

Recent Developments: The developing countries of the **Middle East and North Africa**¹ region are experiencing a recovery in 2014, following a 0.1 percent contraction in 2013, on the back of domestic and regional turmoil and weak external demand. Recovery in oil production, industrial activity and exports is contributing to the pick-up in growth this year. This modest upturn, however, remains fragile and well below the region's potential as structural reforms needed to spur growth, lower unemployment and alleviate poverty remain unaddressed. Security challenges in several countries are a key source of instability. Fiscal and external accounts remain weak and are benefiting from the exceptional official support from the high-income Gulf Co-operation Council (GCC) countries.

In oil-importing developing countries, economic activity is stabilizing, but the recovery remains fragile. Strong growth in the first half of 2013 was offset a sharp drop in the second half such that growth in oil-importers rose, on average, by just 0.2 percentage points to 2.7 percent in 2013. Exports in several Mediterranean economies are rebounding due to the recovery in the Euro Area during Q1 2014. While activity has picked up from low levels in Egypt, in Lebanon spillovers from the conflict in Syria continue to depress activity, exports and sentiment.

In oil-exporting developing countries, growth has been highly volatile, with GDP contracting by 1.8 percent in 2013, reflecting production setbacks in Libya and Iraq, sanctions in Iran, and civil war in Syria. However, oil output now appears to be recovering, averaging 7.7 million barrels per day (mb/d) in Q1 2014, due to rebounding production in Iraq, the region's largest producer. However, output is still below the 2013 average and the pre-Arab Spring average.

Outlook: Growth in the Middle East and North Africa region is expected to recover gradually but remain weak during the forecast period. In the baseline scenario, only a gradual improvement in the political uncertainty that has plagued the region for the past three years is expected. As a result, although growth will pick up, the recovery is not expected to be sufficiently forceful to make deep inroads into spare capacity and unemployment. Consequently, growth in the developing countries of the region is projected to pick up gradually to 1.9 percent in 2014 and to 3.5 percent in 2016, helped by a rebound in oil production among oil exporters and a modest recovery among oil importing economies.

Risks: The region's outlook is subject to significant downside risks that are mostly domestic in nature. A further escalation of violence in Syria and spillovers to other countries (mainly Lebanon, Jordan and Iraq) could adversely affect growth. Over 2.1 million Syrian refugees are hosted in the region, with refugees in Lebanon and Jordan amounting to 21 and 8 percent of populations there. Economic, social, and fiscal pressures are high for these countries and could be exacerbated further should the civil war in Syria intensify. In Egypt, Iraq, Libya, Tunisia and Yemen, setbacks in political transitions and/or further escalation of violence would further undermine confidence and delay the structural reforms or reduce oil output.

External risks to the region are more balanced. European growth could disappoint the already modest recovery projected, but it could also do better, supporting exports, tourism, remittances and capital flows in North Africa. In addition, risks from a tightening of global financial conditions could lead to a rise in risk premiums for developing countries and lead to lower foreign direct investment. A severe escalation of tensions between Russia and Ukraine (major grain and energy suppliers) could pose acute risks for the region, particularly oil and food importers. On the flip side, a sharper-than-projected decline in global commodity prices could lead to a significant deterioration in external and fiscal accounts of the oil-exporting countries although benefiting more vulnerable importers in the region.

¹ The developing Middle East and North Africa region includes 13 low and middle-income countries with income of less than \$12,276 GNI-per capita in 2010. High-income Gulf Cooperation Council (GCC) countries are excluded. The developing countries are divided into two groups; oil importers and oil exporters. Developing oil importers are: Djibouti, Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, and West Bank and Gaza. Developing oil exporters are: Algeria, the Islamic Republic of Iran, Iraq, Libya, the Syrian Arab Republic, and the Republic of Yemen.

Middle East and North Africa forecast summary

(annual percent change unless indicated otherwise)

	00-09 ^a	2010	2011	2012	Est. 2013	Forecast 2014	Forecast 2015	Forecast 2016
GDP at market prices (2010 US\$)								
Algeria	3.6	3.6	2.6	3.3	2.7	3.3	3.5	3.6
Djibouti	3.5	3.5	4.5	4.8	5.0	6.0	6.5	6.5
Egypt, Arab Rep.	4.4	3.5	2.0	2.2	2.3	2.6	3.1	3.2
Fiscal Year Basis	4.3	5.1	1.8	2.2	2.1	2.4	2.9	3.2
Iran, Islamic Rep.	4.6	5.9	2.7	-5.6	-1.7	1.5	2.0	2.3
Iraq	-1.0	5.9	10.2	10.3	4.2	5.9	6.7	8.2
Jordan	6.1	2.3	2.6	2.7	2.8	3.1	3.5	4.0
Lebanon	4.4	7.0	3.0	1.4	0.9	1.5	2.5	3.0
Libya	3.8	5.0	-62.1	104.5	-9.4	-9.7	28.8	9.0
Morocco	4.6	3.6	5.0	2.7	4.4	3.0	4.4	4.5
Syrian Arab Republic^b	4.6	3.2	-3.4	-21.8	-22.5	-8.6	-6.2	1.7
Tunisia	4.6	3.0	-2.0	3.6	2.6	2.7	3.5	4.0
West Bank and Gaza	2.4	9.2	12.2	5.9	1.5	2.5	2.7	2.9
Yemen, Rep.	3.5	7.7	-12.6	2.4	4.0	5.9	4.2	3.8

Source: World Bank.

World Bank forecasts are frequently updated based on new information.

a. Growth rates over intervals are compound average.

b. The estimates for GDP decline in Syria in 2012 and 2013 are subject to significant uncertainty.