Overview: Three years after the Arab Spring, the economies of the Middle East and North Africa region[1] remain depressed. Political turmoil in Egypt, stalemate in Tunisia and an escalation of the civil war in Syria, with spillovers to neighboring Lebanon and Jordan, have weakened activity in the developing oil-importing countries. Egypt's GDP contracted by 3.2 percent (on annualized basis) in 2013Q2, and growth for the fiscal year (ending in the same quarter) amounted to 2.0 percent, down from a modest 2.3 percent in 2012.

Industrial production in oil-importing countries contracted by 36 percent (on annualized basis) in the three months through October, led mainly by a sharp decline of 44 percent in Egypt. However, the Purchasing Managers Index (PMI) survey crossed into positive territory in November 2013 for the first time in 13 months and remained so in December as well, signaling an improvement in manufacturing output going forward. Tourism arrivals in the oil-importing countries plunged dramatically because of security uncertainties in the wake of regime change in Egypt in 2013 and the continuing Syrian civil war, which affected Lebanon and Jordan. Tourist arrivals dropped by 57 percent (on annualized basis) in the three months through September in the oil-importing countries.

Oil production in oil-exporting countries – accounting for nearly a third of the region's oil output – has fallen over the past year by nearly 8.5 percent (year to date) in 2013, reflecting security setbacks, strikes, and infrastructure problems in Algeria, Iraq, and Libya, and international sanctions in the case of the Islamic Republic of Iran.

External imbalances have worsened across the developing countries of the region. Current account deficits have widened in the oil-importing countries—hurt particularly by the steep decline in tourism receipts—while current account surpluses have shrunk for the oil-exporting countries as oil exports have declined. With only a few exceptions, fiscal imbalances have worsened across the region, especially in oil-importing countries. Deterioration reflects weaker revenues due to slow growth, rising public sector spending on wages, subsidies for food and fuel in the wake of the Arab Spring and, in some cases, increased debt servicing charges.

Outlook: Growth in the developing countries of the region is expected to remain weak during the forecast period. Under the baseline scenario, marked improvement in the political uncertainty that has plagued the region is not expected. Consequently, aggregate growth for the region, which contracted by 0.1 percent in 2013, is projected at 2.8 percent in 2014, firming to 3.3 in 2015 and 3.6 percent in 2016, well below the region's potential. In developing oil importing countries, consumption will be underpinned by large public outlays on wages and subsidies, while public investment will likely be constrained in the forecast period by large fiscal deficits, while growth in developing oil exporters will strengthen as the oil prices remain relatively high and infrastructure problems and security setbacks are resolved and mitigated.

Risks: The region's outlook is subject to significant downside risks that are mostly internal to the region. A further escalation of violence in Syria and spillovers to other countries can adversely affect the region. Setbacks in political transitions and further escalation of violence would further undermine confidence and delay the structural reforms or reduce oil output.

External risks are more balanced. European growth could disappoint the already modest recovery projected, but it could also do better. Risks from a tightening of global financial conditions could lead to a rise in risk premiums for developing countries and lead to lower FDI. Furthermore, a sharper-than-projected decline in commodity prices could lead to a significant deterioration in external and fiscal accounts of the oil exporting countries while benefiting more vulnerable importers.

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[1] For the purpose of this note, Middle East and North Africa region excludes the high-income countries of the Gulf Cooperation Council (GCC).

Middle East and North Africa forecast summary

(annual percent change unless indicated otherwise)

					Est.	Forecast		
	00-09[a]	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
GDP at market prices (2010 US$)								
Algeria	3.4	3.6	2.6	3.3	2.8	3.3	3.5	3.5
Egypt, Arab Rep.	4.4	3.5	2.0	0.5	1.8	2.3	2.7	3.3
Fiscal Year Basis	4.3	5.1	1.8	2.3	2.0	2.2	3.1	3.3
Iran, Islamic Rep.	4.6	5.9	2.2	-2.9	-1.5	1.0	1.8	2.0
Iraq	-1.0	5.9	8.5	8.4	4.2	6.5	6.6	8.3
Jordan	6.1	2.3	2.6	2.8	3.0	3.1	3.3	3.8
Lebanon	4.4	7.0	3.0	1.4	0.7	2.0	2.7	4.2
Libya	3.8	3.5	-53.9	104.5	-6.0	23.0	12.2	9.0
Morocco	4.6	3.6	5.0	2.7	4.5	3.6	4.4	4.7
Syrian Arab Republic[b]	4.6	3.2	-3.4	-21.8	-22.5	-8.6	1.7	1.7
Tunisia	4.2	3.0	-2.0	3.6	2.6	2.5	3.3	3.6
Yemen, Rep.	3.5	7.7	-12.6	2.4	3.0	3.4	3.9	3.9

Source: World Bank.

World Bank forecasts are frequently updated based on new information.

Djibouti, West Bank and Gaza are not forecast owing to data limitations.

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.