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MENA Economies Hit by Conflicts, Civil Wars and Lower Oil Prices

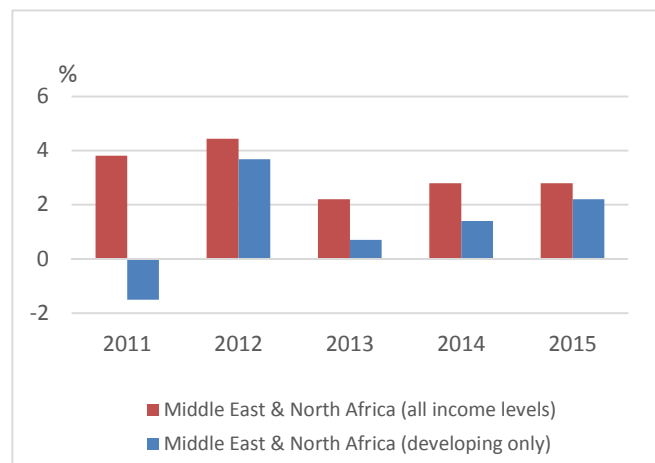
Lili Mottaghi¹

Introduction: Against the backdrop of a slowing global economy and lower commodity prices, economic growth in the Middle East and North Africa (MENA) is stagnating. The World Bank 2015 **MENA Economic Monitor** report projects overall GDP growth to be less than 3% for the third year running—about 2.8% for 2015 (Figure 1). Low oil prices, conflicts, and the global economic slowdown make short-term prospects of recovery unlikely. In a positive scenario of decreasing tensions in Libya, Iraq, and Syria, together with recovery in the Euro area that could boost external demand, growth in the region could rebound to 4.4 percent in 2016 and the following year. However, if current circumstances persist, overall growth is not expected to recover any time soon.

Growth in MENA: Except for Egypt and Morocco, almost all MENA countries are growing slowly, but for different reasons. The **GCC countries** and **Algeria** are suffering from low oil prices and high fiscal spending. As a whole, GCC economies – **Bahrain, Kuwait, Oman, Qatar, Saudi Arabia** and the **United Arab Emirates** – are expected to grow at 3.2 percent in 2015 and the following year, down from 3.9 percent a year earlier, as low oil prices have severely hit these economies. For the same reasons, growth in Algeria is expected to remain at 2.8 percent in 2015.

The GCC: Fiscal positions in oil exporters, particularly in GCC States are worsening. A surplus of about 5.4 percent of GDP in 2013 is expected to turn into a deficit of about 9.8 percent of GDP in 2015 in the GCC countries. For the Gulf States, this means a deficit of US\$136 billion in 2015 with Saudi Arabia bearing about US\$129 billion (or a deficit of 19.5 percent of GDP in 2015); surpluses in Kuwait and Qatar are expected to halve in 2015. Current account balances will follow the same pattern and surpluses are expected to shrink rapidly in 2015. Continued weakness in oil prices will prompt some of these countries to divert funds from Sovereign Wealth Funds (SWF) to finance their deficits.

Figure 1. Real GDP growth rate ²



Source: World Bank

¹ Lili Mottaghi, Economist, Office the Chief Economist, The Middle East and North Africa Region, The World Bank.

² All data for figures are from the [MENA Economic Monitor](#).

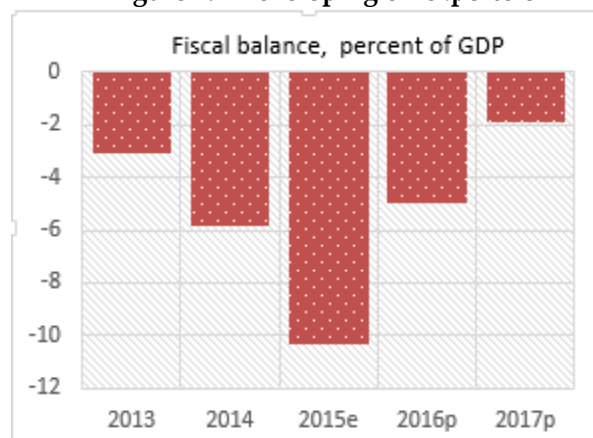
The Developing Oil Exporters: The group of “developing oil exporters” have taken the double hit of low oil prices and civil war. Syria and Libya saw a drop of about 40% or more to their oil output, as a result of physical damage to the sector and a fall in production (estimates for Yemen are not yet available). The sabotage of oil fields may keep their GDP growth rates low. Overall growth for developing oil exporters may reach 1.3% in 2015, up from 0.9% a year ago, mostly due to the likelihood of a slow recovery in **Libya** and **Iraq**.

The majority of the developing oil exporters saw a decline of about 40 percent or more in their output, with significant damage to their oil sectors and a fall in oil production (estimates for Yemen are not available). Conflict has severely hurt the economies of **Libya, Yemen, Iraq** and **Syria**. In **Yemen**, it has resulted in a humanitarian catastrophe, the mass displacement of people and destruction of homes, roads, bridges, and other infrastructure. The total number of people displaced from **Yemen, Syria, Libya** and **Iraq** is estimated at 15 million, many of them fleeing to neighboring countries, such as **Lebanon** and **Jordan**. Despite some benefits to their economies created by Syrian refugees, **Lebanon** and **Jordan** have shouldered greater responsibilities in health and education, and have also experienced disruptions to their regional trade because of the wars in **Syria** and **Iraq**.

Although growth is expected to be 1.7% this year, Iran’s economy is expected to grow faster from 2016 onwards, following the agreement to limit nuclear development and allow more inspections of its nuclear sites. The lifting of sanctions—and Iran’s return to the global economy—may bring an extra 1 million barrels of crude a day onto the international market, contributing to the lower global oil prices. The lower prices are likely to hurt other oil exporters more than Iran, as the positive effect of higher oil production in Iran should outweigh the negative impact of falling global prices.

Fiscal deficits are mounting in the group of developing oil exporters (Figure 2). **Libya** stands out with a fiscal deficit of more than 55% of GDP and current account deficit of 70% of GDP. Libya’s foreign reserves are expected to drop to about US\$50 billion compared to more than US\$100 billion in 2013.

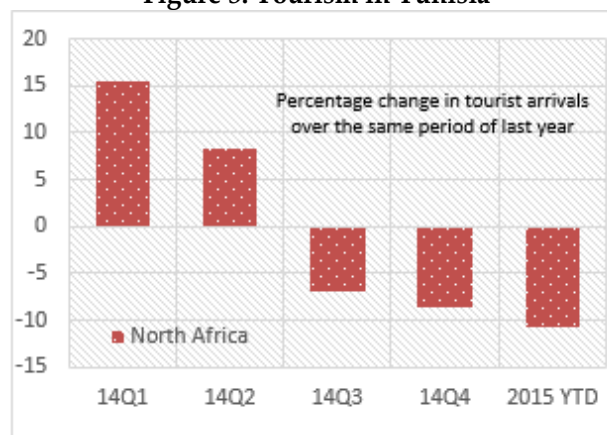
Figure 2. Developing oil exporters



Source: World Bank.

Oil Importers: While benefiting from lower oil prices, MENA’s oil importers are being hurt by terrorist attacks, spillovers from neighboring wars, slow growth in the Euro zone and political uncertainty. Two terrorist attacks in 2015 and protracted economic stagnation in the Euro zone mean **Tunisia’s** real GDP growth is projected to drop to 0.8% from 2.3% in 2014. Tourists arrivals have been cut in half (Figure 3)

Figure 3. Tourism in Tunisia



Source: UNWTO.

The **Palestinian** economy is recovering from recession following the 2014 summer war in Gaza with overall growth of 3 percent in 2015. Only **Egypt** and **Morocco** may have been experiencing stronger economic growth in 2015 although the tide is against them. With security reinforced and reforms underway, **Egypt’s** economic growth could hover at about 4% in 2015 and 2016. Much of **Morocco’s** economy is based on agriculture, with economic growth depending on the weather.

What if oil prices go down again? A further drop in oil prices, coupled with high fiscal spending, could mean worse to come. Falling oil prices for MENA oil exporters mean diverting money from Sovereign Wealth Funds and reserves to bolster their fiscal positions. **Qatar** and **Abu Dhabi** have already sold assets and **Saudi Arabia's** reserves shrunk by more than US\$60 billion this year and another US\$80 billion is expected in 2016. Fiscal deficit of about 19.5% and 12.6% of GDP in 2015 and 2016 are projected for Saudi Arabia. Although some countries, particularly Saudi Arabia, Kuwait and UAE, have started rethinking their huge spending on subsidies, the macroeconomic imbalances will likely spillover to 2016 and the following year.

Investing in MENA: MENA's investment needs are high and its shortage of foreign capital have made a bad situation worse. **Egypt** may need an extra US\$30–35 billion in investment and another US\$10 billion for developing its infrastructure in coming years. **Jordan** needs more than US\$6 billion a year in additional investment to put its economy on a better track. **Tunisia** is expecting to increase investment by an additional 7 percentage points of GDP during the next five years. **Iran**, post-sanctions, needs hundreds of billions dollars to upgrade its oil fields and bring production back to pre-sanctions levels.

MENA's Financing Needs: All of the developing countries in the region are in need of financing. Cheap oil and lack of fiscal adjustments have severely deteriorated MENA's fiscal space. An overall fiscal surplus of about 2 percent of GDP in 2013 is expected to turn into a deficit of 9.2 percent of GDP in 2015 for MENA as a whole. By the same token, MENA's external account surplus of the past two years is expected to turn into a deficit of about 2.6 percent of GDP in 2015. The main reasons are falling oil prices which started in 2014 and reduced the surplus in the group of oil exporters by 50 percent, and weak economic recovery in the Euro area, which has reduced external demand for oil and non-oil exports.

Conclusion: In summary, since the 2011 Arab Spring, though not necessarily because of it, the MENA region has seen a slowdown in economic growth, an escalation of violence and civil war and, more recently, substantial macroeconomic imbalances from lower oil prices.

Contact MNA K&L:

Deborah L. Wetzel, Director, Strategy and Operations. MENA Region, the World Bank
Regional Quick Notes Team:

Omer Karasapan and Mark Volk

Tel #: (202) 473 8177

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