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Recent developments: The COVID-19 pandemic and efforts to contain it have sharply weakened short-term activity in the Middle East and North Africa, while increased investor risk aversion has heightened volatility in financial conditions. The steep fall in global oil and export demand has curtailed exports for oil producers, with adverse repercussions for non-oil sectors. These challenges are compounded by several longstanding structural impediments to growth.

Activity among oil-exporting economies has decelerated across the board as the sharp fall in global oil demand has contributed to a steep drop in oil prices and as pandemic-related disruptions erupted. Among oil importers, activity is decelerating also as tourism prospects fade due to pandemic-related disruptions and restrictions, and as exports have sharply fallen amid sharply weakened external demand.

Inflation has generally been contained in the Middle East and North Africa and has allowed space for large economies like Egypt to cut policy rates in response to the pandemic. However, the financial sector in the region has been adversely impacted recently by a broad-based erosion in investor sentiment toward emerging markets and developing economies, reflected in sharp declines in equity indexes.

Outlook: Economic activity in the Middle East and North Africa is forecast to contract by 4.2% because of the pandemic and oil market developments. This forecast is notably below the forecast of +2.4% growth published in the January edition. Moreover, the outlook is surrounded by high uncertainty. Oil exporters have been adversely impacted by the plunge in oil prices and COVID-19 outbreaks, while oil importers are experiencing spillovers from the weakness in advanced economies and major emerging markets, pandemic mitigation measure-related disruptions, and an expected drop-off in tourism.

Among oil exporting economies, activity is expected to contract by 5% as low oil prices reduce activity, a sharp reduction in forecast growth relative to the +2% forecast published in January. Iran is expected to contract 5.3%, the third year of contraction in a row. In many oil exporters, growth will be significantly constrained by policy cuts in oil production. In Gulf Cooperation Council (GCC) countries (-4.1%), low oil prices and uncertainty related to outbreaks of the virus will further weigh on non-oil activity. Algeria (-6.4%) and Iraq (-9.7%) continue to grapple with the consequences of low oil prices and structural vulnerabilities.

Economic activity among oil importers is expected to contract by 0.8% in 2020, as tourism declines and exports prospects fade. This forecast also implies a notable downgrade relative to the forecast published in January, which stood at a robust +4.4%. Investment is expected to be weak amid low global and domestic confidence, while consumption activity will be curtailed by pandemic mitigation measures. High public debt levels further compound the growth challenges faced by oil importers.

Further progress on structural reforms in the region can contribute to reducing near-term vulnerabilities while boosting medium-term growth prospects. Structural programs in economies such as Egypt and diversification programs such as those in the GCC are expected to encourage growth-enhancing reforms.

Risks: Risks are heavily tilted to the downside. While Iran has experienced the largest number of reported COVID-19 cases, similar outbreaks in other economies could inflict broad-based damage to manufacturing and services in addition to imposing a human toll. Many regional economies, especially outside the GCC, are ill-equipped to respond to an escalation of the pandemic due to weak fiscal positions and thin healthcare capacity.

Negative spillovers from major trading partners such as the Euro Area and China are already significant and could intensify. The recent cratering of oil prices and uncertainty about their future path is an important risk to the region's short-term outlook. Persistently low oil prices would erode the region's already weak fiscal space and constrain investment activity. In addition, conflict-related risks in the region remain high. Separately, the pace of reforms, especially in small oil-importing economies, could be further disrupted by political challenges.

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Middle East and North Africa Forecasts

(Annual percent change unless indicated otherwise)

	2017	2018	2019e	2020f	2021f
GDP at market prices (2010 US\$)					
Algeria	1.3	1.4	0.8	-6.4	1.9
Bahrain	4.3	1.8	1.8	-4.5	2.3
Djibouti	5.4	8.4	7.5	1.3	9.2
Egypt^a	4.2	5.3	5.6	3.0	2.1
Iran	3.8	-4.7	-8.2	-5.3	2.1
Iraq	-2.5	-0.6	4.4	-9.7	1.9
Jordan	2.1	1.9	2.0	-3.5	2.0
Kuwait	-4.7	1.2	0.4	-5.4	1.1
Lebanon	0.9	-1.9	-5.6	-10.9	-6.3
Morocco	4.2	3.0	2.3	-4.0	3.4
Oman	0.3	1.8	0.5	-4.0	2.0
Qatar	1.6	1.5	-0.3	-3.5	3.6
Saudi Arabia	-0.7	2.4	0.3	-3.8	2.5
Tunisia	1.9	2.7	1.0	-4.0	4.2
United Arab Emirates	0.5	1.7	1.7	-4.5	1.4
West Bank and Gaza	1.4	1.2	0.9	-7.6	5.1

Source: World Bank.

Notes: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

a. Refers to fiscal year. Please see regional annex for details on fiscal year reporting.

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World Bank Group COVID-19 Response

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