Recent Developments: Growth in the developing countries of the Middle East and North Africa region[1] recovered in 2014 to 1.2 percent. Improvements in confidence (Egypt, Tunisia), manufacturing and exports (Egypt, Morocco), as well as a bottoming out of oil production, contributed to the pick-up in growth. This modest upturn, however, remains fragile, and output still languishes well below the region's potential. Structural reforms needed to spur growth, reduce unemployment and alleviate poverty remain unaddressed. While there has been progress on the political transition in Tunisia and greater stability in Egypt, other countries remain mired in tensions. Security challenges are a key source of instability, with security risks affecting an estimated 20 percent of regional GDP (Iraq, Jordan, Lebanon, Libya, Syria, Yemen), and political transition affecting another 20 percent (Egypt, Tunisia). Fiscal and external accounts remain weak, even in countries that have received exceptional official support from the high-income Gulf Cooperation Council (GCC) countries.

In oil-importing developing countries, economic activity appears to be picking up as a weak first quarter was followed by a rebound in the second and third quarters. Growth, on average, is estimated to have been flat at 2.6 percent in 2014. However, it has been fragile and uneven. Egypt especially benefited from restoration of stability and large-scale financial support from the GCC for investment programs. The sharp decline in oil prices in the second half of 2014 hit developing oil exporters in the region. The resulting fiscal deterioration was most acute in Libya and Yemen as internal strife further curtailed oil output and revenues.

Gross capital flows to the region slowed in 2014, as a sharp rise in bank lending only partially offset weak bond and equity flows. Four countries (Jordan, Lebanon, Morocco, and Tunisia) have been able to raise funds in international bond markets, although bond issuance from Jordan and Tunisia had to be guaranteed by the U.S. government and the Japan Bank of International Cooperation while Morocco benefited indirectly from having an active IMF program. Many of the region's economies lack access to international capital markets because of geopolitical risk and economic uncertainty. Overall, net foreign direct investment (FDI) remains well below pre-Arab Spring inflows.

Outlook: Growth in the region is projected to pick up to 2.5 percent in 2015, rising gradually to 3.5 percent in 2017, helped by a rebound in oil production among oil exporters and a modest recovery among oil importing economies. Egypt, Jordan, and, to lesser extent, Lebanon and Tunisia, appear to be entering a steady recovery from a period of heightened volatility and uncertainty. Other countries in the region, such as Iraq, Libya, and Yemen continue to be affected adversely by security challenges.

Among developing *oil exporters*, growth is expected to firm to 1.8 percent in 2015, rising to 3.1 percent by 2017. For *oil importers*, the outlook is for a gradual improvement in growth driven by increasing investment. Growth is expected to pick up to 3.6 percent in 2015, rising to 4.1 percent in 2017.

Risks: The region's outlook is subject to significant downside risks that are mostly internal to the region. Violence in Syria could escalate and spillover to other countries (mainly Lebanon, Jordan and Iraq). Debt rollover and refinancing risks are rising. Public debt levels have increased in oil-importing countries from 73 to 88 percent of GDP during 2011-14. They may be approaching unsustainable levels as debt servicing costs account for an ever larger share of the expenditures. External risks are also tilted to the downside. A weaker-than-expected recovery in the Euro Area could reduce exports, tourism, remittances, and capital flows in North Africa and a sharper or longer-than-expected decline in oil prices could lead to a significant deterioration in external and fiscal accounts of oil-exporting countries.

[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.

Middle East and North Africa forecast summary

(annual percent change unless indicated otherwise)

					Est.	Forecast		
	00-10[a]	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP at market prices (2010 US$)								
Algeria	3.9	2.8	3.3	2.8	3.0	3.3	3.5	3.5
Djibouti	3.9	4.5	4.8	5.0	5.5	5.5	6.0	6.0
Egypt, Arab Rep.	4.8	2.0	2.2	2.1	2.9	3.6	3.9	4.0
Fiscal Year Basis	4.8	1.8	2.2	2.1	2.2	3.5	3.8	4.0
Iran, Islamic Rep.	5.0	3.9	-6.6	-1.9	1.5	0.9	1.0	2.2
Iraq	-0.4	10.2	10.3	4.2	-2.7	0.9	7.0	5.9
Jordan	6.3	2.6	2.7	2.8	3.0	3.4	3.9	4.0
Lebanon	5.9	2.0	2.2	0.9	1.5	2.0	3.4	3.6
Libya	4.3	-62.1	104.5	-13.7	-21.8	4.3	4.4	6.5
Morocco	4.9	5.0	2.7	4.4	3.0	4.6	4.0	4.5
Tunisia	4.4	-0.5	4.7	2.5	2.3	2.7	3.5	4.0
Yemen, Rep.	3.0	-12.7	2.4	4.8	1.9	3.7	3.8	5.2
West Bank and Gaza	3.3	12.2	5.9	1.9	-3.7	4.4	4.0	4.0

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. Growth rates over intervals are compound average.