MENA ECONOMIC MONITOR

MAIN MESSAGES

Overview

- Plagued by war, violence and low oil prices, economic activity in the Middle East and North Africa (MENA) region remained subdued between 2013 and 2015 at around 2.4 percent on average, half of the annual growth seen during the 2000s.
- After 2017, the situation is expected to improve slightly and growth to surge above 3 percent over the forecast period.
- In 2017, growth in MENA is expected to decline to 2.6 percent as a result of a slowdown in the economies of oil exporters which are expected to register 2.4 percent growth, down by 1.1 percentage points from 2016. Despite the weak performance of oil exporters, growth in oil importers is expected to pick up to 3.5 percent in 2017 from 2.9 percent in the year before; almost all countries in this subgroup will perform better than last year.

Some "green shoots" in the region

- Egypt is implementing key reforms both on the revenue and expenditure side of the budget. Foreign direct investment is expected to double in 2017 reaching $5 billion. Both fiscal and current account deficits will improve throughout the forecast period.
- Iran is back in the spotlight after the implementation of the Joint Comprehensive Plan of Action last year, attracting more foreign direct investment (FDI) mostly in the oil sector. Recent data show that growth accelerated to 9.2 percent (year on year) in the second quarter (July-September 2016) following 5.2 percent growth in the first quarter.
- Oil exporting countries are also showing positive signs of recovery after continuously declining oil prices, thanks to solid macro-economic reforms. Recent measures include raising utility rates, increasing fuel prices and taxes on expatriates, amending labor market laws as well as issuing debt to finance high fiscal deficits.

However a fragile context can put growth at risk

- Risks to long- term growth in the region are manifold. Conflict and proxy wars, political instability, corruption and poor governance can have devastating impacts on growth potential across the region. The key challenges in sustaining high and inclusive growth in the region include ending the armed conflicts, improving macroeconomic conditions, and undertaking microeconomic reforms to create a better business climate for the private sector. As important is maintaining the political momentum for these reforms.

Positive pathways to maintain the reform momentum

- Additional measures to raise revenue are needed to preserve macroeconomic stability and strengthen growth.
- Gearing the education system towards private sector employers' needs, especially in the technology sectors, will be critical to absorb a growing labor force and to provide more opportunities for women in the labor market.

- Oil exporters need to boost growth in the non-oil tradable sector to reduce exposure to price volatility and generate productive, private-sector jobs.
- Improving intra-regional trade will be one way of improving growth prospects as regional integration could open up trade with large, global markets.

But realizing that potential depends crucially on how the post-conflict reconstruction is conducted.

THE ECONOMICS OF POST-CONFLICT RECONSTRUCTION

- The civil wars in Syria, Libya, and Yemen have had destructive effects on almost all aspects of these economies. In particular, the oil sector – lifeline of all three governments – has seen its infrastructure destroyed, bringing production down significantly. Violence has created newly vulnerable groups, such as the unemployed, households headed by women, children born into conflict, and the disabled. In particular:

- Civil war in Syria has killed about 500,000 people, displaced half the population--one-third of them outside the country--and pushed more than two-thirds of Syrians into poverty.
- The conflict in Yemen has touched every aspect of Yemenis' lives: Limited their access to food, water, and health care, deepened poverty, and forced millions of children out of school. More than 7,000 people have been killed, and over 31,000 wounded.
- Violence in Libya has displaced one tenth of its 6 million people internally, and about 125,000 externally, particularly to Europe because of its close proximity.

- These conflicts are having spillover effects on neighboring countries such as Jordan, Lebanon, Tunisia and Turkey, who are hosting an unprecedented number of refugees while seeing their trade, tourism, and security undermined.
- In addition to being a political and military challenge, peace and reconstruction in MENA is a huge economic challenge. The scale of destruction and forgone economic growth—the loss in GDP relative to the "no-war" counterfactual in Syria alone is estimated at $200-300 billion-- means that substantial resources will be needed for post-conflict reconstruction.
- Peace in MENA is a global public good; the global community needs to come together to help finance, and more importantly to help implement, the post-conflict reconstruction programs in MENA.

In Syria

- The post-conflict economy will inherit a weak labor market, disrupted education system and patchy human capital. Estimates by the World Bank show that if a political solution is reached today and reconstruction begins, it will take 10 years for the Syrian GDP to get close to its pre-war (2010) real GDP level, if the economy grows by 5 percent on average. Growing at lower than this rate i.e. at 3 percent growth rate, will delay the recovery by another 10 years.

In Yemen

- Yemen has a history of instability but the recent war has pushed the country into a humanitarian crisis. A joint study by the World Bank, United Nations, Islamic Development Bank and European Union put an early estimate of damage costs at $15 billion consisting of almost $7 billion in economic losses and of over $7.3 billion in production and service delivery losses.

In Libya

- Six years of war in Libya has significantly undermined the economy as well as public services. The economy remained in recession for the fourth consecutive year in 2016. Libya produced more than 1.6 million barrels per day of crude oil prior to the uprising in 2011; that has fallen to around 380,000 barrels per day today.

Initiating the reconstruction effort

- Reconstruction has to be a *nation-building* exercise and needs to address the root causes of the conflict (namely lack of voice, accountability and inclusion). Relatedly, reconstruction has to be a *peace-building* exercise, if nothing else to prevent a recurrence of conflict.It should also aim to rebuild inclusive institutions. The assessments of the damage and economic costs of the three civil wars in MENA is estimated in the order of $300 billion.
- Identifying how the funds will be raised is another critical issue. All three civil-war countries are oil economies that, before the war started, earned between 35 and 90 percent of government revenues from oil. The oil sector—when it is back in production--may be a significant source of income, though it would not generate enough resources to finance the post-conflict reconstruction. This is where the international community needs to step in.
- The reconstruction program should be nationally driven and not a donor exercise. It should be based on national visions and agendas developed through inclusive forums of debate, while making sure to include all sectarian parties involved in the conflict.
- Giving citizens voice in decision-making will be an important step. A particular way for the reconstruction program to be people-led is also to crowd in the private sector which will be the engine of growth and job creation in the aftermath of the war.
- In order to maintain the territorial integrity of the country after a peace settlement, the central government may devolve some fiscal authority to sub-national entities. In particular, how oil revenues are shared among the sub-national units will be crucial to the success of a post-conflict reconstruction program.