

Regional Context






Middle East and North Africa Region







WORLD BANK GROUP

MENA is a heterogeneous region with complex development challenges

Economic and social challenges





-  Oil export reliance (Iraq, Algeria, GCC countries)
-  Financial and/or economic crisis (Lebanon, Iran)
-  Protests and social unrest (Algeria, Lebanon, Tunisia)





FCV-related risks

-  High-intensity conflict (Libya, Syria)
-  Medium-intensity conflict (Iraq, Yemen)
-  High institutional/social fragility (Lebanon, WB&G)
-  Spillovers from conflict (Jordan, Lebanon)

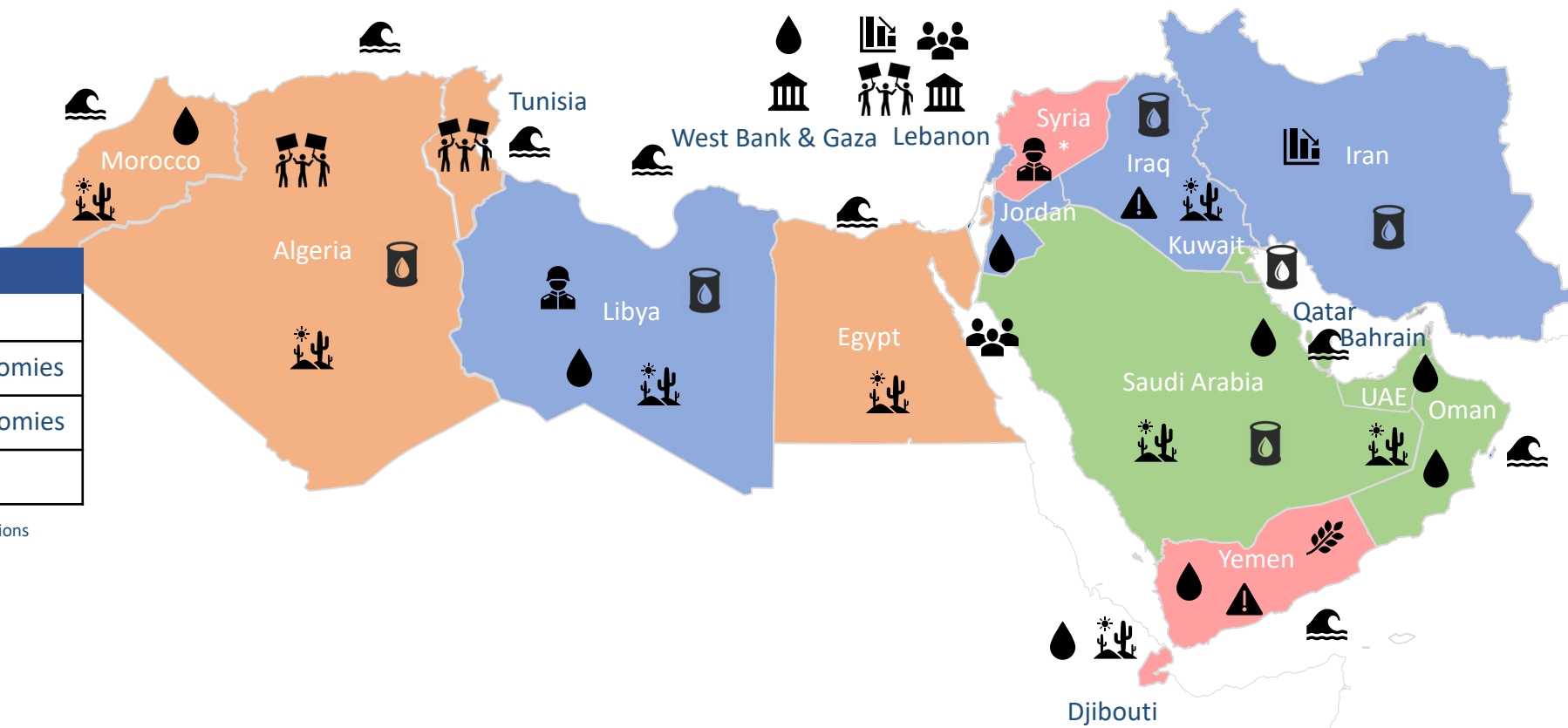
Source: World Bank FY21 FCS list

Climate risks

-  Acute water scarcity
-  Desertification and land degradation
-  Coastal flooding
-  Famine risks

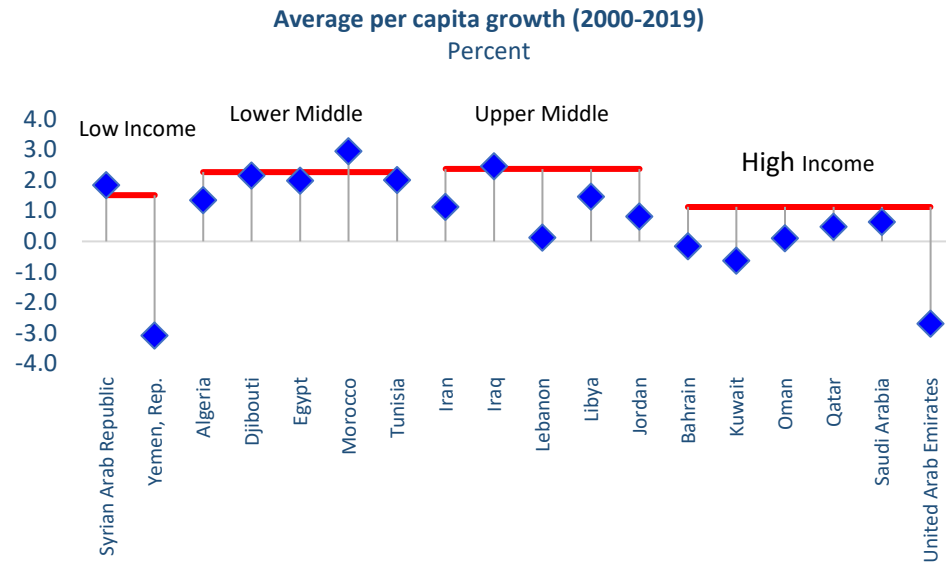
Country income classifications	
	Low-income economies
	Lower-middle-income economies
	Upper-middle-income economies
	High-income economies

Source: World Bank FY21 country income classifications



The previous decade saw low growth and a stagnating middle class

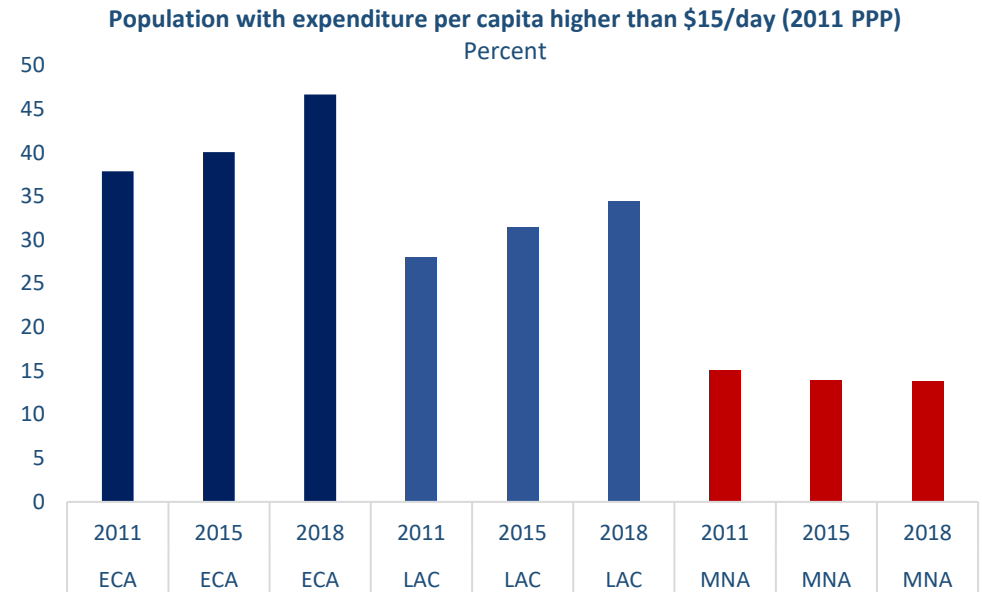
Chronic low growth



Source: Office of the Chief Economist for MENA, World Bank, based on IMF data, World Economic Outlook.
Note: Blue diamonds are country average growth in GDP per capita. Red lines capture the median growth in GDP per capita in non-MENA countries in the same income group.

- MENA economies would be at least 20 percent richer in terms of GDP per capita if all countries had growth at the median rate of their corresponding income groups
- For most MENA countries, aggregate growth rates are lower than population growth – higher growth rates are needed to create the millions of new jobs necessary in the coming decades

Stagnant middle class



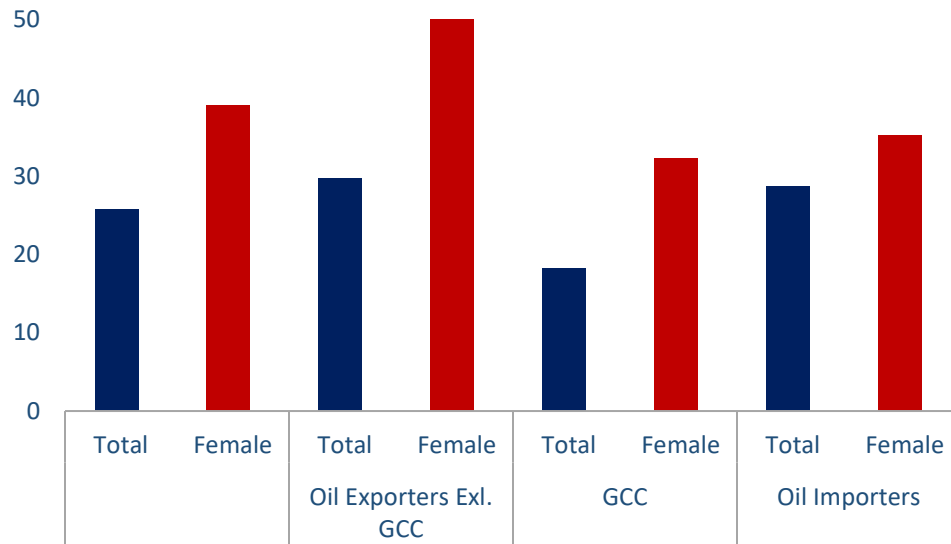
Source: World Bank staff calculations

- While extreme poverty is relatively low, higher poverty lines reveal widespread levels of economic insecurity, with more than 40 percent of the population having incomes below \$5.50 per day at 2011 PPP
- MENA's middle class stands at roughly 15 percent of the population, largely stagnant since 2011 - data challenges in MENA hamper more accurate poverty estimation

Economic opportunities remained limited, resulting in unresolved frustrations

High unemployment

Youth unemployment
Percent of ages 15-24 (2017)

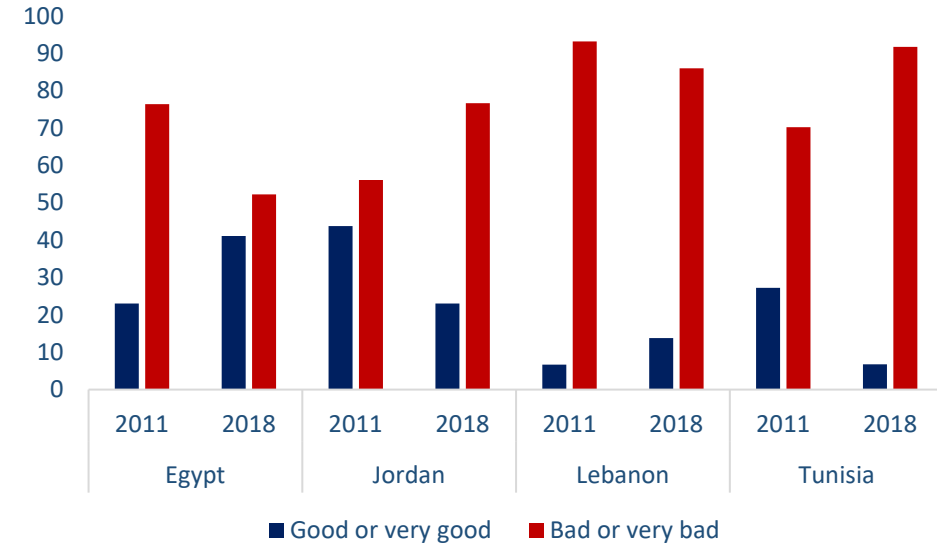


Source: World Bank Development Indicators, 2017
Note: Total refers to total of youth, ages 15-24

- MENA's youth unemployment rate (25 percent) is the highest among regions; female labor force participation (over 20 percent) the lowest
- Based on demographic trends, over 300 million youth are expected to enter the labor market between 2020 and 2050, during a time when public sector finance are strained, limiting their ability to absorb job seekers, and the private sector remains limited in size

Unmet aspirations

Ratings of economic conditions
Percent of respondents



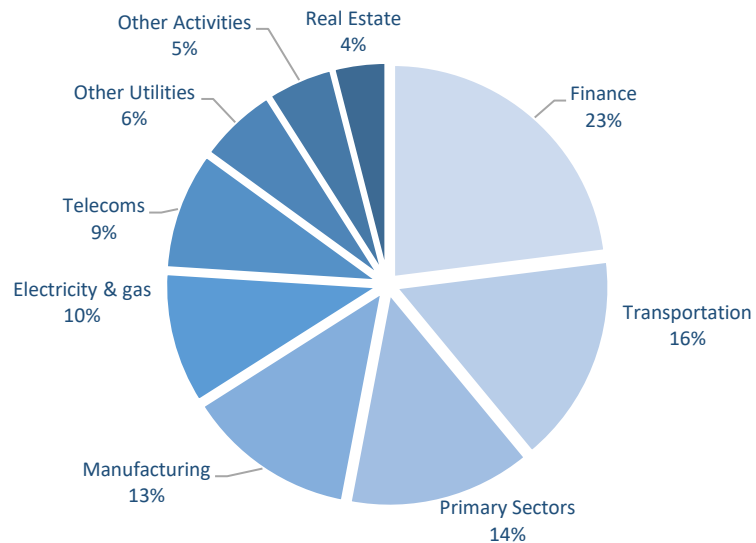
Source: Arab Barometer, Waves II (2011) and V (2018)
Notes: n = 4,990 in 2011 and 9,592 in 2018

- MENA's main development challenge is creating more and better economic opportunities for its youth and women
- In the face of denied opportunities, frustration can spill onto the street: from 2000-2019, MENA had 10 times more protests than the rest of the world – frustration can also lead to out-migration, draining MENA of valuable expertise and know-how

The role of the state in the economy and informality are challenges for the private sector

Large state presence in the economy

Sectoral distribution of strategic SOEs (2013)
Share of SOEs in 16 MENA economies

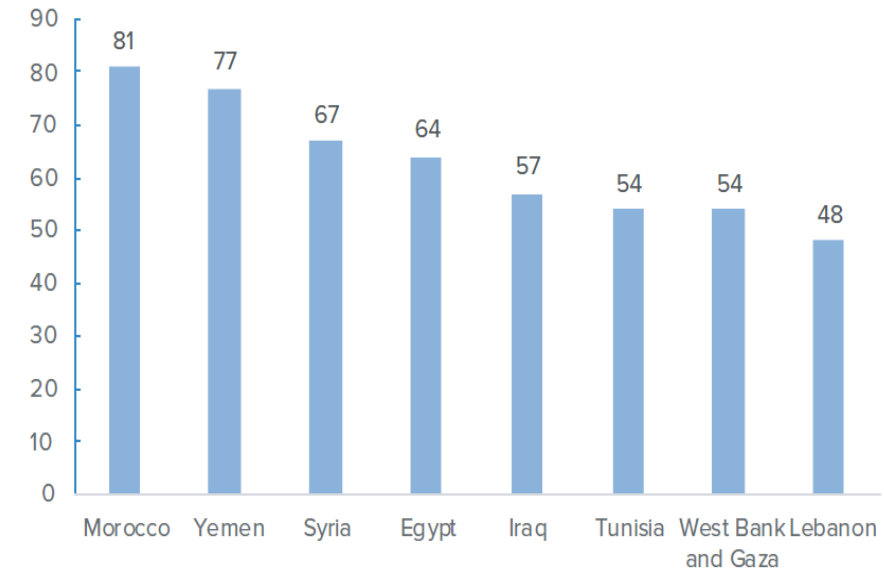


Source: World Bank/ IFC

- **Employment:** State-owned enterprises (SOEs) provide up to 30 percent of employment in MENA, compared to about five percent globally
- **Economic value added:** the economic value added of SOEs in MENA is nearly 25 percent, compared to roughly eight percent in Latin America and 15 percent in Africa and OECD countries
- **Banking sector:** state-owned banks in MENA represent nearly 50 percent of total banking assets, compared to 18 percent worldwide

Widespread labor market informality

Informal employment as a percentage of total employment
Percent



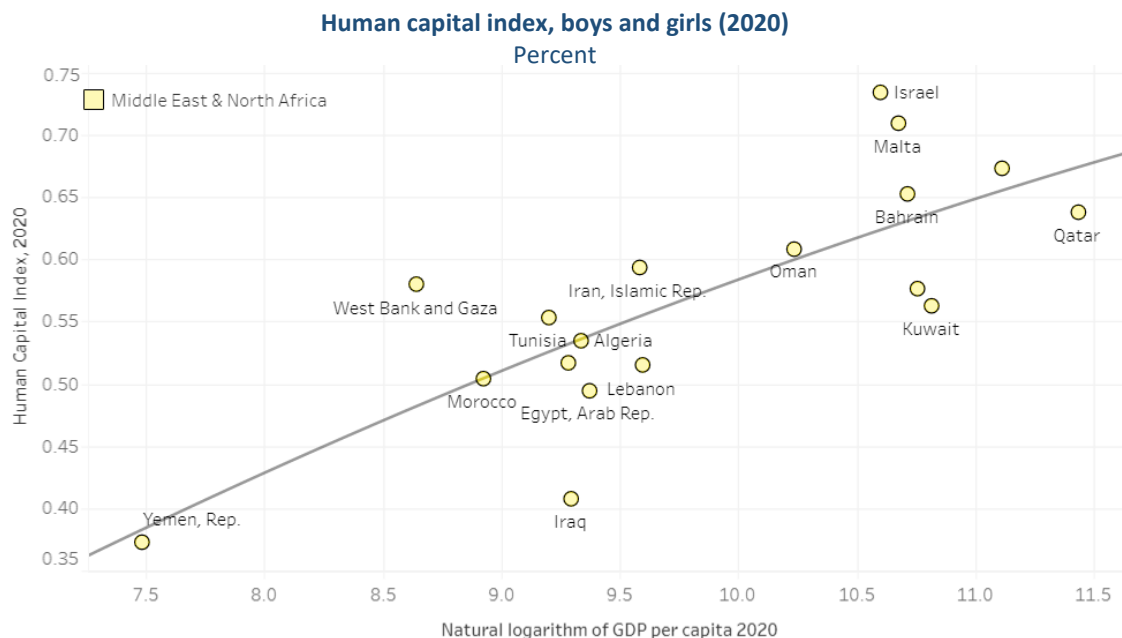
Source: International Labor Organization and World Bank I2D2 (jobs) dataset

Notes: Most recent available data: Egypt, 2017; Iraq 2012; Lebanon, 2011; Morocco, 2009; Syria, 2003; Tunisia, 2010; West Bank and Gaza, 2018; Yemen, 2014

- A large segment of youth across MENA are engaged in the informal sector as unregistered micro-entrepreneurs and informal workers
- Key priorities for MENA countries include i) building the productive assets and skills of informal workers, ii) building a conducive business environment, iii) providing social insurance that covers informal workers, and iv) improving the availability and reliability of data for policymaking

MENA countries face several human capital challenges

Human Capital Index



Source: World Bank Human Capital Index (2020)

Notes: The HCI measures the human capital that a child born today can expect to attain by age 18, given risks to poor health and poor education that prevail in the country where she lives.

- On average, a child born today in MENA will be only 57 percent as productive when she grows up as she would be if she benefited from complete education and full health – outcomes differ substantially based on income levels and exposure to fragility and conflict
- Utilization is a major challenge – the average MENA HCI value declines by more than a third (from 0.57 to 0.32) when accounting for the proportion of the working-age population who are employed

Multiple human capital gaps



Lowest human capital: the percentage of total national wealth produced from human capital in MENA (35 percent) is nearly half the world average (64 percent); low and unequal access to early childhood education; gender gaps in boys' learning compared to girls



High learning poverty: nearly two-thirds of children in MENA cannot read with proficiency and only 31% of MENA children receive pre-primary education



Inadequate social protection: 45 percent of the population in lowest quintile not covered by social protection programs; efficiency of social expenditures can be greatly improved



Growing health challenges from non-communicable diseases, diseases caused by environmental factors, and food insecurity, which will increase pressure on health systems and pose long-term challenges from lost productivity

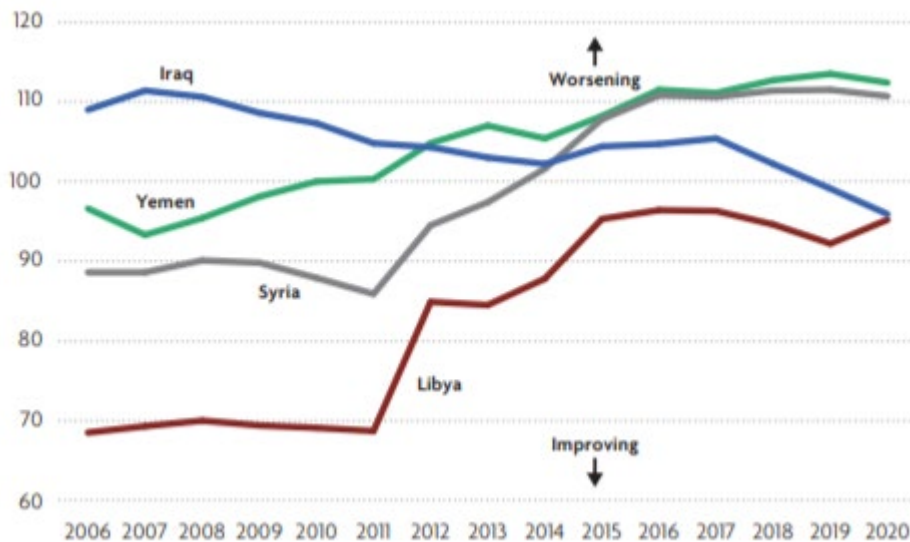


Conflicts eroding human capital, as displaced people lose access to employment, schooling, health care, and nutrition

Conflict and climate challenges are worsening, posing risks to long-term development

Protracted conflicts

Fragile States Index for Iraq, Libya, Syria, and Yemen (2006-2019)
Total country score



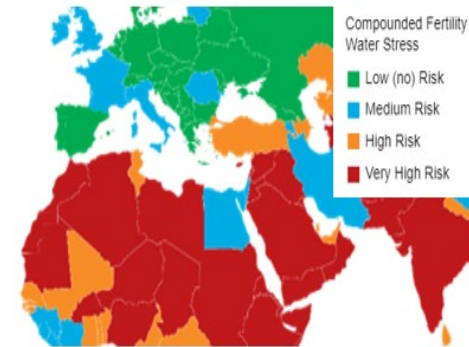
Source Fragilestateindex.org

Note: An increase in a country's score means the situation is worsening

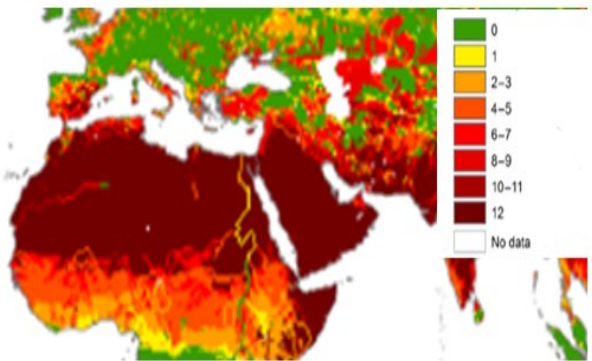
- **Yemen:** the world's largest humanitarian crisis continues to worsen, with 24 million Yemenis in need of humanitarian assistance, of which, 4.3 million are forcibly displaced; 2 million children are out of school
- **Syria:** total losses in GDP are estimated at \$226 billion through 2017, four times Syria's GDP in 2010; non-economic damages are much larger

Climate and environmental risks

Per capita Water Availability and Future Population Growth, 2050



Number of months in which water scarcity is > 100%



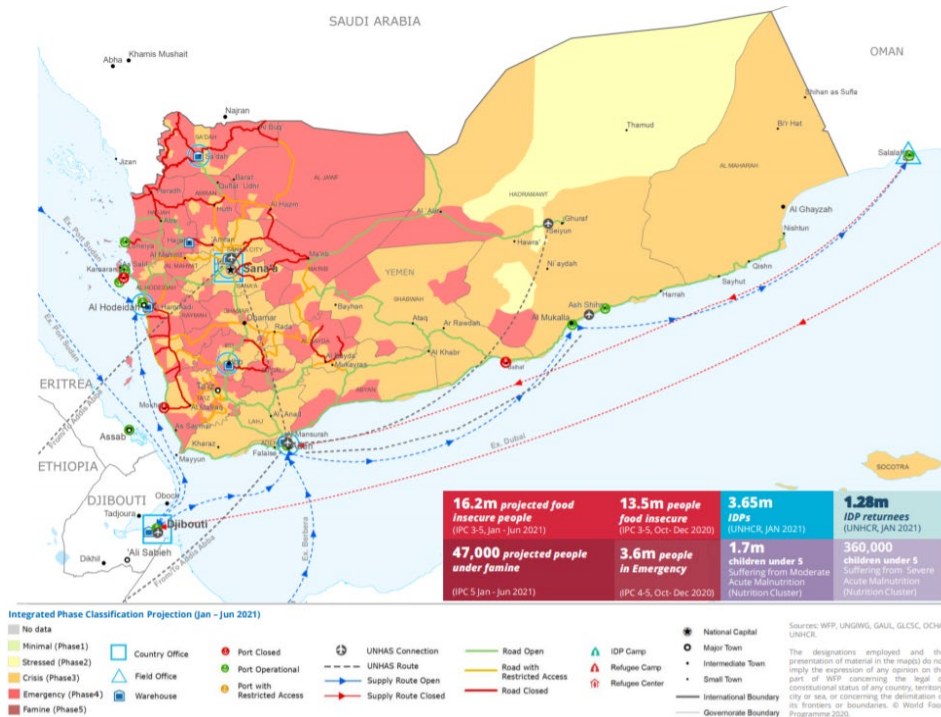
- ✓ **Maghreb:** warming, reduction in annual precipitation, increased water stress, reduced agricultural productivity; large coastal cities exposed to sea level rise
- ✓ **Mashreq:** increased aridity and water stress and low levels of transboundary water cooperation; adverse consequences for agricultural and food production
- ✓ **Arabian Peninsula:** heat extremes, uncertain annual precipitation, sea level rise
- ✓ **Across MENA:** risks to food security, social conflict, productivity, and health

Source: Turn Down the Heat, Confronting the New Climate Normal, World Bank, 2014

- 60 percent of MENA's population lives in areas with high or extremely high surface water stress (global average of 35 percent); water scarcity could reduce economic output by 6 to 14 percent annually by 2050
- Temperatures are expected to double in the region by 2050, and rainfall is expected to decrease by 40 percent
- Environmental challenges (e.g., air and water pollution) impose large economic and human capital costs

Food insecurity is rising, especially in conflict-affected countries

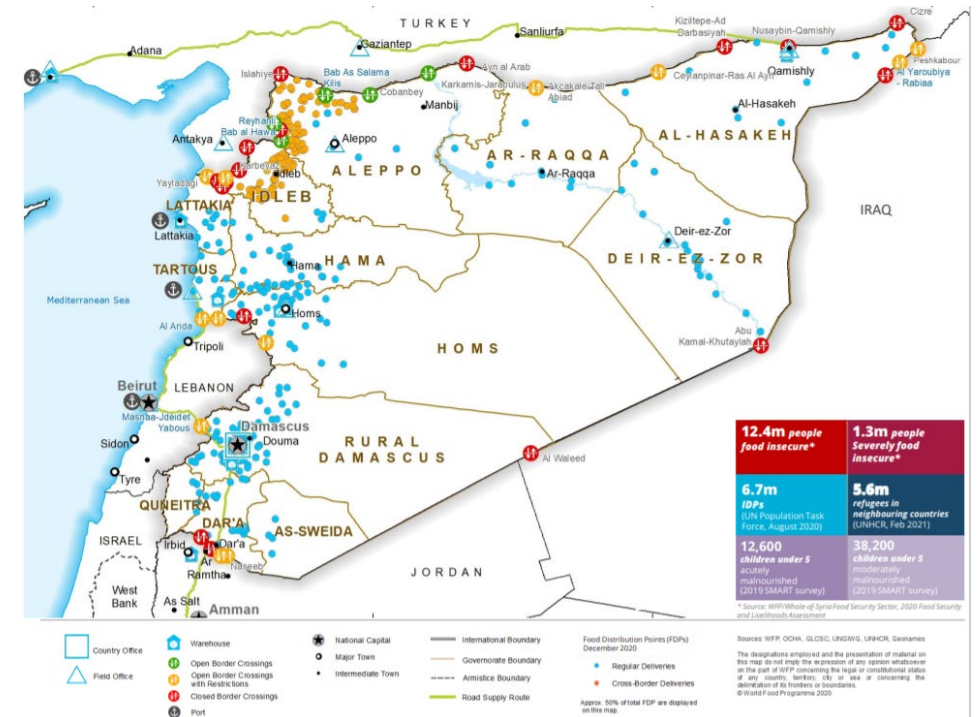
Famine-like conditions in Yemen



Source: UN World Food Programme emergency dashboard, January 2021

- In December 2020, famine-like conditions returned to parts of Yemen for the first time in two years; nationwide, the cost of a minimum basket of survival food rose by 12 percent between June 2020 and December 2020
- 45 percent of Yemenis are experiencing acute food insecurity, expected to rise to over 50 percent by June 2021; over 2 million Yemeni children require treatment for acute malnutrition

Food insecurity in Syria

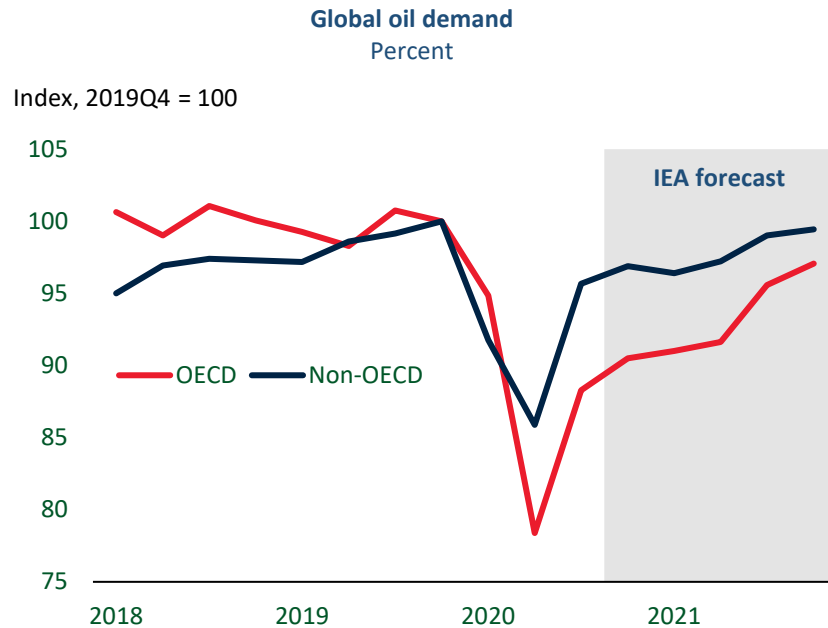


Source: UN World Food Programme emergency dashboard, January 2021

- Following a decade of conflict, Syria faces widespread humanitarian challenges – the UN estimates that over 12 million Syrian are food insecure, an increase of 4.5 million people in 2020 alone; the price of basic food items is now 29 times higher than pre-crisis averages
- Measured by undernourishment, food security elsewhere in MENA was on the rise before COVID-19, tracking the global trend – of 135 million food insecure globally in 2019, 43 million people lived in the region

COVID-19 added to MENA's challenges by triggering dual shocks

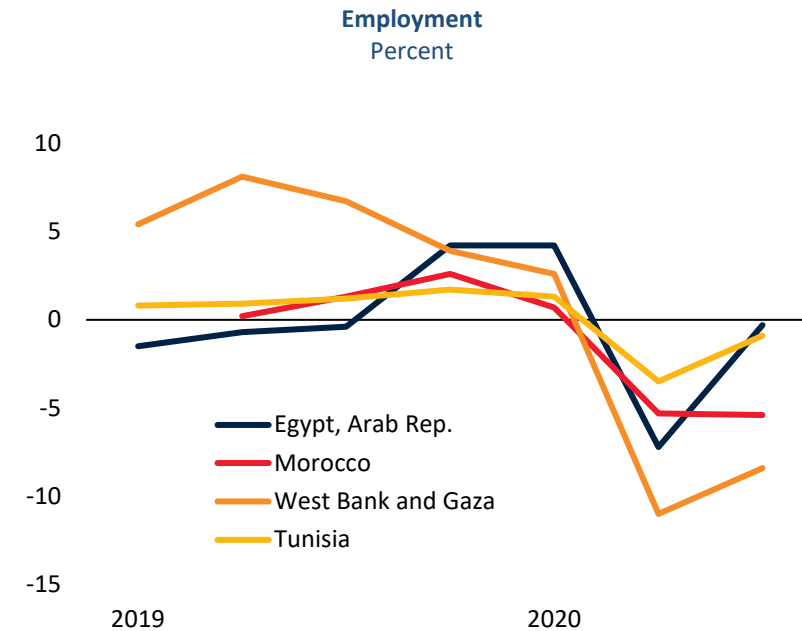
Oil shock



Source: World Bank GEP, January 2021, based on International Energy Agency data and forecasts

- Disruptions in global value chains reduced demand for MENA's goods and services, especially tourism and oil – Brent crude prices plummeted to a multi-year low of \$20 per barrel in April 2020, when a world-wide lockdown coincided with an oil output surge
- Regional demand also declined due to reductions in travel and regional business activity, dealing a blow to countries' public finances

Employment shock

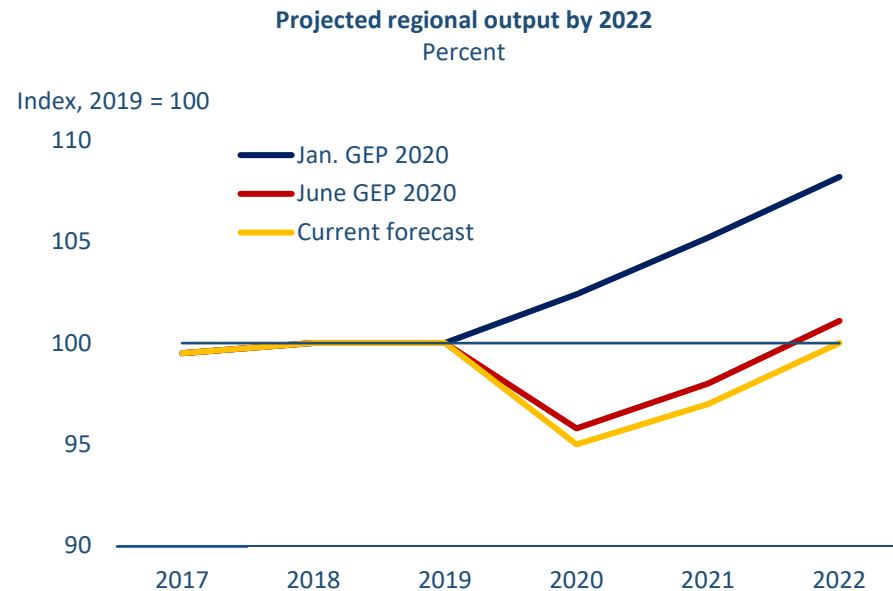


Source: World Bank GEP, January 2021, and Haver Analytics
Note: Year-on-year change. Last observation is 2020Q3.

- COVID-19 reduced labor as workers became sick and experienced limited mobility due to social confinement measures – poorer households are more likely to be self-employed or engaged in the informal sector
- Supply is also affected by a reduction in materials, capital, and intermediate inputs due to disruptions in transport and businesses

COVID-19 significantly worsened economic and social trends

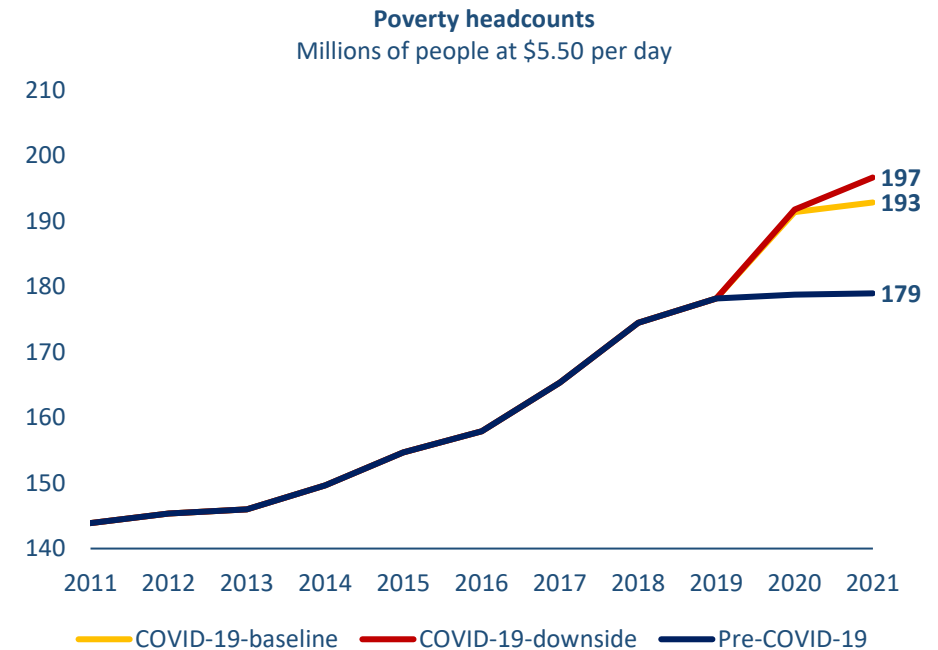
Sharp decline in economic output



Source: World Bank Global Economic Prospects, January 2021
Note: Current forecasts as of January 2021

- GDP is estimated to have contracted by 5.0 percent in 2020 (GEP, Jan 2021) – this is 7.4 percentage points below World Bank forecasts in January 2020, before the pandemic
- The reduction in output from COVID-19 is equivalent to more than \$230b in lost income – MENA’s output in 2021 is forecast to be 7.8 percent lower than the pre-COVID-19 counterfactual expected output

Sharp increase in poverty



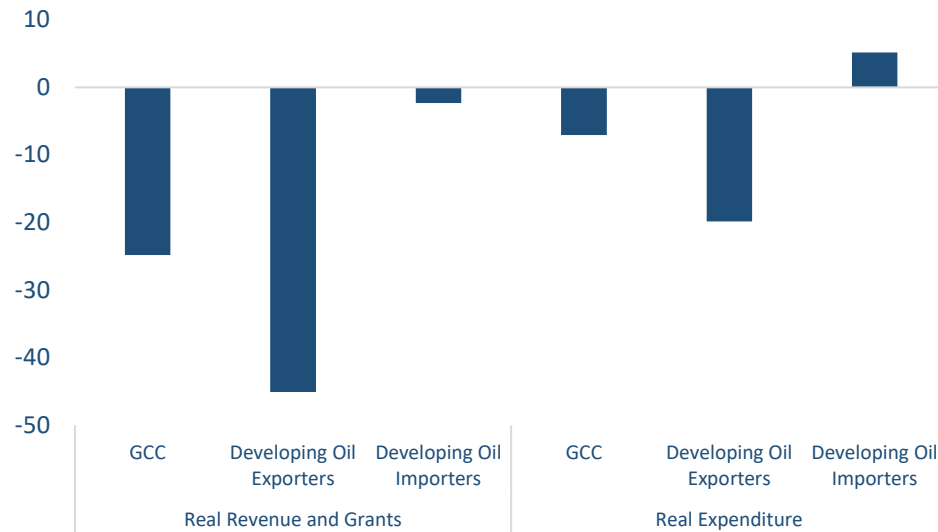
Source: World Bank staff calculations
Note: The COVID-19 baseline and downside estimates use the January 2021 GEP forecasts.

- Many workers in MENA’s large informal labor market are vulnerable to the multiple shocks of COVID-19 – measured at incomes of \$5.50 per day, approximately 14 million people are at risk of falling into poverty
- Extreme poverty in MENA prior to COVID-19 remained relatively low (less than five percent of the population between 2010-2013); however, the trend was increasing due to conflicts in Yemen and Syria

A deterioration in public finances fueled a surge in borrowing

Shrinking fiscal space

Changes in real government revenue and expenditure in 2020
Percent



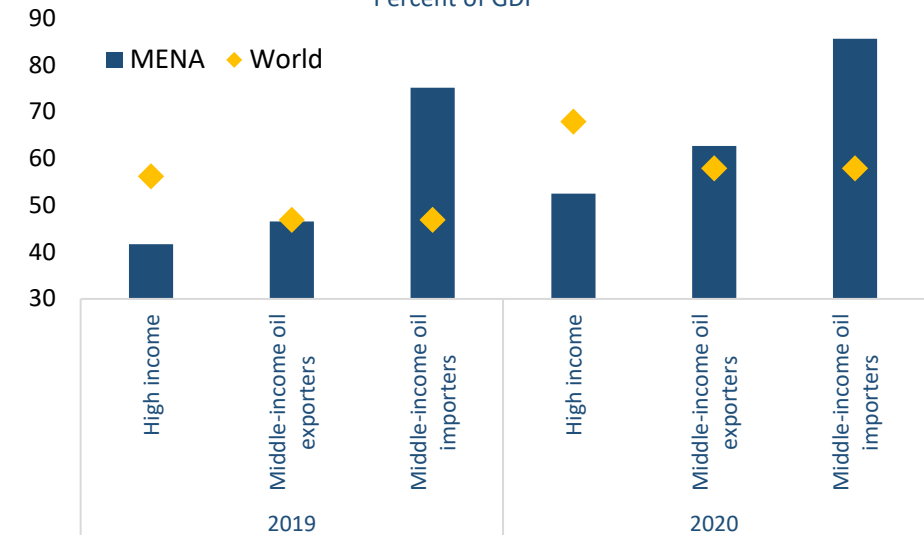
Source: World Bank, Macro Poverty Outlook (October 2020)

Note: Bars represent forecast changes of real government revenue and grants and real government expenditure in constant 2019 USD, from 2019 level.

- Despite a fall in revenue, to cope with the uncertainty of the pandemic, many countries in MENA are pursuing fiscal stimulus packages that include increased spending on health and social safety nets, tax payment reductions and deferrals, and loans and guarantees to firms
- Scope for fiscal support has been limited in oil exporters by the collapse in oil prices and some oil importers by high government debt

Growing levels of public debt

Public debt in 2019 and 2020
Percent of GDP



Source: IMF, World Economic Outlook, October 2020, and World Bank staff calculations.

Note: Country groups are represented by the median country. World middle-income countries is the corresponding income group for both Middle-income oil exporters and Middle-income oil importers in MENA.

- Public debt grew in several MENA countries in the previous decade as declines in global oil prices negatively impacted both oil exporters and oil importers (through FDI, remittances, grant, and export channels)
- COVID-19 led to a further material weakening of public finances, with large increases in fiscal deficits across MENA countries – this has led to a surge in public debt of nearly 10 percent of GDP in some countries

COVID-19 is making it more difficult for MENA to achieve the SDGs

In addition to its poverty impacts, COVID-19's compounding impacts on selected SDGs



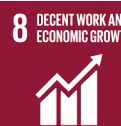
- Across MENA, health systems are facing significant strains
- Yemen faces a near total collapse of its already fragmented and severely damaged health system
- In Lebanon, 73 percent of Syrian refugees reported reducing their food consumption



- Pre-COVID-19, MENA was already experiencing a learning crisis: over half of 10-year-olds in low- and middle-income countries could not read with proficiency, significantly undermining life-long learning
- School closures are exacerbating this challenge, with risks growing that learning will stall, attachment to schooling will decrease, and inequality will increase, which lead to an inter-generational cycle of poverty



- Many women are in lower status positions and under-recognized with limited legal protections that put them at greater risk during such a time as a pandemic – risks of gender-based violence have increased
- Women's increased care and household responsibilities, intensified by school closures and lockdowns, limit their voice and agency – and their possibilities of participating in the labor market



- Sharp reductions in economic output in a region already struggling to create the millions of jobs necessary for its labor force – 1.7 million people in the Arab region could lose their jobs, including 700,000 women
- Since the outbreak, the share of female full-time workers declined by 5 percentage points in Morocco and 6 percentage points in Jordan



- Perceptions of corruption and lack of transparency undermine the effectiveness of crisis response efforts, deepening economic impacts, undermining citizens' trust in government, and threatening social cohesion
- These challenges are most acute in MENA's FCV countries, where social and economic exclusion continue to be key drivers of conflict and instability



MENA's development challenges require structural transformation



Limited trust in government

- Limited voice and accountability
- Widespread perceptions of corruption
- Weak local governments
- Ineffective service delivery
- Spatial inequality and lagging regions
- Unavailable or unreliable data and statistics

Poor returns on human capital

- Learning poverty and learning losses
- Skills not aligned with market
- Weak health systems and prevalence of noncommunicable diseases (NCDs)
- Poorly targeted social protection systems
- Highest youth unemployment rate globally



Uncompetitive economies

- Inefficient growth models (SOEs, public investment-driven)
- Low use of digital technologies
- Low levels of regional trade and investment
- Largest SME financing gap
- Large and growing infrastructure gap

Large gender gaps

- Lowest level of female labor force participation
- Lack of female voice and agency
- Legal barriers to participation in the economy
- Financial exclusion: nearly with the largest gender gap
- Gender-based violence in FCV



Protracted conflicts and forced migration

- Costly civil wars, internationalization of conflicts
- One in five people living within 60 km of conflict (source: World Bank)
- Large numbers of refugees/internally displaced persons
- High inequality between urban and rural populace

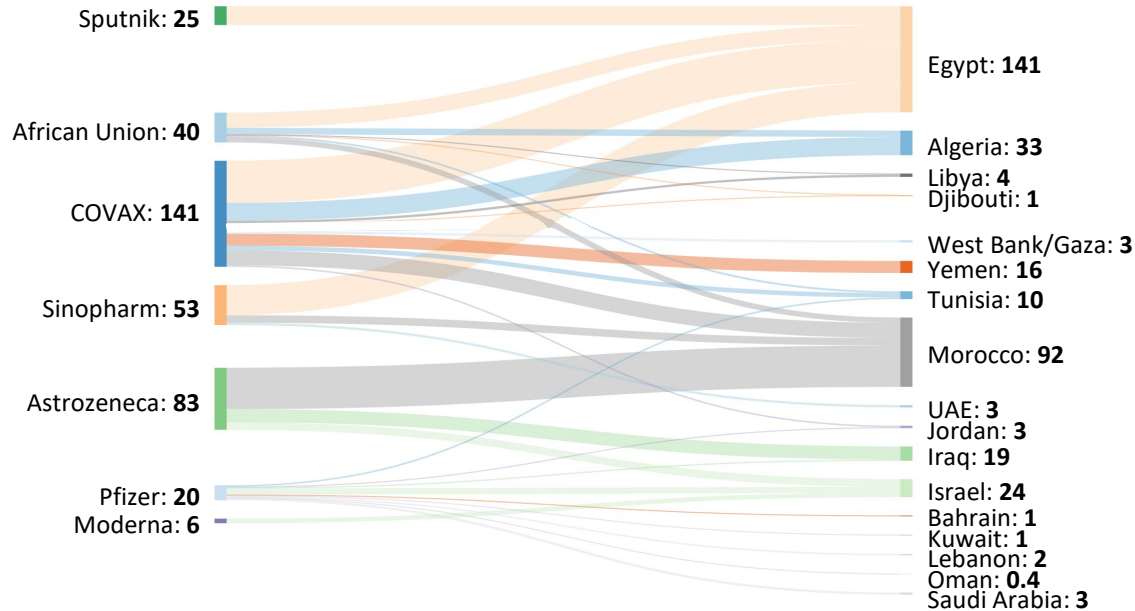
Climate-related vulnerabilities

- Reliance on imports pose risks to food security
- Accelerating desertification
- Highest groundwater depletion rates
- Large share of population in flood-prone coastal zones
- Growing rates of climate-induced migration



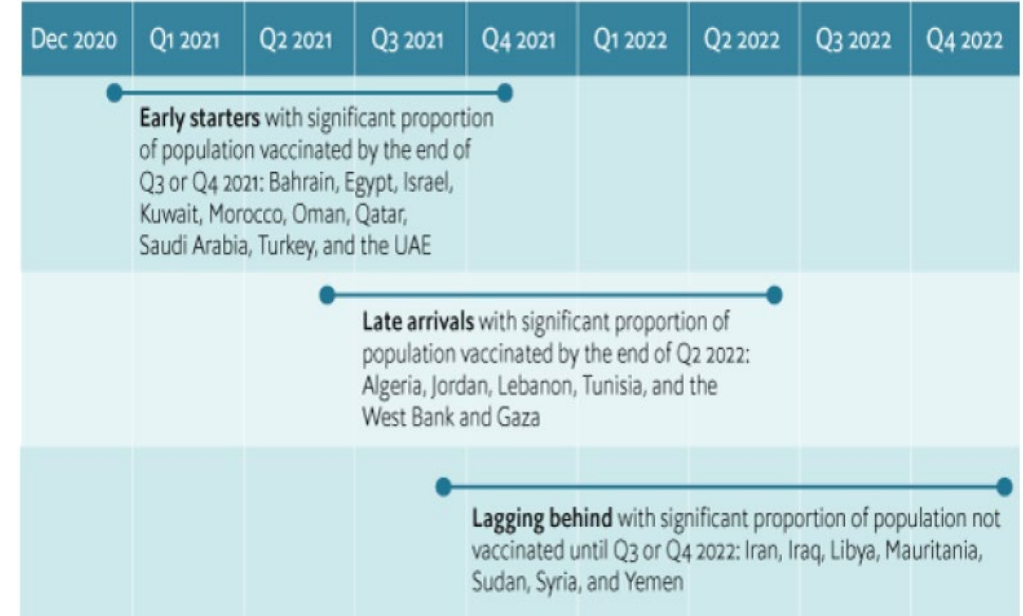
Varied progress securing and distributing vaccines in MENA

Secured doses of COVID-19 vaccines with one or more approvals
(Millions, as of January 2021)



Notes: 1. Includes secured deals that have announced number of doses; does not include unexercised options to buy further doses. 2. Assumes two doses needed per person. 3. Saudi Arabia almost certainly has more doses but has not announced further deals. 4. Countries on neither list: Malta (unspecified number of doses via the EU); Qatar (deal with Moderna for unspecified number of doses).

Potential mass vaccination rollout schedules
(As of January 2021, subject to regular changes)



Source: Economist Intelligence Unit, January 2021

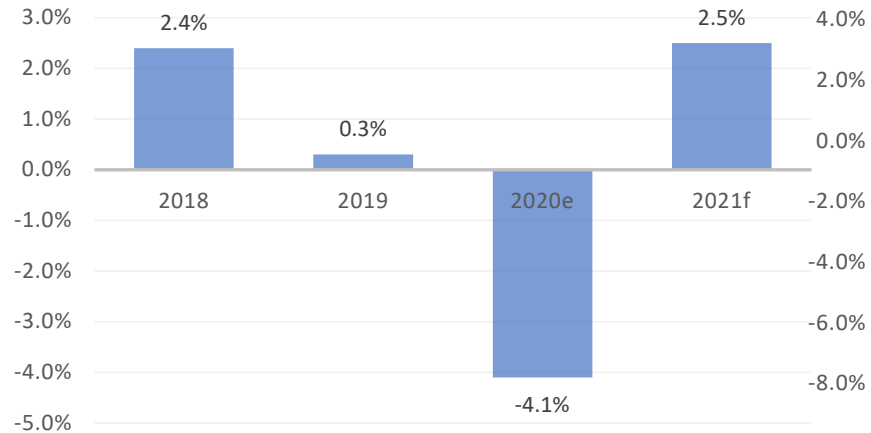
Hit by the twin shocks of coronavirus and weakening global oil demand in 2020, the GCC economies went into deep contraction, necessitating general support to the private sector and challenging the services-based successful diversification model

- Key private sector and SME supporting measures
 - Saudi Arabia provided support to the private sector, including postponement of taxes and Zakat payments, estimated at SAR 120 billion (US\$32 billion).
 - The UAE announced an AED 100 billion (US\$27.2 billion) stimulus to facilitate temporary relief on private sector loans and promote SME lending.
 - The Qatar Central Bank encouraged banks to postpone loan installments and obligations of the private sector with a grace period of six months.
 - Bahrain provided wage subsidies to private sector employees registered with the Social Insurance Organization for three months.
 - Oman deferred loan installments and interest charges for businesses, particularly SMEs, for an initial period of six months.
 - Kuwait provided exemptions to the affected economic and productive sectors, including the cooperative societies, from accrued fees and dues.
- Structural reforms to help private sector development
 - As part of its new labor strategy, Saudi Arabia amended its Kafala system to give expatriate workers greater job mobility.
 - The UAE introduced reforms allowing the full foreign ownership of onshore companies and annulling the requirement that commercial enterprises have a major Emirati shareholder.
 - Qatar made significant reforms to its Kafala system by allowing migrant workers to change jobs without their employers' permission.
 - Kuwait improved its business environment by approving a new competition law and a new bankruptcy law.

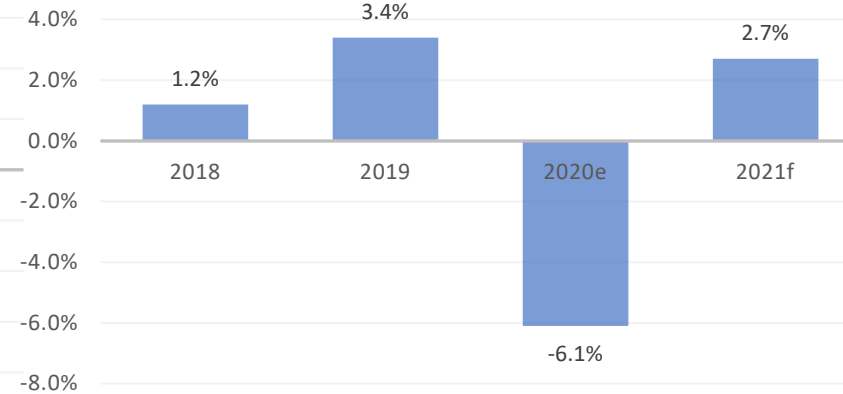
Source: 1) <https://documents1.worldbank.org/curated/en/748461627924058675/pdf/Gulf-Economic-Update-COVID-19-Pandemic-and-the-Road-to-Diversification.pdf> (WBG Gulf Economic update, Aug 2021)

Key Forecasts

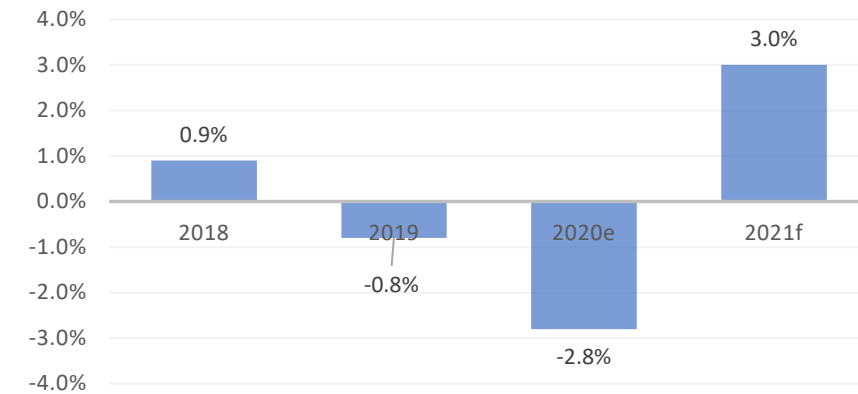
Saudi Arabia: GDP growth forecast



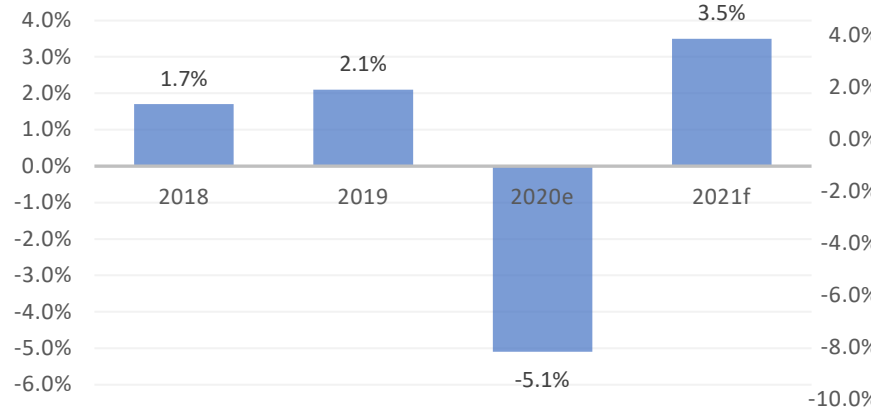
UAE: GDP growth forecast



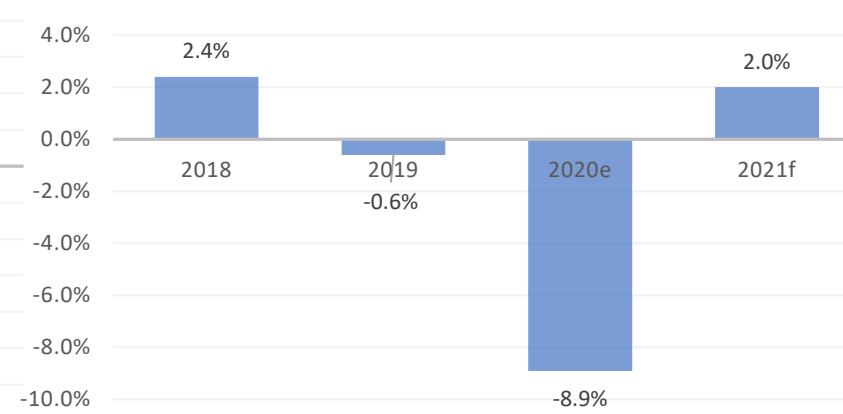
Oman: GDP growth forecast



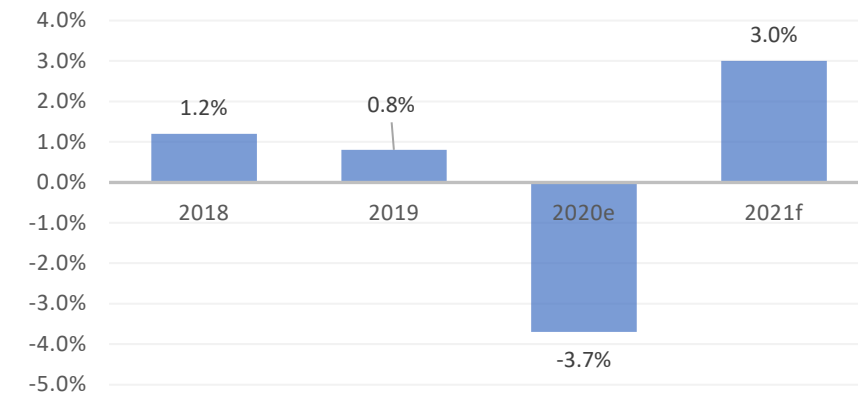
Bahrain: GDP growth forecast



Kuwait: GDP growth forecast



Qatar: GDP growth forecast



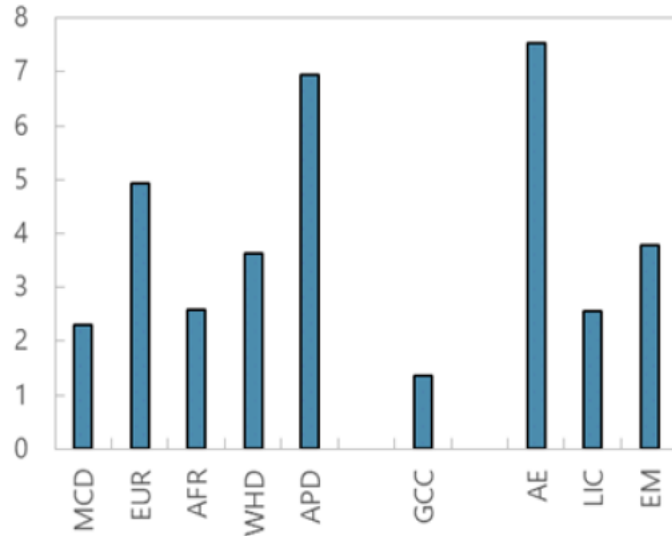
Source: Macro-Poverty Outlook (September 2021) and IMF World Economic Outlook, April 2021

Monetary and Fiscal Policy

Monetary and Fiscal Policy Response

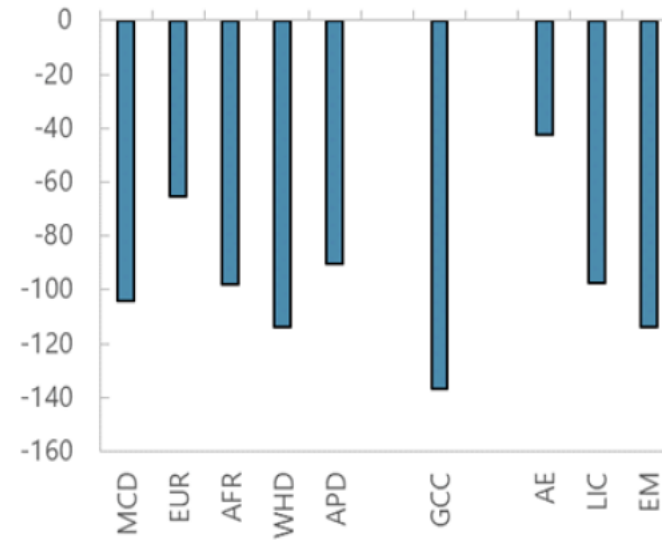
Fiscal Response to COVID-19

(Percent of 2020 GDP, as of November 2020)



Change in Policy Rates

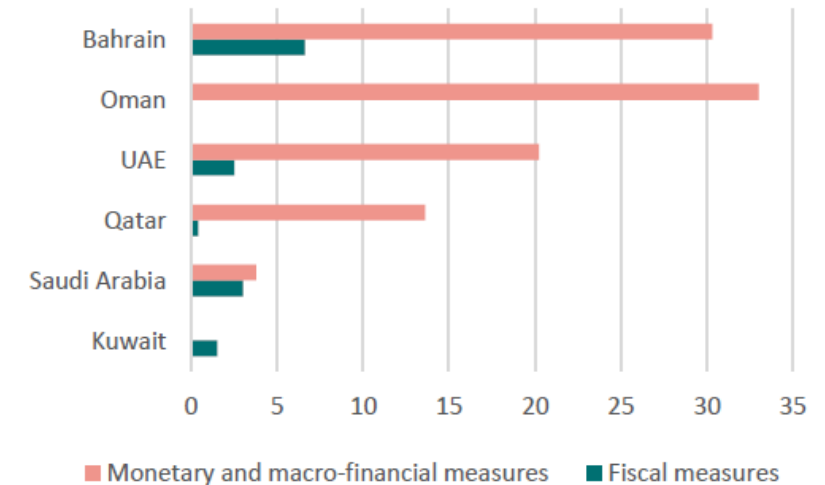
(In basis points, as of November 2020)



Policy measures Percent of GDP

Source: International Monetary Fund (IMF), *Policy Responses to COVID-19 – Policy Tracker*, and Organisation for Economic Co-operation and Development (OECD), *COVID-19 Crisis Response in MENA Countries*.

Note: Fiscal measures by Oman were not quantified. Monetary measures by Kuwait were not quantified.



Sources: IMF COVID-19 Policy Tracker and staff calculations. GCC=Gulf Cooperation Council; MCD=Middle East and Central Asia; AFR=Africa; APD=Asia-Pacific; EUR=Europe; WHD=Western Hemisphere; AE=Advanced Economies; EM=Emerging Market Economies; LIC=Low-Income Countries.

Substantial fiscal and monetary policy measures have been initiated globally to address health care challenges arising from the pandemic and to mitigate its impact on economic activity

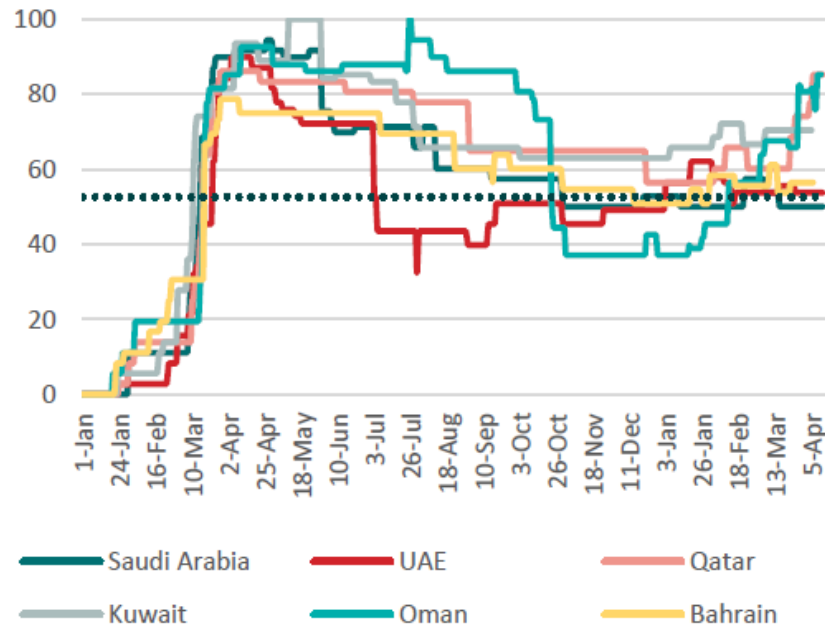
The sum of fiscal, monetary, and macro-financial measures made in response to the economic downturn were sizable, although tilted toward monetary and macro-financial support

Efforts to contain Covid-19

Stringency index

Source: University of Oxford, Blavatnik School of Government, *Oxford COVID-19 Government Response Tracker* (<https://www.bsg.ox.ac.uk/research/research-projects/covid-19-government-response-tracker>).

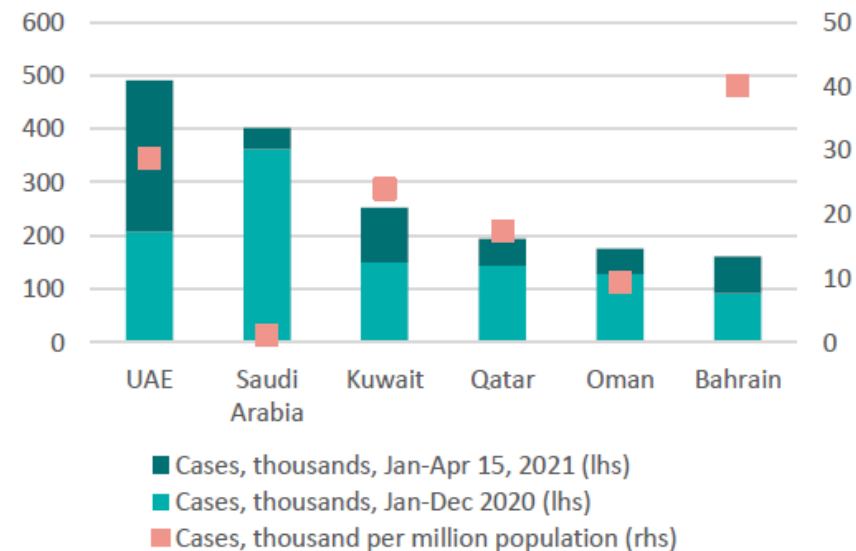
Note: The Stringency Index, a composite measure based on nine response indicators, including school closures, workplace closures, and travel bans, reflects the number and strictness of government policies, rescaled to a value from 0 to 100 (100 = strictest). The dotted line indicates the global median daily score. Last observation is April 15, 2021.



Number of COVID-19 cases and cases per million population Thousands and ratio

Sources: Johns Hopkins University, Center for Systems Science and Engineering, *COVID-19 Data Repository*, and United Nations, *The 2019 Revision of World Population Prospects* (<https://population.un.org/wpp/>).

Note: Data as of April 15, 2021.

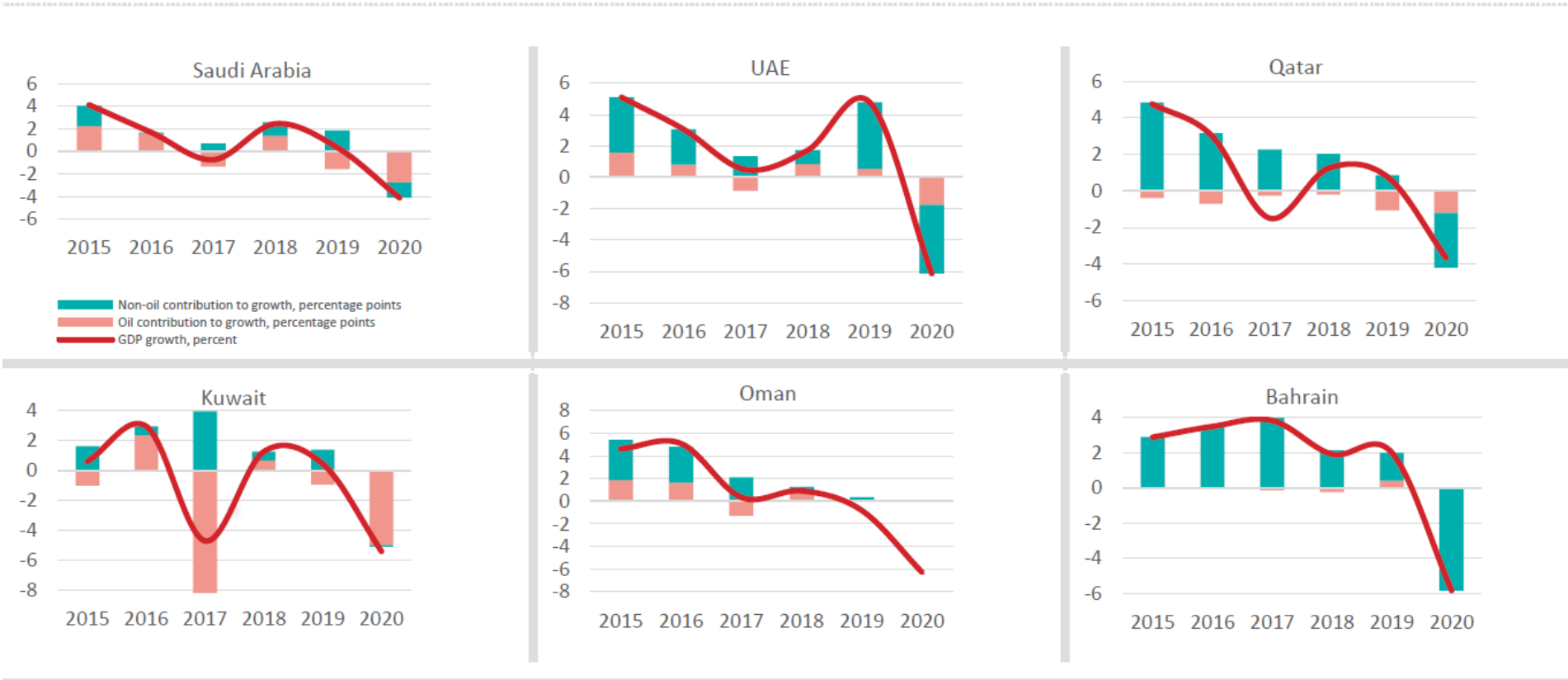


Oil and non-oil contribution to growth

GDP growth, oil contribution to growth, and non-oil contribution to growth Percent and percentage points

Sources: Haver Analytics and World Bank, *Macro Poverty Outlook*, April 2021.

Note: Data for 2020 for Saudi Arabia, UAE, Qatar (GDP only), and Bahrain are actual government data. Data for 2020 for Qatar (oil and non-oil GDP), Kuwait, and Oman (GDP only) are World Bank estimates.

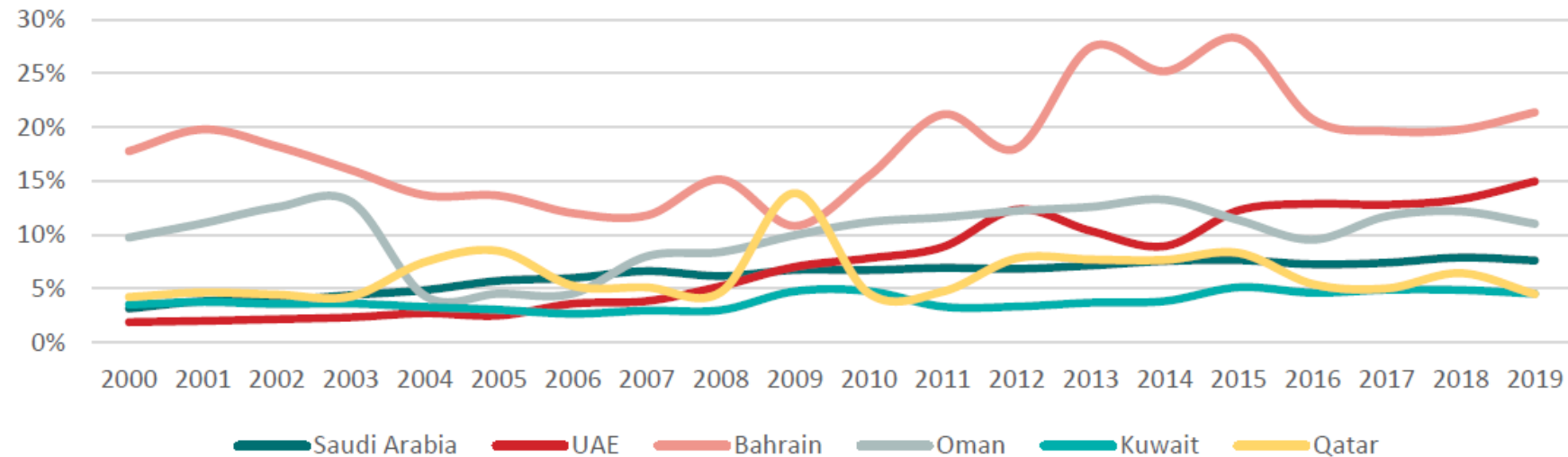


Over the past two decades, household income growth and public investment have allowed the GCC countries to diversify GDP composition away from hydrocarbons

Non-hydrocarbon exports

Non-hydrocarbon exports, 2000–19 Percent of GDP

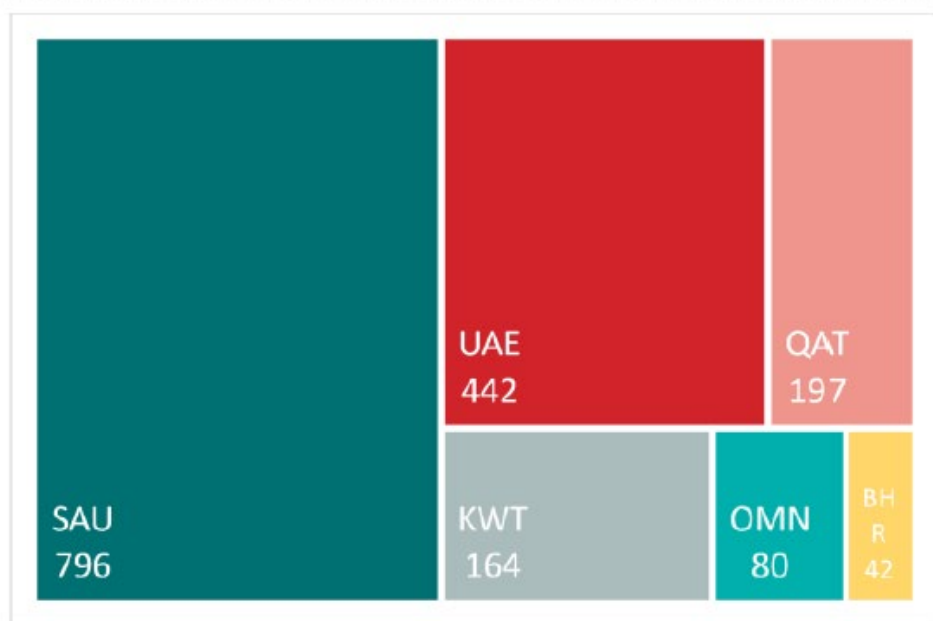
Sources: National Sources, World Integrated Trade Solution (WITS), and World Bank staff calculations



Diversification not only entails diversifying production structure as income rises but also extends to diversifying export product baskets and markets

Forecast GDP, 2023 US\$, billions

Source: World Bank, *Macro and Poverty Outlook*, April 2021

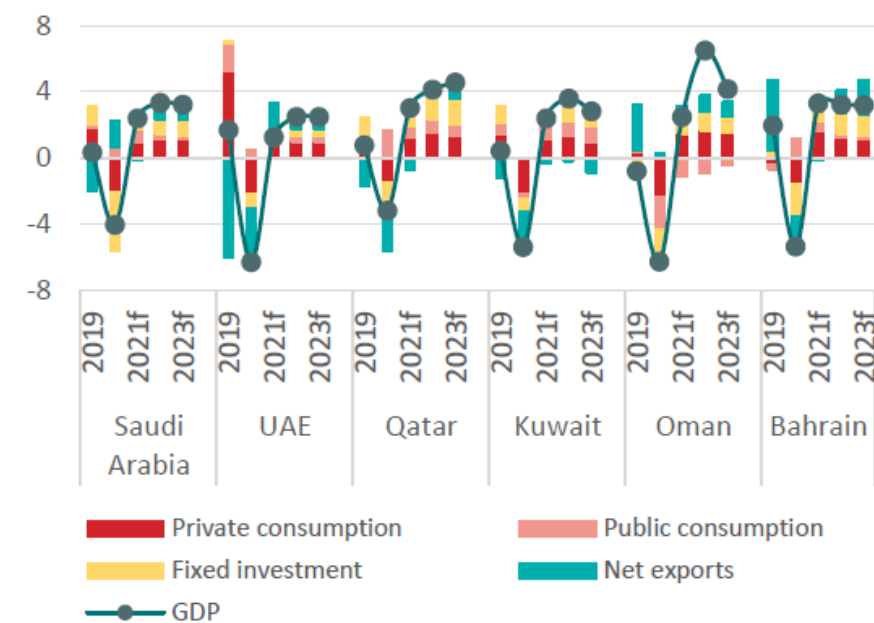


Growth in the GCC will restart moderately in 2021, before picking up to an average 3.3 percent in 2021–23

GDP growth and contribution to growth Percent and percentage points

Source: World Bank, *Macro and Poverty Outlook*, April 2021.

Note: e = estimate; f = forecast.



The recovery is expected to be driven by private consumption and fixed investment