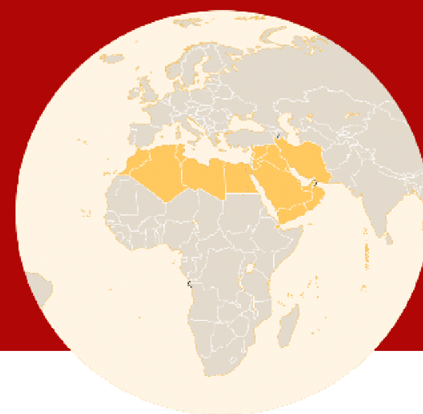
MIDDLE EAST and NORTH AFRICA



Growth in the Middle East and North Africa was an estimated 2.6 percent in 2015, slightly weaker than in 2014. The sharp drop in oil prices over the past two years and the continuation of several serious conflicts are major factors holding back activity in the region. Growth is expected to be little changed in 2016, at 2.9 percent. The marginal improvement is largely due to the expected strong recovery in the Islamic Republic of Iran following the lifting of sanctions in January 2016. Growth in most other oil-exporting countries, including most Gulf Cooperation Council (GCC) countries, will weaken in 2016, while performance in oil-importing countries will be mixed because of varied macroeconomic and geopolitical challenges. Risks to the outlook are tilted to the downside and include further declines in oil prices, the escalation of conflict in some countries, and fragile security conditions in others. Key policy challenges are to improve government finances; reduce economic dependence on oil; and address longstanding business environment, labor market, and financial sector shortcomings.

Recent developments

Growth in the Middle East and North Africa was an estimated 2.6 percent in 2015, slightly weaker than the already subdued rate of 2.9 percent in 2014 (Tables 2.4.1 and 2.4.2, and Figure 2.4.1).[1] Performance diverged in oil-exporting and oil-importing country groups, with 2015 activity slowing in exporters and strengthening in importers from the previous year. Low oil prices and ongoing conflict in the region are holding back growth.

In oil-importing countries, growth reached 3.3 percent in 2015. Strong public investment and resilient private consumption supported an uptick in growth in the Arab Republic of Egypt from 2.2 percent in FY2013/14 to 4.2 percent in FY2014/15, while bumper agricultural output buoyed growth in Morocco. Jordan and Lebanon face continued trade and investment challenges stemming from the conflict in Syria and, in Lebanon's case, the economic slowdown in GCC countries. Together with domestic political and security challenges, continued spillovers from external conflicts slowed growth in these two countries in 2015. In Tunisia, several high-profile terrorist attacks and the resulting adverse impact on tourism, together with continued social unrest, slowed growth to only 0.8 percent, although historically high olive oil production boosted agricultural output.

While strong domestic demand supported activity in Egypt last year, net exports were weak, in part caps on U.S. dollar deposits in banks. The restrictions, intended to reduce the gap between the official and black market exchange rates, resulted in a shortage of foreign currency to pay for raw materials and equipment. This contributed to a sharp slowdown in manufacturing sector value added and a contraction of goods exports by 17 percent in FY2015 that worsened by the end of the calendar year. To support the economy, and with reserves hovering around just three months of imports, the central bank devalued the currency by 14 percent in March 2016 and announced that it would adopt a more flexible exchange rate policy

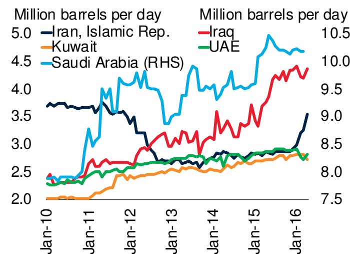
Note: The author of this section is Dana Vorisek. Research assistance was provided by Qian Li.

[1] The EMDE grouping for the Middle East and North Africa (MENA) adds Gulf Cooperation Council (GCC) countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—to the developing MENA grouping. All GCC countries are oil exporters. Other oil exporters are Algeria, the Islamic Republic of Iran, Iraq, and Libya. Oil importers in the region are Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, and West Bank and Gaza. The Syrian Arab Republic and the Republic of Yemen are excluded from regional growth aggregates due to data limitations.

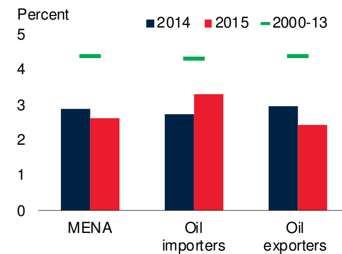
FIGURE 2.4.1 Growth and oil production

Growth in the Middle East and North Africa has slowed relative to its recent historical level, largely reflecting weaker activity in oil-exporting countries. The upswing in oil production in the Islamic Republic of Iran since the lifting of most sanctions in January is benefiting the domestic economy but is occurring in an environment of already high supply, including in other producers in the region.

A. Oil production in five largest producers in MENA



B. GDP growth



Sources: International Energy Agency, Haver Analytics, national sources, World Bank.

(Figure 2.4.2). The devaluation was quickly followed by a hike in the policy interest rate to limit the impact of higher import prices on inflation, which had moderated in the previous months but was still elevated, at 9 percent (year-on-year) in February 2016.

In Jordan and Lebanon—two other oil-importing countries with currencies pegged to the U.S. dollar—deflation underway since early 2015 continues. In Morocco, decelerating inflation and growth expectations for 2016 led the central bank to lower interest rates in March. In some oil-importing countries (Lebanon, Morocco), low global energy prices reduced the cost of imports in 2015, narrowing current account deficits, although Lebanon's deficit remains very large, at an estimated 23 percent of GDP. Remittances to non-GCC countries in the Middle East and North Africa are estimated to have contracted by 0.9 percent in 2015 in U.S. dollar terms, largely driven by a downward revision in estimated flows to Egypt and, to a lesser extent, a depreciation of the euro, the currency in which much of the remittances to other North African countries are denominated (World Bank 2016f).

Though the extended period of low oil prices has not been followed by a significant boost to growth in oil-importing countries in the region, it has allowed several countries to adjust policy to contain deteriorating public finances. This has included lower spending on subsidies and wages (Egypt, Morocco) and cash transfers to households (Jordan), partly to offset a decline in aid from GCC countries (Morocco). The authorities in Morocco have shown notable commitment to fiscal adjustment, reducing the general government deficit for three consecutive years. However, deficits remain above 3 percent of GDP in all oil-importing countries in the region, and are financed by a combination of domestic and international borrowing, including concessional loans from international financial institutions (Jordan, Morocco, Tunisia). Budget shortfalls are contributing to high and growing government debt as a share of GDP, most prominently in Egypt, Jordan, and Lebanon. In Egypt, interest on this debt absorbs nearly one-third of government revenues, and in Lebanon nearly half.

Unemployment, particularly among youth, remains high in oil-importing countries. The unemployment rate in Jordan averaged 13.7 percent in the second half of 2015, close to two percentage points above the 2014 average, and rose to 15.4 percent in Tunisia in the fourth quarter, continuing an upward trend underway since mid-2014. Unemployment in the West Bank and Gaza is also persistently high, at 26 percent. In Egypt, however, unemployment fell slightly in 2015, to 12.8 percent at year end.

Oil-exporting economies as a group grew by 2.5 percent in 2015, down from 3.0 percent in 2014. In Iraq, a 20 percent increase in oil production was the main force pulling the economy out of recession in 2015, despite low oil prices. In most other oil-exporting countries, the steep decline in oil prices translated into 2015 growth rates that were below the 2000–13 average. In the Islamic Republic of Iran, the combination of low oil prices and uncertainty surrounding the timeline for the lifting of sanctions slowed growth significantly.

With fiscal and export revenues in most oil-exporting countries in the region highly dependent on the oil sector, the oil price collapse since mid-2014 led to market prices that were well below fiscal break-even prices (the price that

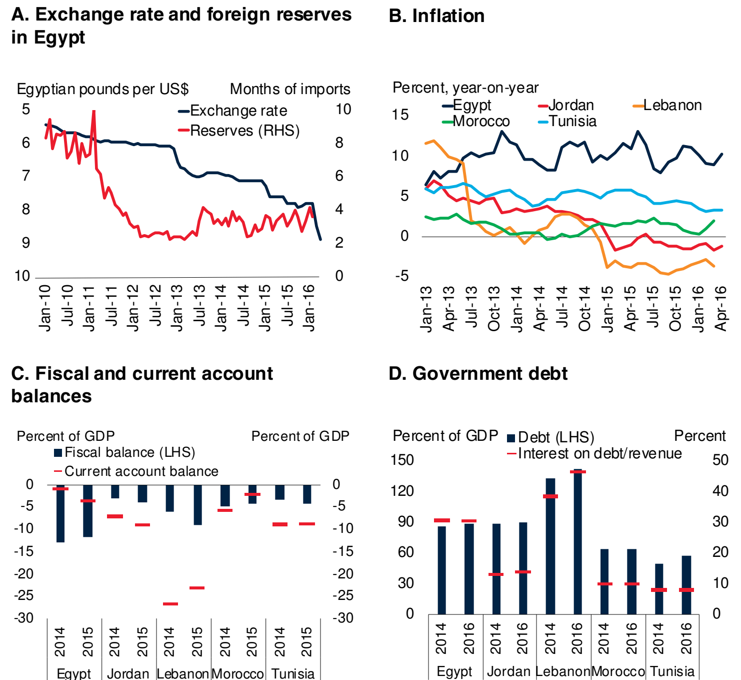
balances the government budget) in 2015, particularly in Libya, Bahrain, and Saudi Arabia. As a result, fiscal positions have worsened, with large surpluses in several GCC countries in 2014 swinging into deficit in 2015 and existing deficits in other oil-exporting countries worsening (Figure 2.4.3). A similar pattern can be observed in current account balances. Algeria, Iraq, and Oman, and even more so Libya, face especially large twin deficits. In GCC countries and in Algeria, public assets (foreign reserves and sovereign wealth funds) have been drawn down to finance fiscal deficits. Iraq's government is issuing domestic bonds, borrowing from commercial banks, and plans to finance about 10 percent of the budget shortfall with international bond issuance in 2016.

Budget adjustment in oil exporters is underway, predominantly through cuts in infrastructure spending, fuel and utility subsidies, and government wage bills. While public debt ratios were low in most of these countries prior to the oil price plunge and remain at manageable levels in all countries except Bahrain, Iraq, and Libya, other indications of fiscal vulnerability have risen. In early 2016, sovereign credit ratings of Bahrain, Oman, and Saudi Arabia were downgraded (Bahrain to below investment grade), and credit default swap spreads spiked. Spreads have since receded, but in Saudi Arabia and Bahrain they remain elevated compared to levels of the past 12 months.

In contrast to high and rising inflation in most emerging and developing oil-exporting economies in other regions, domestic price growth is subdued among oil exporters in the Middle East and North Africa (other than Algeria and the Islamic Republic of Iran), as currency pegs in most of these countries have kept nominal exchange rates stable. However, low oil prices, together with an appreciated U.S. dollar, have raised concerns about the sustainability of exchange rate regimes, while recent subsidy reform in GCC countries is now putting upward pressure on inflation.[2] Foreign reserves are being depleted (particularly in

FIGURE 2.4.2 Macroeconomic conditions in oil-importing countries

Low levels of foreign exchange reserves contributed to the Egyptian central bank's decision to devalue the currency in March. High inflation remains a challenge in Egypt, while low commodity prices have led to persistent deflation in Jordan and Lebanon. Fiscal and current account deficits are significant, and in some countries worsening, despite the extended period of low-priced oil imports. Budget shortfalls are contributing to already very high public debt in Egypt, Jordan, and, especially, Lebanon.



Sources: Haver Analytics; International Monetary Fund, World Economic Outlook database; Moody's; World Bank.

Algeria, Iraq, and Saudi Arabia) to defend pegs or to support budget overruns. With limited monetary autonomy, central banks in Bahrain, Kuwait, Saudi Arabia, and the United Arab Emirates followed the U.S. Federal Reserve's December 2015 interest rate hike, despite their soft growth outlook and contained inflation.

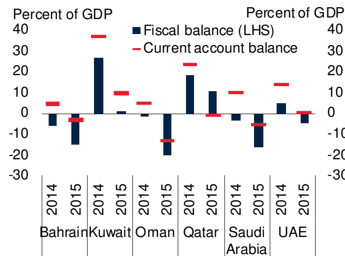
Several recent geopolitical developments—namely, the start of the post-sanctions era in the Islamic Republic of Iran in mid-January, a January political agreement in Libya, and a ceasefire agreement in Syria at the end of February—are expected to benefit the regional growth outlook. Positive impacts for the Iranian economy, particularly in the form of higher oil production, are already apparent.

[2]Among oil-exporting countries in the region, Kuwait pegs its dinar to an undisclosed basket of currencies, while other GCC countries and Iraq maintain conventional pegs against the U.S. dollar.

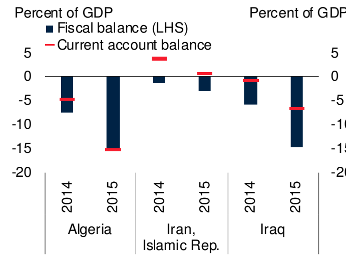
FIGURE 2.4.3 Macroeconomic conditions in oil-exporting countries

Fiscal and current account deficits deteriorated sharply in oil-exporting countries in 2015 as oil-related government and export revenues plummeted. This trend has been accompanied in some countries by receding public foreign assets and other indicators of rising fiscal vulnerability. In contrast to oil exporters in other regions, inflation remains contained in the Middle East, reflecting stable currency pegs.

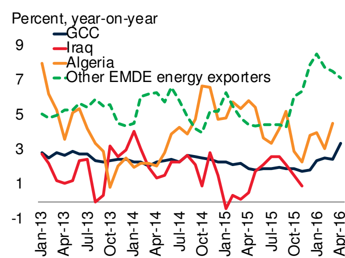
A. Fiscal and current account balances, GCC countries



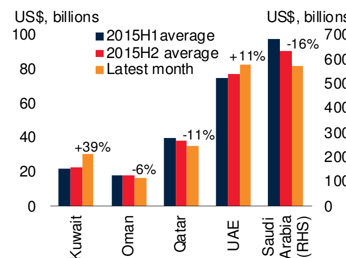
B. Fiscal and current account balances, other oil-exporting countries



C. Inflation



D. Foreign reserves



Sources: International Monetary Fund (IMF), World Economic Outlook database; Haver Analytics; Bloomberg; Kuwait Central Statistical Bureau; IMF International Financial Statistics database; World Bank.

A. B. Libya is not shown because its balances are well outside of the ranges shown.

C. For the GCC and "other EMDE energy exporter" aggregates, line reflects median of inflation in the country groups. The Islamic Republic of Iran is not shown because its inflation is outside the range shown: an average of 18 percent in 2014, 14 percent in 2015, and 9 percent in the first three months of 2016.

D. Percentages above bars indicate the difference between the level of foreign reserves in the latest available month and the average level in the first half of 2015. Last observation is April 2016 for Kuwait and Oman and March 2016 for Qatar, Saudi Arabia, and United Arab Emirates.

Outlook

The baseline forecast envisages that growth in the Middle East and North Africa will rise slightly in 2016, to 2.9 percent, 1.1 percentage points below the January estimate, largely due to a lower path for oil prices. The outlook assumes an average oil price of $41 per barrel for 2016, down from $51 per barrel assumed in January, and that the price will rise to $50 in 2017 and $53 in 2018. Other assumptions are that there is no further worsening of negative spillovers from the conflict in Syria; that the security situation in Iraq will continue to improve slowly in 2016; and that Libya's political agreement will be endorsed by the internationally-recognized parliament in the east of the country and that the new government established under the agreement will take office. In addition, growth in the Euro Area, a major trading partner of several countries in the region, is expected to remain steady but modest in 2016–18. Given that oil exporting economies account for four-fifths of the region's GDP, the expected recovery in oil prices in 2017 is projected to lift regional growth to an average of 3.6 percent in 2017–18.

The main reason for the slight improvement in regional growth in 2016 is stronger activity in the Islamic Republic of Iran, the region's second-largest economy, which is forecast to grow 4.4 percent in 2016, up from an estimated 1.6 percent in 2015, following the removal of sanctions (Figure 2.4.4).[3] In Iraq, as well, there is expected to be a strong increase in activity in 2016 (7.2 percent), reflecting rapidly rising oil production and continued success by the government in regaining territory from ISIS, notwithstanding supply disruptions early in the year.

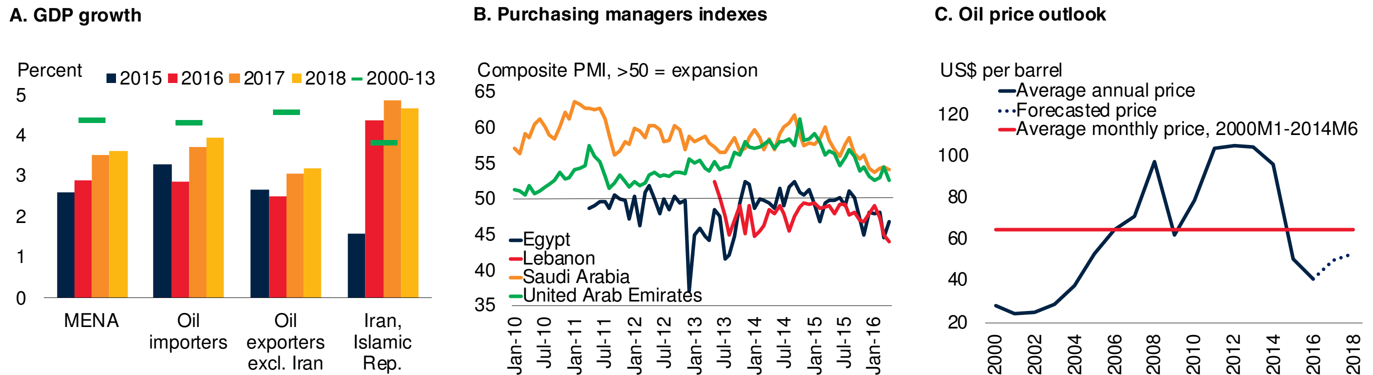
Excluding the Islamic Republic of Iran, growth in oil-exporting countries in the region will be somewhat lower than in 2015, at 2.5 percent. For GCC countries, continued low oil prices, together with tightening fiscal and (to a lesser extent) monetary policy, will be a drag on activity in 2016. Growth in these countries is forecast to fall from 2.9 percent in 2015 to 2.0 percent this year, the slowest pace since 2009. In Algeria, the coming online of a gas project, together with solid activity in the nonhydrocarbon sector, is expected to result in growth of 3.4 percent this year, a faster pace than in 2015.

For oil-importing countries, a lower aggregate forecast for 2016 is due to slowing growth in the largest economy, Egypt, where expected growth of 3.3 percent in FY2015/16 is well below the authorities' target of 5 percent. The weakness is due to a sharp downturn in tourism since October 2015, softening business sentiment, and the foreign currency shortage that plagued the economy for most of the fiscal year. The currency

[3] U.S. primary sanctions remain in place, however, meaning that direct engagement by U.S. businesses with the Islamic Republic of Iran continues to be prohibited.

FIGURE 2.4.4 Growth outlook

The expected modest recovery in regional growth in 2016 will come mainly from a sharp acceleration of activity in the Islamic Republic of Iran after the lifting of most sanctions. Growth in other oil-exporting countries will be restrained by fiscal consolidation and continued low oil prices, while slowing activity in Egypt and Morocco will moderate aggregate growth in oil-importing countries. Business sentiment is falling or already weak across the region. An envisaged turnaround in oil prices will support a modest regional growth recovery in 2017, but growth is expected to remain below the 2000-13 pace for the duration of the forecast period.



Sources: World Bank; national sources; Haver Analytics; International Monetary Fund, World Economic Outlook database.
B. Composite PMI considers manufacturing and services sectors.
C. Average annual price is the average of monthly data for each given year.

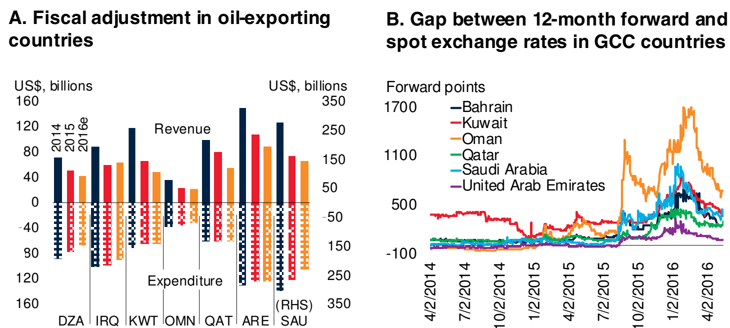
devaluation in March may boost the price competitiveness of Egypt's exports, however. In Morocco, a significant contraction in agricultural output in the early part of the year due to a drought will push growth down to 1.7 percent from 4.4 percent in 2015, a strong harvest year. In other countries, growth is expected to firm somewhat in 2016, benefitting from increased phosphate production (Jordan, Tunisia) and subsiding negative trade and investment spillovers from the war in Syria (Jordan, Lebanon). For Morocco and Tunisia, which have deep trade ties with Europe, a somewhat worse growth outlook in the Euro Area than envisaged in January 2016 stands to restrain exports. An expected reduction in outward remittances from GCC countries in 2017 and 2018 will impact some oil-importing countries in the region (World Bank 2016f).

Procyclical fiscal consolidation is underway in most oil-exporting countries. Public expenditure cuts of 14 percent in Saudi Arabia, 11 percent in Oman, 9 percent in Algeria, 8 percent in Iraq, and smaller amounts in Kuwait, Qatar, and the United Arab Emirates have been outlined in 2016 budgets. Energy subsidy reforms were implemented in all GCC countries in 2015 or early 2016, and have begun to be put into effect in Algeria. Modest efforts to expand revenue have also been implemented, including raising corporate and consumption taxes, but in the short term will not make up for large revenue losses in 2015 from plummeting oil prices (Figure 2.4.5). A GCC-wide agreement to enact a value-added tax at an expected rate of 5 percent at the beginning of 2018 was announced in March. Increasingly, governments will rely on domestic and international debt issuance to finance deficits, and in some cases will continue using public assets. The downward pressure on growth from fiscal consolidation will be reinforced in the GCC countries by tightening monetary policy in tandem with any rate increase in the United States. Central banks in the GCC and Iraq remain committed to their longstanding currency pegs, despite pressure on forward exchange rates in some countries.

For the Islamic Republic of Iran, the easing of sanctions has opened the country to international trade and investment. In April 2016, crude oil production was 3.6 million barrels per day (mbd), 25 percent higher than average monthly production in 2015, and already at the upper end of the 0.5–0.7 mbd increase estimated last October for the post-sanctions period (Devarajan and Mottaghi 2015). The post-sanctions era also holds strong promise for the Iranian financial services, mineral and metals, and manufacturing industries (Ianchovichina, Devarajan, and Lakatos

FIGURE 2.4.5 Policy outlook in oil-exporting countries

Public expenditure cuts are being implemented in response to the prolonged period of low oil prices, but will not be enough to offset large declines in public revenues in the near term. Budget sustainability will remain a challenge in the forecast period. Central banks intend to maintain exchange rate pegs but pressure in foreign exchange markets remains elevated in some countries, albeit below highs reached in early 2016.



Sources: International Monetary Fund, World Economic Outlook database; Bloomberg; World Bank.
A. 2016e = 2016 expected. DZA = Algeria, IRQ = Iraq, KWT = Kuwait, OMN = Oman, QAT = Qatar, SAU = Saudi Arabia, ARE = United Arab Emirates.
B. All exchange rates are against the U.S. dollar.

2016). There is also potential to exploit large, untapped natural gas reserves, although this is contingent upon significant investment in the sector and improvement in the domestic business and regulatory environment.

To the extent that higher Iranian oil production marginally reduces global oil prices, the impact of the country's reintegration into the global economy is likely to be negative for other oil-producing countries, including those in the Middle East. Moreover, higher Iranian oil output will occur as other developments, including an announcement by Saudi Arabia in May to increase production in 2016 and the mid-April collapse of a draft agreement among major oil exporters to freeze production at January 2016 levels, may put downward pressure on prices. The impacts of the Islamic Republic of Iran's reintegration into the global economy through trade channels are more challenging to assess, but exports from the European Union to the Islamic Republic of Iran, for instance, stand to approximately double if they rebound to the levels seen prior to the tightening of sanctions in 2012.[4] Countries neighboring Iran may benefit from increased trade links and travel.

Risks

Risks to the growth outlook for the Middle East and North Africa are mainly to the downside. Three risks stand out: a further slide in oil prices, escalation of conflict, and further negative effects of security challenges and social unrest in countries not entrenched in war.

Should average annual oil prices not reach a trough in 2016, it would likely trigger additional downgrading of the forecast for oil exporters in the region. Weaker growth would be accompanied by intensification of fiscal vulnerabilities; further pressure on exchange rate pegs; and, in Bahrain, Iraq, and Libya, set the stage for a rise in government debt beyond already high levels.[5] In addition, low oil prices have the potential to generate negative feedback effects through the financial sector. In Saudi Arabia, low growth of oil prices and nonoil private sector GDP are found to be associated with nonperforming loan ratios and lower credit and deposit growth in the banking sector (Miyajima 2016).

Even with some positive recent developments regarding conflicts in the region, the potential for conflict-related spillovers remains high. In addition, due to a large number of casualties, these conflicts have resulted in significant loss of human and physical capital in domestic, and neighboring, economies (Devarajan and Mottaghi 2016). Some estimates indicate that direct and indirect losses of the war in Syria and the advance of ISIS had been a cumulative $35 billion in Egypt, Iraq, Jordan, Lebanon, Syria, and Turkey (in 2007 dollars) as of mid-2014, and to have, on average, reduced Syria's output growth by about 10 percentage points per year below what it would have been between 2011 and 2014 (Ianchovichina and Ivanos 2016). In Yemen, infrastructure and public service delivery damage from conflict in four cities between March and October 2015 is estimated to have been $4.1 to 5 billion (World Bank 2016m), approximately 13 percent of Yemen's GDP as of

[4]A positive effect for the European Union (EU) is consistent with the findings of Ianchovichina, Devarajan, and Lakatos (2016), which finds that the EU's economic output would increase following the removal of sanctions on the Islamic Republic of Iran.

[5]In Bahrain, government debt in 2015 was already above the 60 percent threshold stipulated by the future GCC monetary union, and is expected to rise to approximately more than 80 percent in 2016 and significantly higher in the medium term.

2013, the year of the most recently compiled national accounts.[6]

In several countries not grappling with widespread domestic conflict (including Egypt, Jordan, Lebanon, Tunisia), a worsening of fragile domestic security or political stability could sap domestic sentiment and investor confidence and undermine economic activity. A series of high-profile terrorist attacks in Egypt and Tunisia in 2015 highlighted the destructive effect of these incidents for the tourism industry (Figure 2.4.6). Conflict risk in the Middle East and North Africa has risen much faster than in other emerging and developing regions over the past decade. Poor security conditions reflect both spillovers from conflicts and the absence of material improvement in living and business environment conditions in the five years since the Arab Spring.

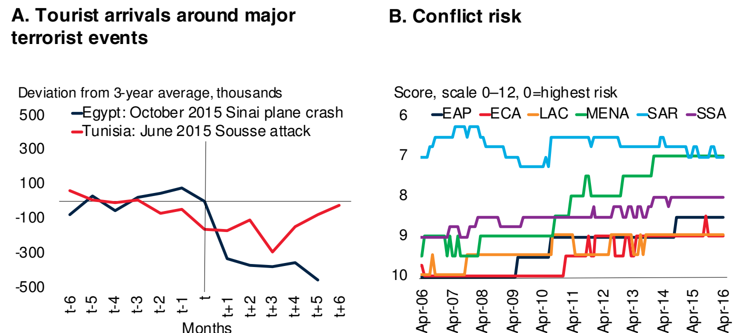
Policy challenges

Policy challenges in Middle East and North African countries are centered on ensuring macroeconomic stability in an environment of sustained low oil prices, ongoing conflict, and longstanding challenges related to competitiveness.

Both oil-exporting and oil-importing countries face substantial fiscal challenges. While expenditure cuts in oil exporters implemented in 2015 and underway in 2016 are a step in the right direction, additional cuts are needed to achieve fiscal sustainability, together with a boosting of non-oil-sector revenues—through tax increases, policy changes encouraging private sector participation and investment, or other changes. Moreover, these further adjustments will need to be carried out against the backdrop of already subdued growth and shrinking foreign assets. With increasing reliance on sovereign debt issuance to finance government deficits, oil-exporting countries should ensure that they have solid debt management frameworks in place. Oil exporters would also benefit from implementing fiscal frameworks that better manage oil price

FIGURE 2.4.6 Risks

Major terrorist attacks in the region over the past year have been followed by sharp contractions in tourist arrivals and value added in the hotels and restaurants sector. Internal conflict risk in the Middle East and North Africa has risen much more over the past five years than in other emerging and developing regions.



Sources: Haver Analytics, PRS Group, World Bank.
A. t = month of attack.
B. Figure shows median internal conflict risk among all emerging and developing economies in each region ranked in the PRS Group's International Country Risk Guide. The internal conflict risk score assesses political violence and its actual or potential impact on governance and is based on three subcomponents, each scored on a scale of 0–4. The subcomponents are civil war/coup threat, terrorism/political violence, and civil disorder. Sample includes 104 countries, categorized into regions according to the World Bank definitions. EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MENA = Middle East and North Africa, SAR = South Asia, and SSA = Sub-Saharan Africa.

volatility. Among oil importers, government debt-to-GDP ratios need to be reduced to more manageable levels in Egypt, Jordan, and especially Lebanon, where debt levels are among the highest of all emerging and developing economies. The complex situation posed by the continued presence of a large number of Syrian refugees will complicate debt reduction in Jordan and Lebanon, however.

Monetary policy challenges in the region are less pronounced than fiscal policy challenges but are notable in some countries. As the Islamic Republic of Iran reintegrates into the global economy, the country's monetary authorities will need to keep inflation in line with the stated targets and unify the exchange rate regime (the latter of which is intended to be complete by the end of September), and to ensure banking sector stability (IMF 2015e). In Egypt, the central bank will need to continue efforts to rein in inflation against the backdrop of stabilizing oil prices and the pass-through of subsidy reductions in 2015 and the devaluation in the first quarter of 2016.

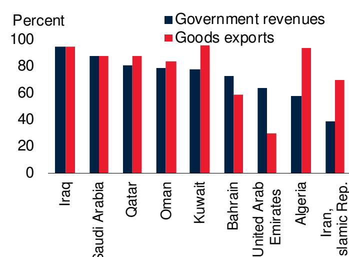
GCC policymakers are putting greater priority on structural reforms to reduce pressure on public

[6] The assessment covers the health, education, energy, water and sanitation, transport, and residential housing sectors in Sana'a, Aden, Taiz, and Zinjibar.

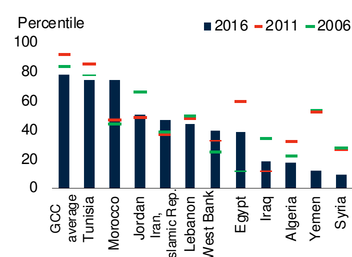
FIGURE 2.4.7 Policy challenges

Export and government revenue losses imposed by low oil prices underscore the pressing need to diversify away from oil in Algeria, Iraq, and most of the GCC countries. Across much of the region, there is a need to address uncompetitive business environments, labor market inefficiency, and insufficiently developed financial markets—measures by which countries in the Middle East and North Africa have largely stagnated or backtracked in recent years relative to other emerging and developing economies.

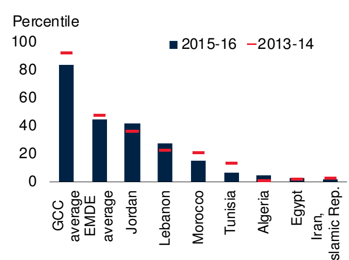
A. Oil dependence, 2014



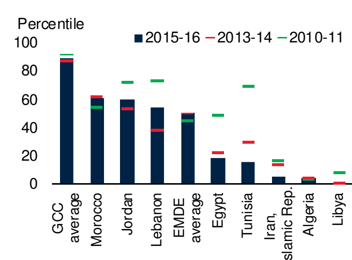
B. Ease of doing business



C. Labor market efficiency



D. Financial market development



Sources: International Monetary Fund; World Bank, Doing Business indicators; World Economic Forum; World Bank.

B. Figure shows the percentile rankings of indicated countries among the set of emerging and developing economies included in the World Bank's Doing Business "ease of doing business" indicator: 152 countries in 2016, 148 in 2011, and 122 in 2006. A decrease in the percentile ranking over time indicates a deteriorating business environment.

C. D. Figures show the percentile scores of indicated countries among the set of emerging and developing economies included in the World Economic Forum's Global Competitiveness Survey for labor market efficiency (103 countries in 2015–16, 110 in 2013–14) and financial market development efficiency (103 countries in 2015–16, 110 in 2013–14, and 101 in 2010–11). Labor market efficiency rankings for 2010–11 are excluded because the methodology differs from that used in the more recent surveys. A decrease in the percentile score over time indicates deteriorating labor market or financial market conditions.

finances, including easing restrictions to private sector participation in key economic sectors and privatizing state-owned companies. The details of reforms, such as those outlined in Saudi Arabia's Vision 2030 plan released in April, are still being developed. In the medium term, the export and government revenue losses imposed by low oil prices highlight the need to reduce high dependence on oil in Algeria, Iraq, and most of the GCC countries (Figure 2.4.7). Yet in an environment of continued low oil prices, which are expected be well below 2010–14 levels in the medium term, diversification is likely to be challenging. Large emerging markets in other regions that have successfully diversified their economies away from oil (Indonesia, Malaysia, and Mexico) have made relevant policy adjustments during periods of strong oil revenues (Callen et al. 2014; Cherif and Hasanov 2016). For GCC countries, where business climates are for the most part already quite competitive among emerging and developing economies, the experience of other countries suggests that a combination of horizontal (creating linkages between existing industries) and vertical (development of sectors, particularly tradable sectors, outside their traditional comparative advantage) dimensions is key to successful diversification (Cherif and Hasanov 2016).

In countries other than those in the GCC, longstanding structural challenges include uncompetitive business environments, labor market inefficiency, insufficiently developed financial markets, and insufficient and poor-quality infrastructure (in particular, electricity; Mitra et al. 2016). Recent assessments of countries in the Middle East and North Africa indicate that some countries are now faring worse in comparison to other emerging and developing economies than they were during the past decade (World Economic Forum 2015; Doing Business Indicators 2016).

TABLE 2.4.1 Middle East and North Africa forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2013	2014	2015e	2016f	2017f	2018f	2015e	2016f	2017f	2018f
							(percentage point difference from January 2016 projections)			
EMDE MENA, GDP[a]	**2.0**	**2.9**	**2.6**	**2.9**	**3.5**	**3.6**	**-0.2**	**-1.1**	**-1.0**	**-0.5**
(Average including countries with full national accounts and balance of payments data only)[b]										
EMDE MENA, GDP[b]	2.0	3.4	2.7	2.7	3.1	3.3	0.0	-0.8	-0.9	-0.6
GDP per capita (U.S. dollars)	0.0	1.4	0.8	1.0	1.5	1.8	-0.1	-0.8	-0.9	-0.7
PPP GDP	1.8	3.5	2.7	2.9	3.3	3.5	-0.1	-0.8	-0.9	-0.6
Private consumption	3.1	3.8	2.6	2.8	3.0	3.3	-0.6	-0.4	-0.4	-0.2
Public consumption	6.6	6.8	2.3	0.2	0.7	2.2	-1.5	0.3	-3.7	-2.5
Fixed investment	2.6	3.2	-2.6	-2.4	1.8	2.3	2.2	-7.5	-5.5	-2.8
Exports, GNFS[c]	1.4	3.3	3.5	4.9	4.6	4.4	-2.3	0.3	0.1	-0.5
Imports, GNFS[c]	3.2	5.4	0.9	-0.5	3.3	4.0	-0.6	-4.9	-1.4	-0.7
Net exports, contribution to growth	-0.6	-0.6	1.4	2.6	1.0	0.7	-0.7	2.1	0.6	0.2
Memo items: GDP										
Oil exporters	1.8	3.0	2.5	2.9	3.5	3.5	-0.1	-1.2	-1.0	-0.5
GCC countries[d]	3.3	3.4	2.9	2.0	2.3	2.7	-0.1	-1.0	-0.9	-0.5
Saudi Arabia	2.7	3.6	3.4	1.9	2.0	2.3	0.6	-0.5	-0.9	-0.6
Iran, Islamic Rep.	-1.9	4.3	1.6	4.4	4.9	4.7	-0.3	-1.4	-1.8	-1.3
Oil importers	2.9	2.7	3.3	2.9	3.7	4.0	-0.2	-0.6	-0.4	-0.4
Egypt, Arab Rep.	1.4	4.0	3.6	3.8	4.4	4.6	-0.4	-0.3	-0.2	-0.2
Fiscal year basis	2.1	2.2	4.2	3.3	4.2	4.6	0.0	-0.5	-0.2	-0.2

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 differ at any given moment in time.

a. EMDE refers to emerging market and developing economy. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes Syrian Arab Republic and Republic of Yemen due to data limitations.

b. Sub-region aggregate excludes Djibouti, Iraq, Libya, and West Bank and Gaza, for which data limitations prevent the forecasting of GDP components.

c. Exports and imports of goods and non-factor services (GNFS).

d. Gulf Cooperation Council (GCC) countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

TABLE 2.4.2 Middle East and North Africa country forecasts[a]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2013	2014	2015e	2016f	2017f	2018f	2015e	2016f	2017f	2018f
							(percentage point difference from January 2016 projections)			
Algeria	2.8	4.1	2.9	3.4	3.1	2.7	0.1	-0.5	-0.9	-1.1
Bahrain	5.4	4.5	2.9	2.2	2.0	1.9	0.4	-0.5	-0.7	-0.9
Djibouti	5.0	6.0	6.5	6.5	7.0	7.0	0.0	-0.5	-0.1	0.0
Egypt, Arab Rep.	1.4	4.0	3.6	3.8	4.4	4.6	-0.4	-0.3	-0.2	-0.2
Fiscal year basis	2.1	2.2	4.2	3.3	4.2	4.6	0.0	-0.5	-0.2	-0.2
Iran, Islamic Rep.	-1.9	4.3	1.6	4.4	4.9	4.7	-0.3	-1.4	-1.8	-1.3
Iraq	6.6	-2.1	2.4	7.2	4.7	5.2	1.9	4.1	-2.4	-1.3
Jordan	2.8	3.1	2.4	3.0	3.3	3.6	-0.1	-0.5	-0.5	-0.4
Kuwait	1.2	-1.6	-1.3	1.3	1.6	2.4	-2.5	-1.1	-1.1	-0.3
Lebanon	3.0	1.8	1.5	1.8	2.3	2.5	-0.5	-0.7	-0.2	-0.5
Libya	-13.6	-24.0	-10.2	14.0	40.0	20.0	-5.0	-21.7	12.4	11.6
Morocco	4.7	2.4	4.4	1.7	3.4	3.6	-0.3	-1.0	-0.6	-0.4
Oman	3.9	2.9	3.3	1.6	1.9	2.6	-0.4	-1.6	-1.1	0.1
Qatar[b]	4.6	4.1	3.9	3.3	3.5	4.0	-2.7	-3.5	-2.4	-1.0
Saudi Arabia	2.7	3.6	3.4	1.9	2.0	2.3	0.6	-0.5	-0.9	-0.6
Tunisia	2.4	2.3	0.8	1.8	2.5	3.0	0.3	-0.7	-0.8	-1.5
United Arab Emirates	4.3	4.6	3.4	2.0	2.4	3.0	0.4	-1.1	-0.9	-0.5
West Bank and Gaza	2.2	-0.2	3.5	3.3	3.5	3.6	0.6	-0.6	-0.2	-0.1

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.

a. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes Syrian Arab Republic and Republic of Yemen due to data limitations.

b. A recent rebasing of Qatar's GDP from 2004 to 2013 prices has resulted in significant revisions to historical and forecast growth rates compared to January 2016.

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