

Recent Developments: Growth in the developing countries of the Middle East and North Africa region¹ held steady at 2.5 percent in 2015, as accelerating activity in most oil-importing countries more than offset slowdowns in oil exporters.

In most oil-importing countries, lower oil prices provided support for demand and allowed governments to cut back fuel subsidies. In most oil exporters, oil production and investment fell with the steep decline in oil prices since mid-2014. The Libyan economy was additionally strained by ongoing conflict.

A pivotal development for the region was the signing in July of the Joint Comprehensive Plan of Action for limitations on the Islamic Republic of Iran's nuclear program. Renewed optimism about the potential of the Iranian economy has already generated substantial interest among international investors.

At the same time, the toll of conflict in the region showed little sign of abating in 2015. The number of people who have left their home countries as a result of conflict is unprecedented.

Outlook: Growth in the Middle East and North Africa is forecast to move up to 5.1 percent in 2016, as the suspension and removal of economic sanctions against the Islamic Republic of Iran will allow that country to resume a larger role in global energy markets. Sanctions could begin to be lifted in early 2016 if the International Atomic Energy Agency indicates that Iranian government has fulfilled its commitments under the agreement. The Iranian economy is expected to grow strongly, by 5.8 percent, from 1.9 percent in 2015.

The Arab Republic of Egypt is expected to see growth moderate to 3.8 percent in the fiscal year that runs to the end of June 2016, from 4.2 percent in the fiscal year that ended June 2015.

Growth in Iraq is expected to pick up to 3.1 percent in 2016 from an estimated 0.5 percent in the year just ended on recovery in both oil and non-oil sectors. Spending cuts will help shrink a budget deficit. The forecast is based on the assumption that the economic impact of the so-called Islamic State will become more limited.

Risks: The region is subject to serious risks from the possibility of an escalation of conflict, a further decline in oil prices, and failure to improve living conditions, which could spark social unrest. Economic activity in Iraq, Libya, Syria, and the Republic of Yemen has been damaged by loss of life, the departure of skilled workers, the destruction of infrastructure and disruption of trade from ongoing conflict.

Countries without conflict issues also face challenges as security risks and political uncertainty have impacted consumer, business, and investor confidence. Egypt had two new governments in the second half of 2015. Lebanon has been without a president since 2014. Terrorist attacks targeted tourists in Egypt and Tunisia in 2015 and hurt the tourism industry. For Egypt, a drying up of foreign currency inflows from a shrinking tourism industry would hurt growth and worsen the foreign exchange shortage.

Labor market conditions in the region have long been poor relative to other developing regions and have not improved since the Arab Spring. Unemployment rates, for instance, are above 2010 levels in Algeria, Egypt, Morocco, and Tunisia and have the potential to contribute to social unrest.

¹ The report covers low- and middle-income countries in the Middle East and North Africa region. Gulf Cooperation Council countries are excluded. The Arab Republic of Syria and the Republic of Yemen are excluded from regional growth forecasts due to data limitations.

Middle East and North Africa forecast summary

(annual percent change unless indicated otherwise)

	2013	2014	Est. 2015	Forecast 2016	2017	2018
GDP at market prices (2010 US\$)						
Algeria	2.8	3.8	2.8	3.9	4.0	3.8
Djibouti	5.0	6.0	6.5	7.0	7.1	7.0
Egypt, Arab Rep.	2.2	3.2	4.0	4.1	4.6	4.8
<i>Fiscal Year Basis</i>	2.1	2.2	4.2	3.8	4.4	4.8
Iran, Islamic Rep.	-1.9	4.3	1.9	5.8	6.7	6.0
Iraq	4.2	-0.5	0.5	3.1	7.1	6.5
Jordan	2.8	3.1	2.5	3.5	3.8	4.0
Lebanon	3.0	2.0	2.0	2.5	2.5	3.0
Libya	-13.7	-24.0	-5.2	35.7	27.6	8.4
Morocco	4.7	2.4	4.7	2.7	4.0	4.0
Tunisia	2.9	2.7	0.5	2.5	3.3	4.5
West Bank and Gaza	2.2	-0.4	2.9	3.9	3.7	3.7

Source: World Bank.

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.