Nearly three months into your tenure, what are your perceptions of the region?

To me MENA is a fascinating landscape. It is regrettable that the Region is often in the headlines for all the wrong reasons. It’s perceived as a place of endless conflict, where people live in fear and private investors shy away, some say the region is a closed society and is not open to integration etc. On the contrary, the Middle East and North Africa is a region of real economic, social and cultural achievements, both historically and in present times.

The Region has great potential that is being now unleashed and holds promise for a great future. As the World Bank Group, we work closely with our partners including all our countries and regional institutions to assist in mitigating crisis and its impacts, while encouraging broadening and deepening of economic reforms to create productive jobs, and make the region more entrepreneurial and quick to seize opportunities in the regional and global economy.

How has the current crisis impacted the region?

I have been struck by resilience of the MENA region to the Triple F phenomena - the food, fuel and financial crises. Despite adversities and some tumult, the region grew by almost 6.2% in 2008 - higher than the average for developing countries. This was aided by a backdrop of rising oil prices and buoyant construction activity. Of the triple F events, in the first round, MENA has been most impacted by the food crisis as the Region exhibits high population growth and has among the highest food import dependence of any region. Inflation shot up to 11% in 2008 compared to an average of 5% over the past decade - eroding most sharply among the lower quintiles of the populations, with food budgets absorbing an ever larger chunk of the poor families’ income. As 2009 unfolded, inflation fell in MENA as global commodity prices came down, but the impact of the crisis persisted as it permeated throughout the region’s economy. Real GDP growth is expected to slow down to 2.2% in 2009 -- less than half of the pre-crisis average due to declines and uncertainties in trade, oil prices, remittances and tourism, among other negative factors. Demand for trade services declined, hitting Suez Canal traffic in Egypt and port hubs in Dubai and Djibouti.

The key message we retain from all this is that the MENA region has weathered the triple crisis relatively well so far, but the crisis has further complicated the pressures of rising unemployment and a resurgence of poverty. It also highlights the urgency of deepening the structural reforms needed to address MENA’s critical long term development challenges, namely the creation of productive private sector jobs for a growing labor force and the management of scarce common resources, especially water.

What have been the key factors underlying MENA’s response to the crisis? To better illustrate the reality underlying the economic growth averages and the broader picture, I would like to share some interesting inferences and dilemmas:
First, the impact of the crisis depends on our countries’ exposure to affected markets and commodities as well as on their economies’ initial macroeconomic conditions and policies. Some counter intuitive evidence is important to share: the resource rich countries with a higher sovereign wealth base have had a sharper slowdown – one can argue that these countries are perhaps more globally integrated than the others, but the reality is that growth in these economies is driven by one or two commodities, and as such they exhibit a higher degree of vulnerability. On the other hand, Qatar, which has attempted to quietly transform itself is growing in double digits and is likely to record an astounding growth of 18.6% in 2010 - buoyed by the coming on stream of new gas ventures. Meanwhile, some non-GCC countries such as Tunisia and Morocco seem to be facing the crisis relatively well despite feeling the ripple effects of recession in Europe, as they had gradually diversified their economies and adopted sound macroeconomic policies before the crisis.

Second, while MENA may appear resource rich, there are a number of countries (Egypt, Lebanon, Syria, Jordan and Djibouti, and Yemen) that do not have the fiscal space to accommodate further stimulus or further easing of monetary policy without risking inflation. These countries need to urgently spur private sector activity and focus stimulus packages on investments that generate jobs and rationalize subsidies to exclusively reach the poor.

Third, the first order impact of the financial crisis in MENA was limited to GCC countries whose financial sectors were more open to global financial centers. But, luckily, GCC countries’ initial conditions – especially the financial cushion built with past oil surpluses – allowed them to respond quickly. Most notable is a decline in GCC stock markets in the last 2 quarters of 2008. Also, GCC sovereign funds are estimated to have lost 27% of their portfolio value over 2007 to 2008 with losses reaching 40% among funds that heavily invested in global equities.

What are the social implications of the crisis? The potential for social distress due to the economic slowdown is worrisome. Loss of jobs and lack of emerging opportunities for the fast growing population of new entrants in the labor market are already visible. The ILO estimates indicate that in 2009 unemployment is expected to rise by 25% in the Middle East and by 13% in North Africa relative to 2007. Rising unemployment is a common problem and continues to haunt even industrialized countries even though there are emerging signs of economic recovery there. What is different in MENA is that present events will add to the stock of 20 million jobless. What has been thus far comforting to the region was its relatively low level of poverty but this masks the challenges posed by the bulging number of people living just above the poverty line and in remote or disadvantageous and underdeveloped areas. Overall, less than 5% of MENA’s population lives on less than US$1.25 a day but some 19% lives on less than US$2 a day. Moreover a considerable share of the population hovers just above the poverty line. For example in Egypt and Morocco the number of vulnerable people falling into a narrow band between US$2 and US$2.50 is as large as the number of those who fall under the US$2 poverty line.

When can we expect a recovery and what will it look like? Short term economic stimulus packages focusing on fiscal measures and monetary easing are expected to put the region on the path to economic recovery in 2010 and real GDP is forecasted to rise to 4%. This scenario factors in global recovery. Still, it is critical to recognize that the public sector alone does not guarantee jobs for all or reduction of poverty. Recognizing these challenges, the World Bank has been working closely with key stakeholders in the Region to restore confidence in the private sector and provide an investment climate conducive to sustained economic growth. The World Bank’s recent survey on Doing Business highlights the need for removing hurdles for businesses in our region. What is encouraging is that the UAE and Egypt are among the global top 10 reformers. Indeed, Egypt has been among the top 10 reformers for 4 out of the past 7 years.

At the end of the day, a vibrant private sector with appropriate investments in SME development and focused on promoting the employability of Youth through quality
education and skill development will help in bridging the gap between labor supply and demand. At the same time, financially and socially sustainable social safety nets and access to microfinance will help reduce poverty.

**How has the World Bank responded to the crisis?**

Responding to its client countries in the Region, the World Bank has worked on five fronts.

*One,* WB has lent close to $1.8 billion in FY09 and is positioned to lend over $3 billion in line with growing demand from our countries - this is nearly double the amount we lent in pre-crisis days.

*Two,* more than half of the flows in FY10 will be quick disbursing transactions supporting structural reforms that will help crisis mitigation, the strengthening of financial markets with focus on improving access to development finance, infrastructure development, and social safety nets.

*Three,* the Bank has accelerated and broadened its analytical and technical advisory support to provide advice on critical macroeconomic and sector issues and policy frameworks.

*Four,* The IFC has been very proactive in its efforts to revive the private sector, recapitalize banks and provide microfinance support.

*Five,* the World Bank Group and key stakeholders are working to promote regional integration in MENA, which should augur well for economic growth and prosperity in the region.

In conclusion, let me repeat that the MENA region has weathered the triple crisis well so far, but the crisis presents an immediate danger of rising unemployment and a resurgence of poverty, and highlights the urgency of deepening the structural reforms needed to address MENA’s critical long term development challenges, namely the creation of productive private sector jobs for a growing labor force and the management of scarce common resources, especially water.

What are the longer-term issues that will need resolution? Countries’ ability to stimulate their economies and rebound in the post-crisis era will be enhanced if they use the opportunity of the crisis to ease infrastructure bottlenecks and restructure their ineffective yet expensive subsidies. Looking at longer term challenges, this recent crisis, as well as previous ones, have brought to the fore the need to introduce an efficient investment regime, promote trade and financial diversification, and launch programs for meeting the region’s energy requirements and security and strengthen social safety nets—many of these topics have been well researched and supported by a range of World Bank programs designed to reduce MENA countries’ vulnerability and improve their flexibility to respond to future shocks. Economic recovery however would critically depend on the depth and length of the global economic recession and the success of the countries to launch well coordinated structural reforms that restore private sector confidence. The World Bank has a long partnership with the MENA region and our work will be focused on these long term development challenges - especially as we move forward on the main agenda of the Arab World Initiative – regional economic integration.

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