, as indicated by Christiano-Fitzgerald filters. Also a simple regression of the lagged oil prices (2 months) on the world industrial production done for the purpose of this chapter showed a strong positive relationship between these two variables for the period of 2005/01–2008/08 ($R^2 = 0.77$).

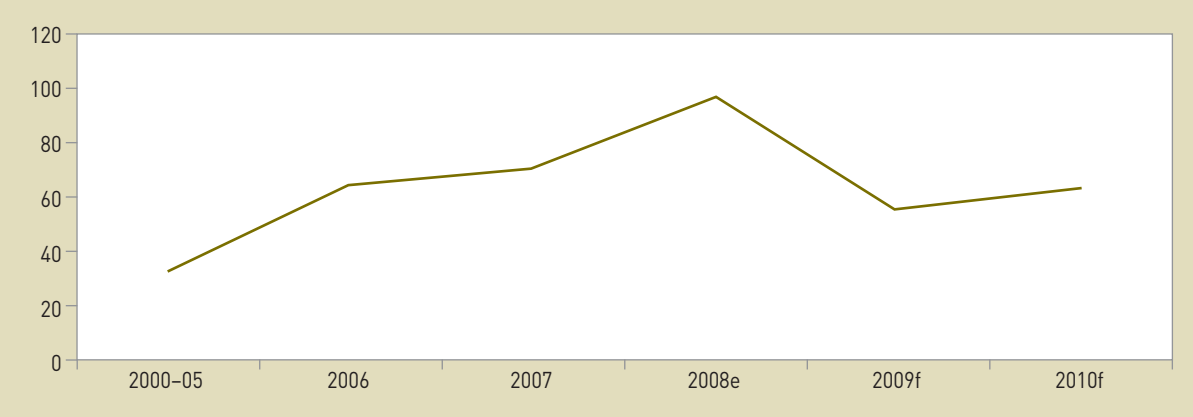
[3] In the long term, as the global economy recovers, it is possible that supply constraints may reappear unless new investments in oil or alternative source of energy take place.

Figure 2.2: Industrial production growth, % change, 2008/01–2009/02



Source: World Bank data.

Figure 2.3: Average oil prices, US$, 2000–2010



Source: World Bank data.
Note: Oil prices are in average of Brent, WTI and Dubai crude prices.

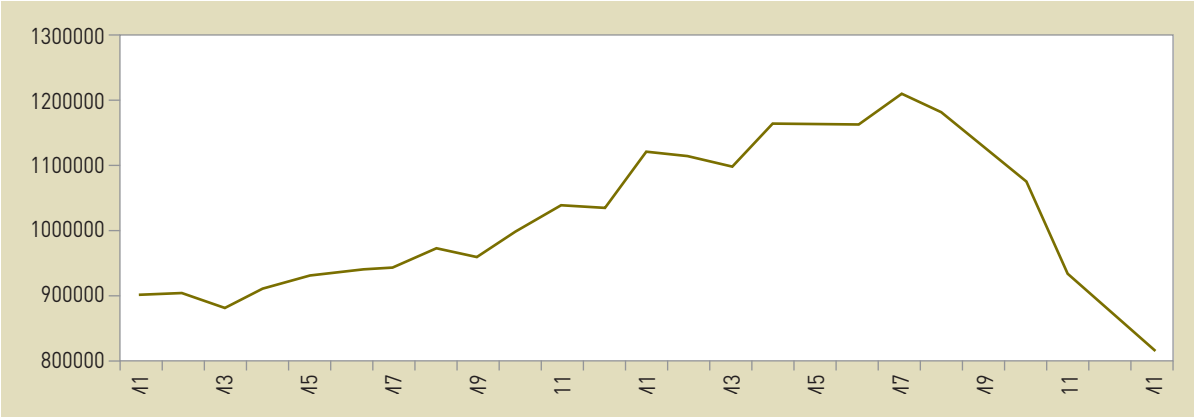
as petrochemicals), and manufactured goods (mostly garments) to Europe and OECD countries. In fact, the region's exports declined by 7% in the third quarter of 2008 when the recession was already affecting OECD countries. The second channel through which sluggish global trade will impact the MENA region is through lower trade related services—an important source of foreign exchange for countries like Egypt, Djibouti and the UAE.

MENA's Economic Prospects for 2009–10

Overview

Although the MENA region held up fairly well in 2008 and was able to brush off the first wave of impact of the global financial turmoil on national financial systems, it will experience serious impact on the real economy, households and

Figure 2.4: World export revenues, US$ million, 2007/01–2009/01



Source: World Bank data.

workers as the crisis has now mutated from a financial crisis to a globally synchronized recession. As reviewed in chapter 1, MENA is the only region that was able to avoid a decline in GDP growth in 2008 compared to the previous year. However, the region is projected to see a marked decline in its overall growth, with regional growth projected to decline sharply from 6.1% in 2008 to 2.2% in 2009 (figure 2.5). However, this sharp decline puts MENA in a relatively good position compared to some other developing regions—MENA's growth rate is comparable to developing country average of 2.1%. From the sectoral perspective, MENA's growth decline in 2009 and 2010 will be mostly led by a sharp contraction in the hydrocarbon sector across the region. From the demand perspective, public consumption remains relatively steady (helped by fiscal stimulus spending) while sharp falls in investment and exports drive down GDP growth (Table 2.1). MENA's growth rate is expected to rebound to 4% in 2010, but this rebound is expected to be less marked than in other regions. Growth resumption in 2010 is likely to be driven by expansion of investments at home, starting in GCC countries, as well as investments in, and exports to, other emerging and developing economies where the potential for incremental growth is the largest. In 2010, even if growth turns positive again, GDP growth will remain well below potential due to large spare capacity and necessary corrections in global consumption patterns.

Table 2.1: GDP growth by demand and contribution to growth, %: MENA, 2008–2010

Demand components	GDP	Private Concumption	Government Concumption	Gross Domestic Investment	Exports of Goods and Services	Imports of Goods and Services
2008e	6.1	6.2	10.2	7.9	6.3	11.2
2009f	2.2	1.8	8.0	0.8	–3.7	0.8
2010f	4.0	3.8	6.9	3.9	2.2	5.2
Contribution to Growth						
2008e	6.1	3.6	2.3	3.1	3.0	–5.9
2009f	2.2	1.6	2.0	0.7	–1.0	–1.0
2010f	4.0	2.4	1.8	1.7	1.2	–3.1

Source: World Bank data.

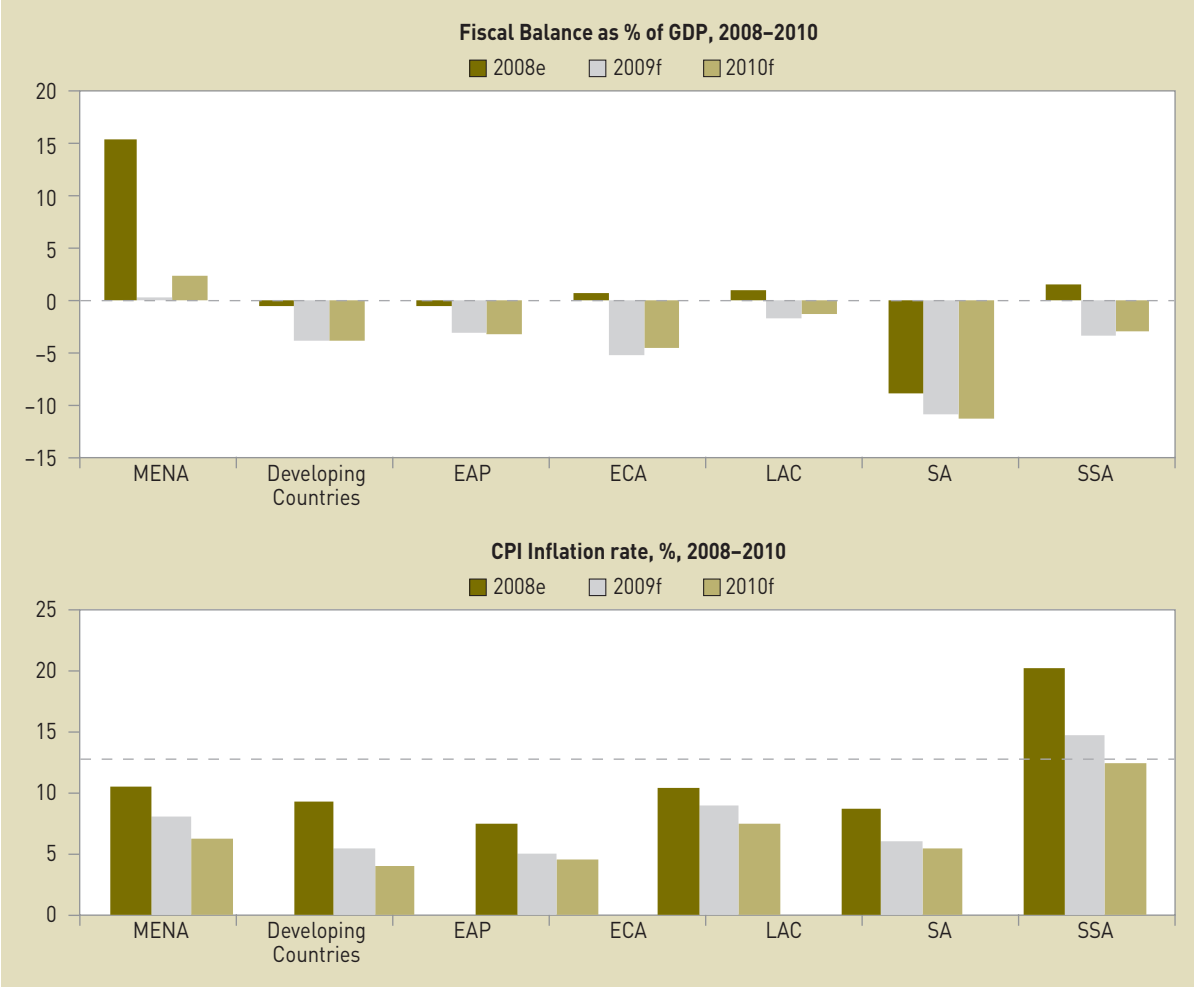
Fiscal and current account balances will deteriorate sharply across the MENA region. Although the levels remain more comfortable than in other regions, the decline in MENA's fiscal and external accounts is sharper (Figure 2.5). Large fiscal space built in recent years is likely to vanish, or at least decline significantly, as MENA governments pay for subsidies and wage increases committed in 2008 in response to food and fuel crisis, and as they now turn their attention to additional fiscal stimuli in response to the financial crisis. Weaker economic activity and weaker fiscal revenues will make the situation even more difficult.

Inflation in many MENA countries is likely to be the silver lining of the global financial crisis in 2009–10, from being the major concern in developing countries in the first half of 2008. The inflation picture in MENA will improve as in other developing regions (Figure 2.5). The declining prices of global commodities including

Figure 2.5: Regional key macroeconomic indicators, 2008–2010

(*continued on next page*)

Figure 2.5: Regional key macroeconomic indicators, 2008–2010 (*continued*)



Source: World Bank data.

food, and the strengthening of the dollar vis-à-vis major international currencies, have contributed to lowering consumer price indices across MENA.

Despite a decline in inflation, households and workers are likely to feel the impact of the crisis sharply in 2009–2010. Data is not yet available to assess the social impact of the crisis across MENA. However, initial indications suggest that economic slowdown has caused a weakening in the region's already lackluster ability to create jobs and caused massive layoffs in some countries. In fact, the International Labor Organization (ILO) projects an increase in unemployment rate of about 25% in the Middle East and 13% in North Africa in 2009 compared to 2007. In many GCC countries, foreign workers suffered the most from job loss. The number of foreign workers in Kuwait for example dropped to 1.75 million at the end of 2008 from 1.77 million in 2007. About 90% of Dubai's workforce is foreign-born and most are in the country on work visas that are cancelled when their jobs are lost. In Egypt, employment growth has slowed down by 30% in Q2-FY09[4] compared to the Q2-FY08 which led to an increase in the unemployment rate to 8.8%[5]. In

[4] Fiscal year ends June 30.

[5] Ministry of Manpower and Migration. and Labor Force Sample Survey, CAPMAS.

Jordan, the unemployment rate reached 13.0% in Q2 2009, up from 12.1% in Q1 2009 and 12.5% in Q2 2008. On the positive side, in Saudi Arabia, the Cabinet approved two labor market liberalization measures. First, migrant laborers working in the public sector via contractors can now shift their work authorization to a new contractor without needing a new visa. Second, the Cabinet opened the professional and social sector services to nationals of any GCC country, implementing a long-standing GCC objective.

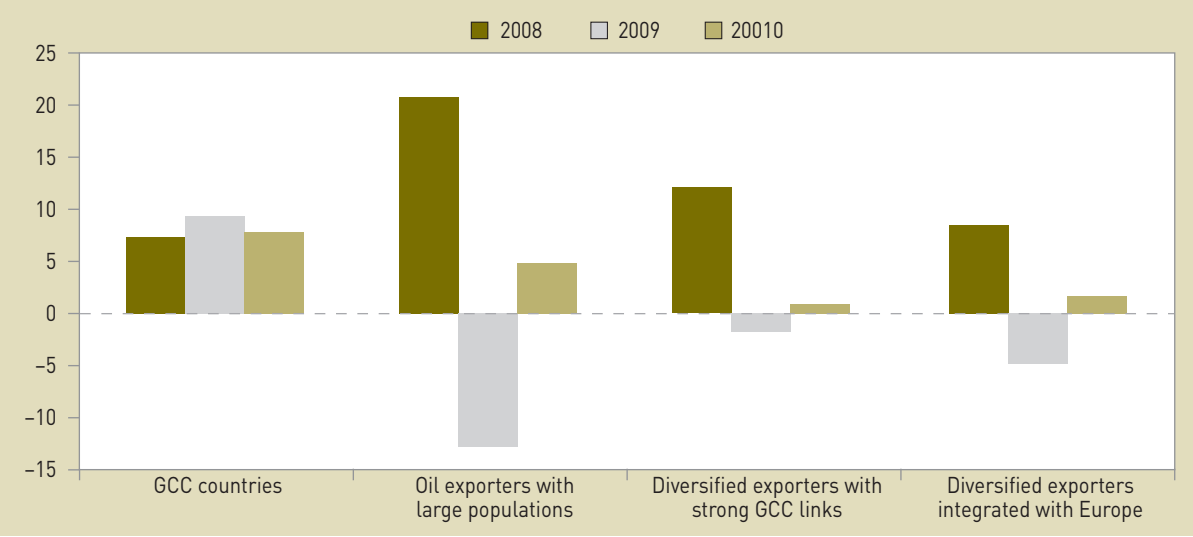
Tourism and remittances will not be able to sustain high GDP growth in MENA in 2009 and possibly 2010. Even though tourism has been somewhat resilient, it has not been immune and a decline is expected in 2009. International tourism arrivals declined by 2% in 2008 from an average growth rate of 7% in 2004–2007. Preliminary estimates by UNWTO indicate that international tourism arrivals will stagnate or even decline slightly (–2%) in 2009.[6] In MENA tourism receipts grew by only 10% in 2008, much slower than the growth of 45% in 2007. With global recession persisting and wealth effects settling in, MENA's tourism receipts are expected to contract about 3% in 2009. Apart from GCC countries which are expected to show positive albeit slower growth in tourism receipts in 2009 and 2010, the rest of the country groupings is likely to move to negative territories in 2009 but are expected to see some improvements in 2010.[7] (Figure 2.6)

Remittances have also been resilient so far but are projected to decline in 2009 before experiencing a mild recovery in 2010. Partly reflecting the deterioration in labor market conditions worldwide, remittances to developing countries began to fall in the last quarter of 2008, a trend that has continued into 2009. For 2009 as a whole they are expected to decline by 7.3% (Figure 2.7). In MENA, remittances grew in 2008 but at a slower pace of 8.6% than 17% during 2006–07; they proved resilient in 2008. However, they are likely to lose steam in the rest of the year and are projected to fall

[6] UNWTO, (2009), "World Tourism Barometer, Quick overview of Key Trendsî, Vol 7, No.1.

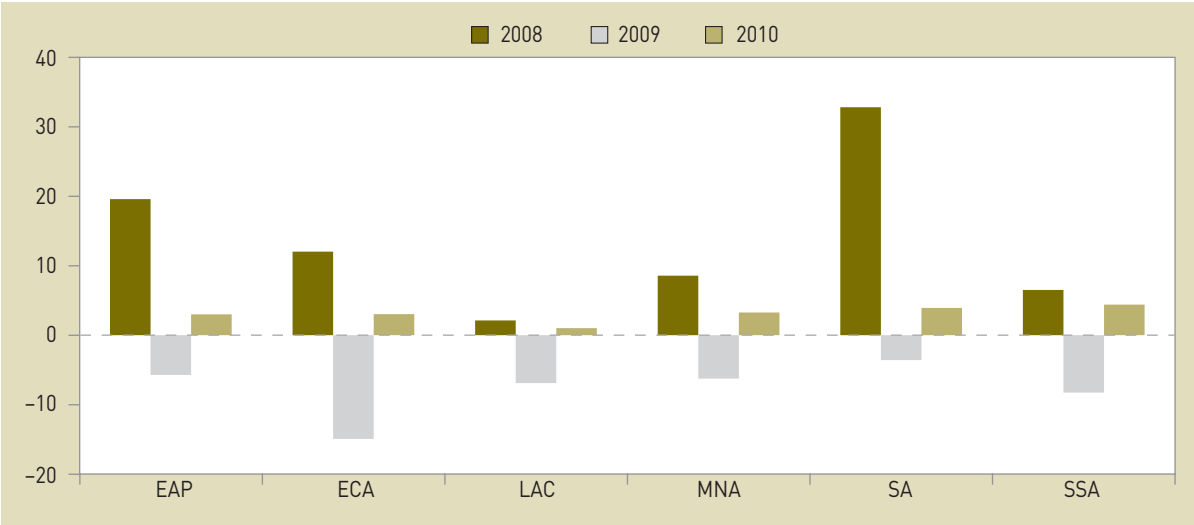
[7] Countries in the region are putting in effect policies to promote tourism demand. In Egypt for example a set of measures aimed at bolstering tourism such as exempting hotels from paying contributions to the country's tourism promotion authority, and cutting fees paid by charter flights were announced in early 2009.

Figure 2.6: Growth in tourism receipts: MENA country groupings, %, 2008–2010



Source: World Bank data.

Figure 2.7: Regional growth in remittances flows, %, 2008–2010



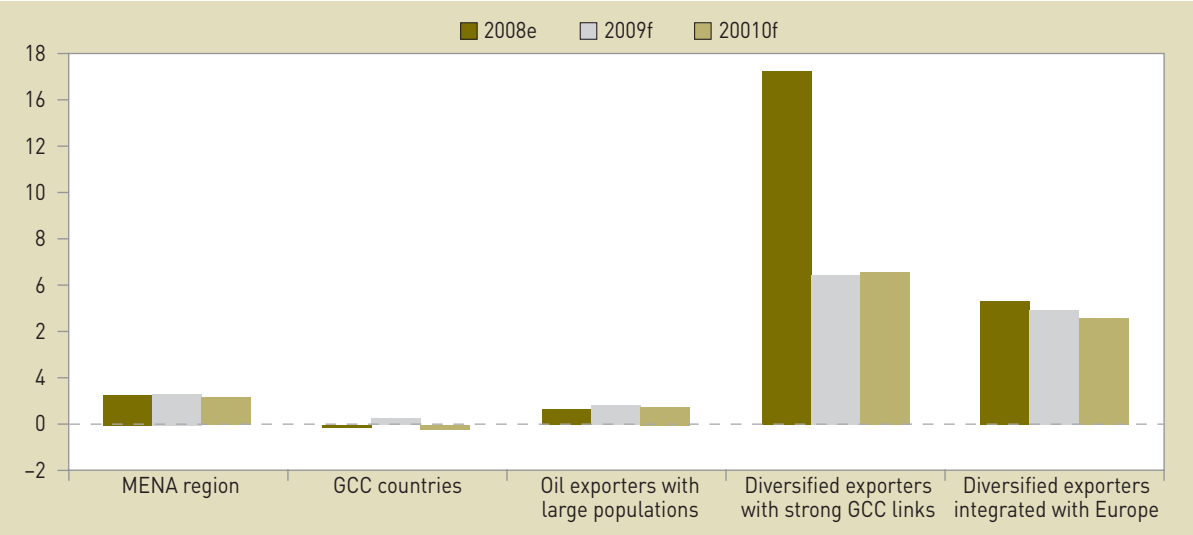
Source: World Bank data.

by 6.2% in 2009.[8] This rate of decline is one of the lowest across developing country groups. The resilience shown by remittances in MENA may be due to the fact that migrants continue to send remittances as long as they have a job (even if new migrants are not arriving) and migrants having lost their jobs return home with their stock of accumulated savings thus helping to compensate for reduced flows of remittances. If the global recession persists and deepens, it is expected that in 2009, these resilience factors will weaken and remittance levels could decline more sharply. In addition to being a recipient of remittances, MENA is also an important supplier of remittances. Thus MENA will not only suffer from decline in remittances but with lower oil prices and close to zero growth (in 2009 and expected low growth in 2010) in major remittance source countries among the Gulf countries (Saudi Arabia and UAE), MENA will generate much less remittances for regions like South and East Asia. It is projected that in 2009, remittances outflows from GCC countries will decline sharply by 9% compared to 37% growth in 2008.

Like for most emerging markets and developing countries, external financing conditions will remain tight for MENA in 2009 and possibly 2010. Global FDI flows are projected to fall sharply in 2009; and MENA will be directly affected.[9] FDI flows are low in MENA, and while their level is holding up, they are expected to decline slightly in 2010 as investors complete large projects that they started before the global financial crisis and could not easily interrupt without incurring large financial losses and now postpone, cancel or scale back new projects (figure 2.8). In fact, FDI has started declining in some MENA countries. In Egypt for example, FDI declined by 50% in early 2009 compared to the previous year. As in many developing regions, short-term capital flew out of MENA quite suddenly in 2008. The phenomenon was more apparent in GCC countries that had both attracted short-term flows and had open capital accounts. Several factors are likely to impede the return of short-term capital to MENA in the short-term. First, regional stock markets remain depressed. Second, expectations of currency depreciation in the GCC—a major factor behind short term inflows in GCC countries prior to September 2008—have subsided in the face

[8] World Bank 2008a.
[9] UNCTAD, 2009a.

Figure 2.8: FDI as a share in GDP, %, MENA country groupings, 2008–2010



Source: World Bank data.

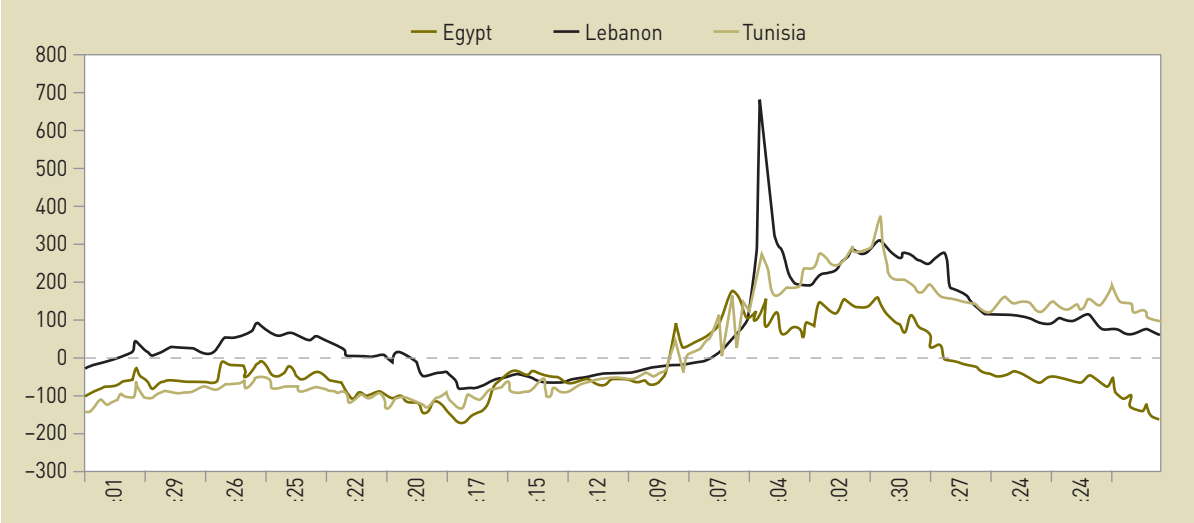
of lower inflation pressures. Finally, with lower oil price and wealth effect of declining stock market indices, there will be less complementary domestic capital to serve as magnet for short term foreign flows.

Although international bond markets have improved somewhat from the fourth quarter of 2008, conditions are likely to remain tight for MENA sovereign and corporate borrowers. With large stimulus packages to be financed in developed countries, there are fears that emerging market sovereign bonds will be crowded out by bonds issued by developed countries.[10] Nonetheless, emerging markets with market access can take advantage of declining interest and spreads in 2009: countries like Brazil, Colombia, The Philippines and Turkey were able to make large sovereign bond issues in January 2009. However, in 2008 and 2009, only three MENA countries—Lebanon, Qatar, and the UAE—have issued bonds on the international financial market. Although sovereign bond spreads have declined from their peaks reached in late 2008, they remain above mid-2008 levels. A second factor that may crowd out emerging market sovereign and corporates' access to the international bond market is the large issuance being made by large financial institutions with guarantee from their governments. Even so, an Abu Dhabi state-owned investment vehicle, Mubadala, successfully managed the first corporate bond issue in the GCC since September. The sale raised US$ 1.75 billion, with about two-thirds in 5 year bonds at about 400 basis points (bp) above US Treasuries and the remainder in 10 year bonds at a 460 bp premium. Corporate borrowing has remained tight since the beginning of the crisis, although there are signs of easing. For example, the Abu Dhabi International Petroleum Investment Corporation is expected to soon complete a US$3.5 billion syndicated loan which will be the first large scale syndicated loan in the region since the financial crisis deepened last September.

Finally, ODA is expected to decline somewhat in 2009, with the risks that this will impose

[10] In March, net foreign purchases of U.S. long-term U.S. securities were $ 56.6bn (up from $20.8bn in Feb and net sales in January and November) private foreign investors bought $30bn ($25.9bn in Feb) and foreign official institutions $26.4bn (reversal from net sales in Jan and Feb combined). Some European countries have borrowed abroad massively (Germany: USUS 2.3trn, the Netherlands: USUS 1.9trn, the UK: USUS 4.5trn). [Source: RGE Monitor, 5/18/2009].

Figure 2.9: Spreads basis points delta since Sep 15, 2008, 01/01/2007–04/20/2009



Source: World Bank data.

pro-cyclical forces in ODA dependent countries in MENA. ODA tends to be pro-cyclical with economic cycle in source countries. For example, ODA to LICs fell by 3% during crises in Nordic countries in early to mid-1990s. With today's global synchronized crisis, source countries are likely to reduce ODA at a time when recipient countries are also affected by the crisis and need ODA increases to implement counter-cyclical fiscal policies. Economies like Yemen, Djibouti, West Bank and Gaza will suffer if ODA levels are cut back.

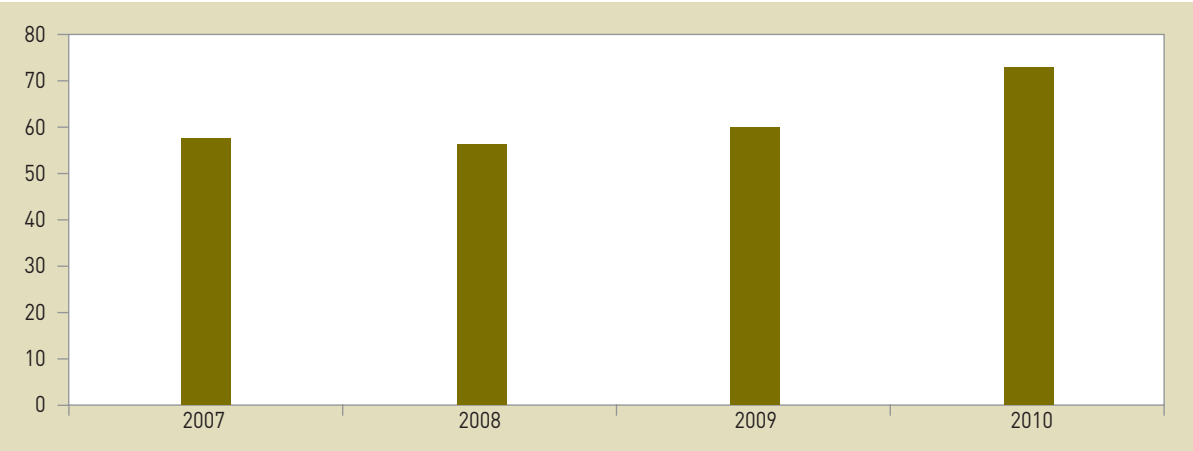
Prospects by country grouping

Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and UAE

As a group, GCC countries are poised to experience the sharpest growth contraction among MENA countries in 2009. Although the impact on growth in 2008 was limited, the sharp decline in oil prices since mid-2008 and continued depressed demand for oil on global markets are ushering in lower economic growth in 2009 and 2010 in virtually all GCC countries, with the exception of Qatar. In fact the two MENA countries projected to enter recession zone, Saudi Arabia and Kuwait, are among the GCC. For the GCC as a whole, growth is projected to decline from an average of 5.5% during 2004–08 to 1.1% and 4.2% in 2009 and 2010. However, with their significant financial reserves, GCC countries are likely to be able to maintain countercyclical fiscal stances and ride the storm comfortably if oil prices stay above $50 bbl throughout 2009 and 2010. While their fiscal revenues are projected to decline by 40% of GDP in 2009, expenditure is projected to remain at its 2008 level, leading to a sharp decline in fiscal balances, financed mostly with drawdown on past reserves.[11] Capital expenditures in particular are expected to be sustained at high levels. (Figure 2.10). Across the GCC, inflation is expected to ease to 7.6% and 4.7% in 2009 and 2010 from 11.4% in 2008, partly because of a drop in world commodity prices in 2009 and the stabilization of the US dollar—to which most GCC currencies are pegged—against the euro and other world currencies. External balance in GCC countries is expected to decline sharply to 13.2% and 16.7% of GDP respectively in 2009 and 2010 from its peak level of 33.6% in 2008, while their fiscal balance will deteriorate sharply from 26.6% of GDP in 2008 respectively to 5.3% and 7.2% of GDP in 2009 and 2010.

[11] Source; IMF, 2009c.

Figure 2.10: Capital expenditures: GCC, US$ billions, 2007–2010



Source: World Bank data.

Oil exporters with low oil revenue per capita – Algeria, Iran, Iraq, Libya, Syria, and Yemen

Although their public finances and external reserves will be stretched, oil exporting countries with large populations and social commitments relative to their hydrocarbon wealth will avoid recessionary growth in 2009 and 2010. Oil GDP will decline sharply but non-oil GDP will help maintain economic growth in positive territories. Real growth is projected to decline from an average of 5.6% in 2008 to 2.7% and 3.5% respectively in 2009 and 2010. With Iran's double digit inflation rate (23.5% in 2009) continuing into 2010, it is expected that the group's inflation will average 15.1% and 12.7% respectively in 2009 and 2010. Although, public finances will benefit from declining outlays for fuel subsidies on account of lower oil prices, countries in this group will see large swings in fiscal balances from a group average of 5.5% of GDP in 2008 to a projected negative 6.6% and negative 1.8% of GDP in 2009 and 2010. Large swings will also be observed in current account balances from an average of 22.7% of GDP in 2008 to 2.2% and 3% of GDP respectively in 2009 and 2010. While some countries are tightening up their fiscal stance due to lack of fiscal space and limited borrowing capacity (e.g. Iran), others are able to envisage counter-cyclical policies thanks to available reserves from previous years' oil revenues (e.g. Algeria).

Non-oil exporters reliant on financial flows from GCC or official development assistance from OECD – Djibouti, Jordan, Lebanon, WBG

Non-oil exporting countries with strong economic linkages with GCC countries (through remittances, FDI or tourism) and/or with strong dependency on foreign aid are seeing a stagnation of financial flows from GCC and face the challenge of mobilizing aid at a time when source countries are affected by the crisis. Countries in this group entered the crisis with generally weak macroeconomic frameworks characterized by high fiscal deficits, high debt levels, and tight external positions (see chapter 1). Their ability to conduct counter-cyclical policies will be dependent on fresh external flows or rollover of existing debt combined with a rationalization of expenditure patterns. Growth is projected to slow to 2.5 and 4.2% for the group in 2009 and 2010 compared with 6.1% in 2008. Inflation will ease to 5–6% from its high level of 12.5% in 2008. The group's average fiscal balance will remain negative in 2009 and 2010 (around negative 4 and 2.5% for both years), although it will show some improvement over 8.4% in 2008. The group's average current account balance will remain in negative territories but will improve over 2008 and reach negative 9.9% and 6.9% of GDP respectively in 2009 and 2010. The improvements

in fiscal and external balances will be driven by contractionary policies in the absence of space for large fiscal stimuli.

Non-oil exporters with strong economic linkages with Eurozone and OECD – Egypt Morocco, and Tunisia

Non oil exporters with strong economic linkages with the Eurozone and OECD—Egypt Morocco, and Tunisia—entered the crisis with relatively good macroeconomic stance, although with already tight fiscal space. With real GDP growth rate averaging nearly 6.5% and inflation rate of 6.8% in 2008, this group of countries experienced the highest growth and lowest inflation rates among sub-groups of MENA countries. However, they started feeling the impacts of the crisis on their real economy as early as the last quarter of 2008 as the recession spread across Europe and other export markets. Growth is expected to decline to about 4% and inflation should be contained at about 5.2% and 4.3% in 2009 and 2010. Fiscal balance is projected to remain at the same level of 2008 of about 4% of GDP in 2009 and 2010. Current account deficit is expected to average at about 5% of GDP in 2009 and 2010. Countries in this group can build on their good track record of sound macroeconomic policies and structural reforms to mobilize financing needed to implement countercyclical policies.

Downside risks to the prospects

MENA's prospects for 2009–10 remain subject to significant downside risks that will test the endurance of countries and how they would fair in the face of a possible persistence or deepening of the crisis. Three such risks are worth highlighting. First, a deeper and more protracted global recession than currently envisaged or a delayed global recovery recession could continue to depress demand for MENA's exports of hydrocarbon and manufactures. Second, unchecked protectionist tendencies from trading partners or MENA countries could jeopardize MENA's contribution to global recovery through trade and affect MENA's growth and employment prospects in the short term. Third, a sharp or persistent deterioration in MENA's real economy could affect the financial sector through feedback loop effects.

Risk of prolonged global recession

Despite signs that the recession may be bottoming out in the US and some other OECD countries, signs also abound pointing to the possibility that the global economic crisis may become more protracted or deeper in the months ahead. So-called "green shoots" emerged in the U.S. toward the end of the first quarter of 2009 providing signs that the U.S. economy might be on the path to recovery. Manufacturing surveys suggested that as of the end of the first and the beginning of the second quarters of 2009, the manufacturing sector was contracting at slower rates in advanced economies than at the end of the fourth quarter of 2008. China's index showed signs of recovery. However, considering the large extent of wealth effects of big losses in the OECD banking sectors and excess capacity, the recent "green shoots" could well be short-lived. In April, the IMF estimated that, during the period 2007–10, banks and other financial institutions faced potential aggregate losses of $4.05 trillion in the value of their holdings as a result of the crisis[12]. Of that amount, $2.7 trillion is from loans and assets originating in the United States. That estimate is up from $2.2 trillion in the fund's interim report in January and $1.4 trillion last October. In the United States alone, banks reported $510 billion in write-downs by the end of 2008, and they face an additional $550 billion in 2009 and 2010. In the countries of the euro zone, banks reported just $154 billion in write-downs by the end of last year but still face $750 billion in projected write-downs. Such large projected write-downs could extend the credit squeeze faced by producers and consumers, thus delaying the recovery in the US and OECD countries.

The large investments in housing and manufacturing sectors around the world prior to the global financial crisis, especially in the high-income countries and emerging markets, now constitutes excess capacity and represents

[12] IMF, 2009d

another factor that could delay global recovery until 2010. Globally, investment grew at 3.8% during 2000–07 driven by growth prospects and driving growth—especially in MENA where investment growth reached 17% in 2007 and contributed 4% to growth. Growth in investment added to global supply capacity, which has now translated into excess capacity, and further dissuading investors from going into new ventures or expanding existing capacity. On the other hand, aggregate demand has been drastically reduced following massive loss of wealth and deleveraging in the financial sector that reduce funds for investments and consumption globally. This reduction in investment and consumption could lead to negative growth and deflation, possibly increasing the extent of the excess capacity in the short term, and delaying global recovery.[13]

Even if the recovery in the US and OECD occurs in 2009 or 2010, there are uncertainties as to whether recovery in emerging market economies, including the MENA region, will be synchronized with, or lag, US and OECD recovery. Indeed, just as the impact of the crisis in MENA lagged the impact in OECD and most other emerging market economies, it is possible that MENA's recovery also lag the US and OECD's. This risk would be greater if MENA governments' response to the crisis does not address some of the impediments to private sector activities and distortions in the use of public resources.

Risk of protectionist measures

Another risk clouding MENA's prospects is the temptation of trade protectionism around the world. With trade flows on the decline and countries under pressure to reestablish macroeconomic balances, ensure adequate supply to their domestic markets, and use tax payers resources to save the domestic economy and jobs, policy-makers might be under pressure to err on the side of protectionism. During the Great Depression in the 1930s, countries resorted to protectionist measures and implemented beggar-thy-neighbor policies such as competitive devaluations and trade restrictions to limit the impact of the crisis. This move made things worse. In responding to the current crisis, governments around the world have so far managed to avoid or limit such policies. However, protectionist tendencies are on the rise and a number of the policy measures adopted in 2008—in both developed and developing countries (including MENA), are akin to trade protection.

In developed countries, the group of G20 proposed a total of 78 trade measures, of which 66 measures involved trade restrictions. To date 47 trade-restricting measures have been put in effect in 17 countries of G20.[14] These include tariff increases, non tariff measures and subsidies. About a third of these measures are tariff increases. For example, Russia raised tariffs on used auto and Ecuador raised tariffs on more than 600 items. Non-tariff measures have also been taken by several countries. Argentina for example imposed non tariff measures on auto parts, textiles, and leather goods, China tightened its standards (which have slowed import entry), India banned Chinese toys, and EU announced new export subsidies on dairy product. Subsidies proposed for the auto industry have proliferated with total of $48 billion worldwide, with more than 92% ($42.7 billion) allocated in high-income countries. United Kingdom, China, Argentina, Brazil, Sweden and Italy have provided direct or indirect subsidies in addition to the US direct subsidy of $17.4 billion to its three national companies.[15] Moreover Australia has managed to support its car dealers, while South Korea and Portugal support their component suppliers.

Should current protectionist tendencies gain momentum, the impact on MENA economies would be detrimental. Early indications are that trade restrictive measures taken in 2008 will not be repeated in 2009. With inflationary pressure

[13] World Bank, 2009b

[14] World Bank, (2009), "Trade protection: Incipient but Worrisome Trends", Trade Note #37.

[15] In addition to the non tariff measures taken by US is the provision in the stimulus bill that "None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron and steel used in the project is produced in the US." (Sec. 1110(a)).

Box 2.1: Example of measures that can limit MENA's contribution to global trade

In response to lobbying request from within the domestic steel industry, Egypt imposed a 10% import tariff on cold-rolled flat-tin sheets, on top of existing duties, to stabilize the local market price. This follows a similar move to put anti-dumping duties of LE500/ton on imports of white sugar, in addition to the existing 10% tariff, to protect the local sugar industry from "unfairly" priced imports. During 2008, rice suppliers registered with the General Authority for Supply were constrained to export only up to the amount they import subject also to an export tax of LE1000 a ton. This "export ban" has been extended until further notice. The Ministry is reviewing commitment to the Aghadir free trade agreement to decide whether to continue to allow Moroccan cars to enter Egypt duty free or not. In addition, the Prime Minister issued instructions to all government authorities prohibiting the import of any final goods that have local substitutes of similar specifications and quality.

Like some other oil exporters, Algeria has mandated that oil and gas projects (including their downstream revenues) must be at least 51% Algerian-owned. In December 2008, a directive from the prime minister's office extended this local ownership restriction to include all public projects. A new law passed in January 2009 stipulates that foreign investors cannot hold more than 49% of shares in new ventures. The rest must be held by local investors. The government has also mandated that public enterprises use local rather than foreign banks. This, however, does not apply to the private sector.

Source: MENA Staff

having eased, MENA governments will face no pressure to take trade restrictive measures. However, MENA could suffer from preferences given to domestic firms or to domestic contents as part of bailout packages in developed countries. On the export side, MENA exporters may find it more difficult to maintain shares in markets where importers are receiving government support and are required to favor domestic content. For example, the European Union's decision to reactivate export subsidies for butter, cheese and whole and skimmed milk powder to help European exporters better compete on the world market could harm MENA exports of dairy products to the EU.

In these dangerous times, it is important that MENA countries avoid measures that reinforce protectionist instincts which may have been initiated elsewhere (see section I). As one of the few regions expected to have positive growth in 2009, MENA will critically contribute to reducing the depth of the global recession and contribute to global recovery in 2009 or 2010. To preserve this contribution, MENA will need to play its full role in supporting global trade.

Risks of feedback loop from the real economy to the banking sector

With global recession working its way through the real economy in MENA countries, MENA's banking sector may face risks of feedback loop from the real economy. Having been spared by deep contagion from global financial markets, MENA's banking system may not avoid the impact of deterioration in the balance sheets of their customers in the real sector[16]. The global recession may induce an increase in non-performing loans, especially among companies in MENA's exporting sectors and tourism sector. Slowing export activity and falling real estate prices are also likely to be a risk particularly in Dubai (Box 2.2) and diversified economies in North Africa where banks' have large exposure either to real estate sector or trade-oriented manufacturing and services sectors. Internal weaknesses in the banks may also be magnified by—and magnify—the feedback loop form the real economy. For

[16] Moreover, since mark-to-market practices are virtually absent in the MENA region, the direct impact of the crisis on banks will likely be revealed with a lag, possibly between 2009 and 2010.

Box 2.2: United Arab Emirates: Recent developments in the real estate and financial sectors

The Colliers Home Price Index showed a 41% decline in home prices during the first quarter of 2009. This followed a decline of 8% in the last quarter of 2008 bringing prices roughly to their end-2007 levels. As 2007 had already seen several years of appreciation, analysts are concerned that further declines are in store. Recent financial results for property developers reflect the plunge in prices and cessation of new activity. Emaar and Nakheel (both of which have close links to the Dubai government) announced profits well below consensus expectations, but Abu Dhabi-based developers have also been badly affected. However, commercial banks have reported solid profits for the first quarter of 2009. This reflects their gains from the extensive liquidity operations of the Central Bank, which have lowered their funding costs. Nevertheless, analysts are concerned that indirect exposures to property have yet to play out.

Source: Collier International, MENA Region, Dubai, Q1, 2009.

example, derivative losses in a Kuwaiti bank is a warning that weaknesses in risk management need to be addressed in earnest in the banking system if the region is to mitigate the impact of any feedback loop effects that may be caused by shocks to bank clients in the real economy. Also, Kuwait's investment companies have suffered equity market losses and two have defaulted on debt payments in the last six months.

Policies to Mitigate the Impact of the Global Recession

Introduction

Although monetary policy was considered in many MENA countries as part of the toolbox to deal with high consumer prices and respond to the impact of the crisis on financial systems in 2008, its efficacy has been mixed thus far. Initial monetary policies in the second half of 2008 were somewhat constrained by currency pegs to the US dollar and other major OECD currencies, and by fear of inflation as commodity prices were still high. Inflation rates have come down markedly and prospects point to further declines, giving MENA authorities more room to relax monetary stance to stimulate domestic demand. Some countries have in fact done so in 2008 (see chapter 1). However, on the whole, the efficacy of monetary policy has been reduced because the crisis has eroded confidence in financial institutions among market participants. Also, with excess liquidity in the banking system in some countries—partly caused by the fact that many financial institutions are holding back lending due to weakened trust—lending rates are less responsive to monetary policy tools. In any event, going forward, authorities will rely less on monetary policy instruments to deal with the impact of the crisis as the crisis permeates the real economy.

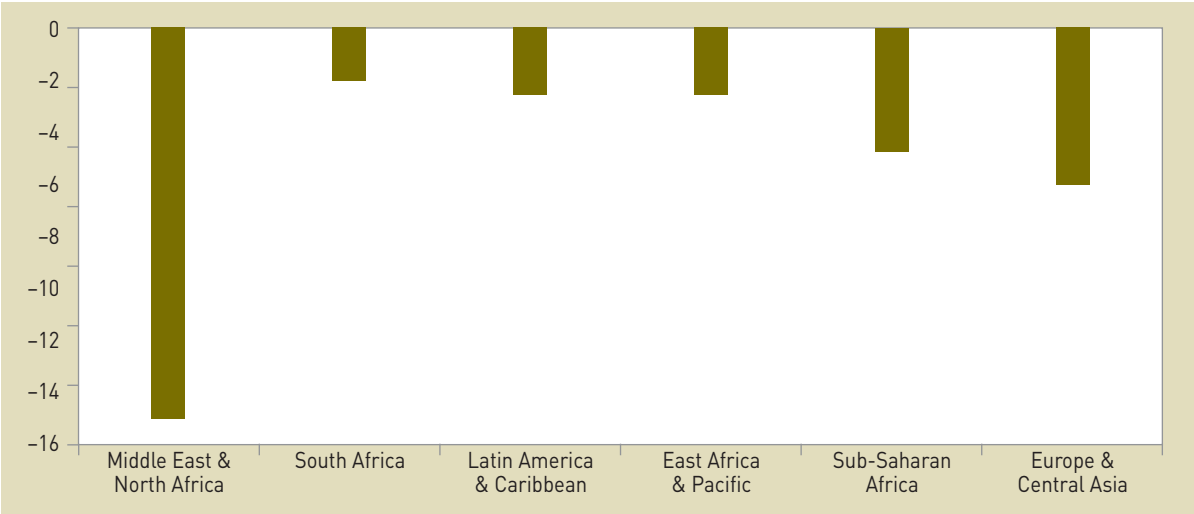
Starting with the last few months of 2008, attention has gradually shifted to fiscal policy across the region[17]. Fiscal policy responses to the global crisis have varied across the MENA region, reflecting the diversity of impacts and fiscal constraints. Going forward, efficacy of measures already taken and the adequacy of future measures will critically depend on: (i) remaining fiscal space or availability of financing and (ii) nature and content of the stimulus measures.

Dealing with shrinking fiscal space

Although many MENA countries entered the crisis with respectable fiscal space, the region is seeing the largest decline in fiscal position among developing regions, mainly due to sharply lower oil revenues compared to 2008 (Figure 2.11). Moreover, on the expenditure side, budgets are lumbered by expensive and often poorly targeted social programs and large civil service wage bills, and on the revenue side, governments face declining intake due to less buoyant income tax

[17] A global survey of World Bank economists for 66 countries (mostly middle income countries) in early 2009 found that 44 percent had plans for a fiscal stimulus (World Bank (2009j).

Figure 2.11: Projected deterioration in fiscal balance, % of GDP, (changes) in 2008–2009



Source: World Bank data.

revenues. If and when economic recovery occurs, automatic stabilizers might kick in and some components of revenues (such as oil revenues and income taxes) may increase whereas some components of expenditures such as employment benefits (in the case of Maghreb countries) may decline. However, automatic stabilizers are less effective in MENA than in OECD countries. To be prudent, MENA countries should take safeguards fiscal measures to increase revenues or reduce expenditures in order to reduce the non-discretionary deficit, if economic recovery does not occur as fast or as robustly as expected.

However, fiscal deficit is not a sufficient metric to get an accurate picture of fiscal space. To get a more accurate picture of fiscal space, it is useful to also take into account the level of debt. The lower initial deficit and debt condition, the larger fiscal space is available to the governments. In fact creating fiscal space is constrained by the amount of public debt and deficits as well as the size and nature of private sector debt. The latter will impose constraints on fiscal space because during boom times the private sector may have over leveraged itself, and finds it difficult to repay debts during the downturn. Governments may intervene and bail out banks and nonfinancial firms in distress. Thus booms in private credit or elevated levels of private debt should be factored in as the likely location of contingent liabilities that will constrain fiscal space if they are realized. If private sector liabilities are in foreign currencies, countries with larger foreign exchange reserves will be better positioned. In Brazil, for example where the public sector through rapid accumulation of foreign reserves had become a net creditor in hard currency, the government announced that the private sector will be allowed to access official reserves to repay debts.

Using the levels of fiscal deficit and public debt to assess fiscal space shows that MENA countries are quite diverse. (table 2.2) Half of GCC countries—Qatar, Oman and the UAE—have comfortable fiscal space. Bahrain, Saudi Arabia, and Kuwait have some fiscal space but they might be constrained by a moderate fiscal deficit in the case of Kuwait and a limited fiscal surplus in Saudi Arabia and Bahrain. Going forward, they will need to use their remaining fiscal moderately.

All other oil exporters, except Iraq (Algeria, Iran, Libya and Syria) have some fiscal space that needs to be managed carefully going forward.[18]

[18] Despite a zero budget deficit, Iraq has no fiscal space due to an already high level of debt.

Table 2.2: Fiscal space projections: MENA country groupings: 2009

	Fiscal Balance as % of GDP	Government Debt as % of GDP
	2009f	2009f
GCC countries		
Bahrain	1.8	26.0
Kuwait	–2.7	7.5
Oman	11.9	5.0
Qatar	13.5	6.0
Saudi Arabia	1.5	15.6
United Arab Emirates	13.5	10.8
Oil exporters with large populations		
Algeria	–11.5	8.7
Iran, Islamic Republic of	–5.2	14.6
Iraq	0.0	137.0
Libya	–9.8	0.0
Syrian Arab Republic	–5.5	32.6
Diversified exporters with strong GCC links		
Djibouti	–3.4	47.7
Jordan	–3.4	65.9
Lebanon	–4.4	161.9
Yemen	–2.0	39.9
Diversified exporters integrated with Europe		
Egypt	–5.6	73.8
Morocco	–3.1	47.8
Tunisia	–3.1	48.4

Source: World Bank and IMF data, and World Bank staff estimates

Fiscal balance ----->	*Larger than 2% of GDP*	*-2% to + 2% of GDP*	*Less than -2% of GDP*
Government Debt ----->	*0 to 30% of GDP*	*30% to 80% of GDP*	*Larger than 80% of GDP*

Thanks to high oil revenues in the recent past, they have been able to maintain a low level of debt; and although they are all expected to run a fiscal deficit in 2009, they have some space to increase the level of public debt in hopes that oil prices will not fall below levels that jeopardize their governments' ability to accumulate surpluses and repay debt. However, countries where debt issuance can be constrained by other factors than the debt level may not be able to increase public debt and will be constrained in their ability to implement pro-cyclical fiscal policies. Also, countries with declining oil production (e.g. Yemen, Syria) should refrain for increasing their debt to GDP ratio as their repayment capacity may be constrained going forward.

Among non-oil exporters, with a debt to GDP ratio among the highest in the world and a fiscal deficit of more than 4%, Lebanon has no fiscal space. Other than rolling over existing debt, it will be difficult for Lebanon to issue new debt to finance a stimulus plan. Jordan and Djibouti have no fiscal space either; they also suffer from a high fiscal deficit although with a much lower debt to GDP ratio than Lebanon. Morocco and Tunisia

have some fiscal space thanks to moderate levels of public debt. With a higher fiscal deficit and debt ratio, Egypt has no fiscal space and will find it difficult to finance additional stimulus spending in 2009–2010 over and above the package already announced by the authorities.

The quality of fiscal and debt management policies and institutions are also important factors in assessing the desirability of temporary fiscal deficit as a crisis response measure. Not all countries in need of external financing for their fiscal stimulus packages have the institutional capacity to implement largely scaled up public expenditure programs. Effectiveness of policies will depend on institutions for fiscal policy making and implementation. For example, can policy-makers reverse temporary deficit-building measures into deficit-reducing ones later on, correct errors mid-course, or spend discretionary fiscal stimulus funding for social or infrastructure efficiently? In many instances, the answers to these assessment questions are not unequivocally positive. In some countries where the quality of current social spending is wanting, it may be necessary to accept some contraction of the public expenditure programs while restructuring them to make them sound and high-impact.

With falling fiscal revenues in almost all the countries in the region and with tightening external financing conditions, domestic public debt can be an interesting alternative for financing fiscal stimulus packages. In fact domestic public debt is already an important share of total public debt in MENA where 50% of public debt is domestic, compared to 30% in sub-Saharan Africa[19]. Many MENA countries have issued domestic bonds since mid-2008. As conditions remain tight on international bond markets, domestic markets may remain the best option for many MENA countries. However, MENA will need to carefully manage the risks associated with domestic debt issuance to finance crisis response. First, the public sector should avoid crowding-out the private sector at a time when the private sector is already facing difficulty raising funds from banks or corporate markets. Second, in some countries such as Lebanon where the cost of servicing domestic debt is already high, the government should avoid adding to that cost. Third, the effectiveness of domestic debt as a source of stimulus financing can be stifled by the Ricardian equivalence whereby taxpayers, seeing today's new debt as a cause for tax increases tomorrow, save an amount equivalent to today's new debt to face tomorrow's tax increases. By doing this, taxpayers cause public spending to substitute for, rather than adding to, private spending and therefore defeat the purpose of the stimulus. To get around the Ricardian equivalence, domestic debt issuance should finance revenue-generating investments (e.g. through cost-recovery) or activities that add to future growth of the overall economy (e.g. public investments that crowd in private investment) as such activities would add to government revenues without having to increase tax rates.

What fiscal stimulus packages for MENA?

As the impact of the crisis on the real economy deepens in MENA, the attention currently received by fiscal stimulus packages will need to turn to composition of stimulus packages and capacity to implement them effectively. Most fiscal stimulus packages imply increasing government consumption of goods and services, government transfers and/or public investment so as to offset a fall in other components of aggregate demand. As discussed in Favaro et. al, fiscal stimulus packages are effective if they result in production of goods and services valuable to the consumer via employing labor and capital that are idle as a result of the recession. At the other extreme, fiscal stimulus packages may be ineffective if the increase in government spending goes to the production of goods and services of zero value to the consumer and do not affect net employment.[20] They may be ineffective also if they result in an equivalent decline of private investment or consumption as discussed in the previous section.

In designing their stimulus packages, countries in MENA should seek to include at least the following three components: measures that can stimulate investment and remove bottlenecks

[19] Source: World Bank, (2009j).
[20] See Edgardo Favaro, Leonardo Garrido and Tihomir Stucka for a discussion of Egypt's fiscal stimulus package.

to future growth, measures that provide needed safety nets to the poor and vulnerable through a rationalization of existing subsidy programs, and measures that support private sector's economic activity and trade in the short term. Attention should also be paid to coordinating fiscal stimuli across MENA countries so that stimuli can be mutually reinforcing.

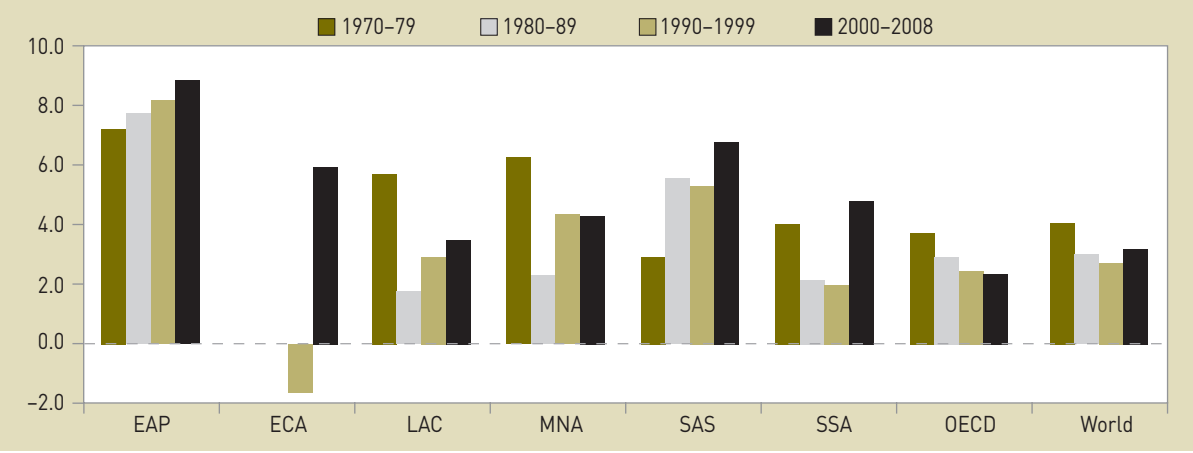
Removing Bottlenecks to Growth

To benefit from global recovery once the crisis is over, MENA countries will need to use the crisis as an opportunity to remove infrastructure bottlenecks and institutional constraints that have suppressed regional growth for decades. MENA's pre-crisis growth rate has been respectable but not stellar when compared to other developing regions. For example, during 2000–08, MENA was the second slowest growing of all developing regions with a growth rate of 4.3% (Figure 2.12). The region's growth rate was identical in the 1990s and even lower in the 1980s, in contrast to the fast growth of the 1970s which the region has been unable to replicate since. Despite its abundant natural resources and a strategic geographical location, MENA's growth potential has been subdued; lack of modern infrastructure to raise the region's competitiveness and fully take advantage of the growing global manufacturing and services trade is one of the reasons for this.

Reliable data for the investment needs in the MENA region are not available but estimates show that more than $300 billion of investment will be needed in MENA over the next 10 years in order to meet infrastructure capital demands.[21] Among the countries in the region, GCC countries infrastructure needs are the highest. Despite high profile investments in some GCC cities, GCC countries as a group are in dire need of modernizing their infrastructure. It is estimated that between 1998 and 2007, about 20% of GCC 's total GDP was invested, compared with 39% and 30% in China and South Korea respectively. Given the large needs and low level of investment to date, care should be taken not to cut too sharply MENA's investment rates as a result of the crisis. Lessons from past crises indicate that this is a risk to bear in mind in governments' responses to the crisis. In Argentina for example, the crises of the late 1980s and of 2001–02 elicited deep declines in fixed investment which resulted in Argentina's investment-GDP ratio standing some 7.8 points below trend in 2002. And during the East Asia crisis, Thailand, the country initially at the focus of the disruption, saw investment (in real estate as well as in services and manufacturing) drop by an astounding 18% per year between 1996 and 1999.

[21] OECD, (2006), Initiative on Governance and Investment for Development, MENA Workshop on Public-Private Partnerships for Infrastructure Financing, Organized in Istanbul, Turkey.

Figure 2.12: Regional average growth rates: 1970–2008



Source: World Bank data.

Recognizing the infrastructure challenge, some GCC countries have committed to maintaining high levels of spending to stimulate their economy and provide competitive infrastructure. For example in Saudi Arabia, capital spending is budgeted to leap 36% to US$60 billion in 2009, and the country's medium-term investment program totals US$400 billion over the next five years. Qatar and Bahrain have announced ambitious investment plans. Despite the heavy impact of the crisis, Dubai appears to be well positioned to take advantage of a global rebound—although it is unlikely to regain the pre-crisis level of enthusiasm—helped by a high level of investment and a conducive business environment.

The role of the private sector in infrastructure should be actively encouraged as part of MENA's crisis response framework. This is particularly important given the limited fiscal space faced by many MENA governments. In the past 15 years, a country like Egypt has taken slow but steady steps towards strengthening the role of markets in the allocation of resources. These policy changes have yielded a high return in terms of growth and employment, showing that changes are possible. Tunisia has also had some success in private sector-led growth. But even in Egypt and Tunisia, and more so in most other MENA countries, much remains to be done to create a leveled playing field for all investors, domestic and foreign, public and private (chapter 3). In the post crisis era, countries with adequate infrastructure and conducive business environment will have a particular edge over other countries as investors are likely to look for profit opportunities while taking minimal risks in order to make up for the losses of the crisis period.

Using subsidies effectively to mitigate the impact of the crisis on vulnerable groups and stimulate investment especially in small and medium enterprises

Historically, MENA countries have maintained high levels of subsidies and social spending that tie up a significant share of public resources that rarely benefit the social groups or sectors for which they are intended. In the majority of countries, all fuels and electricity are subsidized. Subsidies represent on average 7.1% of GDP and over 20% of government spending in MENA countries for which data is available.[22] In most MENA countries, high social spending is seen as part of the social contract, or as a mechanism to redistribute natural resource wealth. Some of the subsidy programs were either introduced to address spikes in commodity and were thus deemed to be temporary or as a safety net to support the poor. Across the region, these programs have persisted even when commodity prices declined. Programs created as safety nets for the poor and vulnerable have tended to benefit the wealthy as well and perhaps more than the poor in some cases. For example, in Morocco, the richest 20% of the population receives more than 31% of subsidies on fuel and liquefied gas while the poorest 20% received less than 10%.

While removing entrenched subsidies is not an easy task, and while there is no ideal time to do so, the time may be ripe for governments in MENA to rationalize their expensive subsidy programs. First, the argument can be made that the global financial crisis strengthens the case for restructuring poorly targeted safety net programs and other social programs in order to free up resources to finance critical social programs and job creation that benefit the poor and those who are deeply or directly affected by the crisis. Simulations show that elimination of energy subsidies would generate US$46 billion welfare gain for the world (0.1% of GDP), of which US$12 billion for MENA (0.005% of GDP), and US$33 billion for non-MENA, and a reduction in energy use in the MENA region (up to 13.2% in Morocco and in 46% in Iran). Second, as fuel and food prices have come down somewhat, restructuring of subsidy program will not represent an inordinate increases in household expenditure for wealthy households who may have to forgo formerly received subsidies. Finally, in some countries, subsidies have created heavy reliance on imports, public companies, rent-seeking situations, corruption and smuggling which in turn have stifled competition and private sector development. The need to spur private sector activity and growth

[22] Source: World Bank, MENA data.

should be an important component of any stimulus package for economic recovery. Removing these "institutional bottlenecks" is yet another reason for rationalizing subsidies in MENA.

It should however be noted that in some cases, price subsidies, especially food subsidies, do reach the poor and play an important role in their livelihood. Therefore subsidies should be rationalized with care so as to maintain—and perhaps—increase benefits to the poor. The impact on vulnerable groups can be lessened if subsidies are reformed in a progressive fashion, cutting unnecessary subsidies that benefit the wealthy while maintaining or even increasing subsidies that benefit the poor and vulnerable. This seems to be the guiding principle behind ongoing efforts at reforming subsidies and introducing new social programs in a number of MENA countries (Box 2.3).

Box 2.3: Examples of social programs being introduced in MENA

Safety nets in Syria consist mainly of subsidized prices on food and other commodities, although this is changing rapidly. Gasoline and diesel prices were increased in May and again in December 2008, and coupons were issued for limited purchase of diesel at subsidized prices for all families to ease the transition. While current public safety nets are limited, it is expected that remaining energy subsidies will be phased out, replaced by a targeted cash transfer program. The program would initially target the poorest 15% of the population, and is expected to be launched by the Ministry of Social Affairs and Labor in 2009. Informal assistance from family members and from nongovernmental charities remains a significant safety net for the poor.

In Morocco, the government implemented better-targeted social programs to enhance the efficiency of social spending while fighting poverty and improving the welfare of the population. To this effect, two important social programs were launched in 2008. The first concerns a health insurance coverage scheme for the poor and vulnerable (RAMED), and the second involves a Conditional Cash Transfer program. Both of these programs and other similar ones would improve social protection coverage of the population and hence help set the conditions for progressively phasing out the inefficient current universal subsidy system.

In Iran, where energy subsidies exceeded 20% of GDP in 2007/08, the government submitted a bill to reduce energy subsidies in December 2008. The parliament rejected the proposal on the grounds that ending energy subsidies, particularly during this time of economic crisis and high inflation, would only serve to stoke inflationary pressures.

In Iraq, for the past several years, policy makers have made increasingly more public statements about the need for reform of the PDS. As a first step to reform the un-targeted Public Distribution System (PDS), the authorities announced that eligibility of better-off families will be restricted as of mid-2009. Although the PDS is an effective safety net, this goal is accomplished in a highly inefficient manner, costing about US$ 6.30 to transfer US$ 1 worth of food to a poor person. Any phasing out of the PDS is scheduled to take place as authorities set up a cash-based targeted safety net. However, there is little popular support for targeting or moving to a cash-based safety net.

In Egypt, a plan to liberalize trade in subsidized flour used in the production of subsidized bread has been adopted. The objective is to eliminate the waste and leakage of both subsidized wheat and flour, and to create more competition in the market. The Holding company for Milling will undertake the purchase of wheat and will sell it to the Minister of Social Solidarity at market prices, which will tender the milling of the wheat. The General Authority for Supply and Commodities (GASC) will continue to import wheat from abroad to maintain a strategic stock for at least four months and will make the wheat available for mills wishing to participate in the tender process to mill the wheat at market prices. Moreover, bread will continue to be subsidized and sold at LE0.05/loaf, with subsidies reaching LE15 billion in the state budget (almost 1.5% of FY09 GDP). The plan will be implemented in four phases over two years, starting with 20% of the subsidized flour quotas. However, it is not clear, at this point, whether the new system could lead to savings in subsidies on wheat due to efficiency gains.

Beyond subsidies, countries are considering other social spending for rationalization. Although not all the efforts are directly related to the global financial crisis, lessons from previous crises suggest that in restructuring social spending, countries should favor projects that can act as automatic stabilizers such as means-tested social benefit programs whose extension will occur naturally and should be financed during downturns as more people fall below the eligibility threshold, and this will reverse as the economy recovers. Similarly, public work programs with below market wages can act as automatic stabilizers. Aspects of Egypt's fiscal stimulus package geared toward job-creating infrastructure investment fall in this category. Introducing new conditional cash transfers is not appealing in the midst of the crisis as eligibility criteria and thresholds may have been affected by the crisis making it difficult to accurately define the beneficiaries. The implementation of Morocco's recent plans to introduce a conditional cash transfer, though based on international best practice, may need to be timed to take into account the crisis.

Labor market interventions to support employment and earnings (e.g. payroll tax holidays and wage subsidies) may be appropriate if the crisis is short-lived but may not be fiscally sustainable if the crisis is prolonged. They may also be difficult to remove in the upturn due to risk of capture. In Morocco, the recovery plan focuses on three labor-intensive exporting sectors that employ between 300,000 and 400,000 employees: textiles, automotive components, and leather and footwear products. The ultimate objective of the government's recovery plan is to preserve jobs in these activities. The recovery plan provides guarantees for up to 65% for working capital loans; extends insurance risk coverage for exports; eases regulations that relate to imports covered by the temporary admission scheme; provides additional training and logistics in partnership with business associations; and covers the employers' contributions to social security in eligible cases (that is, provided the firms retain their employees and can show a 20% loss). While some measures in the Morocco package may be beneficial in the post-crisis era (easing of import regulations and partnership with business associations), some other components will need to be phased out when the crisis is over lest they become a burden on public finances. Tunisia has announced similar measures to support domestic SMEs and employment.

Country Prospects

Gulf Cooperation Council, GCC countries

Bahrain. Real GDP growth is projected to decline from 6.1% in 2008 to 2.6% in 2009 followed by 4% in 2010. Demand for Bahrain's exports of goods and services, is likely to come under pressure in 2009 as the global economic downturn and lower oil prices hurt regional growth. Current account surplus of the past few years is projected to turn into a deficit of 5.4% and 4.8% of GDP in 2009 and 2010. The global financial turmoil poses risks to Bahrain's economy, particularly since the banking sector, the largest contributor to GDP, could see a decline in activity if international banks were to reduce their presence in Bahrain. Inflation is projected to slow slightly to an average of 3% in 2009 and 2010. In the short run, the Bahraini government's economic policy will focus on shoring up growth given the global economic downturn. The government plans a strong fiscal expansion in 2009 and 2010 despite falling oil revenues. Fiscal surplus is projected to decline from 8% of GDP in 2008 to 1.8% of GDP in 2009 but increase to 9% of GDP in 2010. Because it does not have a large resource endowment, Bahrain did not experience the extent of windfall seen elsewhere in the GCC in 2007–08 and its budget comes under pressure more quickly when oil prices weaken: oil revenue still accounts for about 75% of total fiscal revenue. The fall in oil prices will give more urgency to efforts to diversify fiscal revenue, which will possibly include the introduction of value-added tax (VAT) and increases in electricity and water tariffs, visa fees and the levy on expatriate workers. The government also seeks greater private-sector participation in the economy, but progress is slow as the global economic downturn is causing a fall in foreign direct investment flows. The agenda here includes promoting efficiency in the performance of core government functions, reducing the footprint of government through privatization and pension reform, improving the targeting of subsidies and transfers, and encouraging best practice in managing state-owned enterprises. Nevertheless, growth prospects can be grounded in the resilience of Saudi Arabia and Bahrain's role as the flexible niche hub for the Saudi economy. The integration between the economies is extremely high, and the determination of Saudi Arabia to keep focused on its long-term investment agenda means that there is a potentially lucrative project finance pipeline in which Bahrain can be a player.

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	6.1	2.6	4.0
Inflation Rate (%)	3.5	3.0	3.0
Fiscal Balance (% of GDP)	8.0	1.8	9.0
Current Account Balance (% of GDP)	32.3	–5.4	–4.8

Source: World Bank data

Kuwait. Growth is projected to decline from 5.2% in 2008 to negative 1.2% in 2009 driven by a sharp contraction in oil GDP of about 5%.[23] Kuwait's ability to increase its growth prospects for 2010 will depend on the global environment—notably oil prices—but also on the complex interaction between the domestic political

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	5.2	–1.2	2.4
Inflation Rate (%)	5.4	4.2	4.0
Fiscal Balance (% of GDP)	25.7	–2.7	3.3
Current Account Balance (% of GDP)	48.2	19.6	31.6

Source: World Bank data

[23] IMF, World Economic Outlook, 2009

situation and the ability to design and implement policies. Inflation is expected to ease down to about 4.2% in 2009 and 2010. Current account balance is projected to drop by more than 50% from its high level of 48.2% of GDP in 2008, reaching 19.6% and 31.6% of GDP respectively in 2009 and 2010. Fiscal balance is expected to deteriorate to negative territories from a surplus of 25.7% of GDP in 2008 to negative 2.7% of GDP in 2009 before turning positive to 3.3% of GDP. The government has relied mainly on aggressive monetary policy measures to mitigate the impact of the crisis, but this model is now under strain. In addition to Central Bank easing, the Kuwait Investment Authority is making local stock exchange investments to support the market (and thus the local institutions linked to it). The Central Bank has also managed modest depreciation of the Kuwaiti Dinar to the point where the exchange rate against the dollar is now almost exactly where it was when Kuwait abandoned the dollar peg in 2007. The financial sector stabilization package, enacted by decree in March, concentrates on refinancing about $17 billion of Investment Company debts invested in now sharply depreciated financial assets. Under the package, 50 percent of any new loans extended to the investment companies by domestic banks will be guaranteed if it goes to refinance domestic debt and 25 percent if it goes to refinance foreign debt. The size of the package may not be sufficient given the still-emerging debt restructuring situations in the financial sector. Moreover, the package fails to quarantine bad debt and risks contaminating the fairly healthy commercial banking sector with the bad debts of the weaker investment funds. In the short-term, Kuwait has several margins of adjustment for dealing with the global economic crisis. Large financial wealth had been seen as one beneficial side effect of Kuwait's limited strategy of focusing on oil extraction, while limiting its attention to development ventures internally. However, the big capital losses of the Kuwait Investment Authority (the country's sovereign fund) over the last year have raised questions over this strategy.

Oman. Real GDP growth is expected to slow from 6.2% in 2008 to 3–4% in 2009 and 2010. Non-oil growth should remain at 4% which will help to counterbalance a contraction in the oil sector. With the slowdown in global and regional growth, Oman's tourism industry which is an important driver for the service sector will face a difficult year ahead. Current account surplus of recent years is projected to turn into deficits of 14–20% of GDP in 2009 and 2010. Inflation is contained by the government's extensive subsidy system, which holds in check the prices of a range of core goods and services which will also continue to weigh on public finances. It is projected that inflation will remain around its current level of 6% in 2009 but with oil and non-oil commodity prices falling sharply, it is expected that inflation will fall to 2% in 2010. Fiscal balance is projected to remain at around 12% of GDP in 2009 and 2010. The government has also announced an increase in spending by 11% in response to the economic slowdown. With net foreign assets estimated at 50% of GDP, the economy has saved prudently in recent years, which will give it a robust budgetary cushion for the next few years. However, existing challenges will be accentuated if the global crisis does not unwind over 2009–2010; the country would have a lower ability to run countercyclical policies than most other Gulf countries, given its lower revenue base. Oman's resource extraction costs are much higher than in its GCC neighbors (due to difficult geology) and oil prices projected at $55–63/barrel will not permit the windfall saving of recent years when set against the highly capital-intensive mode of development. Well aware of this fact, policymakers have long welcomed private sector involvement in the upstream energy sector and through judicious use of partnerships and joint ventures have built significant local capacity in the energy sector. However, it is likely that more diversified sources of funding for investments will have to be found, focused for example on financial sector deepening and privatization.

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	6.2	3.0	3.8
Inflation Rate (%)	6.0	6.7	2.0
Fiscal Balance (% of GDP)	12.7	11.9	11.2
Current Account Balance (% of GDP)	16.3	–14.2	–19.7

Source: World Bank data

Qatar. Qatar looks set to be unique in maintaining strong growth in 2009 among GCC countries. Real GDP growth is projected to increase to 18.2% in 2009, up from 16.4% in 2008. Growth is expected to be sustained at 16.2% in 2010. This reflects the coming on stream of new liquefied natural gas (LNG) facilities in the world's largest

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	16.4	18.2	16.2
Inflation Rate (%)	15.1	10.0	6.0
Fiscal Balance (% of GDP)	11.5	13.5	14.7
Current Account Balance (% of GDP)	37.1	12.4	30.7

Source: World Bank data

LNG exporter. The economy was less exposed than others in the GCC to the global economic crisis. LNG sales are mostly determined by long-term contracts which preset prices and quantities (although a spot market is emerging), and the main customers in East Asia remain committed to gas imports. Although Doha has seen a building boom, many of the new towers are for relocated government ministries for which the appetite remains solid. Furthermore, Qatar avoided the speculative trade in unfinished apartments, which was a feature of the Dubai property boom. Qatar's inflation rate is the highest among GCC countries with rent and food prices being major contributors. Inflation is projected to fall to 10% in 2009 from 15.1% in 2008 due to the pass through of declining international food prices and slower increase in domestic rents. On the fiscal side, Qatar will maintain a surplus of 13–15% of GDP in 2009 and 2010, similar to levels of the past few years. Qatar has maintained high current account surplus in the past few years peaking at 37.1% of GDP in 2008 and is projected to continue the same trend except in 2009 where the current account balance will decline to 12.4% of GDP. In 2010 it is projected that the external account balance will strengthen and reach 30.7% of GDP. Although LNG is the engine of growth in Qatar, oil production (at about 0.85 million barrels per day) remains an important "cash cow" for the economy. Nevertheless, Qatar is feeling some effects from the global crisis. The severe regional stock market plunge has almost certainly caused big losses for investment firms, with consequent exposure risk for the commercial banking sector. In a pre-emptive move, QIA announced in October in 2008 that it would purchase phased 5% stakes in all local banks, and the government said that it would purchase the investment and real estate portfolios of commercial banks. Overall, the government is confident that Qatar can capitalize on the crisis, especially in terms of its regional ambitions. Plans to make Doha a hub for education, healthcare, and financial services are being kept on track, and ample liquidity is available from hydrocarbon revenues to keep the private sector engaged. Even highly ambitious projects like the "Friendship Causeway" to Bahrain are reportedly on schedule. However, revisions in international financial regulation may require some adjustments to the ambitious plan of Qatar as a global Financial Centre.

Saudi Arabia. While the largest economy in the GCC and the MENA region was able to avoid the financial and property sector turmoil afflicting the UAE, Kuwait and some other emerging market economy, the combined effects of lower oil prices and production cuts will be sharp reductions in economic growth and fiscal and trade

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	4.6	-0.9	3.0
Inflation Rate (%)	9.9	5.7	3.5
Fiscal Balance (% of GDP)	30.4	1.5	4.5
Current Account Balance (% of GDP)	35.5	16.2	26.4

Source: World Bank data

surpluses in Saudi Arabia in the 2009–10. Saudi Arabia will see recession in 2009. GDP growth rate is projected to contract by negative 0.9% in 2009 before recovering to 3% in 2010. Inflation is projected to ease to 5.7% and 3.5% respectively in 2009 and 2010 from 9.9% in 2008. The loss of fiscal revenue due to oil price movements is

projected to be 27% of GDP in 2009.[24] The fiscal balance is projected to deteriorate from 30.4% of GDP to less than 2% and 4.5% in 2009 and 2010. On the external side, the surplus of about 35.5% of GDP in 2008 is projected to decline to 16.2% but will improve to 26.4% of GDP in 2010. The wealth effect caused by large losses on the stock markets and uncertainty regarding short term prospects have caused consumers to cut down consumption of certain luxury goods (e.g. cars). This wealth effect may persist throughout 2009 and possibly 2010, stifling growth prospects. In fact, recently, The Saudi Arabia Basic Industries Company (SABIC), the largest traded company in Saudi Arabia, surprised the stock market with a big loss in the first quarter of 2009. The company was hurt by poor performance in its US operations (the former GE Plastics) and by sharply declining petrochemical product prices. Luckily, thanks to, Saudi Arabia is in a position to provide a sizeable fiscal stimulus thanks to its large international reserves accumulated in past years and its cautious approach to overseas investment of oil wealth—largely US Treasury instruments rather than in global equity as other sovereign funds. Thus the Saudi government has announced an important fiscal stimulus for 2009–2010 amounting to a total of 9–10% of GDP—the largest among G20 countries. Government's focus is to maintain the level of investment in the economy and keep large projects (such as railways) on track so as not to jeopardize long-term growth potentials. Public financing is used to make up for the project finance vacuum left by the departure of many large international banks hitherto providing financing to local projects. Recently, the impact of two corporate debt distress situations in Saudi Arabia has spread around the GCC. It is generally considered that banks in Bahrain, the UAE, and Saudi Arabia have a combined exposure to these two companies that could run into billions of dollars.

United Arab Emirates (UAE). The UAE will experience the sharpest growth slowdown of any MENA economy in 2009. Growth is projected to decline from 7.4% in 2008 to 0.3% in 2009. UAE is expected to have the lowest inflation rate among GCC countries in 2009, with inflation projected to ease from its high level of 11.5% in 2008 to 2–3% in 2009 and 2010. The fiscal surplus of the past few years is projected to shrink to 11.2% and 8.0% of GDP in 2009 and 2010. External balance will halve to 8.1% in 2009 and is projected to lower to negative 5.3 percent of GDP in 2010 as the impact of the sharp decline in economic activity in Dubai is likely to persist and stimulus spending helps sustain imports. In fact, with the diversity of situations across the constituent Emirates, the UAE faces a challenging situation in the short term. The UAE is experiencing the most complex manifestation of the global economic crisis among the GCC countries. While the volatility in oil prices and their associated effect is common to the GCC, the UAE also features emerging market-type vulnerabilities overlaid with an embryonic system of intergovernmental fiscal relations. Critical to understanding the crisis dynamic in the UAE is that it is an oil-rich economy which relied heavily on external financing for its non-oil growth. After the sharp collapse in the real estate property market as well as in the financial market in Dubai, the main short term challenge is to manage the impact of the global recession on Dubai in an environment where lower oil prices may constrain Abu Dhabi's rescue capacity. Abu Dhabi has provided much needed support to help stabilize the financial system across the Emirates and especially Dubai. Abu Dhabi has also issued bonds worth $10 billion and used the proceeds to help Dubai remain current on its debt service and guaranteed an additional $10 billion bonds. On a consolidated basis, the scale of the financial crisis in the UAE is manageable; the issue is the institutional capacity to do so. Given the UAE's GDP of $250

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	7.4	0.3	3.3
Inflation Rate (%)	11.5	2.0	3.1
Fiscal Balance (% of GDP)	23.6	11.2	8.0
Current Account Balance (% of GDP)	17.5	8.1	–5.3

Source: World Bank data

[24] Source: IMF, (2009), Regional economic Outlook, Middle East and Central Asia

billion, even an outright fiscal loss of $25 billion on Dubai projects (which is in the range of publicly cited cost estimates) would be 10 percent of GDP—difficult, but similar to financial crisis costs in other countries. And assets of sovereign wealth funds provide a huge buffer for coping with such costs. Beyond the concerns over the short-term impact of the crisis, Dubai is likely to emphasize its fundamental strengths in logistics, light manufacturing, and as a safe haven for funds and investors from Iran and South Asia. As the crisis has highlighted weaknesses in the financial sector (such as a lack of diversity in products and reliance on volatile sources of funding), correcting these are likely to be high priorities for policymakers in the short-term.

Oil exporters with low oil revenue per capita – Algeria, Iran, Iraq, Libya, Syria, and Yemen

Algeria. GDP growth is expected to reach 2.2% in 2009 and 3.5% in 2010, supported by a 6% growth in non-hydrocarbon output in 2009. Inflation is projected at 3.5%, assuming a favorable harvest. The overall fiscal balance will turn negative for the first time since 1999, with a deficit of 11.5% and a small surplus of 1.8% of GDP respectively in 2009 and 2010. This deficit would be financed

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	3.0	2.2	3.5
Inflation Rate (%)	4.0	3.5	3.0
Fiscal Balance (% of GDP)	8.3	–11.5	1.8
Current Account Balance (% of GDP)	24.2	6.3	1.4

Source: World Bank data

by significantly drawing down the oil stabilization fund. The recession in Europe and the decline in oil revenues pose significant risks. The projected decline in oil prices coupled with high imports induced by the public investment program would reduce the current account surplus to 6.3% and 1.4% of GDP in 2009 and 2010, from 24.2% in 2008. Nevertheless, the international reserve coverage would still remain at more than two years of imports. In the absence of substantial improvements in productivity and the business climate, non-hydrocarbon output is unlikely to be an engine of growth in the short term. But growth in 2010 could be higher than projected if decisive actions are taken to promote private sector development and economic diversification.

Iran. Growth is projected to slow down from 6.9% in 2008 to about 2.5% and 3% in 2009 and 2010. Iran is adjusting to low oil prices by reducing public expenditures. This has become even more necessary since Parliament refused to allow a reduction in subsidies (which represent up to 18% of GDP). A cut of US$ 6.4 billion is projected in capital expenditures (44% reduction) and US$ 2.1 billion in current expenditures

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	6.9	2.5	3.0
Inflation Rate (%)	22.5	23.5	20.0
Fiscal Balance (% of GDP)	0.7	–5.2	–6.0
Current Account Balance (% of GDP)	20.6	4.1	4.9

Source: World Bank data

(5% reduction) in addition to cuts of 8.6% of GDP in current expenditures and 1.7% of GDP in capital expenditures between fiscal year 2008/09 and 2009/10.[25] Tax revenues are budgeted to fall by 1.8% of GDP, reflecting an expected slowdown in economic activity; while oil revenues are expected to fall by 5.6% of GDP. With low oil prices and contractionary budget for the fiscal year 2009/10 and after several years of positive balance, fiscal balance will turn negative at around 5–6% of GDP in 2009 and 2010. Inflation is expected to remain high at 23.5% and 20% in 2009 and 2010, a continuation of the past trend mostly due to an expansionary credit policy and a significant, albeit recently reduced, fiscal spending. Owing to the lower oil receipts, current account balance is projected to fall sharply from 20.6% of GDP in 2008 to 4–5% of GDP in 2009 and 2010.

[25] Iranian fiscal year ending March 20.

Iraq. Oil production and export volumes are projected to increase by 2.5 mbpd and 2.0 mbpd, respectively in 2009 and 2010. This increase is mostly due to the recent security gains in Iraq. However, due to lower oil prices, 2009 oil revenues are expected to be about 25% lower than the outturn in 2008. This implies an equivalent loss of government revenues and is having a major impact on fiscal plans. The difficult financing outlook and lack of savings from past years limit the scope for counter-cyclical fiscal policies. The Government has announced it will cut recurrent and capital spending in a supplementary budget if oil prices remain low in order to contain fiscal balance at zero percent of GDP in 2009 and 2010. As a result of a severe drought, total wheat production is expected to decline in 2009 by 27%. The combination of lower oil revenue and poor performance of agriculture will be a lower GDP growth. Iraq's economy is projected to grow by about 6.9 and 6.7% in 2009 and 2010 while inflation should be contained at 6%. The current account surplus of 26.7% of GDP in 2008 is expected to turn into a deficit of about 5.8% of GDP in 2009 before improving to 3.4% of GDP in 2010. Continued recovery of non-oil activity and increase of production and export volumes are expected to play a role in the recovery. However, short-term economic prospects critically hinge on the security situation and the political reconciliation process.

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	9.8	6.9	6.7
Inflation Rate (%)	6.8	6.0	6.0
Fiscal Balance (% of GDP)	0.0	0.0	0.0
Current Account Balance (% of GDP)	26.7	–5.8	3.4

Source: World Bank data

Libya. Although less robust than in recent years, Libya's economic outlook for 2009–10 remains solid. Real GDP growth is expected to slow to 2.9% and 4.8% respectively in 2009 and 2010, with hydrocarbon growth turning negative. Current account balance in 2009 and 2010 will be significantly lower than in 2008 but will nevertheless remain positive, at 8.7% of GDP in 2009, with improvement to 11.9% expected in 2010. The reduced price of oil may imply some adjustments to the public investment program. Fiscal balance will turn negative in 2009 for the first time since 1996, falling from a surplus of 22.8% percent of GDP in 2008 to a deficit of 9.8% of GDP in 2009. Some improvement is expected in 2010. Inflation should be contained at 0.9% in 2009 and 2010 with the international prices stabilizing and money growth slowing. International reserves will maintain healthy levels, equivalent to about 40 months of imports.

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	6.3	2.9	4.8
Inflation Rate (%)	0.9	0.9	0.9
Fiscal Balance (% of GDP)	22.8	–9.8	–0.2
Current Account Balance (% of GDP)	39.2	8.7	11.9

Source: World Bank data

Syria. Declining global output and trade as well as the ongoing drought could have a significant impact on Syria in 2009. The external demand shock has been compounded by a domestic supply shock, namely, a severe drought that is entering its third year, with severe impact on agricultural output. The global downturn is expected to decelerate the recent growth in tourism and foreign direct investment, and to reduce remittances from expatriate workers as job losses mount in the GCC countries and other "labor-importing" countries. Growth is projected to decline to 3% and 3.5% respectively in 2009

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	5.2	3.0	3.5
Inflation Rate (%)	14.5	8.5	5.0
Fiscal Balance (% of GDP)	–5.3	–5.5	–2.3
Current Account Balance (% of GDP)	1.1	–9.6	–9.0

Source: World Bank data

and 2010. Inflation is projected to ease respectively to 8.5% and 5% from its high level of 14.5% in 2008. Fiscal pressures are expected to arise as well despite the authorities' commitment to fiscal discipline. Fiscal deficit will remain at 5.5% of GDP and 2.3% of GDP in 2009 and decrease to 2% in 2010. Export earnings are expected to decline substantially reflecting falling oil and agricultural prices. Current account balance is expected to turn negative from surplus of 1.1% of GDP in 2008 to negative 9.6% and 9% of GDP in 2009 and 2010. Going forward, Syria faces the challenges of developing its non-hydrocarbon sources of growth. After peaking at 650,000 bpd in 1995, crude oil production has plummeted to about 380,000 bpd in 2007. With declining output and rising consumer demand for petroleum products, Syria's overall oil balance turned negative in 2007. Oil production is expected to decline further over the coming years, reaching a plateau of about 300,000 bpd by 2025 and eventually depleting recoverable reserves by 2030. Further progress in economic reforms and continued efforts to diversify Syria's production and exports are necessary.

Yemen. Yemen faces a number of economic and political uncertainties in 2009–10. External sources of concern include depressed oil prices, plunging growth rates in the Gulf countries, and instability in the Horn of Africa. The ongoing crisis is expected to reduce the flow of foreign investment, both to the hydrocarbon and non-hydrocarbon sectors. Non-hydrocarbon investment flows, coming mostly from the Gulf in the past, have tended to concentrate in tourism, real estate, and some manufacturing industries. They are likely to be affected by lower oil revenues and slow growth in the Gulf. The current crisis could also reduce remittances coming from Gulf countries. Despite these odds, the overall growth rate will rise to 7.7% in 2009 and 5% in 2010 from 4% in 2008, owing to a one-off impact of the coming on-stream of a liquefied natural gas (LNG) plant. The performance of the non-hydrocarbon sector, the main source of employment, will slow to about 4%. As an early sign of slower growth in economic activity in 2009, the customs authority have reported a noticeable decline in customs revenue in the first two months of the year, reflecting lower import prices and lower volumes. Monetary data available for the first two months of the year show a decline in credit to the private sector. The fiscal deficit will remain at 2% of GDP in 2009 and 2010. Lower inflation will be among the positive developments, with the CPI falling to 5.5% in 2009 and 2010. Current account deficit will increase to 11.1% of GDP in 2009 from 6.5% of GDP in 2008 before seeing some improvement in 2010 to 6% of GDP. Disbursement of pledges made at the Consultative Group meeting in London in 2006 has been slow, amounting to less than 6% of pledges by the end of February 2009. The pace of disbursement may be affected by the global economic crisis. Yemen's short to medium term prospects reinforce the need to tackle the structural weaknesses of the economy, particularly fostering non-oil growth led by the private sector.

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	4.0	7.7	5.0
Inflation Rate (%)	8.5	5.5	5.5
Fiscal Balance (% of GDP)	–3.0	–2.0	–2.0
Current Account Balance (% of GDP)	6.5	–11.1	–6.0

Source: World Bank data

Non-oil exporters reliant on financial flows from GCC or official development assistance from OECD – Djibouti, Jordan, Lebanon, West Bank and Gaza

Djibouti. The economy is expected to grow at rates of 5–5.5% over the next two years, compared with 5.8% in 2008. Inflation is expected to fall to 5.4 in 2009 as world oil and food prices continue to fall. Fiscal deficit is projected to reach 3.4% of GDP in 2009 and 2010 due to lower grants, higher investments, and military expenditures related to the border conflict with Eritrea. Improvements in tax administration, including the introduction of the VAT and the rationalization of exemptions in the Free Trade Zone in 2009, should increase tax revenue and

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	5.8	5.0	5.5
Inflation Rate (%)	12.0	5.4	4.0
Fiscal Balance (% of GDP)	–3.4	–3.4	–3.4
Current Account Balance (% of GDP)	–6.7	–5.0	–3.4

Source: World Bank data

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	5.5	2.5	3.5
Inflation Rate (%)	14.9	2.0	10.0
Fiscal Balance (% of GDP)	–9.9	–3.4	–2.6
Current Account Balance (% of GDP)	–27.5	–9.6	–9.5

Source: World Bank data

improve fiscal outlook beyond 2010. Current account deficit will continue throughout 2009 and 2010 albeit lower than the levels in 2008. It is projected that the current account deficit will reach 5% and 3.4% of GDP respectively in 2009 and 2010. Traditional exports should continue rising in 2009–2010, following the expansion of port activities, cattle processing facilities and salt extraction. This will help to reduce the trade deficit in 2009, further supported by reduced international food and oil prices and a fall in FDI-related imports. FDI has been high at about 23% and 30% of GDP in 2007 in 2008, but is expected to decline to levels of around 20% of GDP in the medium-term as ongoing investments are completed and others are cancelled or postponed. The construction of the second container terminal in Doraleh by Dubai World has been delayed to 2010 as well as the construction of a new refinery and pipeline. Due to Djibouti's small size, investment projects are limited in number and large projects have a high economic importance. This in turn means that a withdrawal of such investments is associated with high economic risks. However, recent investments in tourism, alternative energy, and the Free Zone will continue to support growth as will a projected increase in earnings from port services.

Jordan. Economic activity is expected to slow significantly, with growth rate slipping to 2.5% and 3.5% respectively in 2009 and 2010 in line with expected lower foreign capital flows, exports and remittances, and domestic private investment. One early indication is the industrial production index which decreased by 6.8% in January 2009. Jordan has limited room for fiscal stimulus; and fiscal space has been eroded further in 2008 as a result of generous compensation to public sector employees to mitigate the impact of higher fuel and food prices. Fiscal deficit is projected to decline from 9.9% of GDP in 2008 to about 3% on average in 2009 and 2010. Recognizing the lack of fiscal space, the Government plans to increase public capital spending in 2009 only to the extent that it can be financed from expected savings and lower spending on fuel and food subsidies (the timing may be opportune since prices have declined). Jordan also has a high dependence on current transfers and capital inflows; and there remain key risks related to financing of the current account deficit, which is estimated to reach 9.6% and 9.5% of GDP in 2009 and 2010 from a high deficit of 27.5% of GDP in 2008. If financing dries up over and above what is currently projected, the resulting squeeze would contract economic activity and worsen already high unemployment. To compensate for limited scope for fiscal stimulus, the government has sought to support economic activity by relaxing monetary policy. The Central Bank has loosened monetary policy by scaling back operations to soak up liquidity, reducing a key policy interest rate (so far by 50 bps) and reducing reserve requirements (from 10 to 9% of total deposits). Inflation is projected to ease to 2% from its high level of 14.9% in 2008 but could pick up in 2010 if liquidity in the banking system remains high. The possible loss of jobs held by Jordanian workers in GCC countries can compound the pressures on an already difficult job market at home return—unemployment rate has reached 13.0 percent in Q2 2009, up from 12.1 percent in Q1 2009 and 12.5 percent in Q2 2008.

Lebanon. Despite a resilient banking sector, Lebanon's real economy will be impacted in 2009 largely through economic slowdown in neighboring Gulf oil exporters. Economic growth is expected to slow from 6.5% in 2008 to 2.5% and 4.5% respectively in 2009 and 2010 in line with expected reduction in regional demand and

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	6.5	2.5	4.5
Inflation Rate (%)	10.7	8.5	5.0
Fiscal Balance (% of GDP)	–7.7	–4.4	–2.5
Current Account Balance (% of GDP)	–19.3	–10.4	–5.2

Source: World Bank data

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	2.0	5.0	6.5
Inflation Rate (%)	7.0	4.0	3.0
Fiscal Balance (% of GDP)	23.3	–35.7	–22.7
Current Account Balance (% of GDP)	–27.2	–39.7	–29.3

Source: IMF data

slowdown in inflows of remittances and foreign direct investment from GCC countries. Inflation is projected to ease to 8.5% in 2009 and lower to 5% in 2010 following a double digit rate in 2008. Current account deficit is projected at around 10.4% of GDP in 2009 and 5.2% in 2010. Fiscal deficit is projected to decline respectively to 4.4% and 2.5% in 2009 and 2010 from 7.7% of GDP in 2008. But public debt is expected to remain very high, close to its 2008 level of 162%. Moreover, interest payments on public debt absorb 45% of government revenues and the exposure of commercial banks to public debt is very high (over 55% of the US$47 billion stock of public debt was held by commercial banks as of end-2008). Lebanon has very limited room for a fiscal stimulus or countercyclical fiscal spending, unless inefficient subsidies to the electricity company are rationalized to free up resources for much needed safety nets and infrastructure investments. In the absence of fiscal space, the authorities have focused on monetary policy to manage the impact of the global crisis, with some success so far. The central bank has recently announced plans to facilitate lending by banks through the provision of subsidized facilities and by reducing reserves requirements on deposits.

West Bank and Gaza. The optimistic scenario is for West Bank and Gaza's economy to grow at 5% and 6.5% respectively in 2009 and 2010.[26] This would begin a recovery of per capita GDP. The fiscal deficit is projected to worsen to 35.7% of GDP in 2009 and improve marginally in 2010 to 22.7%, a level close to the 2008 level. The current account deficit is projected to follow a similar pattern—worsening sharply to 39.7% of GDP in 2009 and recovering to the 2008 level in 2010. All of the growth in 2009 is assumed to come from the West Bank, while Gaza continues to stagnate. Reaching the projected 5% growth rate requires that the peace process be consolidated to restore investor confidence. The 2009 budget calls for about $1.65 billion in external aid, with as much as $1.15 billion designated for budget support and $50 billon allocated to development expenditures. However, it may be difficult to redirect that much external aid from recurrent expenses to development expenditures. With real wages for government employees declining and the private sector not expanding quickly, the Palestinian Authority will be under pressure to both increase the public work force and increase their wages. Currently, the 2009 draft budget calls for a 6% increase in the wage bill, with 4% coming from a general wage rise to offset the rising cost of living and another 2% to account for additional hiring in the health and education sectors.

Non-oil exporters with strong economic linkages with Eurozone and OECD – Egypt Morocco, and Tunisia

Egypt. The rapid deterioration in the global economic outlook weakens nearly all key drivers of Egypt's balance of payment and economic activity in fiscal year 2009. Tourism revenues are expected to fall by 8% (in fact, revenues of

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	7.2	3.8	4.2
Inflation Rate (%)	11.7	8.5	7.3
Fiscal Balance (% of GDP)	–7.6	–5.6	–4.7
Current Account Balance (% of GDP)	–6.7	–6.3	–6.3

Source: World Bank data

[26] IMF, 2009b

Egyptian hotels have reportedly declined by 30 to 40 percent in the past nine months due to the global economic crisis). Suez Canal revenues are expected to fall by 10–15%, due to falling traffic, with a larger drop in fiscal year 2010 if tariff reductions take place.[27] Worker remittances will also fall by 5–10% (to US$ 7.5 billion in fiscal year 2009 and US$ 6.8 billion in fiscal year 2010) following the growth slowdown in GCC (which originates around half of Egypt's worker remittances). Net merchandise exports will fall by 20–25% on the back of the recession in Europe and the US in 2009. Net hydrocarbons exports are expected to rise due to steady prices of natural gas—which represents most of Egypt's hydrocarbon exports—while hydrocarbon imports are bought at or close to spot prices. Yet, this will not likely compensate for the sizable loss in net non-oil merchandise exports leading to a larger trade deficit as a ratio to GDP despite lower non-oil merchandise import growth. Tighter global credit conditions and increased investor aversion should lead to a fall in FDI inflows by almost 40% (to US$8.5 billion in fiscal year 2009 and US$7.7 billion in 2010). Against these negative trends, the current account is expected to post a deficit of 6.3% of GDP in fiscal years 2009 and 2010. Against this backdrop, GDP growth is projected at 3.8% in 2009 and 4.2% in 2010. This growth rate is too low to absorb the 600–700 thousand annual cohorts of new entrants in the labor market. Together with the potential return of expatriate Egyptians, particularly from GCC states, this might lead to increasing unemployment. On the positive side, inflation is expected to fall to 8.5% in 2009 and 7.3% in 2010 due to base effects, falling international commodity prices and weakening domestic demand. Egypt has announced a fiscal stimulus. However, given the country's tight fiscal space, the main challenges in the short term remain the ability of the government to implement expansionary policies without impairing long-run fiscal stability. It is expected that increase in spending will be partially financed by savings on the cost of food subsidies. Fiscal deficit is projected to remain at around 5.6% and 4.7% of GDP in 2009 and 2010. Compared to the last downturn, Egypt's economic fundamentals place it in a better position to weather shocks including a large consumer base (formal or informal sector), unleveraged financial sector with only 41% of the total credit extended to the private sector; a relatively diversified economy with available opportunities in most sectors; comfortable level of net international reserves (US$32.2 billion in end-March 2009, projected at US$35.5 billion by the end of FY09 and US$37.2 billion in FY10) to be drawn upon as the current account deteriorates.

Morocco. An unexpected outstanding 2009 harvest brought about by good rains and targeted sectoral fiscal stimulus actions are expected to moderate the impact of the global recession on the Moroccan economy. Economic growth is expected to weaken to 5% and 3% respectively in 2009 and 2010, lower than the 5.6% growth rate in 2008. Inflation should be contained around 3.5% in 2009, mainly determined by imported food inflation, and remain subdued around 2.5% in 2010. Unemployment is expected to moderately deteriorate in 2009 to around 11% from 10% in 2008, and progressively improve as growth strengthens. Fiscal deficit is projected to increase to 3.1% and 2.8% of GDP in 2009 and 2010 as the authorities provide incentives to firms for job creation and exports and step up social spending to boost safety nets. [28] Although the trade deficit should remain at the same level as in 2008 (around 22% of GDP), with falling imported commodity prices compensating for lower exports, the current account is expected

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	5.6	5.0	3.0
Inflation Rate (%)	3.9	3.5	2.5
Fiscal Balance (% of GDP)	–0.1	–3.1	–2.8
Current Account Balance (% of GDP)	–5.4	–2.5	–2.9

Source: World Bank data

[27] In an attempt to encourage more traffic, the Suez Canal Authority has temporarily lowered its fees for dry cargo vessels while keeping its transit fees for 2009 unchanged.

[28] Here the fiscal data differs from the national fiscal data since it does not include in the budget the Hassan II fund and it does include privatization receipts.

to remain in deficit, at 2.5% and 3% of GDP in 2009 and 2010 due to a drop in tourism receipts and workers' remittances. With moderate FDIs flows and loans, foreign reserves are expected to remain at comfortable level.

Tunisia. Tunisia's real GDP growth is expected to weaken to 3% and 4% respectively in 2009 and 2010, following a slowdown in 2008 (with 2008 growth estimated at 4.5% against 6.3% in 2007). Agricultural sector growth is expected to pick up in 2009, following a sluggish performance in 2008. The slowdown in economic growth in 2009 will be caused by moderating growth in export-oriented manufacturing industries such as electrical and mechanical engineering and information technology industries, due to both increased competition and weaker demand from the EU. The global slowdown will also depress tourism activity. Domestic demand, especially private consumption and public investment will thus be the main drivers of growth. The major infrastructure projects that are expected to boost growth include a new airport, a new refinery, and the Tunis-Medjes-Beja-Boussalem highway. It is expected that the fiscal deficit will remain at about 3% for both 2009 and 2010. Despite the strong public investment program and fiscal incentives provided to small and medium enterprises affected by export declines as well as support to firms that create jobs. In fact, the Government has extended for another six months the measures approved in December 2008 in support of firms that have experienced a sharp decline in exports. These measures consist mostly of subsidies of the employer's cost of social security and the cost of export insurance. External financing will be constrained by tight conditions on sovereign bond markets but Tunisia hopes to tap multilateral sources of financing. With the global commodity prices falling and then stabilizing, and with domestic demand likely to weaken, inflation is expected to ease to 3.5% and 3% in 2009 and 2010. Current account deficit will reach 4.8% and 3.6% of GDP respectively in 2009 and 2010. In contrast with recent years during which the economy has attracted significant FDI, especially from the Gulf Arab countries and the UK (hydrocarbons), FDI inflows will be highly vulnerable in 2009–2010 to the impact of the global credit crunch.

Key Economic Indicators	2008e	2009f	2010f
Real GDP Growth (%)	4.5	3.0	4.0
Inflation Rate (%)	4.7	3.5	3.0
Fiscal Balance (% of GDP)	–3.0	–3.1	–3.0
Current Account Balance (% of GDP)	–5.4	–4.8	–3.6

Source: World Bank data

Chapter 3

Policies to Reduce Vulnerability and Increase Flexibility to Respond to Shocks over the Long Term

Introduction

The MENA region has implemented a variety of policies that can help to mitigate the short-run impacts of the current global economic downturn within their economies. Over the longer run, reducing vulnerability to economic crises will depend on a policy framework which can both mitigate exposure to systemic risk as well as increase the capacity for the government, the private sector, and households to cope with shocks when they occur.

The MENA region faces vulnerabilities along both the exposure and the coping fronts. MENA's integration with the world through financial markets has been limited, but the region has been heavily exposed to external shocks through merchandise trade. With both highly concentrated export structures (primarily fuels) and the world's highest food import dependency, the region leads the world in terms of exposure to commodity price shocks. The ability to rebound from shocks, meanwhile, is weakened by structural characteristics and policies in the region, including: lack of global financial integration, which has limited the potential sources of finance in a downturn; largely underdeveloped financial sectors outside the GCC, with few instruments for mitigating risk and insuring vulnerability; a business environment with discretionary enforcement of business regulations, which has limited the ability for creative destruction of firms and industries to changing economic conditions; a regulatory environment which prevents firm adjustment to economic shocks on the labor margin; piecemeal social safety nets which are not well targeted to those most affected by economic shock; and a fundamental disinterest in systemic gathering and transparent dissemination of data, which hinders the region's ability to monitor and respond appropriately to economic crises which occur.

The chapter proceeds as follows: Section 3.2 highlights the major channels for shock to the region and the pass-through of those shocks to the economy; Section 3.3 discusses the types of structural policies that can influence both the exposure and the resilience to economic shocks. The chapter addresses three of those structural policy areas in greater detail: in Section 3.4, the financial sector is evaluated with respect to its ability to mitigate external shock; in Section 3.5, the trade structure and policies are evaluated; and in Section 3.6, the private business sector is discussed. Finally, 3.7 concludes with a discussion of the role of safety nets in reducing vulnerability to shocks.

Major Channels for Shock in MENA

Exposure to shock has been a seminal characteristic of the modern growth experience of MENA economies. Large geopolitical shocks (such as the ongoing war in Iraq, the continuing conflict in Gaza, and the recent war in Lebanon) have captured international attention, although they

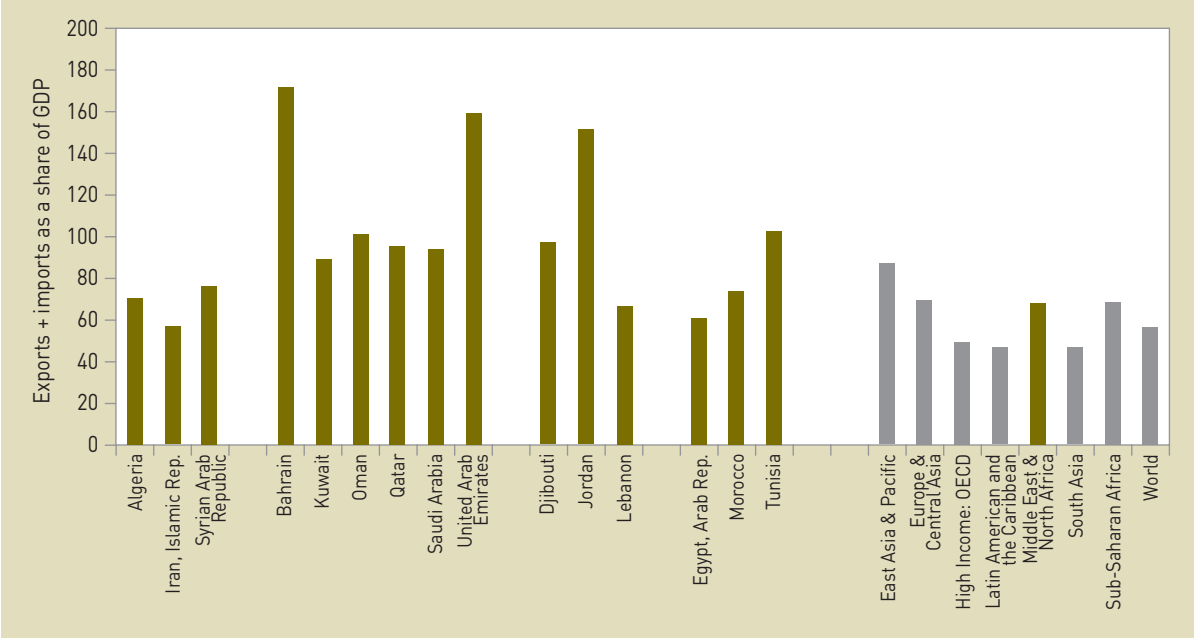
are not the only, or even the greatest, source of shock to the region. Frequent droughts, which can sharply reduce rural incomes and agricultural production, are a source of repeated shocks for countries such as Morocco and Yemen. Climate change (seen through water scarcity, desertification, and rising populations in coastal areas) and high population growth represent extended and rising sources of vulnerability to the region, with increasing concentrations of the population locating in infrastructure-strained urban and hazard prone areas. The unstable security situations from countries in conflict have impacted other countries in the region through economic linkages within the region (including through refugee and labor inflows and returns, tourism and trade).

The channels for global economic integration in MENA have had a strong bearing on its exposure to shock and its ability to rebound from it. The region is reasonably well integrated into the global economy through commodity trade, with trade to GDP ratios above world averages (Figure 3.1). However, nonoil exports are considerably underdeveloped, and lack of trade diversification has exposed the region heavily to commodity price shocks. MENA is extremely dependent upon primary commodity exports (the dominant being fuels), but as a net importer of food, it is also vulnerable to food prices. As a result, the MENA region leads the world in its exposure to commodity price shocks.[1]

MENA countries are also strongly integrated into the global economy through migration, either as migrant sending or receiving countries. The MENA region sent some 15 million emigrants abroad in 2000, representing 4.5% of the total population, and in a few countries, including West Bank and Gaza, Lebanon, Jordan, Bahrain, Malta and Kuwait, emigration rates exceed 10% of the population (Table 3.1). For a few countries, including Algeria, Morocco, and Tunisia, Europe is the main destination of migrants, intensifying

[1] Hirata, et al. 2005.

Figure 3.1: Trade as a share of GDP, 2007



Source: World Bank data.
Note: Regional averages trade weighted

the links to European economic developments. In other MENA countries, including Egypt, Yemen, Syria, and to a lesser extent Jordan, the GCC economies are the main destination. On the negative side, the strong migration links have increased the vulnerability of MENA countries to external developments. Migration between non-oil MENA economies and the GCC, for example, has served to amplify the terms of trade shocks in the region. On the positive side through, migration has also provided a substantial outlet for regional labor market imbalances in the face of domestic shocks.

The region is far less integrated with the global economy through financial markets. GCC economies are the most integrated into the global financial network, particularly through Sovereign Wealth Fund investments in Western and other financial markets, but elsewhere there is limited evidence of integration with developed markets. While the limited links to the global financial community has insulated the region from the initial effects of the current crisis, the lack of financial integration also prevents the region from circumventing some of the vulnerability arising from trade shocks.

Table 3.1: Emigration from MENA countries in 2000

	Total migration			Main destination		
	Stock	Rate of growth (Annual average)	Herfin	Country	Stock	Share
MENA4						
Algeria	2070840	6.8%	0.428	France	1333587	64.4%
Egypt	2173711	3.2%	0.232	Saudi Arabia	1015124	46.7%
Morocco	2589108	9.1%	0.131	France	759011	29.3%
Tunisia	607491	6.4%	0.373	France	364498	60.0%
MENA9						
Djibouti	16990	2.4%	0.208	France	6093	35.9%
Iran	926312	1.4%	0.133	USA	291625	31.5%
Lebanon	577123	17.0%	0.084	USA	111142	19.3%
Libya	78109	1.5%	0.098	Israel	19200	24.6%
Malta	113094	28.9%	0.261	Australia	46998	41.6%
Others						
Bahrain	128719	19.2%	0.262	Philippines	54230	42.1%
Iraq	1109957	4.4%	0.163	Iran	413710	37.3%
Jordan	667754	13.4%	0.277	W.Bank Gaza	319367	47.8%
Kuwait	486861	21.8%	0.244	Saudi Arabia	210594	43.3%
Oman	17881	0.7%	0.219	United Kingdom	7841	43.9%
Qatar	15958	2.6%	0.224	United States	7065	44.3%
Saudi Arabia	243258	1.2%	0.214	United States	106230	43.7%
Syria	423764	2.5%	0.100	Saudi Arabia	109048	25.7%
United Arab Em.	123886	3.8%	0.218	India	53883	43.5%
W.Bank Gaza	1065224	33.8%	0.368	Syria	630725	59.2%
Yemen	603173	3.4%	0.371	Saudi Arabia	360438	59.8%

Source: Docquier and Marchiori, 2009.

The combined impact of the shocks to MENA countries has resulted in the region exhibiting the greatest year-to-year volatility in economic growth of any other region since the 1970s (Figure 3.2).

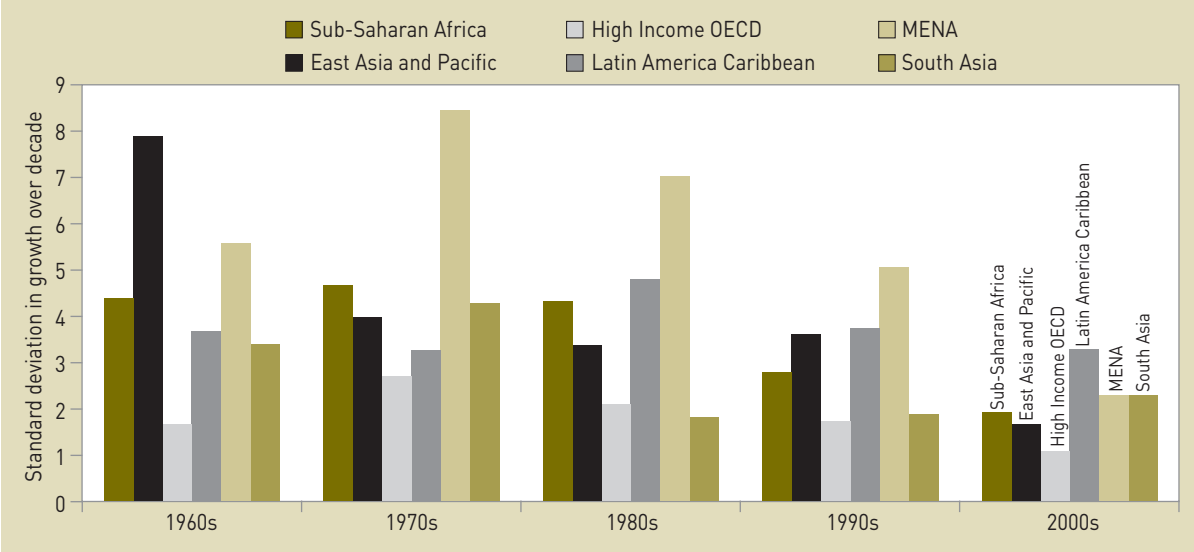
While MENA's growth volatility has diminished significantly over the past decade (the average deviation in growth over the past decade is about 60% lower than the previous decade), it is unclear whether the social impacts of adverse external shocks have declined equivalently. The region's historical models of development—with welfare systems supporting widespread subsidies, publically provided education, health care, housing and other benefits, pervasive use of price ceilings, and high levels of public sector employment—in many ways cushioned the pass-through of economic shocks to the rest of the economy. As the region has transitioned toward more market-oriented development models, shocks (though less severe) may be more heavily absorbed by households, through labor markets, prices and safety nets.

On the poverty side, preliminary evidence suggests otherwise. Recent analysis of poverty trends in the MENA region over 1980–2005 suggests that while volatility (measured through the standard deviation in GDP) had a strongly positive relationship on poverty, there is an evidence of a structural breakpoint around 1993, a time when the region was able to significantly reduce economic volatility. Post 1993, the impact of volatility on poverty was no longer a significant driver of poverty, suggesting that the region was better able to absorb economic shocks without significant increases in poverty.

Labor markets, on the other hand, have been more strongly impacted by economy-wide developments than in the past, when near-full employment was a virtual mainstay in many countries in the region. Egypt's open unemployment rate, for example, was barely affected by significant changes in economic growth in both the 1960s and 1970s, but by the mid 1990s, the strong inverse relationship between unemployment and growth became visible[2] (Figure 3.3).

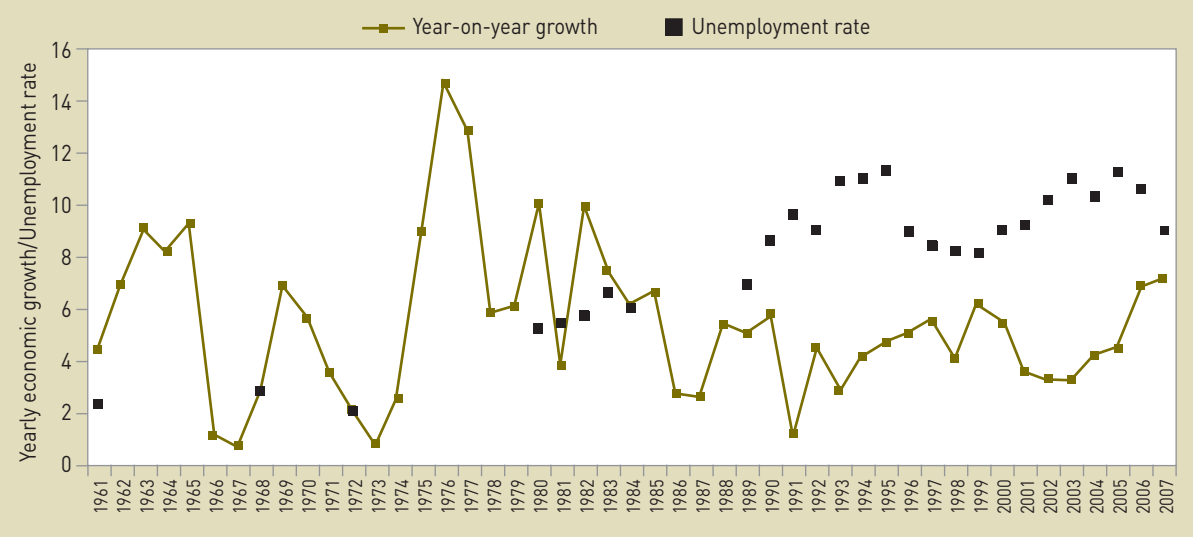
[2] At the same time, official unemployment rates often masked significant underemployment.

Figure 3.2: Regional growth volatility,1960s–2007



Source: World Bank data.
Note: Regional growth deviations weighted by mid pereiod GDP.

Figure 3.3: Unemployment and economic growth in Egypt, 1960–2007



Source: World Bank data.
Note: Regional changes in yearly growth weighted by GDP.

In the end, both elements—the degree to which countries are exposed to economic shock, as well as the resilience of economies in coping with those shocks—are important in determining how successful countries will be in achieving long term development objectives. Both elements are determined in large part by the structural and policy factors in the economy.

Reducing Vulnerability through Structural Policies

The global economic downturn has focused renewed attention on the macroeconomic policy framework, important in the immediate navigation through the crisis, and equally important in preventing external shocks from severely impacting economies. As Chapter 2 has highlighted, factors such as the level and structure of debt, the degree of fiscal space, external balances (and their financing sources), the exposure and soundness of financial systems, the flexibility of the exchange rate, and the extent of (difficult to retract) subsidies in the economy are factors which will largely determine how deeply countries in MENA will be hit by the global economic crisis, as well as the extent to which they will be able to implement countercyclical policies.

Just as important as macroeconomic policies, structural features—and the policies which influence them—will have strong bearing on an economy's exposure to and resilience from economic shocks. The degree of integration with the global economy, the level of economic diversification, factors which affect the flexibility of the economy (and actors in the economy) to shocks, the management of scarce resources, the social protection systems in place to mitigate shocks, and the accountability and credibility of authorities in managing (and avoiding) negative shocks ultimately determine the overall vulnerability of countries over the long run.

Structural policies in every sector of the economy will impact the vulnerability (or resistance) of an economy to shock. Water sector policies improving the supply and efficiency of scarce water reduce the economy's vulnerability to the host of social, economic and environmental impacts from water shortages, including poor health incidence, reduced rural incomes and poverty, and volatility in agricultural exports,

among other things. Education policies that support a more competitive workforce reduce the economy's vulnerability to unemployment-induced poverty. Good governance and the rule of law diminish the risks for foreign investors, reducing the volatility of FDI flows. Good urban planning can reduce the vulnerability to man-made structural disasters.

In this chapter, three of the major structural policy areas for reducing the economic exposure to external shocks are highlighted: (i) financial sector policies for economic resilience; (ii) resilience through external trade diversification and flexibility; and, (iii) resilience through business flexibility and efficiency, with an overarching need for good governance and institutions, which will determine the success and credibility of domestic policy management. While these structural policy areas have their own individual implications on the vulnerability to shocks, the interaction among these policies also has a role to play. And, with the poor disproportionately impacted from economic shocks, a long-term strategy for reducing vulnerability to crisis depends fundamentally on adequate social safety nets and mechanisms to protect vital social expenditures which contribute to long term growth.

Financial Sector Policies for Economic Resilience

Financial system soundness, and the role that the financial system plays in the economy, is important in crisis avoidance and mitigation for a variety of reasons. Most obvious, as the current global financial crisis elucidates, a malfunctioning financial system can be the source of tremendous economic shock. For that reason, much of the attention on the financial sector focuses on its likely soundness: the capital adequacy of financial institutions, the quality of assets and off-balance sheet positions, its profitability and liquidity, the pace and quality of credit growth, its supervision and governance by central banks, etc.

Even when the source of economic shocks lies elsewhere, the financial system plays a pivotal role in transmitting and amplifying (or mitigating) economic shocks. Financial market regulations can make it more difficult for firms and economic actors to reallocate resources in an economic shock (for example through collateral constraints, which heighten the impact of a negative terms-of-trade shock), and the inefficiencies in financial markets often exacerbate financial volatility, which in turn amplifies shocks.

More indirectly, there is the fundamental role the financial system plays in supporting growth and creating a competitive and thereby resilient economy, allowing for more resources to be channeled to investment, improving the allocation of resources across investments, and raising household savings (which can mitigate the pass-through of shocks to households).

Financial sector development in MENA

Financial sector development in MENA in large part reflects the very recent nature of financial reform. Most MENA countries did not even introduce financial sector reforms until the 1990s. Before then, financial systems were heavily regulated and dominated by the public sector. Partly as a result, financial systems in MENA currently play a significantly smaller role than other economies at similar income levels (see Box 3.1).

There is great variance within the region in terms of the degree of financial sector development. On the one hand, the oil-exporters of the GCC have reasonably well-developed financial markets, with substantial diversity in financial instruments, high levels of foreign penetration, and limited state ownership. Non-oil economies, on the other hand,—particularly the economies relatively dependent upon ties with Europe—, have substantially less developed financial sectors. Banks dominate the financial systems, with varying degrees of state and foreign ownership, but they play a relatively limited role in financial intermediation or economic development. The least developed financial sectors in the region are in the oil non-GCC countries, where public sector banks either fully control or dominate financial sectors, and where the quality of financial system governance is low.

Because of the divergence in financial systems in the region, MENA's longer-term financial sector vulnerabilities to shock vary strongly as well. Among the GCC economies, the financial sector vulnerabilities have emerged largely from the decision governments have made not to intermediate large hydrocarbon revenues through the domestic financial systems. In part this decision was to insulate some of the revenues from political pressures to spend, and an acknowledgement of the supply-side constraints in the economies: rapid spending growth would result

Box 3.1: Overview of financial sector development in MENA

The banking sectors and equity markets are large by international standards in many MENA countries. Average banking assets in both the GCC and non GCC amount to about 60 percent of GDP. The large size of bank assets in GCC countries is consistent with their high per capita income, but several non GCC countries have larger banking systems than would be predicted by their income levels. The same pattern holds for equity markets—the large size of equity markets in GCC countries (market capitalization above 100 percent) is consistent with their level of development, but some non GCC countries have surprisingly large equity markets (market capitalization about 80 percent), including Egypt, Jordan, and Morocco.

By contrast, non banking financial institutions (NBFIs) are very small in most MENA countries. Fixed income markets are generally undeveloped and restricted to government debt markets. NBFIs—insurance companies, pension funds, and mutual funds are surprisingly small, even considering the income levels of MENA countries. Morocco is one of the few exceptions. Leasing and factoring companies have grown in some countries but also remain small. Some countries have made efforts to strengthen their government debt markets, but market development remains generally limited, with restricted liquidity, short maturities, and the lack of a solid benchmark yield curve for private issuers. Private fixed income and derivatives markets remain negligible.

The large size of the banking system, and of the equity market in some countries, has not yet translated into financial sector access. Although there are differences across MENA countries, on average a higher proportion of MENA firms identifies access to finance as a major constraint than firms in all other regions, except Sub-Saharan Africa. Access seems more restricted in the non GCC countries. As noted above, the ratio of loans to deposits is very low in this group (60 percent), reflecting to a good extent large holdings of government paper. Moreover, lending remains predominantly short term and focused on larger companies. There are fewer branches and loans per population than the average of emerging countries. Technologies such as mobile banking used to extend outreach in other regions are held back by regulators and lack of innovation. The equity market has not been a significant source of finance, and the number of listed firms per population is comparatively low.

The more restricted access is due to several causes, including large fiscal deficits in some countries, the large role of the state-owned banks and non-financial enterprises, weak financial infrastructure, and possibly lack of Islamic finance products. The low ratio of loans to deposits in non GCC countries reflects to a good extent the financing of large government deficits. Moreover, despite privatizations, state owned banks still account for almost 50 percent of bank assets in MENA—only in South Asia state banks have a higher market share. These banks have channeled a large amount of resources to state owned enterprises and accumulated a large volume of non-performing loans, reflecting their inefficiency in financial intermediation. This is particularly true in countries such as Algeria, Libya, and Syria, but also true in other countries such as Egypt and Tunisia. Finally, financial infrastructure remains deficient, as indicated by weak creditor rights, collateral systems, and credit information. The MENA region compares unfavorably in most relevant Doing Business indicators and other enabling environment indicators. The lack of Islamic finance products is also a possible cause of restricted access, both from the borrowing and deposit sides.

Source: World Bank, Financial Sector Group.

in inflation and real exchange rate appreciation. As a consequence, there has been limited development of long-term financing domestically.

The GCC's domestic banking sector is not well equipped to handle large scale corporate refinancing, because their deposit bases are small and heavily weighted towards short-maturities (i.e. demand or short time deposits). Furthermore, bouts of speculation related to the dollar pegs have led to fairly rapid inflows and outflows of short-term funds, complicating liquidity management for the domestic banking system.

On the other hand, stock markets have not served as a source of long-term financing either. And corporate bond markets are also poorly developed, partly a result of government's own role in financing hydrocarbon projects directly—which crowds out the capacity that might otherwise have developed for general long-term project financing.

The combined effect of these structural elements is to create a special set of vulnerabilities for the GCC financial sectors. First, because the domestic financial systems have not developed as sources of long-term finance, the non-oil sector has remained reliant on external debt financing at relatively short maturities. This has exposed investors to refinancing risks when terms expire. Of course, governments typically have sufficient liquidity to backstop affected borrowers, but the resulting uncertainty about terms and conditions attached to such support itself has the potential to be destabilizing, acting as a deterrent to equity investors.

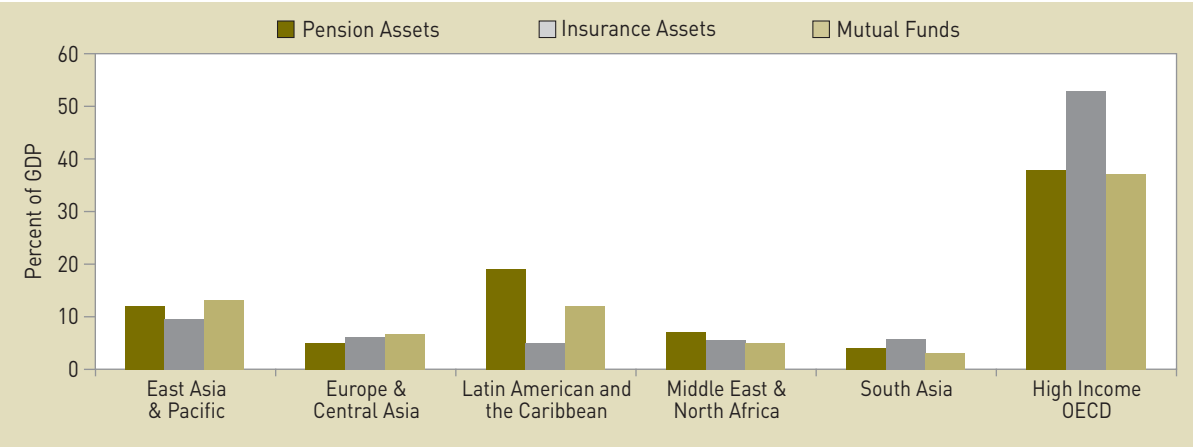
Second, given the lack of depth of banks' corporate business, their balance sheets are heavily weighted towards personal loans, which may be applied towards investments in property or the stock market (regardless of their stated purpose), leaving banks exposed to asset market crashes or a worsening of household credit risk. This is a particular issue in Kuwait.

Third, GCC countries lack a deep institutional investor base, leading to a preponderance of short-term retail speculation on stock markets. The serial nature of GCC stock market crashes—with associated demands for bailouts—points to the need to develop the long-term investor base to increase the depth of stock markets and mitigate the impact of market declines on the wider economy (e.g. through impacts and household finances and in turn to banks which have lent to households). Finally, since GCC countries remain committed to exchange rate pegs, there is the ever-present risk of a mismatch between the externally-determined level of interest rates, trends in oil prices, and the level of the dollar. The configuration seen for these variables in the first half of 2008 resulted in negative real interest rates during an oil boom, contributing to the rapid expansion of bank balance sheets and the general growth in speculative activity. The financial sector will likely be the first to experience the side effects of a similar mismatch in the future.

Outside of the GCC, the ability to cope with shocks is hampered by the limited development of the financial sector in general, as well as the limited access to financial services by households and firms. Banks dominate the financial sectors of non-GCC countries, with non-bank financial institutions significantly underdeveloped. As a result, a host of financial instruments for managing risk—from insurance products to financial derivatives—are not available to households and firms (Figure 3.4). The limited development of financial sectors (in terms of breadth of services available to the public) has implications beyond lower risk abatement on the individual level. Absence of stock markets, for example, (and limited links between the financial system and the real economy) limits transmission of signals from policy to the market, and may allow policy mistakes and vulnerability to build up over time without notice.

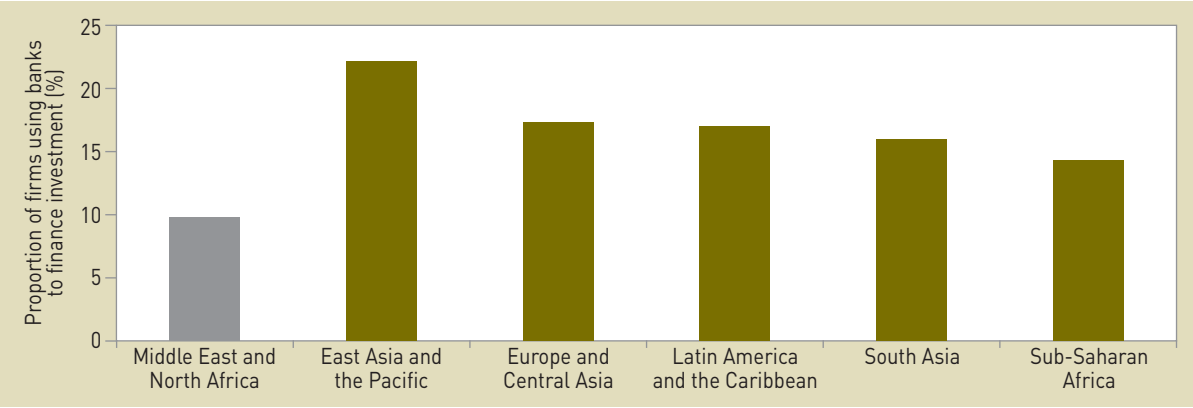
Access to the financial sector has had other implications on the ability of regional economies to manage shock. As investment climate assessments in the region reveal, few private sector firms even utilize bank credit to finance investment, relying instead primarily on retained earnings (Figure 3.5). Thirty-eight percent of firms outside the GCC identify access to finance as a major constraint to business, higher than

Figure 3.4: Selected non-bank financial assets as a share of GDP



Source: World Bank Financial Structure Database.

Figure 3.5: Use of bank credit by firms



Source: World Bank investment climate assessments, various years.
Note: Regional averages unweighted.

for all other regions but Sub-Saharan Africa.[3] Eighty-four percent of loans require collateral, which is close to the higher end of the distribution, and the collateral needed as a percentage of loan amount is 166%, which is t he highest in the world. There are fewer bank branches in MENA than in other emerging economies (per 1000 people).

The disconnect from the global financial community prevented most regional economies from suffering immediate significant impacts of the shock, but it is also true that the regional impact was muted by its relative disconnect of the financial sector from the real economy. On the positive side, this has meant that most private sector firms have not experienced the credit shortages immediately apparent in other regions.[4] However, it has also meant that the region has sacrificed long

[3] Source: World Bank Investment Climate Assessments; various years

[4] It may also have helped to mitigate the future negative feedback loops between the real and financial sectors – where limited access to bank credit affects loan repayments, weakening bank balance sheets, and causing banks to curtail credit further.

run growth, with one of the central functions of the financial sector—allocating resources toward investment—in large part disabled.

From a vulnerability perspective, this weak link to the real economy has meant the loss of one of the most effective tools an economy has for risk mitigation. The financial sector is the primary conduit through which monetary policy impacts the real economy. With limited financial intermediation outside the GCC countries, along with the prevalence of fixed exchange rate arrangements throughout the region, the ability for authorities to conduct effective monetary policy is considerably more limited.

More generally, a well developed financial sector, which provides diversified funding sources for both individuals and enterprises for mitigating risk and insuring vulnerability, and in which households and firms can borrow to smooth the consequences of an economic downturn is critical to the broader economy's resilience—its ability to mitigate and manage the impacts from shock and adjust to the changing conditions present in a dynamic economy. Worldwide experience confirms that countries with well developed financial systems grow faster and more consistently than those with weaker systems, and a high level of financial sector development equips a country to better adjust to real sector shocks[5].

Part of that asset diversification and development can come from financial sector liberalization. Although the current economic crisis points to fundamental risks associated with global financial interconnectivity—with the most financially integrated economies in the region, the GCC countries, most deeply affected by the financial impacts of the crisis—international diversification of financial assets has also served countries well. International diversification allowed many of GCC countries to invest their oil surplus into foreign assets, thus avoiding flooding small domestic markets and avoiding overheating and asset bubbles. Also, international liberalization allowed them to attract foreign investments into their hydrocarbon sectors (e.g. Saudi Arabia, Qatar) and create international hubs for finance, trade logistics and business (e.g. Dubai, Qatar, plans in Saudi Arabia). International financial liberalization also can help surplus countries manage domestic shocks by tapping into foreign assets to mitigate the impact of domestic shocks. This factor in particular played an important role in allowing GCC countries to respond to the financial impacts of the current crisis as early as the second half of 2008.

The current crisis has had an impact on virtually all countries and all asset classes, and GCC's foreign assets have suffered losses. However, over the long term, the economic argument for financial liberalization remains. The countrerfactual to international financial liberalization in the GCC in the context of the recent crisis may never be known, but past experiences from countries such Indonesia and Nigeria where oil resources were not invested through sovereign funds or foreign assets of the central bank suggests that GCC countries could have been far worse off in the *absence* of international financial diversification. In Indonesia and Nigeria, part of the oil surpluses found their way out of the countries and into foreign bank accounts in a less than transparent way, and domestic investment of part of the surplus was not as productive as seen recently in the GCC. Comparing the management of the recent oil boom with past oil booms in the GCC also offers some arguments in support of financial liberalization.

Economies in the region have taken steps forward to reform their financial sectors. Over the past decade in particular, banking sectors have slowly opened to private and/or international participation, with a handful of countries in the region granting licenses to private banks and changing foreign ownership restrictions. In Egypt, for example, majority stakes in one of the four main state owned banks, the Bank of Alexandria, were sold over 2006, and the sale of the third largest bank in Egypt, Banque du Caire (postponed in June 2008), is expected when international financial markets recover. Even among the non-GCC oil economies, where public sector banks still dominate the financial

[5] Beck, et. al. 2000.

sector, there has been progress with financial sector liberalization through both private and foreign competition.

Nonetheless, the public sector remains dominant, which has implications on the region's ability to manage shocks from a fiscal perspective. State owned banks tend to have lower profitability and higher costs than private counterparts. With high remaining state ownership in many countries,[6] the economic costs can be large. As an example, Algeria's public banks' losses have on average represented over 4% of GDP each year since the early nineties.[7] This insolvency represents a tremendous drain on the economy's fiscal ability to respond to economic shock.

The majority of MENA countries have recognized the need for greater financial access, private participation, and better regulation, standards and oversight. As the trend toward financial deepening and financial globalization increases, the MENA region will need to manage the process to take advantage of opportunities, while minimizing the risks. While the process will differ for each country, some generalities can be made. Creating an enabling structural environment for more resilient and enabling financial systems in MENA will necessarily include efforts to reduce the involvement of the government in the financial system, including through reducing state ownership of banking and non-banking financial sectors; promote non-bank financial development; strengthen the capacities within the financial sector to assess individual and systemic risk; and design and enforce appropriate regulation and supervision of the financial sector, to both safeguard the financial system's stability and mitigate procyclicality of financial sector requirements and norms. Strengthening regional financial sectors through these efforts can help MENA improve its capacity to respond to systemic shocks, as well as mitigate the pass-through to the rest of the economy.

Trade and Vulnerability to Commodity Price Shocks

Greater trade openness increases exposure to external shocks,[8] but it allows for countries to diversify from local markets, reducing the risks of domestic shocks. Trade also allows for a level of growth and social development which would be impossible without it, since trade allows for a more efficient allocation of resources. A successful trade strategy recognizes both facts, and seeks to maximize the gains that can accrue from trade, while minimizing the exposure to and impacts from external shocks.

Trade patterns in MENA are highly diverse in term of both volumes and structure, and these differences have important ramifications on exposure to shock and the ability to rebound from shock. Oil-producing countries have higher export levels, but, not surprisingly, exports are highly concentrated in fuels (more than 85% of merchandise exports emanate from fuels). As a result, fuel prices exert critical influence over these countries' export success. Among non-oil economies, meanwhile, while export concentration is also relatively high, the geography of trade flows (whether predominantly with Europe or with the GCC economies) also exerts a strong influence over the ultimate exposure of countries to external shocks.

MENA's high export concentration (particularly for oil producing countries in the region) has meant both higher volatility, and lower growth. The international evidence on trade suggests that the level of export variety raises productivity, allowing for greater knowledge spillovers to the rest of the economy, while highly concentrated exports are negatively associated with economic growth.[9] Heavy reliance on any one export creates a vulnerability to changes in demand for that good, with detrimental effects on planning public and private investment, import capacity, foreign exchange cash flow, inflation, and growth, lowering the expected

[6] In Algeria, for example, though twelve foreign banks have been established since liberalization efforts began, the public sector continues to hold more than 90 percent of the economy's deposits and credit; in Syria, despite eight private banks in operation, state banks still account for 80 percent of the assets of the banking sector.
[7] World Bank, 2009c.
[8] Loayza and Raddatz, 2007.
[9] See literature survey in Naudé and Rossouw 2008.

gains from trade.[10] As a result, with MENA's merchandise exports concentrated heavily among so few export categories, this means that not only is MENA's exposure to terms-of-trade shocks larger, but the expected gains from trade are lower.

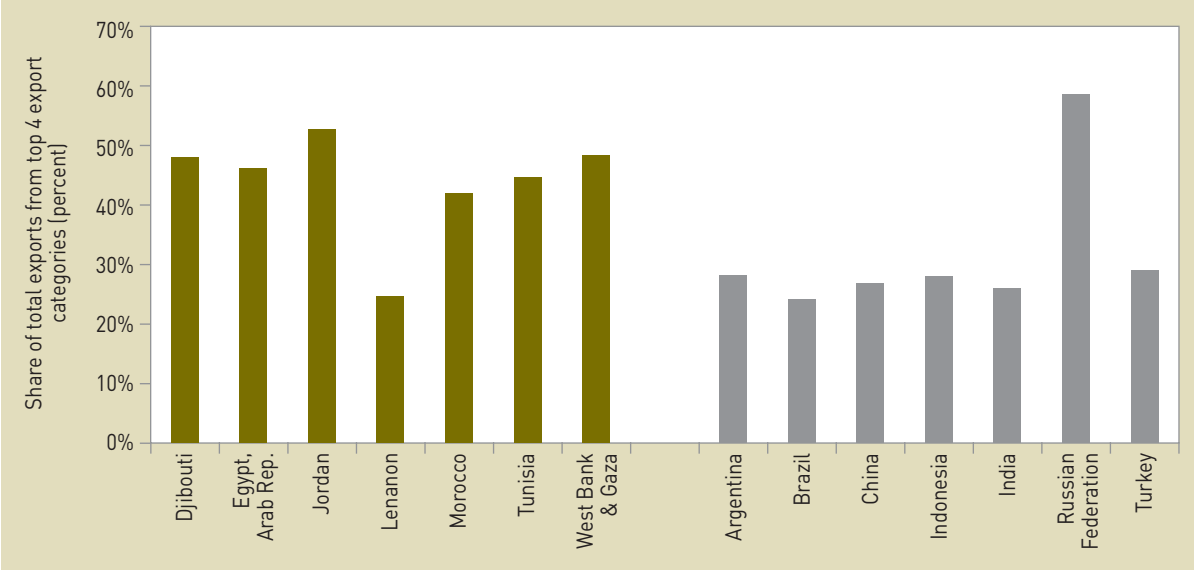
Non oil producers in the region are not immune from the high degree of export concentration. Merchandise exports from MENA's non-oil exporting economies, though more diversified than oil exporters, are still considerably more concentrated than comparator middle-income economies (Figure 3.6), with the bulk of exports in either primary products or products of low technological structure, such as clothing, footwear, and textiles. Nor has export concentration fallen significantly over the past fifteen years (with the exception of Jordan).[11] Terms of trade shocks (on agricultural products) constitute an important source of vulnerability in non-oil economy export structures, but perhaps of even greater importance from a vulnerability perspective is the increasing competition MENA's non-oil economies face on low-tech exports from lower-cost suppliers such as China, India, and Bangladesh.

There is some encouraging news, however. Recent analysis suggests the source of export growth for MENA's non-oil countries is tilting more towards new products and markets. Table 3.2 decomposes the recent export growth among the region's non-oil economies into intensive margins (based on existing products and markets) and extensive margins (based on new products and markets). Only in Jordan and Tunisia is the contribution of the intensive margin larger than the contribution of the extensive margin. This suggests a changing industrial structure which is adapting to the new competitive pressures it is facing by moving towards new markets and products.[12]

Diversification is a much more difficult prospect for the region's oil producers. Diversifying petroleum-dependent economies is one of the more complex economic challenges, and the

[10] See Dawe 1996. The geographic concentration (in terms of export destinations and strategic import sources) likewise creates vulnerability to relations or circumstances with key trading partners.
[11] World Bank, 2007a.
[12] World Bank, 2008a.

Figure 3.6: Export concentration among MENA's non-oil economies



Source: World Bank staff estimates from UN Comtrade data. Note: Export concentration measured by the share of total Exports emanating from the 4 four export categories, measured at the 4-digit ISIC.

Table 3.2: Decomposition of export growth into intensive and extensive margins, 1995–2005

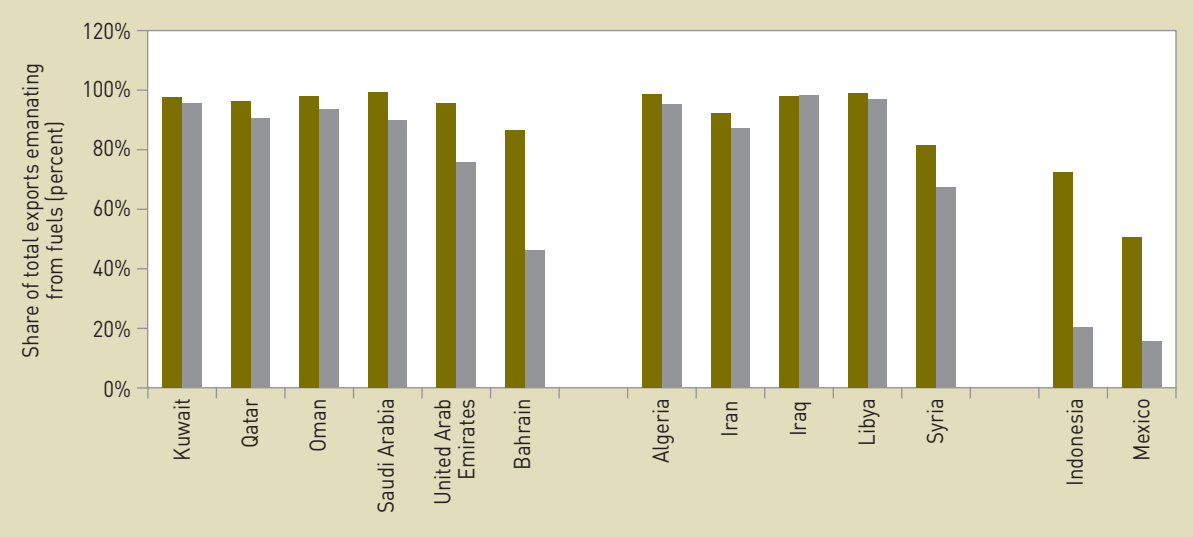
	Egypt	Jordan	Lebanon	Morocco	Tunisia
Increase of existing products to existing markets	57.2	78.1	81.8	110.6	101.6
Decrease of existing products to existing markets	–19.1	–9.0	–21.8	–47.2	–25.0
Extinction of existing products to existing markets	–12.1	–6.9	–22.1	–13.4	–14.2
Total Intensive Margin	**26.0**	**62.2**	**37.9**	**50.0**	**62.5**
New products to existing markets	10.1	12.7	14.9	4.5	8.4
Existing products to new markets	63.9	25.0	47.0	45.6	29.2
New products to new markets	0.0	0.1	0.1	0.0	0.0
Total Extensive Margin	**74.0**	**37.8**	**62.1**	**50.0**	**37.5**

Source: World Bank 2008c.

path for achieving economic diversification is not well charted. Only a handful of oil-producing countries have achieved notable success in diversifying their export bases out of oil (for example, Indonesia and Mexico). Within the MENA region, only a few oil producers have managed to substantially reduce the concentration of exports from fuel and fuel-related commodities (Figure 3.7), including Bahrain and the United Arab Emirates.

Because export diversification for oil-producers is challenging, GCC countries have increasingly sought diversification through other means. On the export side, the development of petro-chemicals and other fuel-related commodities have allowed countries like Saudi Arabia to move up the value chain and at least diversify exports within fuels. Elsewhere, sovereign wealth funds have allowed the countries to convert their finite oil and gas wealth into longer-term revenue

Figure 3.7: Oil in total exports, 1980 and 2006



Source: World Bank staff estimates from UN Comtrade data.

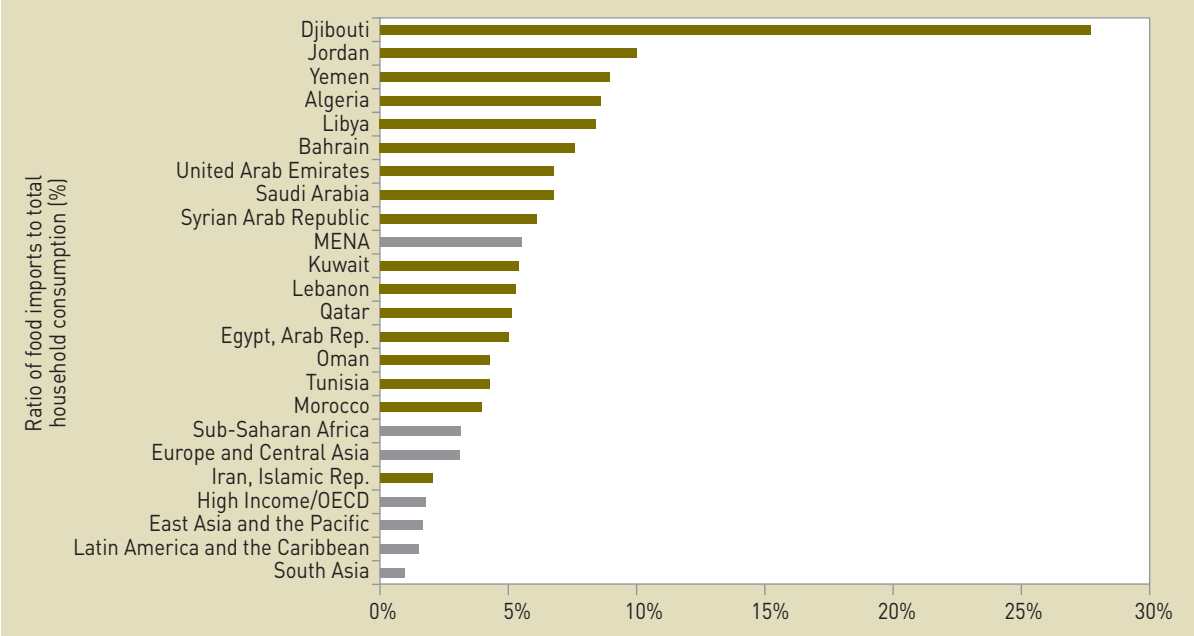
streams. And the development of service export activities, including financial and legal services, trading, tourism, and transport, has provided a major avenue for economic diversification and economies of scale outside of oil. Three of the GCC economies have developed regional and international financial centers: Qatar (which is also laying plans to make the country a regional hub for knowledge industry, education and healthcare), Bahrain (the hub for Sharia finance, now also developing plans to be a regional hub for information technology and for private aviation), and the United Arab Emirates. Kuwait meanwhile has made investments to establish itself as a trade and financial center. Tourism has become one of the most important vehicles for diversification in the GCC, providing job creation and horizontal capital flows.

The MENA region faces additional sources of exposure on the import side, primarily through the region's heavy dependence on food imports. The MENA region leads the world in terms of food import dependency,[13] well above any other region (Figure 3.8). As a result, changes in the price of grains, rice, and other staples can have a strong impact on import costs. Moreover, with food representing about half of the expenditures of the poor in MENA,[14] changes in food prices can dramatically impact household budgets. Beyond food imports, although the region is a net fuel exporter, many countries in the region depend heavily on fuel imports, and the region's pervasive use of fuel subsidies has had strong fiscal and current account implications for both non-oil economies and oil-exporters alike.

The goal of reducing an economy's exposure to shocks is not to insulate a country from the global economy, which would sacrifice the long-run efficiency and growth gains provided by global integration and market exposure, but rather to manage that external exposure in a way which reduces the potential impact of external shocks.

[13] Food import dependency measured as share of food imports in total household consumption.
[14] World Bank, 2008b.

Figure 3.8: Food import dependency, 2007



Source: World Bank staff estimates from UN Comtrade data (food imports) and World Bank World Development Indicators (household consumption).

On the import side, MENA's dependence on food imports is likely to increase over time, as scarce water supplies are increasingly strained. Increasing domestic production through more efficient agricultural processes can help cushion countries from erratic commodity markets, but MENA countries will need to rely on trade for food security over the long term. Several countries in the GCC, including Saudi Arabia, the United Arab Emirates, and Bahrain, have sought to limit their exposure to food trade vulnerabilities by pursuing agricultural offshoring agreements with other countries, renting or buying land abroad to ensure food security (See Box 3.2). On the food trade side, to deal with this permanent source of external shock, MENA

Box 3.2: Land-for-food deals for food security

With global crop shortages and high food prices, food security has become an increasing concern throughout the MENA region. GCC countries are particularly concerned. Cereal production in the Gulf has declined significantly because of depletion of water resources. At the same time, the population is expected to rise from below 40 million today to nearly 60 million in 2035. The need for food imports, which already meet 60 per cent of total demand, will grow. It is estimated for example that Saudi Arabia will be fully dependent on imports for food by 2016. In an effort to safeguard food security, several GCC countries have initiated schemes to invest in land in other countries where agriculture and cultivation are a more conducive venture. Saudi Arabia has expressed its interest to invest in countries like Pakistan, Thailand, Sudan and even Turkey, with a decided budget of $5 billion. Qatar and Sudan have established a joint holding company with the specific intent of serving the Arab food markets. Abraaj Capital, a large private company in the UAE, has acquired 800,000 acres of farmland in Pakistan along with other business entities.*

But it remains doubtful whether a buy-to-produce strategy will be effective in reducing the GCC countries vulnerabilities to volatile commodity price fluctuations and food import shortages even in the short term. Government-to-government dealings often draw opportunistic transactions automatically into the political domain. For one thing, the policy of buying up arable land in countries with sometimes high levels of poverty and undernourishment (such as Sudan and Pakistan), or with physical water shortages themselves is not very popular. Changing geopolitical situations can put the land agreements at risk, and even under friendly circumstances, and there is no guarantee host countries will honor the agreements in times of food shortage, particularly if their own citizens are in crisis. As a result, some GCC investments have run into opposition from local stakeholder groups.

To best ensure these agreements are honored and that they result in a win-win situation, countries need to design them with significant awareness and consideration for host country concerns and vulnerabilities. If this approach is to be pursued further, land acquisition processes need to be transparent, and transaction structures need to account for several categories of stakeholders: for example, on terms which benefit farmers and local consumers, as well as local land owners, and whose compliance is assured by development institutions like the World Bank or the Islamic Development Bank. Agricultural investments yield the greatest benefits when the investments result in greater employment of locals, and result not only in land purchase but in the collateral purchases of seed, fertilizer and the like. A range of local priorities, including labor conditions, land ownership rights, environmental degradation, and, most importantly, local food security need to be taken into consideration to ensure the interests of host countries are not overlooked. GCC investments should strive improve local food security in tandem with safeguarding their own food security.

In agriculturally intensive economies which might be candidates for investment several conditions apply which suggest a different approach to the one-off negotiated deal approach which has been followed to date: i) productivity in these countries falls well below the level of Best Agricultural Practice; ii) farm to market linkages are weak and frequently a major cause of production loss as well as a cause of price

(*continued on next page*)

Box 3.2: Land-for-food deals for food security (*continued*)

distortions; iii) supply chain infrastructure is weak. Hence, handling, transport and transaction costs are high; iv) access to working capital required to diversity into higher value crops and to raise productivity is extremely limited. Opportunities exist to address these more systemic problems with win-win solutions, which might entail the development of " nuclear farms" which could be used to disseminate best appropriate technologies, create rural labor markets and link farmers to markets. Other solutions might include the forward contracting with local commercial farmers to fill multi-year purchase agreement which would involve incentive payments for productivity enhancement. To this end, a brand for Halal Meat or organic product might be developed jointly with MENA based supermarkets and equity in this brand offered to participating poor farmers. Yet, another alternative might involve water for food programs which would entail the development of regional irrigation systems in return for forward commitments to repay loans in food equivalent value. Simply removing a critical factor input, "land", from the agricultural production mix without increasing productivity is likely to backfire over the medium term, with increases in commodity price volatility, contraction in liberal food trade and a further politicization of global food markets.

A recently announced agriculture investment firm owned by the Saudi Public Investment Fund is a step in the right direction, which will participate with Saudi investors to invest in agro-industrial projects abroad. Large-scale investments in infrastructure funded by these projects can open up untapped water resources in host countries, while also ensuring food production for home.

*"In Search of Hidden Water: GCC Nations & Food Security"; Gitanjali Bakshi; *Turkish Weekly*; March 20, 2009

countries can better manage the exposure to food price fluctuations by increasing their use of future markets, future contracts and other modern instruments to hedge against supply risks, while ensuring that the impact of food price shocks is cushioned for those chronically food insecure households through well-developed and targeted safety nets. Universal food subsidies, prevalent throughout the region, are not well targeted to those in need. In addition, they represent a serious fiscal burden (in Egypt and Morocco, averaging 1.3% of GDP, and reaching as high as 2.1% in Syria), greatly limiting the fiscal scope for other better-targeted programs. More generally, the region will need to continue to develop and implement broad pro-poor growth strategies, which can generate foreign exchange earnings to pay for food imports and create incomes for the poor, the best defense against food price shocks.

On the export side, MENA countries can best manage their vulnerability by creating a trading environment which both develops competitiveness (allowing existing firms to better withstand global demand shifts), as well as advances export diversification in terms of product quality, geography, and diversification into service exports (as the GCC has undertaken). Achieving this broad level of diversification requires an equally broad portfolio of policies, including improving the incentives for goods and services trade, lowering the cost of critical backbone services to trade, and proactive policies to support trade.[15] Even with product diversification, external shocks can hit segments of the economy more heavily than others and put economies at risk. The recent crisis has shown that countries with diversified manufactured exports, such as Germany, China and Japan, are not immune to strong shocks, since aggregate demand fell in all segments of consumer goods. Because diversification cannot provide full, a key companion of diversification is the development and reliance on leading indicators to prepare for and respond quickly to shocks that do occur.

Previous editions of the MENA Economic Developments and Prospects Reports have out-

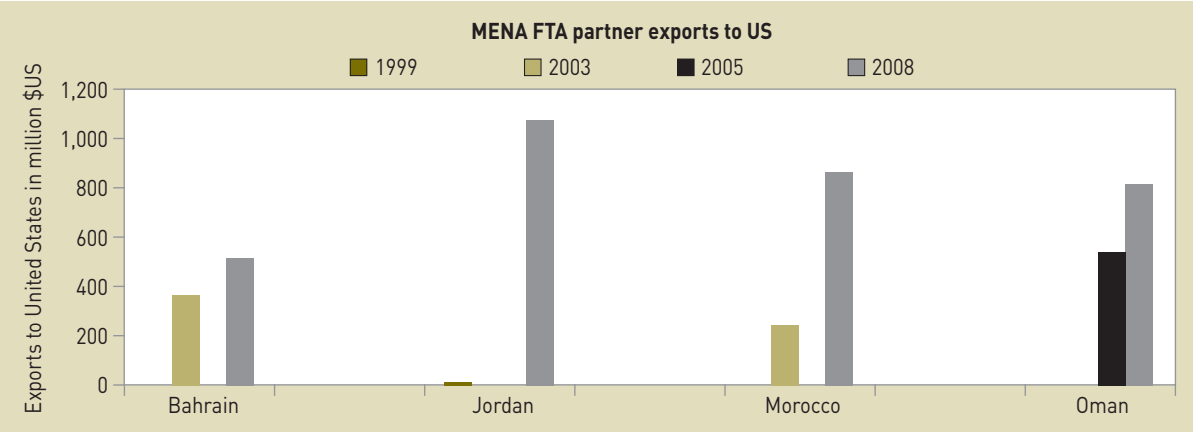
[15] Newfarmer, et al. 2009.

lined the many measures undertaken by countries to enhance merchandise trade, including efforts to expand markets through bilateral and regional trade agreements—perhaps most importantly through the Association Agreements with the EU signed by Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and the West Bank and Gaza—, through extensive liberalization of key services for trade to domestic and foreign competition, and through trade policy reforms. The Barcelona Process toward a free trade area between MENA members and the EU has led to the dismantling of tariff rates on EU industrial and agro-industrial goods within most MENA countries, and several are initiating the reduction on other goods. More than half of the region's economies are members of the World Trade Organization (WTO). Free trade agreements with the United States have been signed by Bahrain, Jordan, Morocco and Oman, which combined have contributed to export growth to the US market averaging more than 20% a year (see Figure 3.9). The region has also entered into various intraregional trade and investment agreements, including the Agadir Agreement (between Egypt, Morocco, Tunisia and Jordan) and the Greater Arab Free Trade Agreement (GAFTA), while the GCC countries have formed a customs union, and plans for a monetary union between the states are progressing.[16]

At the same time, the architecture and policies governing trade in most of MENA have limited its ability to achieve significant gains in competitiveness and diversification. The way in which goods are produced and exported worldwide has changed dramatically in recent years, with technology and economies of scale motivating global production networks. MENA countries are poorly integrated into cross-border production networks, reducing the potential for higher foreign direct investment, the collateral knowledge spillovers that usually occur within production networks, and opportunities for expanding vertical integration. The reasons for this poor integration vary, but include low levels of FDI in manufacturing, poor regional integration (which might allow for important economies of scale), high logistics and transport costs, and for countries outside the GCC, Lebanon, Jordan and Yemen, still high trade barriers[17]. According to the new World Tariff Profiles,[18]

[16] Although the United Arab Emirates, at least, decided in May, 2009 not enter into the monetary union.
[17] World Bank 2008a.
[18] In contrast to previous editions of the MENA Economic Developments and Prospects Reports, this report now utilizes the new World Tariff Profiles to assess import protection. In the World Tariff Profiles, the WTO, ITC, and UNCTAD have made an effort convert Non-ad valorem duties into their ad valorem equivalents. As a result, it is not possible to assess tariff reform from 2000 to the present (as in previous editions), since the WTO no longer calculates tariffs by ad-valorem duties alone.

Figure 3.9: Growth in MENA FTA exports



Source: World Bank staff estimates from UN COMTRADE data.

average most-favored nation (MFN) tariffs for non-oil Europe integrated economies averages some 22%, while non-GCC oil exporters maintain an average MFN tariff of 18%. This places both groups of countries in the bottom quintile of economies, worldwide, with regard to tariff import protection (Table 3.3).[19] Despite reductions in the MFN tariffs on imports of inputs and intermediate products from the rest of the world, MENA's Europe-dependent countries have average applied MFNs two-three times higher than the average Europe preferential tariff, raising incentives for trade diversion and greatly limiting the possibility of integrating into European and other production chains.

Expanding and diversifying trade in the MENA region to reduce vulnerability to terms of trade and global demand shocks will require supportive measures along many fronts, which have been analyzed in great depth in other publications. A few key measures to support the process include analyzing particular export failures—in access to export finance or access to overseas market information—to identify the specific failures in the process. That can help to guide interventions which can support trade, including export and investment promotion agencies, standards bodies, and improvements in transport logistics. Continuing trade reform is needed to encourage MENA's resources to move to higher productivity activities, which will be critical for the region's competitiveness, as the potential of remaining competitive in low-technology activities is limited. Reducing barriers to trade will also help regional integration efforts, which can provide the needed economies of scale to participate in global production networks. Improving the backbone services for trade is also essential for competitiveness, and the analysis of export failures (through such analysis as investment climate assessments) can help to identify to the key stumbling blocks along the way. Combined, these measures can help MENA producers become more competitive, to expand their product and geography base, and to entice firms (both local and foreign) to use MENA countries as platforms from which to conduct business.

Business Flexibility and Vulnerability

One of the greatest weapons against external shock is entrepreneurship. An economy in which the private sector is able to respond to market changes by innovating, diversifying production, and adopting new technologies when circumstances change is able to rebound more quickly after negative shocks.[20] And, the development of a robust private sector is crucial to diversify regional economies and reduce their high dependency on hydrocarbons exports.

There is no precise "measure" of private sector dynamism. Standard indicators of performance—such as size, levels of investment, or outputs of the private sector—capture only parts of what is the broad notion of private sector strength, and even these indicators can vary sharply depending upon the manner of measurement and the period of time analyzed. By many measures, the private sector in MENA does not appear much different than the private sector in other regions. While (publically owned) oil sectors dominate many of the regional economies (thus the private sector is small, if one includes the oil sector), the majority of the non-oil productive base is private sector-held, and there has been substantial progress in the past fifteen to twenty years in increasing the size of the private sector (Figure 3.10).

Several indicators suggest that the private sector in MENA is considerably less dynamic than in other regions, in ways that are important from an economic resilience perspective.

While the goal of a dynamic private sector is for it to respond to economic shocks, doing so requires firm destruction and creation. The ability for new firms to enter and less productive

[19] A similar result is found using the Overall Trade Restrictiveness Index, where non-GCC oil exporters rank in the bottom 22 percent of countries worldwide with regard to tariff and non-tariff measures on imports. Non-oil Europe dependent countries, meanwhile, rank in the bottom 8 percent.

[20] See Duval, et al (2008) for evidence from the OECD on policies and institutions and shock persistence.

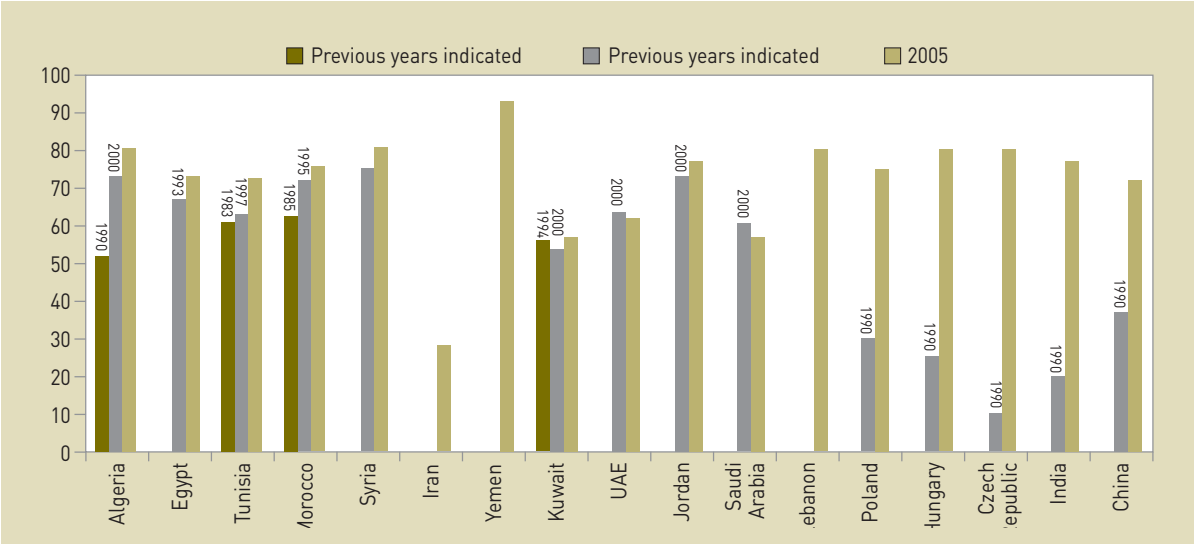
Table 3.3: Average tariff protection in MENA, 2008

Country/region	Average tariff	Average tariff (index)*	Time for export clearance (index*)	Time for import clearance (index*)	Overall trade policy index*
Algeria	18.6	8	67	50	43
Bahrain	5.0	89	77	76	91
Djibouti	27.8	1	59	72	49
Egypt	16.7	14	77	76	64
Iran	26.2	2	33	18	11
Jordan	11.2	37	59	53	56
Kuwait	4.6	91	55	61	79
Lebanon	6.9	66	30	20	39
Morocco	23.0	3	77	68	56
Oman	5.5	73	43	40	61
Qatar	4.9	89	50	61	76
Saudi Arabia	5.0	89	67	68	85
Syria	19.4	6	72	57	50
Tunisia	26.8	2	67	50	41
United Arab Emirates	5.0	89	85	89	94
West Bank and Gaza	—	—	36	19	—
Yemen	7.1	63	21	36	42
MENA	13.4	47	54	51	58
GCC	5.0	91	63	66	81
Oil, non-GCC	17.8	51	39	32	36
Non-oil, Europe-integrated	22.2	7	74	65	53
Non-oil, GCC dependent	15.3	36	46	41	48
East Asia/Pacific	8.7	67	47	50	59
Europe/Central Asia	7.3	67	50	51	46
High Income/OECD	5.6	78	84	85	92
Latin America/ Caribbean	9.6	52	59	57	64
South Asia	14.3	25	33	41	32
Sub-Saharan Africa	12.8	32	27	27	27
World	**10.1**	**50**	**50**	**50**	**50**

Note: Index relates country's average tariff (export clearance/import clearance/overall trade policy) to the world by calculating its position in a worldwide distribution of countries according to that trade indicator, where 100 reflects the economy with the "best" trade policies and 1 reflects the economy with the "worst" trade policies.
Sources: World Bank staff estimates from WTO Tariff Profiles; Doing Business Indicators.

firms to exit is a key indicator in the dynamism and resilience of the private sector in the long run (although it may entail substantial economic costs in the short run). In the MENA region, that creative destruction appears to be significantly more constrained. One of the notable characteristics of the private sector is its age. At 19 years, the median local manufacturing firm's age is higher than any other developing region in the world, and about the same as that in more

Figure 3.10: Private sector as a share of non-oil GDP



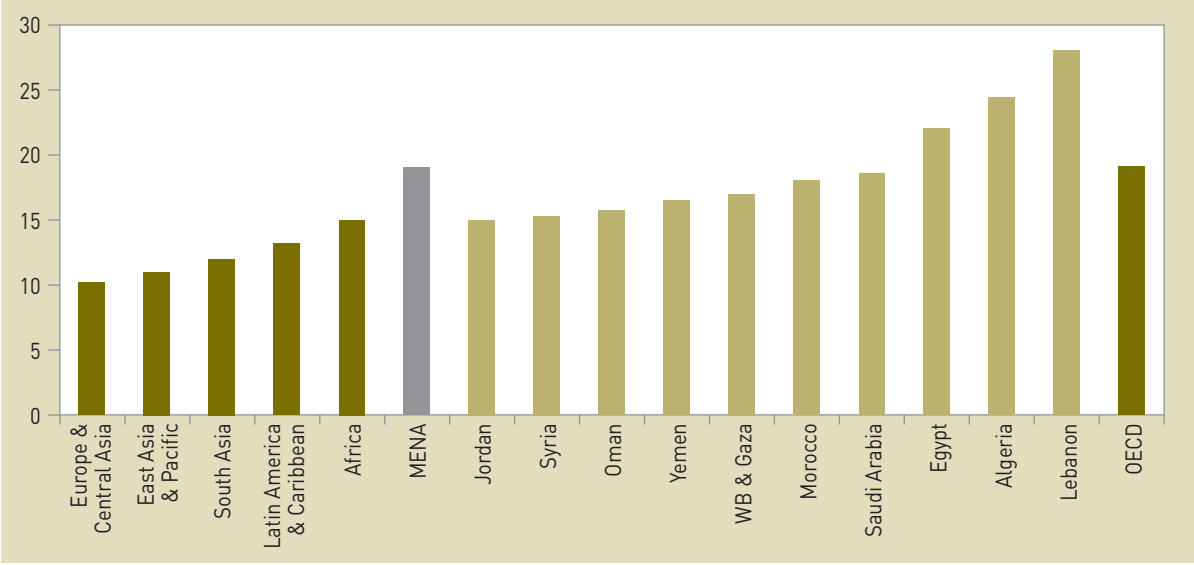
Source: World Bank, 2009c.

mature OECD economies (Figure 3.11).[21] The persistence of older firms in MENA suggests that creative destruction in MENA is substantially weaker than in other regions.

While exit and entry form the cornerstone for private sector resilience as a whole, private sector

[21] World Bank, 2009c.

Figure 3.11: Median age of manufacturing firms (*years*)



Source: World Bank, 2009c.

resilience at the firm level depends on the ability to adjust activities to accommodate shock, and especially on the labor margin. Recent research, in fact, suggests that labor market flexibility is the most important factor for dampening the effect of terms-of-trade shocks on per capita GDP.[22] Outside the GCC, however, the degree of labor flexibility in MENA is strikingly low, particularly from the standpoint of the difficulties with worker dismissal (see Table 3.4).

[22] Loayza and Raddatz. 2007. Other factors analyzed included trade openness, financial depth, financial openness, and ease of firm entry.

Table 3.4: Doing business indicators of labor flexibility

Country/Region	Difficulty of Hiring Index (standardized)	Difficulty of Firing Index (standardized)	Firing Costs, in weeks of wages (standardized)
Algeria	30	41	77
Bahrain	89	23	92
Djibouti	13	52	32
Egypt	89	12	4
Iran	67	23	14
Iraq	47	64	98
Jordan	67	12	92
Kuwait	89	88	22
Lebanon	30	52	77
Morocco	1	23	19
Oman	47	88	92
Qatar	89	64	25
Saudi Arabia	89	88	22
Syria	67	23	22
Tunisia	48	1	77
UAE	89	88	20
West Bank Gaza	47	64	14
Yemen	89	41	98
MENA	**60**	**47**	**49**
GCC	82	73	46
Other oil	53	38	53
Non-oil, Europe integrated	46	12	34
Non-oil, GCC dependent	49	44	59
East Asia/Pacific	62	63	57
Europe/Central Asia	45	50	65
Latin America/Caribbean	45	58	38
High Income/OECD	54	55	66
South Asia	62	39	43
Sub-Saharan Africa	42	38	38
World	**50**	**50**	**50**

Source: Staff estimates from Doing Business Indicators, The World Bank. Indices represent a country's placement in a worldwide cumulative frequency distribution according to that indicator, with high values representing the countries in the world which have the "easiest" policies for hiring and firing workers, and low values representing the countries which have the most difficult (or costly).

Both features point to a more limited ability in MENA to self-restructure, in part as a result of policies designed precisely to protect jobs and industries. MENA's historical development models, based on state-led industrial development and economic and social policies designed for redistribution and equity have also created a business environment in which there is little space for creative destruction and labor adjustment. Although the region has made strong progress in moving to more market-oriented economies, legacies of past policies remain. And while these policies may dampen the initial impact of a shock, they also may actually increase its persistence. The relative difficulty in job destruction, for example, while protecting workers in the short-run response to a negative shock, also hinder the wage adjustment process and the relocation towards other productive jobs[23], and may also increase the fiscal impact of a shock.

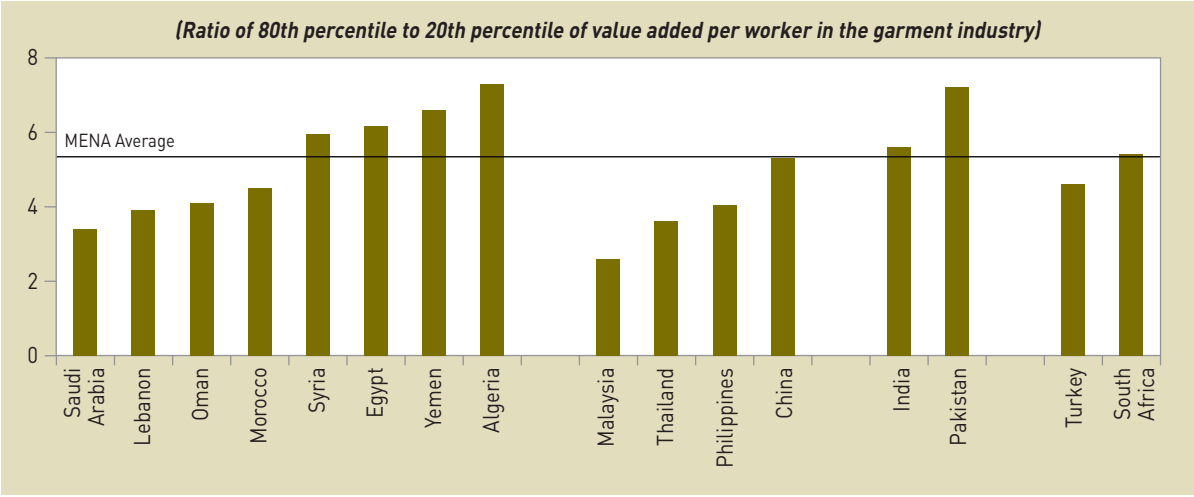
Beyond a legacy of policies designed to protect jobs and industries, recent research paints a picture of a region in which private sector dynamism, investment, and innovation is significantly constrained by an unlevel playing field between established and new firms, with high entry barriers to competition. This lack of dynamism, while an obstacle to stronger growth, is also a key obstacle to the resistance to shocks, as it prevents the critical resource shifts needed to bounce back from economic shock. One of the telling indicators of that uneven playing field is the high productivity dispersion of firms within an industry. If markets are competitive, with relatively free entry and exit, the dispersion should be quite low, because efficient competitive firms will drive less competitive firms out of business (or force them to raise productivity). And studies bear out the fact that lower productivity dispersion is associated with increased openness and greater competition with foreign firms.[24]

In MENA, the dispersion of value added per worker is considerably higher than in comparator countries (Figure 3.12), particularly in non-GCC oil producing economies like Algeria, Yemen and Syria.

In the past several years, the region as a whole has made progress in lowering some of the constraints to business activity, particularly in the area of reducing the costs (both financial and other) of starting a business. A few countries in particular, including Egypt, Saudi Arabia, Syria

[23] Duval, et al. 2007.
[24] World Bank, 2009c.

Figure 3.12: Dispersion in value-added per worker



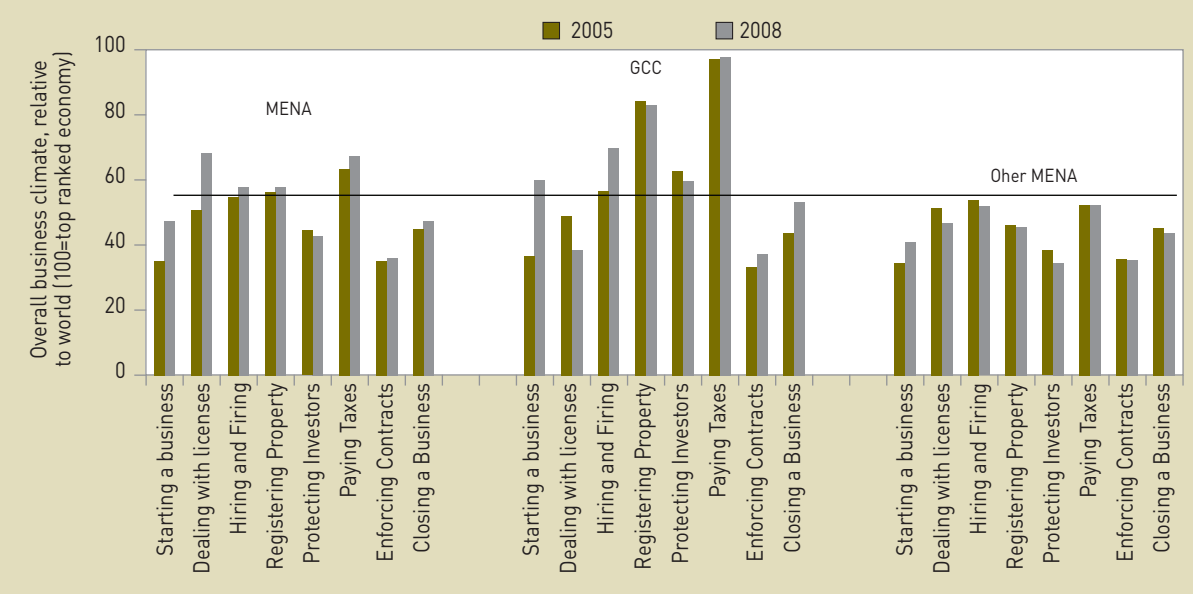
Source: World Bank, 2009c.

and Yemen, undertook reforms which resulted in significant improvement in their world rankings according to the World Bank Doing Business Indicators.

Overall several areas of reform remain very low by international standards and have not been tackled by the region. Contract enforcement remains the weakest area of the business environment both within the GCC and the rest of the region, greatly limiting business dealings outside those built by long-term relationships, repeated interactions and trust. And while the process for closing a business has improved over the past few years, that area also remains problematic for the region, especially among non-GCC economies. The frameworks for insolvency make bankruptcy difficult. Legal rules for reorganizing troubled companies are out of date, and the institutions that support the insolvency framework (courts and the regulation of insolvency professionals) are also inadequate in dealing with these matters (the insolvency law of the Dubai International Financial Center is the strongest insolvency law in the region but, given its unique structure and resources, is not particularly helpful in guiding other countries). More useful are the positive steps being taken to ameliorate the ICR framework including legislation consistent with best practice (Egypt, Tunisia), the role of regulators (the Companies Controller in Jordan) and the potential development of specialized courts or 'chambers' (Egypt, Jordan, Saudi Arabia).

A systemic problem with measuring structural reform is that one cannot determine the binding constraints to conducting business. Without knowing the true constraints to investment and growth in each country, it is impossible to know whether improvements in a particular area(s) of the regulatory front will materially change the business environment for investors. If the binding constraints to investment remain, so-called 'top reformers' may not have substantially improved the de facto business climate at all. While an average ranking can be indicative of the prevalence of problems in the business and regulatory environment, it is less useful in

Figure 3.13: Reform of business policies in MENA



Note: Bars reflect where country/region stands in a worldwide distribution of countries ranked according to the ease of doing business, according to the World Bank Doing Business Indicators. High values indicate policies in country relatively easy for conducting business.
= World median. Source: World Bank Doing Business Indicators 2009.

diagnosing the true nature of the constraints to private sector growth.

There is reason to suspect that binding constraints to private investment remain intact in many MENA countries. Looking at the broad range of business and regulatory indicators in the *Doing Business* reports, there is a high degree of 'regulatory dispersion' in MENA, with some areas of the business regulatory environment significantly more cumbersome than others (for example, in Egypt, while the time needed for starting a business is less than in 90% of countries worldwide, the costs associated with firing workers, in weeks of wages, is higher than in 95% of countries worldwide). Table 3.5 highlights MENA countries' "most cumbersome" areas of doing business[25], calculating where, on average, any business indicator would place a country within a worldwide distribution, and averaging the bottom third indicators for each country. On average, MENA countries' most cumbersome business regulatory areas would rank them in the bottom 20% of countries worldwide—were they only evaluated against the world by their most cumbersome areas of business, not significantly different from world averages. However, outside the GCC, MENA countries' more difficult business regulations would rank in the 17th percentile, only higher than Sub-Saharan Africa and South Asia. And for non-GCC oil countries, the most cumbersome aspects of their business environments would rank in the 13th percentile worldwide, lower than any other region of the world. This suggests that while the region may have taken substantial steps forward to improve the business environment, there remain significant obstacles to doing business, sufficient to hinder the ability for the private sector to respond in the face of exogenous shock.

Moreover, while the individual characteristics of the business environment matter, the lack of policy certainty and discretion in implementing the rules constrains investment in the region. Investors in MENA—especially managers of small and medium-sized firms— consistently point to policy uncertainty and an uneven playing field that favors some incumbent firms at the expense of new entrants and competitors. Despite a favorable macroeconomic environment for the past decade, macroeconomic uncertainty remains a leading concern for business. Corruption, anticompetitive practices, and regulatory policy uncertainty all rank high in the minds of business managers. In many countries, businesses also point to reform gaps in the regulatory environment, in access to finance, and in access to land. Rather than policies as they are appear on paper, a large part of the problem seems to lie with the unequal, discretionary, and preferential implementation of policies[26].

This point to the overarching need for governance not only for improving the business environment, but for reducing vulnerability to shocks in general. Poor governance, in particular through domestic policy mismanagement, can directly and significantly contribute to volatility and the exposure to shocks (through high inflation, overvalued exchange rates, or sustained budget deficits, etc).[27] Additionally, and related, governance sends key signals about credibility of policy and the ability for the economy to emerge from crisis, affecting both household and private sector responses. While good governance cannot ensure shocks will not hit, bad governance can arguably ensure that the impacts of shocks will persist.

Previous editions of the MENA Economic Developments and Prospects reports have outlined the two major governance challenges facing the region, and both are important in preventing and adjusting to external shock. First, it faces the challenge of modernizing governance structures and operations for more efficient public sector management. For countries to successfully absorb external shocks, they need to be able to

[25] For each business regulatory category, a country was ranked relative to the world by placing it in a worldwide frequency distribution according to that indicator, with 100 reflecting the country with the "best" policies and 0 reflecting the country with the worst. Utilizing the 31 indicators of business regulation across eight broad areas of reform in the Doing Business 2009 report, the most difficult aspects of doing business index was calculated by averaging each country's placement in the worldwide frequency distribution for their "most cumbersome" areas of doing business (the bottom third, and with different business areas for each country).

[26] World Bank, 2009c.

[27] Bacchetta, et. al 2007.

Table 3.5: Business and regulatory environment: Most cumbersome business areas (Relative to rest of world, for those areas of the business environment)

Country/Region	Areas of most cumbersome business regulation
Algeria	13
Bahrain	37
Djibouti	8
Egypt	14
Iran	14
Iraq	16
Jordan	24
Kuwait	22
Lebanon	23
Morocco	15
Oman	26
Qatar	28
Saudi Arabia	35
Syria	12
Tunisia	17
UAE	17
West Bank Gaza	18
Yemen	25
MENA	**20.2**
GCC	27.5
Non-GCC	16.6
Oil, other	13.5
Non-oil, GCC dependent	19.7
Non-oil, Europe integrated	15.4
East Asia Pacific	23.3
Europe Central Asia	21.4
High Income OECD	36.1
Latin America Caribbean	18.6
South Asia	15.0
Sub-Saharan Africa	13.5
World	**20.9**

respond quickly and effectively, adjusting fiscal expenditures, removing bottlenecks and institutional constraints to growth, and safeguarding the most vulnerable in the population, all of which require the institutional capacity for effective policy making and implementation. Improving public sector efficiency in MENA involves administrative reform to enhance the efficiency of the bureaucracy, to improve mechanisms of internal accountability, and to reduce corruption.

Secondly, the MENA region faces the more difficult challenge of increasing public sector accountability. This challenge requires improving

transparency in governance mechanisms and enhancing contestability in government policies. Public accountability impacts the exposure to the persistence of shocks through two major channels. First, the lack of accountability in the public sector, either through policy uncertainty or through the lack of transparency and discretion in the implementation of rules, reduces the credibility in the government's capacity to effectively manage the shock, thus reducing private investment needed for the recovery. Second, the lack of contestability puts countries at greater risk of implementing poor policies, increasing the potential persistence of shocks. On this front, the MENA region faces its largest challenge, ranking below every other region of the world with regard to accountability (Table 3.6).

One of the strongest indicators of the gap in public sector accountability is a general disinterest in systemic gathering and transparent dissemination of data, which greatly hinders the ability for the region to monitor shocks and design policies to respond to them. While there are differences across the region, access to data of all types is severely limited in MENA: for some countries, the data of the sort that would be important for understanding the impacts of economic policy (or the leading indicators needed to predict shocks) is simply not collected, or is collected so infrequently as to be of little use. In other countries, while data may be collected, the data is retained within government agencies and not made public. In still others, data is only shared with a restricted group. With access to data useful in monitoring and responding to crisis so constrained, the ability to analyze and use data atrophies in general because there is little pressure to improve analytical skills and techniques, which has longer term implications on reducing vulnerability to shock. Improving data collection and unfettered availability to the comprehensive data needed to adequately monitor and respond to shock is thus an important component of reducing vulnerability to shock over the long term.

Safety nets and shock

The most severely affected by economic crisis will often be the poor and near-poor, who lack the resources to smooth consumption, thus the state of safety nets will be an important deterrent to vulnerability in all economies. MENA has the advantage of having low levels of poverty, compared with other regions. Nevertheless, a few structural features about MENA make the region particularly vulnerable to economic crisis from a poverty perspective.

Firstly, although poverty in MENA is low relative to other regions, it is characterized by a significant number of people living above but close to the poverty line. As a result, the sensitivity of poverty to external shocks is high. Overall, less than 5% of MENA's population lives on less than US$1.25 a day but some 19% of the regional population lives on less than US$2 a day. Moreover a considerable share of the population hovers just above the poverty line: in 2005, close to one fifth of Egyptians and Moroccans had per capita daily consumption falling into a narrow band between US$2 and US$2.50. This is as many as those who were under the US$2 poverty line in these countries. About 15% of Yemen and Djibouti populations are in the same 0.50 cents a day band. With such deep clustering of large proportions around the poverty line, even a moderate shock represents a serious risk to wider-scale poverty in many countries of the MENA region (see Figure 3.14).

Secondly, few countries in the region have well-developed, well-targeted safety nets. Most programs rely heavily on consumer subsidies, highly expensive but usually suffering from both poor coverage and a high degree of leakage to the non-poor. Egypt's food and energy subsidies, for example, which absorb some 30% of public expenditure (and about 10% of GDP), are not available to a large segment of the poor, due to the geographic areas in which the poor tend to live (rural Upper Egypt) and to the eligibility criteria for ration cards, and on average, the wealthiest quintile of the population receive about twice the resources from the subsidies scheme as the poorest.[28] In Morocco, meanwhile, the poor are receiving only 10% of what the

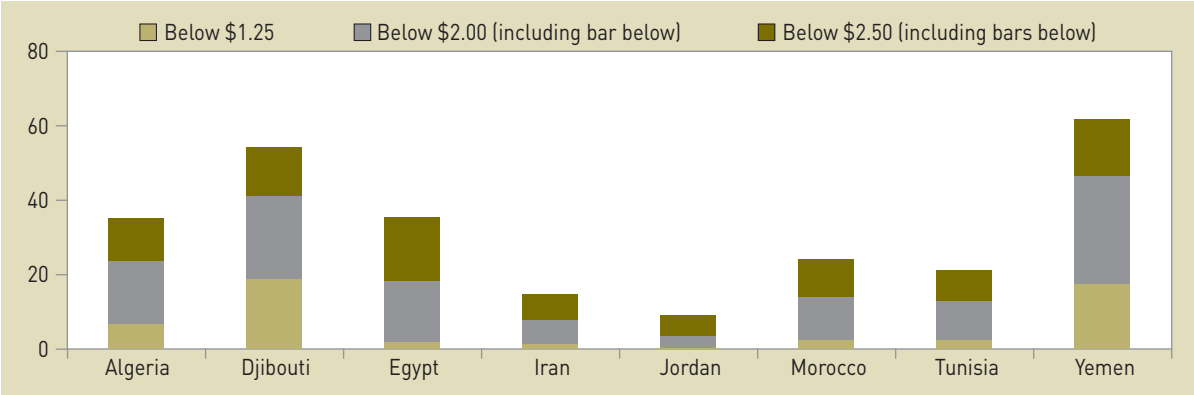
[28] World Bank, 2005.

Table 3.6: Indicators of governance in MENA, 2007

Country/region	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Algeria	20	13	36	26	26	41
Bahrain	25	34	68	79	69	73
Djibouti	18	41	14	21	40	40
Egypt	12	22	39	43	52	36
Iran	8	11	24	4	21	37
Iraq	10	0	2	7	1	2
Jordan	27	34	65	62	65	67
Kuwait	34	60	63	61	71	72
Lebanon	34	4	29	48	30	31
Libya	2	64	12	17	32	22
Morocco	29	27	55	51	51	53
Oman	19	72	67	70	72	73
Qatar	28	76	58	67	80	82
Saudi Arabia	7	25	51	52	59	58
Syria	5	25	16	10	37	19
Tunisia	13	47	69	57	60	60
United Arab Emirates	23	73	79	72	70	82
West Bank Gaza	10	5	9	7	22	24
Yemen	17	8	13	24	18	33
MENA	**18**	**34**	**41**	**41**	**46**	**48**
GCC	23	57	64	67	70	73
Non-GCC	16	23	29	29	35	36
Oil, non GCC	10	20	17	15	23	26
Non oil, GCC dependent	22	21	29	34	39	41
Non oil, Europe integrated	18	32	54	50	54	50
East Asia Pacific	34	44	47	44	43	37
Europe Central Asia	48	46	49	54	43	43
High Income OECD	90	78	91	91	90	90
Latin America Caribbean	58	48	53	52	46	53
South Asia	26	25	35	31	34	32
Sub Saharan Africa	33	34	27	28	28	31
World	**50**	**50**	**50**	**50**	**50**	**50**

Note: Index values represent country's placement in a worldwide distribution of countries based on that indicator, with 100 representing the country with the "best" governance and 0 representing the country with the "worst" governance.
Source: Staff calculations from World Bank Governance Matters database.

Figure 3.14: Poverty incidence at alternative poverty lines, late 1990s



Source: World Bank POVCAL data.

government spends on universal price subsidies, while 90% goes to subsidies goods consumed by the non-poor.[29] Even more diversified social safety net programs, such as in Jordan and Yemen, suffer from poor coverage and high leakage. Countries in MENA have taken steps to improve the efficiency, targeting and coverage of social safety net mechanisms as a core element of their development agenda, but the progress has been slow. Nowhere has progress been more difficult than in the area of energy subsidy reform. Only Jordan has moved forward aggressively with energy subsidy reform, although a few others are in the process of developing plans for reform (including Morocco, Egypt, Syria and Yemen). In Iran, although energy subsides exceed 20% of GDP,[30] political constraints have prevented the introduction of subsidy reform, despite years of attempts. The most recent bill to reduce energy subsidies as part of an overall economic reform package presented to the Iranian parliament was rejected on the grounds that ending energy subsidies, particularly during this time of economic crisis and high inflation, would only serve to stoke inflationary pressures. The continued low domestic energy prices have caused production inefficiency, excessive consumption, corruption, smuggling, and environmental degradation.

Nor does the region have well-developed mechanisms of social insurance. Guarding against vulnerability is not just protecting the most poor from starving. It is also protecting the non-poor from drifting dangerously close to poverty. And for this group, the programs designed for the poor will not help in their crisis. For them, other mechanisms of social protection will be important to mitigate the effects of shocks, including labor market programs and social insurance programs. Many of these programs also suffer from deficiencies, which limit their ability to be effect shock absorbers.

Labor market programs, which have evolved from the region's history as employer of the last resort (particularly within the oil-producing economies), have focused on job protection rather than income protection. Rigid labor legislation, designed to protect workers from being laid off in the short run in response to a negative shock, also slow down the wage adjustment process as well as workers' reallocation towards other productive jobs, thereby delaying the return of employment and output to their initial levels. Over the long run, they reduce the incentives to hire workers and create imbalances between worker protection within and outside the firm. Other ad-hoc programs such as supply-driven vocational training, limited job-search assistance, and wage subsidies that attempt to stimulate job creation

[29] World Bank 2009e.
[30] Estimated based on 2007/08 data.

have received substantial public resources, yet their effectiveness remains in doubt. Most of these programs have continued to operate in the absence of appropriate monitoring and impact evaluation systems. Unemployment insurance, which could significantly cushion the impact of economic shocks, is only available in a handful of countries, including Algeria, Egypt, and Iran, and the systems face problems in terms of design that affects financial sustainability, incentives and equity.

Health insurance and pension systems also have deficiencies which reduce their effectiveness in times of economic shock. Health insurance systems are affected by weak institutional capacity to manage, regulate, and supervise. In all cases, there is little or no information regarding utilization patterns and unit costs and it is therefore not possible to price health insurance plans. As a result, contributions to the health system are ad-hoc and often insufficient to finance generous benefits packages. At the same time, the free health care offered through the public system reduces incentives to enroll in the insurance scheme and thus impairs and reduces the contributory base. Another issue is related to inadequate payment mechanisms for providers, mostly public providers. Current practices do not generate incentives to control costs and improve the quality of care.

The region's defined benefit pension systems, which provide old-age, disability, and survivorship pensions, represent an exceptional vulnerability for the region's macroeconomic stability and fiscal framework. The estimated accrued-to-date pension liabilities in MENA range between 6% of GDP (Morocco) and more than 170% (Jordan), which, in the absence of any intervention, will be unsustainable (increasing the vulnerability of those currently in the system) or will require significant tax increases or reductions in the budget for other items (for example, education and health). At the individual level, the large mandates reduce the incentives for saving for retirement outside of the mandatory pension system, so retirement savings are not diversified.

And perhaps most fundamental, MENA's ability to respond effectively to the social impacts of economic shock is hindered by a general disinterest in systemic gathering and transparent dissemination of data. The ability to design safety nets and social insurance programs equipped to deal with a variety of sources of household vulnerability, as well as to monitor and respond to economic crises which occur, depends on access to a variety of reliable, high-frequency data, including nationwide longitudinal studies of households which capture as many sources of shock and dimensions of poverty as possible. Data which allows for rapid and in-depth analysis on risk-induced poverty and vulnerability, risk management strategies and instruments, and an analysis of existing safety net programs, are essential in better informing the safety net design to adequately deal with the consequences of economic shock. In this area especially, the MENA region falls short. Data collection is limited, and there are few sources which might aid in monitoring social impacts of crisis. Moreover, access to information throughout the region is severely curtailed. As a result, the ability for MENA countries to design appropriate social policies to address the impacts of shock (or prevent them) is severely constrained.

More generally, the ability for the region to prevent future crises and design policies to respond to *all* of the potential impacts of economic shock—be it financial regulations in the face of rising contingent risks, policies to shore up specific markets or firms, monetary and fiscal policies to combat generalized recession, or policies to mitigate widespread drops into poverty, will depend over the long run on the region's improvement in the collection and distribution of complete, timely and reliable statistics.

Statistical Annex

Table A1: Country group characteristics for analysis of the Triple-F crises

Country economic characteristics as of calendar year 2007	GDP in USD bn	GDP growth 2005–07	CAB % of GDP	Fiscal % of GDP	Hydrocarbons-X % of GDP	Net hydro-x % of GDP	Key export shares %
GCC countries	**793.5**	**5.6**	**25.2**	**18.8**	**58.6**	**33.8**	
Bahrain	10.7	7.6	13.2	2.9	35.7	42.3	
Kuwait	109.7	7.4	45.6	39.2	58.4	—	
Oman	40.1	6.3	4.7	13.7	38.9	32.8	
Qatar	71.0	13.1	30.9	11.4	59.1	37.1	
Saudi Arabia	381.8	4.0	25.1	12.3	65.7	34.9	
United Arab Emirates	180.2	5.6	16.1	25.2	49.2	29.4	
Oil exporters with low per-capita revenues	**539.8**	**4.9**	**16.5**	**7.2**	**43.3**	**28.4**	
Algeria	134.4	3.3	18.1	11.4	52.2	34.6	
Iran	215.8	5.5	15.0	12.3	35.7	21.6	
Iraq	61.7	2.3	15.6	25.2	61.8	60.8	
Libya	69.7	6.1	33.9	26.2	57.1	—	
Syria	39.2	4.6	2.0	–3.5	9.1	10.5	
Yemen	19.1	3.9	–8.0	–4.0	25.6	21.1	
Diversified exporters with links to GCC	**41.6**	**4.0**	**–13.8**	**–10.4**	**0.1**	**2.2**	**..to GCC**
Djibouti	0.8	4.3	–8.2	–3.4	0.0	—	
Jordan	15.7	6.7	–17.0	–7.9	0.3	–15.4	11.8
Lebanon	25.1	2.6	–12.1	–12.2	—	–7.7	15.2
Diversified exporters integrated with EU	**241.7**	**5.6**	**–0.3**	**–4.7**	**1.1**	**–0.4**	**..to EU**
Egypt	131.9	6.1	0.3	–7.7	0.7	2.7	47.0
Morocco	74.9	4.5	–0.3	–0.2	0.3	–6.3	64.2
Tunisia	34.9	5.3	–2.6	–3.0	4.3	0.0	81.0
Memo items:							
MENA region	**1,616.6**	**5.3**	**17.6**	**10.8**	**43.4**	**25.2**	
Oil exporters	1,333.3	5.4	20.0	12.3	47.1	28.9	
Diversified exporters	283.3	4.5	–4.5	–3.6	1.2	–0.1	

Source: National Agencies, IEA, OPEC, IMF and World Bank staff estimates,

Table A2: Summary of economic developments in the region, 1996–2008

Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
MENA Region (excluding Iraq)					
real GDP growth (%)	**3.5**	**5.0**	**4.7**	**5.6**	**6.1**
population	2.0	1.9	2.0	1.9	1.9
per-capita GDP	1.5	3.0	2.7	3.6	4.1
CPI inflation (ch%)	5.1	3.7	6.2	7.2	10.6
industrial production (ch%)	–0.4	17.6	20.5	6.7	36.3
fiscal balance (% GDP)	–2.3	3.8	12.2	10.8	14.9
current account balance (% GDP)	0.8	8.5	21.3	17.6	22.6
foreign direct investment (% GDP)	0.7	1.4	2.9	1.8	1.4
GCC countries					
real GDP growth(%)	**3.0**	**5.5**	**4.0**	**5.6**	**6.3**
population	3.0	3.0	3.1	3.1	3.1
per-capita GDP	0.1	2.4	0.9	2.3	3.0
CPI inflation (ch%)	2.2	2.3	7.6	9.4	11.4
industrial production (ch%)	–2.2	19.8	19.8	9.2	49.8
fiscal balance (% GDP)	–2.7	8.3	22.3	18.8	25.5
current account balance (% GDP)	0.7	12.1	29.1	25.2	32.2
foreign direct investment (% GDP)	0.5	1.3	2.0	0.2	–0.1
Oil exporters with large populations					
real GDP growth(%)	**4.4**	**4.0**	**4.6**	**5.2**	**5.6**
population	2.0	2.1	2.1	2.2	2.1
per-capita GDP	2.4	1.9	2.4	3.0	3.5
CPI inflation (ch%)	13.9	9.2	9.4	10.0	15.5
industrial production (ch%)	1.3	27.4	32.3	39.0	48.8
fiscal balance (% GDP)	–0.8	3.5	6.5	7.2	5.5
current account balance (% GDP)	3.9	9.9	20.0	16.5	22.7
foreign direct investment (% GDP)	0.1	0.6	0.9	0.8	0.7
Diversified exporters with strong GCC ties					
real GDP growth (%)	**2.8**	**4.3**	**1.9**	**7.1**	**6.1**
population	2.3	2.0	1.9	2.0	2.0
per-capita GDP	0.5	2.3	0.1	5.0	4.1
CPI inflation (ch%)	3.2	3.7	7.5	4.6	12.5
industrial production (ch%)	5.2	4.1	8.0	6.6	9.5
fiscal balance (% GDP)	–12.9	–10.6	–9.2	–10.4	–8.4
current account balance (% GDP)	–14.7	–13.5	–11.8	–13.8	–22.0
foreign direct investment (% GDP)	9.1	7.4	15.2	9.2	16.8

(*continued on next page*)

Table A2: Summary of economic developments in the region, 1996–2008 (*continued*)

Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
Diversified exporters integrated with Europe					
real GDP growth (%)	**5.0**	**4.2**	**6.9**	**5.9**	**6.5**
population	1.7	1.6	1.6	1.5	1.5
per-capita GDP	3.3	2.5	5.3	4.3	4.9
CPI inflation (ch%)	4.2	3.0	6.1	5.3	6.8
industrial production (ch%)	1.4	16.5	24.5	17.3	53.0
fiscal balance (% GDP)	–2.2	–5.5	–5.5	–4.7	–4.7
current account balance (% GDP)	–1.4	1.0	1.6	–0.3	–6.1
foreign direct investment (% GDP)	0.9	1.9	7.9	7.4	5.9

Source: National Agencies, IMF, and World Bank staff estimates.

Table A3: Assumptions about the external environment to 2010

	2000–2005 average	2006	2007	Estimate 2008	Forecast 2009	2010
Oil market developments						
World Bank average price ($/bbl)[a]	**37.4**	**64.3**	**71.1**	**97.0**	**55.5**	**63.0**
Growth in world demand (mb/d) ch %	1.7	1.4	1.0	–0.3	–3.0	0.9
OECD demand	0.7	–0.5	–0.8	–3.7	–5.1	–0.2
Developing country demand	3.3	4.3	3.5	3.8	–0.3	2.3
Growth in world supply (mb/d)	1.9	1.0	0.1	1.0	–3.5	0.9
OPEC supply	2.7	0.8	–0.9	3.0	–7.5	2.2
o/w MENA	1.8	1.3	–1.5	4.0	–8.0	2.7
Non-OPEC supply	1.5	1.2	0.7	–0.4	–0.6	0.1
GDP growth in MENA export markets[b]						
World	**3.1**	**4.2**	**3.8**	**1.9**	**–2.9**	**2.0**
OECD countries	**2.4**	**2.8**	**2.5**	**0.6**	**–4.2**	**1.2**
United States	2.6	2.8	2.0	1.1	–3.0	1.8
Euro Area	2.0	3.0	2.6	0.6	–4.5	0.5
Japan	1.6	2.1	2.3	–0.7	–6.8	1.0
Developing countries	**5.7**	**7.7**	**8.2**	**5.9**	**2.1**	**4.4**
China	9.7	11.6	13.0	9.0	6.5	7.5
Other East Asia and Pacific	5.1	5.7	11.4	8.0	5.3	6.6
Europe and Central Asia	5.8	7.4	6.9	4.3	–2.1	1.6
Financial markets						
U.S. LIBOR 6-months (%)	3.43	5.19	5.23	3.20	1.50	1.70
U.S. ten-year T-note	4.71	4.76	4.62	3.67	2.99	3.60
U.S. dollar effective exchange rate (ch %)[c]	–2.3	–1.6	–5.6	–4.5	10.1	–2.3
Dollar per euro exchange rate	1.089	1.256	1.370	1.471	1.355	1.407
Average spread on EM Debt (basis points)	527	198	197	400	500	350
Average spread on MENA Debt	453	338	476	500	600	400
MSCI EM equity index (USD) ch %	12.2	32.6	35.0	–10.6	–49.7	25.0
MSCI MENA equity index (USD) ch %	7.8	60.3	–16.9	3.9	–57.5	25.0
Non-oil commodity prices						
Non-oil commodity prices (ch %)	**9.9**	**29.0**	**17.1**	**21.0**	**–30.2**	**–2.1**
Agriculture	5.2	12.6	20.1	27.2	–20.9	–0.3
Food	4.9	10.0	25.7	33.9	–22.9	1.3
Grains	4.9	18.4	26.1	49.1	–26.4	0.7
Raw materials	7.3	22.4	9.1	11.9	–23.2	–1.2
Fertilizers	9.7	3.2	42.4	136.0	–44.5	–28.5
Manufactures unit value index (ch %)	1.3	1.6	5.5	7.5	1.9	1.0

Source: International Energy Agency, JP Morgan-Chase, Morgan-Stanley, OPEC, World Bank and IEA projections.
Notes: [a] Average of Brent, WTI and Dubai crude prices. [b] GDP in 2000 U.S. dollars. [c] Nominal, broad measure.

Table A4: Real GDP growth, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**—**	**4.7**	**5.6**	**6.1**	**2.2**	**4.0**
MENA (excl. Iraq)	**3.5**	**4.9**	**5.6**	**6.1**	**2.2**	**4.0**
GCC countries	**3.0**	**5.2**	**5.6**	**6.3**	**1.1**	**4.2**
Bahrain	4.0	6.1	8.1	6.1	2.6	4.0
Kuwait	1.2	7.4	4.4	5.2	–1.2	2.4
Oman	2.9	5.1	6.2	6.2	3.0	3.8
Qatar	12.0	9.0	15.3	16.4	18.2	16.2
Saudi Arabia	2.0	3.8	3.5	4.6	–0.9	3.0
United Arab Emirates	5.2	6.6	7.7	7.4	0.3	3.3
Oil exporters with large populations	**4.4**	**4.1**	**5.2**	**5.6**	**2.7**	**3.5**
Algeria	3.4	4.1	3.0	3.0	2.2	3.5
Iran, Islamic Republic of	3.8	5.5	6.2	6.9	2.5	3.0
Iraq	—	–64.2	1.5	9.8	6.9	6.7
Libya	1.3	4.4	6.8	6.3	2.9	4.8
Syrian Arab Republic	2.2	4.1	4.2	5.2	3.0	3.5
Yemen	5.8	4.1	3.0	4.0	7.7	5.0
Diversified exporters with strong GCC links	**2.8**	**4.0**	**7.1**	**6.1**	**2.5**	**4.2**
Djibouti	–0.7	2.9	4.8	5.8	5.0	5.5
Jordan	2.9	5.9	6.6	5.5	2.5	3.5
Lebanon	2.8	3.0	7.5	6.5	2.5	4.5
Diversified exporters integrated with Europe	**5.0**	**4.5**	**5.9**	**6.5**	**4.0**	**3.9**
Egypt	5.1	4.4	7.1	7.2	3.8	4.2
Morocco	4.4	4.9	2.7	5.6	5.0	3.0
Tunisia	5.9	4.6	6.3	4.5	3.0	4.0
Note:						
Oil-exporting countries (excl. Iraq)	3.4	5.0	5.7	6.2	2.0	4.0
Oil-importing countries (excl. WBG)	4.2	4.6	4.9	5.5	3.8	3.6
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**3.5**	**4.9**	**5.6**	**6.1**	**2.2**	**4.0**
All Developing countries	**4.2**	**5.7**	**8.2**	**5.9**	**2.1**	**4.4**
East Asia and the Pacific	6.2	8.5	11.4	8.0	5.3	6.6
Europe and Central Asia	2.0	5.8	6.9	4.3	–2.1	1.6
Latin America and the Caribbean	3.6	3.1	5.8	4.3	–0.6	2.2
South Asia	5.7	6.5	8.4	5.6	3.6	6.3
Sub-Saharan Africa	3.4	4.5	6.5	5.3	1.8	4.1

Source: National agencies and World Bank staff estimates and projections.

Table A5: Population growth, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
MENA (excl. Iraq)	**2.0**	**1.9**	**1.9**	**1.9**	**1.9**	**1.9**
GCC countries	**3.0**	**3.0**	**3.1**	**3.1**	**3.1**	**3.2**
Bahrain	3.3	2.0	2.0	2.0	2.0	2.0
Kuwait	4.0	3.0	2.2	2.0	2.0	2.0
Oman	2.5	1.2	2.1	2.4	2.4	2.3
Qatar	4.3	5.2	4.5	4.5	4.5	4.5
Saudi Arabia	2.5	2.5	2.5	2.5	2.4	2.4
United Arab Emirates	5.9	7.0	7.2	7.2	7.2	7.2
Oil exporters with large populations	**2.0**	**2.1**	**2.2**	**2.1**	**2.0**	**2.0**
Algeria	1.5	1.5	1.5	1.5	1.5	1.5
Iran, Islamic Republic of	1.6	1.5	1.8	1.8	1.7	1.7
Iraq	2.3	3.3	3.1	2.7	2.5	2.5
Libya	2.0	2.0	1.9	1.9	1.9	1.9
Syrian Arab Republic	2.7	2.4	2.4	2.4	2.4	2.4
Yemen	3.4	3.1	3.0	3.0	3.0	3.0
Diversified exporters with strong GCC links	**2.3**	**1.9**	**2.0**	**2.0**	**2.0**	**2.0**
Djibouti	3.3	2.2	1.6	1.6	1.6	1.6
Jordan	2.7	2.4	2.6	2.6	2.6	2.6
Lebanon	1.6	1.3	1.2	1.2	1.2	1.2
Diversified exporters integrated with Europe	**1.7**	**1.6**	**1.5**	**1.5**	**1.5**	**1.5**
Egypt	1.9	1.8	1.8	1.8	1.8	1.8
Morocco	1.5	1.2	1.0	1.0	1.0	1.0
Tunisia	1.3	1.0	1.0	1.0	1.0	0.9
Note:						
Oil-exporting countries (excl. Iraq)	2.0	2.0	2.1	2.1	2.1	2.1
Oil-importing countries (excl. WBG)	1.6	1.3	1.2	1.2	1.2	1.2
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**2.0**	**1.9**	**1.9**	**1.9**	**1.9**	**1.9**
All Developing countries	**1.6**	**1.3**	**1.3**	**1.3**	**1.0**	**1.1**
East Asia and the Pacific	1.1	0.9	0.8	0.8	0.8	0.7
Europe and Central Asia	-0.9	0.0	0.0	0.0	0.0	0.1
Latin America and the Caribbean	1.7	1.4	1.3	1.3	1.3	1.2
South Asia	2.6	1.7	1.7	1.3	1.4	1.3
Sub-Saharan Africa	2.8	2.5	2.5	1.9	1.9	2.0

Source: UN population database, National agencies and World Bank staff estimates.

Table A6: Real GDP per capita growth, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**—**	**2.7**	**3.5**	**4.0**	**0.2**	**1.9**
MENA (excl. Iraq)	**1.5**	**3.0**	**3.6**	**4.1**	**0.3**	**2.0**
GCC countries	0.1	2.2	2.3	3.0	–2.0	1.1
Bahrain	0.8	4.0	6.0	4.0	0.6	2.0
Kuwait	–2.7	4.3	2.2	3.1	–3.1	0.4
Oman	0.4	3.8	4.0	3.7	0.6	1.4
Qatar	7.4	3.7	10.3	11.4	13.1	11.2
Saudi Arabia	–0.4	1.3	0.9	2.1	–3.2	0.6
United Arab Emirates	–0.6	–0.4	0.5	0.2	–6.4	–3.6
Oil exporters with large populations	**2.4**	**2.0**	**3.0**	**3.5**	**0.7**	**1.5**
Algeria	1.8	2.5	1.5	1.5	0.7	2.0
Iran, Islamic Republic of	2.2	4.0	4.3	5.0	0.8	1.3
Iraq	—	–65.4	–1.6	6.9	4.3	4.1
Libya	–0.7	2.4	4.8	4.3	1.0	2.9
Syrian Arab Republic	–0.5	1.7	1.8	2.8	0.6	1.1
Yemen	2.3	0.9	–0.0	1.0	4.6	1.9
Diversified exporters with strong GCC links	**0.5**	**2.0**	**5.0**	**4.1**	**0.6**	**2.1**
Djibouti	–3.9	0.7	3.2	4.1	3.3	3.8
Jordan	0.3	3.4	3.9	2.9	–0.1	0.9
Lebanon	1.2	1.7	6.2	5.2	1.3	3.3
Diversified exporters integrated with Europe	**3.3**	**2.9**	**4.3**	**4.9**	**2.4**	**2.3**
Egypt	3.2	2.5	5.2	5.3	2.0	2.4
Morocco	2.8	3.7	1.7	4.5	3.9	2.0
Tunisia	4.5	3.6	5.2	3.4	2.0	3.1
Note:						
Oil-exporting countries (excl. Iraq)	1.3	2.9	3.5	4.0	–0.0	1.9
Oil-importing countries (excl. WBG)	2.5	3.2	3.6	4.2	2.5	2.4
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**1.5**	**3.0**	**3.6**	**4.1**	**0.3**	**2.0**
All Developing countries	**2.6**	**4.3**	**6.8**	**4.5**	**1.1**	**3.2**
East Asia and the Pacific	5.1	7.5	10.5	7.2	4.5	5.8
Europe and Central Asia	3.0	5.8	6.9	4.2	–2.2	1.4
Latin America and the Caribbean	1.9	1.8	4.4	3.0	–1.9	0.9
South Asia	3.1	4.8	6.7	4.3	2.1	4.9
Sub-Saharan Africa	0.6	2.0	3.9	3.3	–0.1	2.1

Source: National agencies and World Bank staff estimates and projections.

Table A7: Nominal GDP in billions U.S. dollars, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**657.0**	**984.0**	**1,616.6**	**2,067.6**	**2,104.7**	**2,033.6**
MENA (excl. Iraq)	**638.0**	**961.0**	**1,554.9**	**2,002.6**	**2,032.2**	**1,958.6**
GCC countries	**269.8**	**464.2**	**793.5**	**1,106.5**	**1,165.8**	**1,025.1**
Bahrain	6.2	8.3	10.7	11.4	11.7	12.6
Kuwait	29.5	57.2	109.7	146.6	96.9	105.6
Oman	15.2	24.8	40.1	47.9	50.8	45.0
Qatar	10.8	29.9	71.0	101.1	112.2	114.5
Saudi Arabia	157.5	242.7	381.8	539.7	618.2	455.3
United Arab Emirates	50.7	101.4	180.2	260.0	276.0	292.2
Oil exporters with large populations	**219.4**	**322.1**	**539.8**	**622.1**	**552.4**	**581.9**
Algeria	48.0	76.8	134.4	154.3	153.1	161.0
Iran, Islamic Republic of	105.8	149.1	215.8	234.7	200.4	201.4
Iraq	12.7	23.0	61.7	65.0	72.5	75.0
Libya	31.4	36.3	69.7	100.0	60.0	72.8
Syrian Arab Republic	14.8	24.3	39.2	45.0	42.2	44.7
Yemen	6.6	12.5	19.1	23.1	24.2	27.1
Diversified exporters with strong GCC links	**23.9**	**31.1**	**41.6**	**47.4**	**58.3**	**64.3**
Djibouti	0.5	0.6	0.8	0.9	1.0	1.1
Jordan	7.5	10.8	15.7	17.1	23.5	26.1
Lebanon	15.8	19.7	25.1	29.4	33.8	37.0
Diversified exporters integrated with Europe	**137.6**	**166.6**	**241.7**	**291.6**	**328.2**	**362.3**
Egypt	80.4	92.2	131.9	163.9	194.9	217.6
Morocco	37.5	49.7	74.9	88.6	94.5	100.9
Tunisia	19.8	24.7	34.9	39.1	38.8	43.8
Note:						
Oil-exporting countries (excl. Iraq)	556.9	855.5	1,403.6	1,827.5	1,840.6	1,749.6
Oil-importing countries (excl. WBG)	81.1	105.5	151.3	175.1	191.6	209.0
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**638**	**961**	**1,555**	**2,003**	**2,032**	**1,959**
All Developing countries	**5,726**	**8,343**	**13,420**	**16,164**	**15,191**	**16,718**
East Asia and the Pacific	1,514	2,602	4,080	4,900	5,387	5,952
Europe and Central Asia	1,105	1,619	3,074	4,000	3,092	3,397
Latin America and the Caribbean	1,833	2,243	3,412	4,035	3,547	3,858
South Asia	544	879	1,406	1,523	1,505	1,725
Sub-Saharan Africa	344	479	625	745	721	778
MENA less GCC	387	520	823	961	939	1,008

Source: National agencies and World Bank staff estimates.

Table A8: Population in millions, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**286.5**	**319.3**	**345.4**	**352.4**	**359.4**	**366.5**
MENA (excl. Iraq)	**264.4**	**293.2**	**315.8**	**322.0**	**328.2**	**334.6**
GCC countries	**27.5**	**32.4**	**36.5**	**37.6**	**38.8**	**40.0**
Bahrain	0.6	0.7	0.8	0.8	0.8	0.8
Kuwait	2.0	2.4	2.6	2.7	2.8	2.8
Oman	2.3	2.5	2.7	2.7	2.8	2.9
Qatar	0.5	0.7	0.9	0.9	1.0	1.0
Saudi Arabia	19.3	22.0	24.3	24.9	25.5	26.1
United Arab Emirates	2.8	4.0	5.2	5.6	6.0	6.4
Oil exporters with large populations	**149.7**	**167.2**	**181.6**	**185.4**	**189.2**	**193.1**
Algeria	29.4	31.9	33.8	34.4	34.9	35.4
Iran, Islamic Republic of	61.3	66.5	70.8	72.0	73.3	74.5
Iraq	22.1	26.1	29.6	30.4	31.2	31.9
Libya	5.1	5.6	6.1	6.2	6.3	6.4
Syrian Arab Republic	15.2	17.4	19.1	19.5	20.0	20.5
Yemen	16.6	19.7	22.3	22.9	23.6	24.3
Diversified exporters with strong GCC links	**8.9**	**9.9**	**10.7**	**10.9**	**11.1**	**11.3**
Djibouti	0.7	0.8	0.8	0.8	0.8	0.9
Jordan	4.6	5.2	5.7	5.9	6.0	6.2
Lebanon	3.6	3.9	4.1	4.2	4.2	4.3
Diversified exporters integrated with Europe	**100.4**	**109.7**	**116.7**	**118.4**	**120.2**	**122.1**
Egypt	63.5	70.3	75.5	76.9	78.2	79.7
Morocco	27.5	29.5	30.8	31.1	31.4	31.8
Tunisia	9.4	9.9	10.3	10.4	10.6	10.7
Note:						
Oil-exporting countries (excl. Iraq)	218.7	243.8	264.0	269.5	275.1	280.8
Oil-importing countries (excl. WBG)	45.7	49.3	51.8	52.5	53.1	53.7
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**264.4**	**293.2**	**315.8**	**322.0**	**328.2**	**334.6**
All Developing countries	**4,737**	**5,188**	**5,469**	**5,532**	**5,597**	**5,660**
East Asia and the Pacific	1,688	1,802	1,854	1,869	1,884	1,898
Europe and Central Asia	434	424	424	424	424	425
Latin America and the Caribbean	477	528	552	559	566	573
South Asia	1,270	1,459	1,540	1,560	1,582	1,602
Sub-Saharan Africa	610	689	790	805	820	836
MENA less GCC	259	287	309	315	321	326

Source: UN population database, National agencies and World Bank staff estimates.

Table A9: Consumer prices, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**—**	**—**	**—**	**—**	**—**	**—**
MENA (excl. Iraq)	**5.1**	**4.1**	**7.2**	**10.6**	**7.7**	**6.2**
GCC countries	**2.2**	**3.0**	**9.4**	**11.4**	**7.6**	**4.7**
Bahrain	0.1	0.9	3.3	3.5	3.0	3.0
Kuwait	1.8	2.0	4.9	5.4	4.2	4.0
Oman	–0.9	0.5	5.5	6.0	6.7	2.0
Qatar	3.7	4.7	13.8	15.1	10.0	6.0
Saudi Arabia	–0.3	0.3	4.1	9.9	5.7	3.5
United Arab Emirates	2.5	4.4	11.1	11.5	2.0	3.1
Oil exporters with large populations	**13.9**	**9.2**	**10.0**	**15.5**	**15.1**	**12.7**
Algeria	7.8	2.3	3.9	4.0	3.5	3.0
Iran, Islamic Republic of	19.6	13.7	14.1	22.5	23.5	20.0
Iraq	3.1	27.8	4.7	6.8	6.0	6.0
Libya	1.0	0.9	0.9	0.9	0.9	0.9
Syrian Arab Republic	2.0	4.0	4.7	14.5	8.5	5.0
Yemen	11.4	11.6	12.6	8.5	5.5	5.5
Diversified exporters with strong GCC links	**3.2**	**2.3**	**4.6**	**12.5**	**5.3**	**6.3**
Djibouti	2.6	2.4	4.5	12.0	5.4	4.0
Jordan	3.4	2.7	5.4	14.9	2.0	10.0
Lebanon	3.6	1.9	4.0	10.7	8.5	5.0
Diversified exporters integrated with Europe	**4.2**	**3.4**	**5.4**	**6.8**	**5.2**	**4.3**
Egypt	7.5	6.1	11.0	11.7	8.5	7.3
Morocco	1.9	1.7	2.0	3.9	3.5	2.5
Tunisia	3.3	2.4	3.1	4.9	3.5	3.0
Note:						
Oil-exporting countries (excl. Iraq)	4.8	4.1	7.4	10.7	7.8	6.2
Oil-importing countries (excl. WBG)	2.7	2.0	3.0	6.7	4.4	3.9
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**5.1**	**4.1**	**7.2**	**10.6**	**7.7**	**6.2**
All Developing countries	**7.5**	**5.0**	**6.0**	**9.3**	**5.5**	**4.0**
East Asia and the Pacific	6.1	4.6	5.2	7.5	5.0	4.5
Europe and Central Asia	4.9	4.7	7.9	10.4	9.0	7.5
Latin America and the Caribbean	11.8	5.8	6.2	8.7	6.0	5.5
South Asia	6.9	6.3	7.6	20.3	14.8	12.5
Sub-Saharan Africa	—	—	—	—	—	—

Source: World Bank DECPG data, National agencies and World Bank staff projections.

Table A10: Overall fiscal balance, billions U.S. dollars, 1996–2008

Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
MENA region (incl. Iraq)	—	—	178.8	172.7	—
MENA (excl. Iraq)	–14.9	39.5	172.9	167.2	298.4
GCC countries	–7.2	40.9	161.8	149.4	281.8
Bahrain	–0.3	0.1	0.4	0.3	0.9
Kuwait	4.1	13.6	29.9	43.0	37.7
Oman	0.1	1.8	5.1	5.5	6.1
Qatar	–0.9	2.2	4.9	8.1	11.6
Saudi Arabia	–8.0	12.2	74.8	47.1	164.3
United Arab Emirates	–2.3	10.9	46.6	45.3	61.3
Oil exporters with large populations	–1.7	10.7	31.8	39.0	34.2
Algeria	0.1	5.2	15.7	6.1	12.8
Iran, Islamic Republic of	–1.6	0.8	–7.3	11.2	1.7
Iraq	—	—	5.9	5.5	0.0
Libya	–0.1	5.0	19.6	18.3	22.8
Syrian Arab Republic	0.1	–0.2	–1.2	–1.4	–2.4
Yemen	–0.2	–0.1	–0.9	–0.8	–0.7
Diversified exporters with strong GCC links	–3.1	–3.1	–3.5	–4.3	–4.0
Djibouti	–0.0	–0.0	–0.0	–0.0	–0.0
Jordan	–0.1	–0.4	–0.9	–1.2	–1.7
Lebanon	–2.9	–2.7	–2.5	–3.1	–2.3
Diversified exporters integrated with Europe	–3.0	–8.9	–11.4	–11.4	–13.7
Egypt	–1.5	–6.2	–8.8	–10.2	–12.5
Morocco	–0.7	–1.9	–1.7	–0.1	–0.1
Tunisia	–0.8	–0.8	–0.9	–1.0	–1.2
Note:					
Oil-exporting countries (excl. Iraq)	–10.4	45.3	178.9	172.7	303.6
Oil-importing countries (excl. WBG)	–4.6	–5.8	–6.0	–5.5	–5.2
Memorandum items: Comparator regions					
MENA (excl. Iraq)	–14.9	39.5	172.9	167.2	298.4
All Developing countries	–124.0	–105.0	59.4	35.1	-79.0
East Asia and the Pacific	–19.6	–43.7	–21.7	10.6	–30.7
Europe and Central Asia	–45.0	–6.2	75.2	47.6	26.6
Latin America and the Caribbean	–0.6	8.0	39.9	42.4	33.5
South Asia	–40.5	–55.8	–64.0	–89.7	–135.4
Sub-Saharan Africa	–10.5	–6.1	19.0	6.4	10.5
MENA less GCC	–7.8	–1.3	11.0	17.8	16.5

Source: World Bank, National agencies, IMF and World Bank staff estimates.

Table A11: Fiscal balance as a share of GDP, percent, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**—**	**—**	**10.7**	**—**	**—**	**—**
MENA (excl. Iraq)	**–2.3**	**5.0**	**10.8**	**14.9**	**0.3**	**2.2**
GCC countries	**–2.7**	**10.3**	**18.8**	**25.5**	**5.1**	**6.8**
Bahrain	–4.4	2.2	2.9	8.0	1.8	9.0
Kuwait	13.9	26.8	39.2	25.7	–2.7	3.3
Oman	0.8	8.6	13.7	12.7	11.9	11.2
Qatar	–8.1	8.0	11.4	11.5	13.5	14.7
Saudi Arabia	–5.2	6.3	12.3	30.4	1.5	4.5
United Arab Emirates	–4.4	13.4	25.2	23.6	11.2	8.0
Oil exporters with large populations	**–0.8**	**3.9**	**7.2**	**5.5**	**–6.6**	**–1.8**
Algeria	0.2	7.8	4.6	8.3	–11.5	1.8
Iran, Islamic Republic of	–1.6	–0.0	5.2	0.7	–5.2	–6.0
Iraq	—	—	8.9	0.0	0.0	0.0
Libya	1.4	16.8	26.2	22.8	–9.8	–0.2
Syrian Arab Republic	0.7	–1.1	–3.5	–5.3	–5.5	–2.3
Yemen	–2.5	–0.9	–4.0	–3.0	–2.0	–2.0
Diversified exporters with strong GCC links	**–12.9**	**–10.4**	**–10.4**	**–8.4**	**–4.0**	**–2.5**
Djibouti	–2.4	–1.9	–3.4	–3.4	–3.4	–3.4
Jordan	–1.9	–3.8	–7.9	–9.9	–3.4	–2.6
Lebanon	–18.6	–14.1	–12.2	–7.7	–4.4	–2.5
Diversified exporters integrated with Europe	**–2.2**	**–5.5**	**–4.7**	**–4.7**	**–4.6**	**–4.0**
Egypt	–1.8	–7.4	–7.7	–7.6	–5.6	–4.7
Morocco	–1.8	–3.8	–0.2	–0.1	–3.1	–2.8
Tunisia	–4.2	–3.2	–3.0	–3.0	–3.1	–3.0
Note:						
Oil-exporting countries (excl. Iraq)	–1.9	6.3	12.3	16.6	0.6	2.8
Oil-importing countries (excl. WBG)	–5.7	–5.7	–3.6	–3.0	–3.4	–2.7
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**–2.3**	**5.0**	**10.8**	**14.9**	**0.3**	**2.2**
All Developing countries	**–1.1**	**–0.9**	**0.1**	**–0.6**	**–4.0**	**–4.0**
East Asia and the Pacific	–1.1	–1.7	0.3	–0.6	–3.2	–3.3
Europe and Central Asia	–4.3	–0.2	1.5	0.7	–5.3	–4.6
Latin America and the Caribbean	0.0	0.5	1.2	0.8	–1.8	–1.4
South Asia	–7.4	–6.8	–6.4	–8.9	–11.0	–11.3
Sub-Saharan Africa	–3.2	–0.5	1.0	1.4	–3.4	–3.0

Source: World Bank, National agencies, IMF and World Bank staff projections.

Table A12: Exports of goods and services as a share of GDP, percent, 1996–2008

Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**33.1**	**45.5**	**57.3**	**59.4**	**67.9**
MENA (excl. Iraq)	**33.5**	**44.4**	**57.2**	**59.2**	**66.9**
GCC countries	**47.2**	**56.8**	**69.0**	**72.1**	**79.3**
Bahrain	79.4	103.0	141.0	146.6	173.2
Kuwait	47.9	53.8	59.8	63.5	68.5
Oman	47.6	58.7	63.2	64.7	73.4
Qatar	49.2	60.7	65.4	66.2	75.0
Saudi Arabia	36.1	46.5	60.6	62.7	71.0
United Arab Emirates	76.6	78.8	90.9	96.6	101.5
Oil exporters with large populations	**25.0**	**39.3**	**48.8**	**50.4**	**59.5**
Algeria	26.7	38.7	48.7	42.9	53.6
Iran, Islamic Republic of	18.8	30.5	43.2	48.1	57.3
Iraq	60.4	111.7	60.5	66.1	97.2
Libya	23.1	46.6	68.9	67.5	60.9
Syrian Arab Republic	37.0	37.5	37.5	37.6	41.9
Yemen	35.1	38.9	45.2	40.3	42.8
Diversified exporters with strong GCC links	**24.4**	**41.5**	**61.9**	**62.5**	**67.2**
Djibouti	38.8	38.3	39.9	41.4	43.3
Jordan	47.9	47.3	57.6	57.7	68.5
Lebanon	12.6	38.8	65.4	66.2	67.2
Diversified exporters integrated with Europe	**23.7**	**28.6**	**36.0**	**37.8**	**42.6**
Egypt	17.7	24.0	33.8	33.6	39.6
Morocco	26.6	29.6	32.2	36.5	38.3
Tunisia	42.5	46.6	52.1	56.6	64.7
Note:					
Oil-exporting countries (excl. Iraq)	34.0	45.4	58.5	60.4	68.4
Oil-importing countries (excl. WBG)	29.8	37.0	44.9	48.3	52.0

Source: National agencies and World Bank staff estimates.

Table A13: Exports of merchandise in billions U.S. dollars, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**190.4**	**429.9**	**874.7**	**1,305.8**	**785.0**	**755.7**
MENA (excl. Iraq)	**184.1**	**410.3**	**833.9**	**1,242.7**	**756.5**	**726.6**
GCC countries	**118.5**	**268.0**	**553.0**	**857.6**	**521.1**	**474.2**
Bahrain	4.2	7.8	13.7	17.6	9.2	9.9
Kuwait	12.5	29.4	65.3	95.7	38.7	37.8
Oman	6.9	14.1	24.7	33.8	19.8	20.5
Qatar	5.2	17.1	44.6	72.9	59.5	63.2
Saudi Arabia	52.7	118.3	234.3	377.7	159.8	155.8
United Arab Emirates	37.0	81.3	170.3	259.9	234.0	187.0
Oil exporters with large populations	**50.5**	**127.5**	**257.6**	**352.8**	**183.9**	**196.7**
Algeria	12.4	31.3	56.9	81.7	53.8	50.9
Iran, Islamic Republic of	18.7	46.3	95.0	124.3	64.6	66.9
Iraq	6.3	19.6	40.8	63.2	28.4	29.1
Libya	7.2	18.4	47.0	60.3	21.2	30.8
Syrian Arab Republic	3.8	7.0	10.9	14.3	8.1	8.8
Yemen	2.1	4.7	7.0	9.1	7.7	10.2
Diversified exporters with strong GCC links	**3.6**	**5.5**	**9.8**	**13.6**	**13.0**	**13.9**
Djibouti	0.0	0.0	0.1	0.1	0.1	0.1
Jordan	1.8	3.3	5.6	7.8	7.5	8.1
Lebanon	1.7	2.1	4.1	5.8	5.4	5.7
Diversified exporters integrated with Europe	**17.8**	**28.9**	**54.4**	**81.8**	**67.0**	**70.9**
Egypt	5.0	11.3	24.4	41.6	31.0	33.1
Morocco	7.1	9.1	15.2	20.3	18.2	19.0
Tunisia	5.7	8.5	14.9	19.9	17.8	18.8
Note:						
Oil-exporting countries (excl. Iraq)	167.7	387.2	794.1	1,188.8	707.5	675.0
Oil-importing countries (excl. WBG)	16.4	23.1	39.8	53.8	49.0	51.6
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**184.1**	**410.3**	**833.9**	**1242.7**	**756.5**	**726.6**
All Developing countries	**1,157.8**	**2,089.0**	**4,190.3**	**5,142.2**	**4,304.9**	**4,547.5**
East Asia and the Pacific	443.5	975.4	1,775.0	2,066.0	1,984.0	2,110.0
Europe and Central Asia	193.5	193.5	873.0	1,130.0	887.0	925.0
Latin America and the Caribbean	306.0	492.2	763.0	928.0	727.0	759.0
South Asia	59.8	109.7	188.6	224.0	206.0	218.0
Sub-Saharan Africa	83.2	156.3	269.0	346.0	237.0	254.0
MENA less GCC	71.9	161.9	321.7	448.2	263.9	281.5

Source: World Bank, National agencies, IMF and World Bank staff estimates.

Table A14: Exports of oil and gas in billions U.S. dollars, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**129.9**	**339.9**	**701.4**	**994.1**	**428.1**	**428.2**
MENA (excl. Iraq)	**124.3**	**322.5**	**663.2**	**935.0**	**401.5**	**400.9**
GCC countries	**82.6**	**224.1**	**465.1**	**668.8**	**282.0**	**280.0**
Bahrain	1.1	2.3	3.8	4.9	2.2	2.2
Kuwait	11.8	28.8	64.1	93.9	38.0	37.0
Oman	5.5	10.2	15.6	21.9	10.6	10.8
Qatar	3.8	16.8	42.0	64.1	25.9	27.3
Saudi Arabia	46.3	125.1	251.0	356.2	150.8	147.0
United Arab Emirates	14.1	41.0	88.7	127.8	54.6	55.7
Oil exporters with large populations	**44.4**	**113.1**	**233.5**	**322.5**	**143.0**	**144.9**
Algeria	11.4	32.4	70.2	96.6	42.0	42.0
Iran, Islamic Republic of	15.3	37.8	77.0	103.2	47.0	48.7
Iraq	5.5	17.4	38.1	59.1	26.6	27.3
Libya	7.9	18.3	39.8	54.7	24.3	23.9
Syrian Arab Republic	2.3	3.2	3.6	4.0	1.6	1.5
Yemen	1.9	4.0	4.9	4.9	1.6	1.5
Diversified exporters with strong GCC links	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Djibouti	0.0	0.0	0.0	0.0	0.0	0.0
Jordan	0.0	0.0	0.0	0.0	0.0	0.0
Lebanon	0.0	0.0	0.0	0.0	0.0	0.0
Diversified exporters integrated with Europe	**2.9**	**2.6**	**2.7**	**2.7**	**3.1**	**3.3**
Egypt	2.3	1.6	0.9	1.5	2.0	2.2
Morocco	0.1	0.3	0.2	0.2	0.2	0.2
Tunisia	0.5	0.8	1.5	1.0	0.9	0.9
Note:						
Oil-exporting countries (excl. Iraq)	123.7	321.4	661.5	933.7	400.5	399.8
Oil-importing countries (excl. WBG)	0.6	1.1	1.8	1.2	1.1	1.1

Source: National agencies, WITS database, IEA, OPEC and World Bank staff projections.

Table A15: Imports of goods and services as a share of GDP, percent, 1996–2008

Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**—**	**37.4**	**38.8**	**43.6**	**45.5**
MENA (excl. Iraq)	**31.8**	**34.5**	**38.8**	**44.0**	**45.5**
GCC countries	**40.1**	**39.1**	**42.9**	**49.1**	**46.1**
Bahrain	69.6	79.6	111.6	128.1	138.2
Kuwait	43.6	33.0	24.2	25.9	21.7
Oman	41.1	37.6	38.5	45.8	53.1
Qatar	49.5	29.3	33.8	35.1	35.9
Saudi Arabia	27.7	30.1	37.0	42.7	36.8
United Arab Emirates	71.3	64.5	67.4	78.2	77.9
Oil exporters with large populations	**19.2**	**27.4**	**28.7**	**31.5**	**35.6**
Algeria	20.9	23.4	21.8	24.2	28.8
Iran, Islamic Republic of	16.2	25.0	27.7	34.0	38.1
Iraq	—	81.5	39.5	33.1	45.3
Libya	19.6	27.8	28.7	29.2	28.2
Syrian Arab Republic	35.9	32.1	33.9	35.8	41.1
Yemen	44.7	37.1	44.7	49.1	50.1
Diversified exporters with strong GCC links	**53.1**	**63.6**	**84.8**	**90.0**	**101.4**
Djibouti	50.6	48.5	57.3	57.6	57.3
Jordan	69.2	74.6	93.9	98.8	120.3
Lebanon	45.5	58.3	80.0	85.5	91.8
Diversified exporters integrated with Europe	**40.1**	**39.1**	**42.9**	**49.1**	**46.1**
Egypt	25.6	27.1	37.4	39.9	52.9
Morocco	30.0	34.2	38.8	46.4	53.0
Tunisia	45.1	49.8	54.3	59.7	70.1
Note:					
Oil-exporting countries (excl. Iraq)	30.5	33.0	37.1	42.2	43.2
Oil-importing countries (excl. WBG)	40.4	46.5	55.0	61.5	69.9

Source: National agencies and World Bank staff estimates.

Table A16: Worker remittances, net receipts in billions U.S. dollars, 1996–2008

Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**–11.5**	**–10.7**	**–13.3**	**–10.9**	**–7.3**
MENA (excl. Iraq)	**–11.5**	**–10.7**	**–13.3**	**–10.9**	**–7.3**
GCC countries	**–25.5**	**–24.3**	**–29.1**	**–32.4**	**–29.2**
Bahrain	–0.1	0.5	2.2	1.4	3.7
Kuwait	–1.5	–2.1	–3.0	–3.1	–3.2
Oman	–1.4	–1.7	–2.7	–3.6	–3.6
Qatar	–1.2	–1.9	–3.9	–4.1	–2.2
Saudi Arabia	–14.8	–14.8	–15.6	–16.1	–16.9
United Arab Emirates	–6.3	–4.4	–6.0	–7.0	–7.0
Oil exporters with large populations	**2.9**	**4.0**	**4.6**	**5.2**	**5.3**
Algeria	0.9	1.5	1.6	2.1	2.3
Iran, Islamic Republic of	0.6	0.9	1.0	1.1	1.1
Iraq	0.0	0.0	0.0	0.0	0.0
Libya	0.0	0.0	0.0	0.0	0.0
Syrian Arab Republic	0.2	0.5	0.8	0.8	0.8
Yemen	1.1	1.2	1.2	1.2	1.2
Diversified exporters with strong GCC links	**2.1**	**2.4**	**3.2**	**3.9**	**3.9**
Djibouti	0.0	0.0	0.0	0.0	0.0
Jordan	1.7	2.2	2.9	3.4	3.4
Lebanon	0.3	0.3	0.4	0.4	0.4
Diversified exporters integrated with Europe	**9.6**	**8.7**	**11.8**	**15.4**	**17.7**
Egypt	3.2	3.3	5.2	7.5	9.5
Morocco	2.0	3.5	5.5	6.7	7.0
Tunisia	4.4	1.9	1.1	1.2	1.2
Note:					
Oil-exporting countries (excl. Iraq)	–20.0	–18.6	–23.1	–22.7	–19.4
Oil-importing countries (excl. WBG)	8.5	7.8	9.8	11.8	12.1
Memorandum items: Comparator regions					
MENA (excl. Iraq)	**–11.5**	**–10.7**	**–13.3**	**–10.9**	**–7.3**
All Developing countries	**71.6**	**140.3**	**218.8**	**270.9**	**293.9**
East Asia and the Pacific	13.2	34.5	52.9	65.2	69.9
Europe and Central Asia	10.3	20.4	38.3	50.4	53.1
Latin America and the Caribbean	16.7	37.5	59.2	63.1	63.3
South Asia	13.6	27.3	39.6	52.1	66.0
Sub-Saharan Africa	3.9	7.0	12.9	18.6	19.8
MENA less GCC	14.0	13.5	15.8	21.5	21.9

Source: World Bank data, IMF, National Agencies.

Table A17: Worker remittances, gross receipts in billions U.S. dollars, 1996–2008

Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**14.8**	**15.4**	**19.9**	**24.9**	**26.9**
MENA (excl. Iraq)	**14.8**	**15.4**	**19.9**	**24.9**	**26.9**
GCC countries	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Bahrain	0.0	0.0	0.0	0.0	0.0
Kuwait	0.0	0.0	0.0	0.0	0.0
Oman	0.0	0.0	0.0	0.0	0.0
Qatar	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	0.0	0.0	0.0	0.0	0.0
United Arab Emirates	0.0	0.0	0.0	0.0	0.0
Oil exporters with large populations	**2.9**	**4.1**	**4.7**	**5.3**	**5.5**
Algeria	0.9	1.5	1.6	2.1	2.3
Iran, Islamic Republic of	0.6	0.9	1.0	1.1	1.1
Iraq	0.0	0.0	0.0	0.0	0.0
Libya	0.0	0.0	0.0	0.0	0.0
Syrian Arab Republic	0.2	0.5	0.8	0.8	0.9
Yemen	1.2	1.3	1.3	1.3	1.3
Diversified exporters with strong GCC links	**2.1**	**2.5**	**3.3**	**3.9**	**3.9**
Djibouti	0.0	0.0	0.0	0.0	0.0
Jordan	1.7	2.2	2.9	3.4	3.4
Lebanon	0.3	0.3	0.4	0.4	0.5
Diversified exporters integrated with Europe	**9.8**	**8.7**	**11.9**	**15.6**	**17.4**
Egypt	3.4	3.3	5.3	7.7	9.5
Morocco	2.0	3.5	5.5	6.7	6.7
Tunisia	4.4	1.9	1.1	1.2	1.2
Note:					
Oil-exporting countries (excl. Iraq)	6.3	7.5	10.1	13.0	15.0
Oil-importing countries (excl. WBG)	8.5	7.9	9.8	11.8	11.8
Memorandum items: Comparator regions					
MENA (excl. Iraq)	**14.8**	**15.4**	**19.9**	**24.9**	**26.9**
All Developing countries	**72.4**	**142.1**	**222.8**	**274.2**	**298.9**
East Asia and the Pacific	13.2	34.5	52.9	65.2	69.9
Europe and Central Asia	10.3	20.4	38.3	50.4	53.1
Latin America and the Caribbean	16.7	37.5	59.2	63.1	63.3
South Asia	13.6	27.3	39.6	52.1	66.0
Sub-Saharan Africa	3.9	7.0	12.9	18.6	19.8
MENA less GCC	14.8	15.3	19.9	24.8	26.8

Source: World Bank, National agencies, IMF and World Bank staff estimates.

Table A18: Worker remittances, gross payments in billions U.S. dollars, 1996–2008

Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**26.5**	**26.8**	**34.1**	**36.5**	**35.2**
MENA (excl. Iraq)	**26.5**	**26.8**	**34.1**	**36.5**	**35.2**
GCC countries	**26.1**	**25.9**	**32.9**	**35.4**	**34.3**
Bahrain	0.7	1.1	1.5	1.5	1.4
Kuwait	1.5	2.1	3.0	3.1	3.2
Oman	1.4	1.7	2.8	3.7	3.7
Qatar	1.2	1.9	3.9	4.1	2.2
Saudi Arabia	14.8	14.8	15.6	16.1	16.9
United Arab Emirates	6.3	4.4	6.0	7.0	7.0
Oil exporters with large populations	**0.3**	**0.8**	**1.1**	**0.9**	**0.9**
Algeria	0.0	0.0	0.0	0.0	0.0
Iran, Islamic Republic of	0.0	0.0	0.0	0.0	0.0
Iraq	—	—	—	—	—
Libya	0.2	0.7	0.9	0.8	0.8
Syrian Arab Republic	0.0	0.0	0.0	0.0	0.0
Yemen	0.0	0.1	0.1	0.1	0.1
Diversified exporters with strong GCC links	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Djibouti	0.0	0.0	0.0	0.0	0.0
Jordan	0.0	0.0	0.0	0.0	0.0
Lebanon	0.0	0.0	0.0	0.0	0.0
Diversified exporters integrated with Europe	**0.2**	**0.0**	**0.1**	**0.2**	**0.0**
Egypt	0.2	0.0	0.1	0.2	0.0
Morocco	0.0	0.0	0.0	0.0	0.0
Tunisia	0.0	0.0	0.0	0.0	0.0
Note:					
Oil-exporting countries (excl. Iraq)	26.5	26.8	34.1	36.5	35.2
Oil-importing countries (excl. WBG)	0.0	0.0	0.0	0.0	0.0

Source: World Bank, National agencies, IMF and World Bank staff estimates.

Table A19: Tourism receipts in billions U.S. dollars, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**11.6**	**19.8**	**28.5**	**31.3**	**30.3**	**31.2**
MENA (excl. Iraq)	**11.6**	**19.8**	**28.5**	**31.3**	**30.3**	**31.2**
GCC countries	**2.3**	**3.8**	**5.1**	**5.5**	**6.0**	**6.4**
Bahrain	0.4	0.9	1.3	1.4	1.4	1.5
Kuwait	0.0	0.0	0.0	0.0	0.0	0.0
Oman	0.3	0.6	1.0	1.1	1.3	1.6
Qatar	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	1.0	1.2	1.3	1.4	1.5	1.6
United Arab Emirates	0.7	1.1	1.5	1.6	1.7	1.7
Oil exporters with large populations	**1.6**	**2.2**	**3.2**	**3.8**	**3.3**	**3.5**
Algeria	0.2	0.3	0.4	0.5	0.5	0.5
Iran, Islamic Republic of	0.2	0.7	1.2	1.5	1.0	1.0
Iraq	0.0	0.0	0.0	0.0	0.0	0.0
Libya	0.0	0.0	0.0	0.0	0.0	0.0
Syrian Arab Republic	1.1	1.0	1.4	1.6	1.6	1.7
Yemen	0.1	0.2	0.2	0.2	0.2	0.2
Diversified exporters with strong GCC links	**0.9**	**3.1**	**2.6**	**2.9**	**2.8**	**2.9**
Djibouti	0.0	0.0	0.0	0.0	0.0	0.0
Jordan	0.8	1.1	1.9	2.2	2.1	2.1
Lebanon	0.1	2.0	0.7	0.8	0.7	0.7
Diversified exporters integrated with Europe	**6.7**	**10.7**	**17.7**	**19.1**	**18.2**	**18.4**
Egypt	3.3	5.2	8.2	8.9	8.3	8.4
Morocco	1.7	3.6	7.1	7.7	7.5	7.6
Tunisia	1.7	1.8	2.4	2.6	2.5	2.5
Note:						
Oil-exporting countries (excl. Iraq)	7.3	11.3	16.5	18.2	17.6	18.3
Oil-importing countries (excl. WBG)	4.3	8.5	12.1	13.1	12.8	12.9

Source: World Bank, IMF, National Agencies and World Tourism Organization.

Table A20: Tourism revenues as a share of GDP, percent, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**1.8**	**2.0**	**1.8**	**1.5**	**1.4**	**1.5**
MENA (excl. Iraq)	**1.8**	**2.1**	**1.8**	**1.5**	**1.4**	**1.5**
GCC countries	**0.9**	**0.8**	**0.6**	**0.5**	**0.5**	**0.6**
Bahrain	5.9	10.5	12.1	12.0	12.3	12.0
Kuwait	0.0	0.0	0.0	0.0	0.0	0.0
Oman	1.8	2.3	2.4	2.4	2.6	3.5
Qatar	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	0.6	0.5	0.3	0.3	0.2	0.3
United Arab Emirates	1.4	1.1	0.8	0.6	0.6	0.6
Oil exporters with large populations	**0.8**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
Algeria	0.5	0.4	0.3	0.3	0.3	0.3
Iran, Islamic Republic of	0.2	0.5	0.6	0.6	0.5	0.5
Iraq	0.0	0.0	0.0	0.0	0.0	0.0
Libya	0.0	0.0	0.0	0.0	0.0	0.0
Syrian Arab Republic	7.1	4.1	3.5	3.6	3.8	3.9
Yemen	2.0	1.6	1.1	0.9	0.9	0.8
Diversified exporters with strong GCC links	**3.8**	**10.0**	**6.2**	**6.1**	**4.9**	**4.5**
Djibouti	0.0	0.0	0.0	0.0	0.0	0.0
Jordan	10.5	10.5	11.9	12.6	9.0	8.2
Lebanon	0.7	10.1	2.9	2.6	2.2	2.0
Diversified exporters integrated with Europe	**4.9**	**6.4**	**7.3**	**6.6**	**5.5**	**5.1**
Egypt	4.2	5.7	6.2	5.4	4.2	3.9
Morocco	4.5	7.2	9.5	8.6	7.9	7.5
Tunisia	8.4	7.5	6.8	6.5	6.3	5.6
Note:						
Oil-exporting countries (excl. Iraq)	1.3	1.3	1.2	1.0	1.0	1.0
Oil-importing countries (excl. WBG)	5.3	8.1	8.0	7.5	6.7	6.2

Source: World Bank, IMF, National Agencies and World Tourism Organization.

Table A21: Current accounts in billions U.S. dollars, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**—**	**226.9**	**282.9**	**469.6**	**137.3**	**158.6**
MENA (excl. Iraq)	**5.2**	**127.9**	**273.2**	**452.3**	**141.5**	**156.0**
GCC countries	**2.3**	**88.2**	**200.1**	**356.6**	**147.4**	**163.5**
Bahrain	–0.1	0.8	1.4	3.7	–0.6	–0.6
Kuwait	5.6	20.0	50.0	70.6	19.0	33.4
Oman	–0.9	2.8	1.9	7.8	–7.2	–8.9
Qatar	–1.6	6.8	22.0	37.5	14.0	35.1
Saudi Arabia	–3.5	43.6	95.8	191.7	100.0	120.0
United Arab Emirates	2.8	14.3	29.0	45.4	22.3	–15.5
Oil exporters with large populations	**8.5**	**44.4**	**89.3**	**141.3**	**12.2**	**17.7**
Algeria	1.5	12.8	24.3	37.4	9.6	2.2
Iran, Islamic Republic of	3.0	17.5	32.4	48.3	8.3	9.8
Iraq	—	5.7	9.6	17.4	–4.2	2.6
Libya	3.9	10.2	23.6	39.2	5.2	8.7
Syrian Arab Republic	0.2	0.9	0.8	0.5	–4.0	–4.0
Yemen	–0.0	0.5	–1.5	–1.5	–2.7	–1.6
Diversified exporters with strong GCC links	**–3.6**	**–4.3**	**–5.8**	**–10.4**	**–5.8**	**–4.5**
Djibouti	0.0	–0.0	–0.1	–0.1	–0.1	–0.0
Jordan	0.1	–0.3	–2.7	–4.7	–2.2	–2.5
Lebanon	–3.6	–4.0	–3.0	–5.7	–3.5	–1.9
Diversified exporters integrated with Europe	**–2.0**	**2.1**	**–0.7**	**–17.9**	**–16.6**	**–18.1**
Egypt	–1.3	1.7	0.4	–11.0	–12.4	–13.6
Morocco	–0.1	1.0	–0.2	–4.8	–2.3	–3.0
Tunisia	–0.5	–0.7	–0.9	–2.1	–1.9	–1.6
Note:						
Oil-exporting countries (excl. Iraq)	9.5	131.8	280.1	469.6	151.5	165.0
Oil-importing countries (excl. WBG)	–4.2	–3.9	–6.9	–17.3	–10.0	–9.0
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**5.2**	**127.9**	**273.2**	**452.3**	**141.5**	**156.0**
All Developing countries	**–62.0**	**310.3**	**459.8**	**435.0**	**133.8**	**204.9**
East Asia and the Pacific	–1.1	135.1	425.0	433.7	435.5	494.3
Europe and Central Asia	–2.1	25.3	–30.5	–19.3	–94.0	–85.6
Latin America and the Caribbean	–44.2	12.0	15.6	–30.0	–96.0	–94.0
South Asia	–9.5	–4.8	–22.5	–57.9	–24.0	–30.7
Sub-Saharan Africa	–8.0	3.8	–10.6	–4.5	–77.5	–74.2
MENA less GCC	3.0	138.7	82.8	113.0	–10.2	-4.9

Source: World Bank, IMF, National Agencies.

Table A22: Current accounts as a share of GDP (%), 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**—**	**17.8**	**17.5**	**22.7**	**6.5**	**7.8**
MENA (excl. Iraq)	**0.8**	**11.9**	**17.6**	**22.6**	**7.0**	**8.0**
GCC countries	**0.7**	**16.7**	**25.2**	**32.2**	**12.6**	**15.9**
Bahrain	–2.2	8.6	13.2	32.3	–5.4	–4.8
Kuwait	18.5	30.9	45.6	48.2	19.6	31.6
Oman	–6.2	10.9	4.7	16.3	–14.2	–19.7
Qatar	–16.5	21.0	30.9	37.1	12.4	30.7
Saudi Arabia	–2.4	15.6	25.1	35.5	16.2	26.4
United Arab Emirates	5.7	12.7	16.1	17.5	8.1	–5.3
Oil exporters with large populations	**3.9**	**12.5**	**16.5**	**22.7**	**2.2**	**3.0**
Algeria	3.1	15.3	18.1	24.2	6.3	1.4
Iran, Islamic Republic of	2.8	10.7	15.0	20.6	4.1	4.9
Iraq	—	15.8	15.6	26.7	–5.8	3.4
Libya	12.3	24.5	33.9	39.2	8.7	11.9
Syrian Arab Republic	1.3	4.0	2.0	1.1	–9.6	–9.0
Yemen	–0.7	4.9	–8.0	–6.5	–11.1	–6.0
Diversified exporters with strong GCC links	**–14.7**	**–13.8**	**–13.8**	**–22.0**	**–9.9**	**–6.9**
Djibouti	1.0	0.1	–8.2	–6.7	–5.0	–3.4
Jordan	0.6	–1.3	–17.0	–27.5	–9.6	–9.5
Lebanon	–22.4	–20.6	–12.1	–19.3	–10.4	–5.2
Diversified exporters integrated with Europe	**–1.4**	**1.2**	**–0.3**	**–6.1**	**–5.0**	**–5.0**
Egypt	–1.5	1.9	0.3	–6.7	–6.3	–6.3
Morocco	–0.4	2.1	–0.3	–5.4	–2.5	–2.9
Tunisia	–2.8	–2.8	–2.6	–5.4	–4.8	–3.6
Note:						
Oil-exporting countries (excl. Iraq)	1.7	13.8	20.0	25.7	8.2	9.4
Oil-importing countries (excl. WBG)	–5.2	–3.8	–4.5	–9.9	–5.2	–4.3
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**0.8**	**11.9**	**17.6**	**22.6**	**7.0**	**8.0**
All Developing countries	**–0.8**	**2.4**	**3.5**	**2.7**	**0.9**	**1.2**
East Asia and the Pacific	0.9	4.7	10.4	8.9	8.1	8.3
Europe and Central Asia	–0.1	1.7	–1.0	–0.5	–3.0	–2.5
Latin America and the Caribbean	–2.6	0.4	0.5	–0.7	–2.7	–2.4
South Asia	–1.7	–0.4	–1.6	–3.8	–1.6	–1.8
Sub-Saharan Africa	–1.8	0.7	–1.7	–0.6	–10.7	–9.5

Source: World Bank, IMF, National Agencies.

Table A23: Foreign direct investment (FDI) in billions U.S. dollars, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**4.4**	**13.4**	**27.9**	**28.5**	**29.8**	**26.0**
MENA (excl. Iraq)	**4.4**	**13.2**	**27.4**	**28.0**	**29.3**	**25.5**
GCC countries	**0.9**	**6.4**	**1.7**	**–1.1**	**3.1**	**–2.1**
Bahrain	0.6	–0.0	0.1	0.3	0.1	0.3
Kuwait	0.4	–0.2	–14.1	–10.4	–7.4	–8.4
Oman	0.1	0.4	2.4	0.3	0.3	0.3
Qatar	0.3	0.6	–4.5	–2.8	–0.5	–1.3
Saudi Arabia	–0.1	2.4	11.2	7.9	8.1	7.0
United Arab Emirates	–0.2	3.2	6.6	3.5	2.5	0.0
Oil exporters with large populations	**0.3**	**1.7**	**4.6**	**4.3**	**4.7**	**4.8**
Algeria	0.4	0.9	1.7	1.7	1.7	1.8
Iran, Islamic Republic of	0.0	0.4	0.8	0.4	0.7	0.7
Iraq	0.0	0.2	0.5	0.5	0.5	0.5
Libya	0.0	0.0	0.0	0.0	0.0	0.0
Syrian Arab Republic	0.1	0.2	0.8	0.8	0.9	0.9
Yemen	–0.2	0.0	0.9	0.9	0.9	0.9
Diversified exporters with strong GCC links	**1.7**	**2.3**	**3.8**	**7.9**	**4.1**	**4.7**
Djibouti	0.0	0.0	0.2	0.2	0.2	0.2
Jordan	0.2	0.7	1.8	1.9	1.8	1.8
Lebanon	1.5	1.6	1.8	5.8	2.1	2.6
Diversified exporters integrated with Europe	**1.3**	**3.1**	**17.8**	**17.3**	**17.9**	**18.6**
Egypt	0.9	1.5	11.6	12.0	12.6	13.1
Morocco	0.0	0.9	4.6	3.6	3.6	3.7
Tunisia	0.4	0.7	1.6	1.7	1.7	1.8
Note:						
Oil-exporting countries (excl. Iraq)	2.2	9.4	17.4	14.8	19.9	15.4
Oil-importing countries (excl. WBG)	2.2	3.8	10.1	13.2	9.4	10.1
Memorandum items: Comparator regions						
MENA (excl. Iraq)	**4.4**	**13.2**	**27.4**	**28.0**	**29.3**	**25.5**
All Developing countries	**122.8**	**233.1**	**511.9**	**590.2**	**545.5**	**568.9**
East Asia and the Pacific	55.1	79.2	175.3	185.1	171.2	179.8
Europe and Central Asia	0.0	57.8	154.4	170.8	153.7	157.6
Latin America and the Caribbean	55.3	65.9	107.5	124.8	118.6	124.5
South Asia	3.7	10.2	29.9	47.5	46.1	48.4
Sub-Saharan Africa	5.4	12.9	18.6	32.4	29.2	30.6
MENA less GCC	3.4	7.0	26.2	29.6	26.7	28.1

Source: United Nations, (UNCTAD), World Bank and IMF.

Table A24: Foreign direct investment as a share of fixed investment, 1996–2008

Country	1996–1999 average	2000–2005 average	2006	2007	Estimate 2008
MENA region (incl. Iraq)	—	—	—	—	—
MENA (excl. Iraq)	**3.4**	**6.4**	**13.0**	**7.0**	**5.8**
GCC countries	**1.7**	**7.0**	**10.5**	**1.0**	**–0.6**
Bahrain	75.0	0.1	62.6	2.5	7.2
Kuwait	8.6	4.9	–65.2	–108.3	–81.3
Oman	2.5	8.3	24.3	32.2	3.9
Qatar	9.1	9.8	0.3	–30.3	–15.8
Saudi Arabia	–0.5	4.9	28.6	14.2	8.5
United Arab Emirates	–1.7	13.5	4.3	13.4	6.3
Oil exporters with large populations	**0.9**	**2.7**	**4.4**	**3.6**	**2.7**
Algeria	3.0	5.5	6.8	4.3	3.2
Iran, Islamic Republic of	0.2	1.0	0.6	1.1	0.5
Iraq	—	—	—	—	—
Libya	0.0	0.0	0.0	0.0	0.0
Syrian Arab Republic	4.1	4.8	10.2	8.1	7.2
Yemen	–10.8	1.6	18.8	12.2	10.7
Diversified exporters with strong GCC links	**17.6**	**19.1**	**34.0**	**18.8**	**29.6**
Djibouti	6.8	13.2	47.6	61.5	60.0
Jordan	4.1	8.2	23.4	11.4	8.8
Lebanon	32.9	41.6	85.9	45.8	117.1
Diversified exporters integrated with Europe	**4.9**	**7.6**	**28.2**	**23.5**	**16.7**
Egypt	6.5	6.9	31.3	25.8	17.8
Morocco	0.3	6.3	16.3	20.9	13.8
Tunisia	8.1	11.7	44.2	18.3	16.5
Note:					
Oil-exporting countries (excl. Iraq)	2.1	5.2	10.5	5.1	3.5
Oil-importing countries (excl. WBG)	9.5	12.5	28.2	19.6	20.9

Source: IMF, UNCTAD, National agencies and World Bank staff estimates.

Table A25: Foreign direct investment as a share of GDP (%), 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**0.7**	**1.6**	**1.7**	**1.4**	**1.4**	**1.3**
MENA (excl. Iraq)	**0.7**	**1.6**	**1.8**	**1.4**	**1.4**	**1.3**
GCC countries	**0.5**	**1.4**	**0.2**	**–0.1**	**0.3**	**–0.2**
Bahrain	9.3	2.5	0.8	2.5	0.9	2.0
Kuwait	2.0	–0.4	–12.8	–7.1	–7.6	–7.9
Oman	0.4	1.9	5.9	0.6	0.6	0.7
Qatar	2.7	2.0	–6.3	–2.7	–0.4	–1.1
Saudi Arabia	0.0	1.4	2.9	1.5	1.3	1.5
United Arab Emirates	–0.2	2.6	3.7	1.3	0.9	0.0
Oil exporters with large populations	**0.1**	**0.6**	**0.8**	**0.7**	**0.9**	**0.8**
Algeria	0.7	1.3	1.2	1.1	1.1	1.1
Iran, Islamic Republic of	0.0	0.2	0.3	0.2	0.3	0.3
Iraq	0.0	0.6	0.8	0.8	0.7	0.7
Libya	0.0	0.0	0.0	0.0	0.0	0.0
Syrian Arab Republic	0.9	1.1	1.9	1.8	2.0	1.9
Yemen	–3.2	1.1	4.8	4.0	3.8	3.4
Diversified exporters with strong GCC links	**9.1**	**8.5**	**9.2**	**16.8**	**7.1**	**7.2**
Djibouti	0.7	3.9	23.4	22.8	21.1	20.0
Jordan	2.8	8.8	11.7	11.0	7.7	7.0
Lebanon	10.1	8.4	7.2	19.9	6.2	7.0
Diversified exporters integrated with Europe	**0.9**	**2.7**	**7.4**	**5.9**	**5.5**	**5.1**
Egypt	1.1	2.8	8.8	7.3	6.5	6.0
Morocco	0.1	2.1	6.1	4.1	3.8	3.7
Tunisia	2.0	4.0	4.6	4.3	4.4	4.1
Note:						
Oil-exporting countries (excl. Iraq)	0.5	1.2	1.2	0.8	1.1	0.9
Oil-importing countries (excl. WBG)	3.1	4.4	6.6	7.6	4.9	4.9

Source: IMF, UNCTAD, National agencies and World Bank staff estimates.

Table A26: International reserves in billions U.S. dollars, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**89.5**	**226.0**	**514.7**	**543.0**	**573.3**	**592.8**
MENA (excl. Iraq)	**89.5**	**220.1**	**486.3**	**513.4**	**542.3**	**560.4**
GCC countries	**33.1**	**58.8**	**146.5**	**104.6**	**107.3**	**111.4**
Bahrain	1.3	1.9	3.4	3.5	3.6	3.8
Kuwait	4.1	9.2	16.8	17.2	17.8	18.5
Oman	2.2	3.5	5.3	11.6	11.9	12.3
Qatar	1.0	2.9	9.8	10.0	11.1	11.6
Saudi Arabia	15.3	23.4	34.0	30.6	29.8	31.0
United Arab Emirates	9.2	17.9	77.2	31.7	33.0	34.3
Oil exporters with large populations	**23.6**	**115.5**	**275.8**	**335.8**	**357.3**	**368.0**
Algeria	6.2	37.9	110.6	143.5	149.3	155.2
Iran, Islamic Republic of	8.8	27.6	52.0	57.4	58.4	62.5
Iraq	0.0	5.8	28.4	29.7	31.0	32.4
Libya	6.9	23.5	59.5	79.9	92.4	90.6
Syrian Arab Republic	0.4	15.6	17.5	17.1	17.7	18.4
Yemen	1.2	5.0	7.7	8.1	8.5	8.9
Diversified exporters with strong GCC links	**11.4**	**18.4**	**28.6**	**37.2**	**39.9**	**41.1**
Djibouti	0.1	0.1	0.1	0.1	0.1	0.1
Jordan	2.0	4.9	7.9	8.8	9.1	9.4
Lebanon	9.3	13.5	20.5	28.3	30.7	31.5
Diversified exporters integrated with Europe	**21.4**	**33.2**	**63.9**	**65.4**	**68.8**	**72.3**
Egypt	14.7	16.6	31.4	33.8	35.5	37.2
Morocco	4.7	13.1	24.6	22.7	24.0	25.3
Tunisia	2.0	3.5	7.9	8.9	9.3	9.9
Note:						
Oil-exporting countries (excl. Iraq)	71.4	185.1	425.2	444.6	469.1	484.2
Oil-importing countries (excl. WBG)	18.1	35.0	61.1	68.8	73.2	76.2

Source: IMF, National agencies and World Bank staff estimates.

Table A27: Reserves, months of import cover, 1996–2010

Country	1996–1999 average	2000–2006 average	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**—**	**—.**	**12.1**	**9.0**	**9.9**	**9.9**
MENA (excl. Iraq)	**7.3**	**10.9**	**11.9**	**8.9**	**9.8**	**9.7**
GCC countries	**5.4**	**6.1**	**6.7**	**3.4**	**3.4**	**3.5**
Bahrain	4.5	3.9	3.3	3.0	4.3	4.1
Kuwait	6.5	11.4	10.9	9.8	10.9	10.2
Oman	5.8	6.2	4.7	7.2	7.3	7.1
Qatar	3.0	5.6	5.9	4.0	3.4	5.9
Saudi Arabia	7.0	7.4	4.9	3.4	3.3	3.3
United Arab Emirates	3.9	4.3	7.9	2.2	2.2	2.2
Oil exporters with large populations	**8.5**	**18.5**	**24.0**	**21.9**	**24.9**	**23.9**
Algeria	9.8	28.2	46.7	43.6	45.7	43.0
Iran, Islamic Republic of	7.4	10.5	11.7	10.5	11.7	11.6
Iraq	—	0.0	16.7	12.1	13.3	13.4
Libya	16.3	34.6	40.3	38.1	46.9	43.8
Syrian Arab Republic	5.9	0.0	19.1	13.8	16.1	0.0
Yemen	6.3	16.4	13.0	10.9	12.1	11.1
Diversified exporters with strong GCC links	**14.7**	**16.1**	**14.2**	**13.5**	**17.5**	**17.0**
Djibouti	4.6	4.3	4.0	3.8	3.6	3.5
Jordan	6.9	9.6	7.9	6.4	8.0	7.8
Lebanon	19.8	22.4	21.0	21.0	27.6	27.0
Diversified exporters integrated with Europe	**8.2**	**9.1**	**9.0**	**5.8**	**6.9**	**6.8**
Egypt	12.4	11.2	9.8	5.8	7.0	6.8
Morocco	6.0	10.6	10.1	6.6	8.0	7.9
Tunisia	3.1	3.7	5.2	4.4	5.1	5.2
Note:						
Oil-exporting countries (excl. Iraq)	7.0	10.9	12.2	9.0	9.7	9.7
Oil-importing countries (excl. WBG)	8.2	10.6	10.3	8.4	10.3	10.1

Source: IMF, National agencies and World Bank staff estimates.

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