



HOW DO PEOPLE IN MENA EVALUATE THEIR ECONOMIC PROSPECTS?

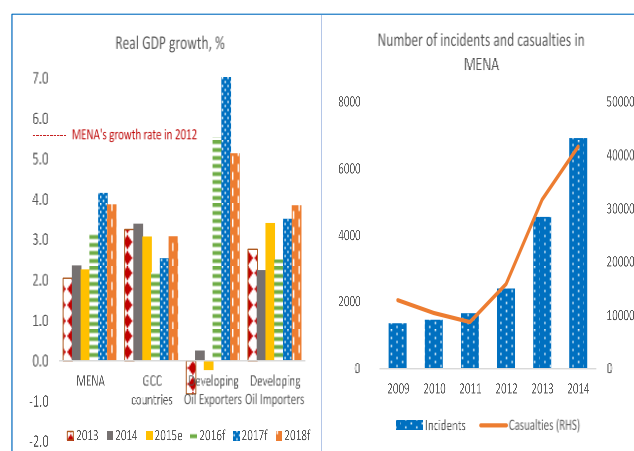
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Introduction. In the global environment with the risk of prolonged low growth, the short-term economic outlook for the Middle East and North Africa (MENA) region remains “cautiously pessimistic”, according to the World Bank’s latest [MENA Economic Monitor](#).

Growth Prospects in MENA: Growth in the region is expected to average about 3 percent in 2016, or growing by 1.2 percent in per capita terms. Since 2013, MENA has not been able to escape the spiral of slow growth for a number of reasons: prolonged cheap oil, with the market settling into a “new normal” of low oil prices for the next several years; incidents of civil wars (Figure 1.1, right panel), that have severely damaged the economies of Syria, Libya, Yemen, and Iraq; and the impact of forced displacements on the economies of Lebanon, Jordan and elsewhere in the region. All of these factors are expected to dampen short-term economic prospects in the region. If the recent truce in Syria and the ongoing peace talks in Yemen and Libya materialize - in turn reducing the spread of insecurity and conflict elsewhere in the region - economic growth in MENA could improve over the forecast period (2017 and 2018, see table 1.1 on page 4 of the report). But the base case estimate is that real GDP in the MENA region will grow close to 4 percent in 2017 and 2018, still

low by historical standards (Figure 1.1, left panel).

Figure 1.1 Short-Term Economic Outlook and Terrorism Incidents in MENA



Sources: World Bank and Global Terrorism Database.

How do people in MENA evaluate their prospects? Macroeconomic indicators, such as GDP growth and inflation, are indirect, albeit important, indicators of people’s current and future welfare. It is useful to compare these with people’s own assessments of their welfare. Subjective Well Being (SWB) indicators, such as Gallup’s life satisfaction index, the quality of life as expressed by the citizens. Specifically, they answer the following

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question: "Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?"

According to the Gallup life satisfaction index, more and more people, particularly in the GCC countries and war-torn countries such as Yemen and Syria, are increasingly dissatisfied with the quality of their lives (Figure 1.2). In Bahrain and Kuwait, for example, average life evaluation level declined from 6.5 in 2013 to below 6 in 2015. Perceptions of unhappiness were also evident in Egypt, Tunisia, Yemen and Syria prior to 2011, although life satisfaction has rebounded somewhat in Tunisia and Egypt since 2013-4, following the favorable oil prices shock of 2014 together with some positive signs of political stability (Figure 1.2).

Figure 1.2 Gallup Life Satisfaction Index (Average)



Source: Gallup World Poll.

What do economic data tell us? Macroeconomic data also point to a grim outlook for MENA unless there is an end to civil wars and conflict in the region. Growth in the group of oil importers will slow down -despite low oil prices -, from its 2015 level by 0.9 percentage point at 2.5 percent in 2016, increasing to 3.5 percent and 3.8 percent respectively in 2017 and 2018. Persistent security concerns and slow activity in tourism and remittance inflows are just a few of the factors

explaining slow growth in this group of countries. Remittance inflows from GCC countries to the rest of the region have declined by 0.4 percent in 2015 against the 1.6 percent increase predicted in October 2015. The GCC governments that are coping with the impact of falling oil prices have been cutting spending, discussing plans to tax remittances, and raising debt. This has reduced remittances, aid and grants to the rest of the region, particularly to those countries that rely on them heavily. Egypt, Lebanon, Jordan, Tunisia and to some extent Morocco are significant recipients of remittances from the GCC. The slowdown is expected to further strain the balance of payments in oil importers, outweighing the positive benefits from lower oil prices.

Growth in oil exporters, including the six GCC countries, will be affected by persistently low oil prices and civil wars (or both). Growth in the GCC countries is expected to fall to 2.2 percent in 2016 from 3.1 percent in 2015. It is expected that growth will pick up slightly over the forecast period. Growth in this group of countries, however, has been halved since 2014, suggesting that GCC countries have been "growing by oil and slowing by oil". Among other oil exporters, Libya and Iraq are expected to witness large fiscal deficits, of 59.9 percent of GDP and 20 percent of GDP in 2016, which could barely be sustained without spending reform schemes in place. Iran on the other hand is expected to benefit from the lifting of sanctions in 2016 and beyond. The country is managing to increase oil exports to pre-sanctions levels, approximately 2.4 million barrels per day (b/d). This is projected to increase growth to above 4 percent in 2016 and 2017 though that growth remains oil driven. The World Bank estimates growth for the group of oil exporters to pick up slightly in 2016 and 17 due to a rebound in oil production in Libya, Iraq and Iran.

Cheap oil is here to stay for some time. Despite a slight rebound in prices over the past couple of months, the oil market is still supply- driven and prices are expected to remain low for several years. The World Bank forecasts Brent crude oil prices to average around \$37 and \$48 per barrel (p/b) in 2016 and 2017, respectively; futures

options and contracts are also pointing to the same trend where a rebound in oil prices to \$50 will not happen until December 2019. In fact the oil market is settling into a “new normal” of low oil prices where the U.S. and not Saudi Arabia is the swing producer. Studies show that while the shale oil boom in the U.S. does not explain the sharp fall in oil prices starting in mid-2014 (because of an increase in oil production in Iraq and expectation of Iran coming back to the oil market), it does put an upper bound on the level of prices at around \$60 p/b, which is where most shale becomes profitable, still below the fiscal break even oil prices for many oil exporters in the region (Table A1, last column).

Prolonged cheap oil is shrinking the fiscal space in all of the MENA oil exporters, threatening fiscal sustainability (Table A1). At current oil prices, fiscal deficits are expected to remain stubbornly high in oil exporters and above 10 percent of GDP in three GCC countries in 2016, for the second year in a row, before declining in 2017 and 2018. Among them, the highest deficits will be in Saudi Arabia and Bahrain at 16.3 and 16.9 percent of GDP respectively. Saudi Arabia faces a forecast deficit of \$118 billion in 2016 and \$97 billion in 2017.² Qatar is expected to see its first fiscal deficit in 2016 after years of double digit surplus. The estimated fiscal deficit of the GCC countries of about \$145 billion in 2015 and \$150 billion in 2016 have forced these countries to borrow and also use their foreign reserves. Saudi Arabia, having exhausted 20 percent of its foreign reserves already, can rely on reserves for another five years. The government has also borrowed significantly including \$26 billion last year. Estimates by the World Bank show that the combined GCC public debt is expected to rise in 2016. Among them, it is expected that public debt will rise in Saudi Arabia to 20 percent of GDP and in Bahrain to 83.7 percent of GDP in 2016.

What if oil prices drop further? If they fall to an average \$30 p/b in 2016, the World Bank estimates that the group of oil exporters will lose a combined total of \$151 billion in oil revenues in 2016 (from \$51 p/b on average in 2015). With no

reform, their fiscal deficits will increase to 21 percent of their combined GDP.

Table A1. Fiscal Sustainability in MENA Oil Exporters

	Hydrocarbon Sector, 2014	Hydrocarbon Exports, 2014	Government Debt, Q3 2015	Oil Price Assumed in 2016 Budget	Sovereign Wealth Fund Assets, 2015	Reserves, 2015 4/	2015 Fiscal Breakeven Price (\$)
	1/	2/	2/	2/	3/		
	(% of GDP)	(% of goods exports)	(% of GDP)	\$ (p/b)	(% of GDP)		
Bahrain	24	59	52	50	36	5	106.3
Iran	29	70	16	40	16	18	87.1
Iraq	47	94	62	45*	...	8	81
Kuwait	59	95	4	25	480	7	67
Oman	39	84	5	45	19	5	94.6
Qatar	35	88	32	48	133	8	55.5
Saudi Arabia	46	87	11	Low \$40s	95	30	105.6
United Arab Emirates	24	30	16	...	358	3	72.5

Sources: World Economic Outlook October 2015; Sovereign Wealth Fund Institute; World Development Indicators; individual IMF Article IV staff reports; Haver Analytics; World Bank country teams. *Expected to be reduced to \$30 p/b.

1/ Share of Petroleum and gas products out of total goods exports of 2014.

2/ Government debt for Q3 2015 or latest. Bahrain in percent of 2015 GDP. Latest government, IMF, or World Bank projection for Algeria, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab.

3/ Latest available data on sovereign wealth fund assets in percent of 2015 GDP.

4/ Includes sovereign wealth fund assets controlled by monetary authorities, as reported under foreign exchange in the IMF IFS, in months of goods and services imports.

Under a scenario of further decline in oil prices to an average \$20 p/b in 2016, these countries will lose about \$199 billion in oil revenues in 2016 and their fiscal deficits would increase to 24 percent of their GDP combined. Among them, the fiscal deficit is projected to increase in Saudi Arabia to 28 and 32 percent of GDP respectively under the two scenarios (See tables 1.2a and 1.2b on page 9 of the report). If they implement some fiscal reforms, the fiscal deficits will be lower (See table A2 on page 13 of the report).

Could MENA countries benefit from cheap oil?

The answer is “Yes”. Low oil prices together with high fiscal deficits have pushed the governments of oil exporters to streamline their economies. Almost all of them are cutting, or planning to cut, current spending, and capital expenditures are on hold (See table 1.3 on page 11 of the report). All of the GCC governments have cut subsidies, halted investment projects, and plan to introduce new taxes, including the Value Added Tax

² In the previous oil slumps, the deficit was \$23 billion in 2009 and \$13 billion in 1998.

(VAT), to better align their spending with their revenues (See box 1.1 on page 12 of the report). The VAT is planned to go into effect in January 2018. They are also keen on improving water and energy efficiency. In Saudi Arabia, for example, the Saline Water Conversion Corporation (SWCC) is planning to double energy efficiency from the current level of about 26-27 per cent to 54-55 per cent. In Algeria, public hiring is on hold and in Iraq, the government has cut its fiscal spending in the 2016 budget. Oil importers, particularly Egypt, Tunisia, Jordan and Morocco, have already started reforming their fiscal spending and are now focusing on improving the efficiency of energy use.

Conclusion. Even if MENA countries weather the oil price shock, how can they mitigate the wars, violence and conflicts that are weighing so heavily on their economies and their people? The report concludes that the challenges facing the most war ravaged country; Syria need to be addressed now. The international community can play an important role in supporting an inclusive reconstruction strategy that could make peace happen today with positive spillovers to the rest of the region.

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