

WORLD BANK MIDDLE EAST AND NORTH AFRICA REGION

MENA ECONOMIC MONITOR

SYRIA

RECONSTRUCTION FOR PEACE



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Abbreviations

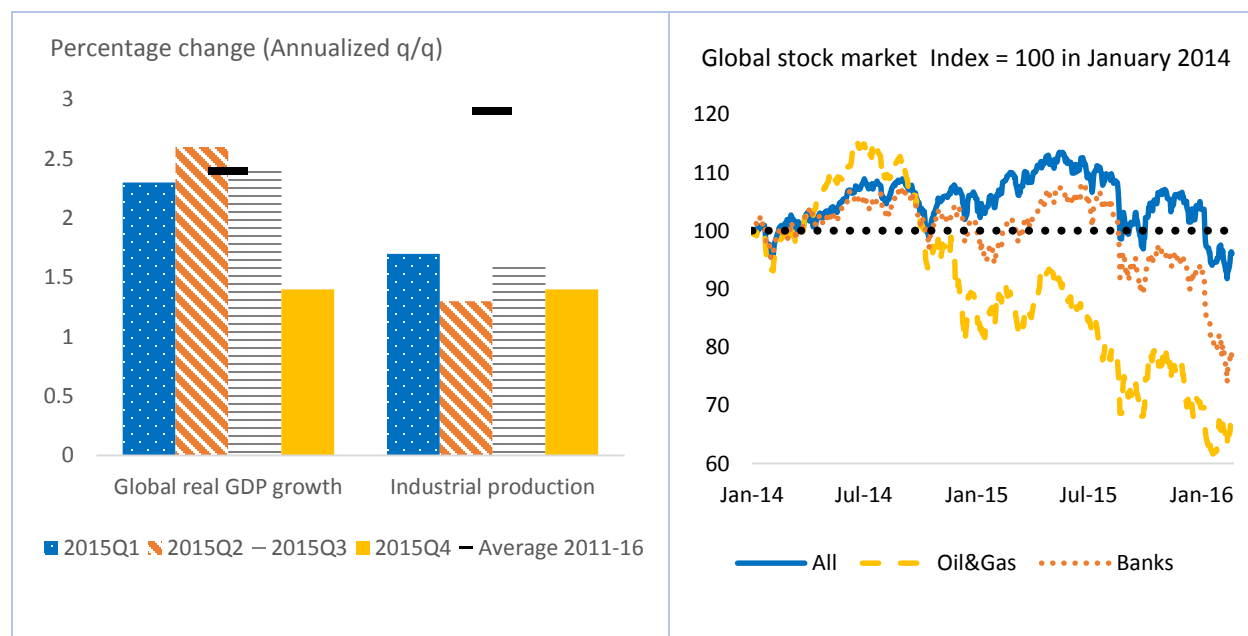
AFAD	Republic of Turkey Prime Ministry Disaster and Emergency Management Authority
b/d	Barrel per Day
CBSYR	Syrian Central Bureau of Statistics
DNA	Damage and Needs Assessment
e	Estimates
EIA	Energy Information Administration
FDI	Foreign Direct Investment
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
ICE Futures	International Exchange Incorporation
IDPs	Internally Displaced Persons
KRI	Kurdish Region of Iraq
KWH	Kilowatt Per Hour
MENA	Middle East and North Africa
MMBTU	Million British Thermal Units
NGOs	Non-Governmental Organizations
p/b	Per Barrel
f	Forecasts
\$	US\$
PMI	Purchasing Managers' Index
q/q	Quarter on Quarter
RHS	Right Hand Scale
SCPR	Syrian Center For Policy Research
SWB	Subjective Well Being
SWCC	Saline Water Conversion Corporation
SWF	Social Welfare Fund
UAE	United Arab Emirates
UN	United Nations
UNDP	United Nations Development Programme
UNESCWA	United Nations Economic and Social Commission for Western Asia
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
MICS	Multiple Indicator Cluster Surveys
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
VAT	Value Added Tax
VDC	Violations Documentation Center
WASH	Water, Sanitation and Hygiene
WHO	World Health Organization

RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

Global Outlook

In January 2016, the World Bank projected that global economic growth would hover around 2.9 percent this year, a slightly higher rate than 2.4 percent in 2015. The uptick was mainly due to higher expected growth in high-income countries, driven by stronger demand and improved credit conditions. Today, there are signs that global growth in 2016 could fall short of its projected figure by half a percentage point, as fresh quarterly data point to a slowdown in global activity in the fourth quarter of 2015, decelerating to 1.4 percent (q/q, annualized), its lowest level since the Euro Area crisis in 2012 (Figure 1.1, left panel). The slowdown is a result of tepid growth in the United States and Euro Area, contraction in Japan (despite a stimulus), further slowdown in China, and a persistent recession in Brazil and Russia. In addition, the manufacturing Purchasing Managers' Index (PMI) has been contracting in major emerging markets in January, and weakening slightly in advanced economies in January and February 2016.¹ Global equity markets' indexes have also continued their declining trend in January 2016, especially the sub-indexes for banks, oil and gas (Figure 1.1, right panel).

Figure 1.1 Global Economy



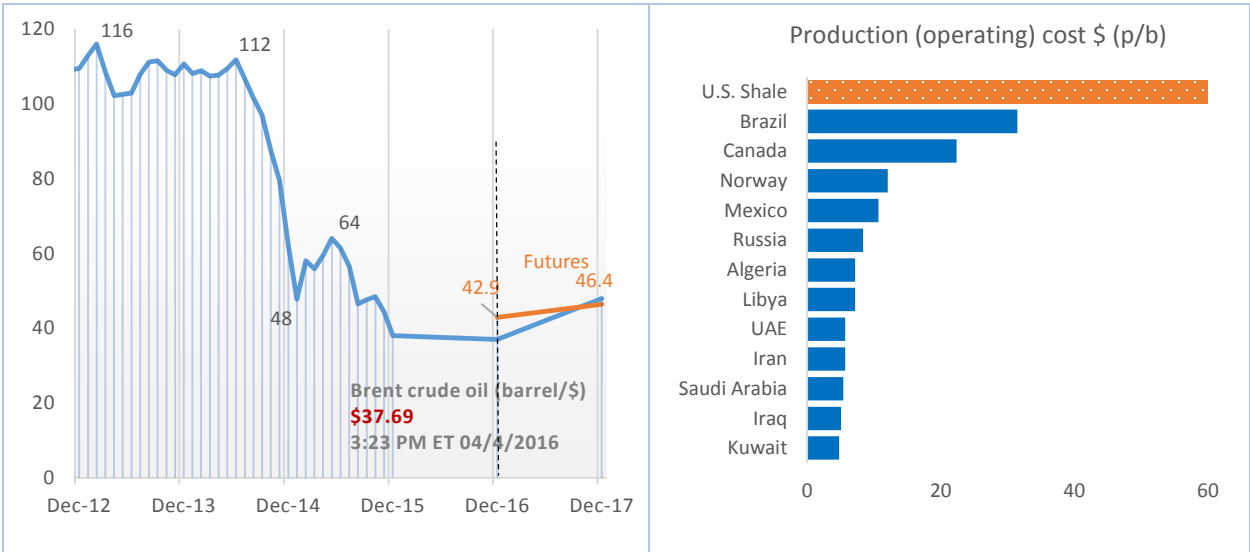
Sources: World Bank; Haver Analytics, Bloomberg, JPMorgan Global Bond Index, and Federal Reserve Bank of Atlanta. Note: Quarterly global GDP growth computed from the largest 16 advanced and emerging market economies. 2015Q4 is an estimate based on available country data.

¹ Purchasing Managers' Indices are from Markit.

These factors, together with the recent market sell-offs, particularly in China, are expected to raise additional risks to global growth projections in 2016. Looking ahead, the World Bank expects that the lackluster global growth in 2016 to continue to the following year, revising the January projected figures of 3.1 percent in 2017 and 2018 downward.

Despite a slight rebound in prices over the past couple of months, the oil market is still supply-driven. There are several reasons behind the recovery in oil prices. First, Iraq, Turkey, Nigeria, and the Kurdish Region of Iraq (KRI) suffered violent attacks on their pipelines, causing disruptions in supply. Second, Russia and Saudi Arabia agreed to freeze output, although the deal was not backed by Iran, which is trying to restore its crude exports to pre-sanction levels. Third, U.S. production (mostly shale companies) have shown some signs of decline in February, bringing total rig count to 76 percent below the peak in October 2014. These supply-side factors, while important, are expected to be temporary, and oil prices will likely remain low for the rest of this year and perhaps for the years to come. The World Bank forecasts Brent crude oil prices to average around \$37 and \$48 per barrel (p/b) in 2016 and 2017, respectively; futures options and contracts are also pointing to the same trend (Figure 1.2, left panel). There is speculation that prices would continue their slight recovery beyond 2016, with U.S. oil producers’ cutting their production and rig counts even further and MENA oil producers staying in the market because of their low production cost (Figure 1.2, right panel). On the flip side, rising prices could trigger shale producers to swiftly add rigs that they had cut. Futures contracts are looking at a rebound in oil prices to \$50 but not until December 2019.

Figure 1.2 Oil Market Stance



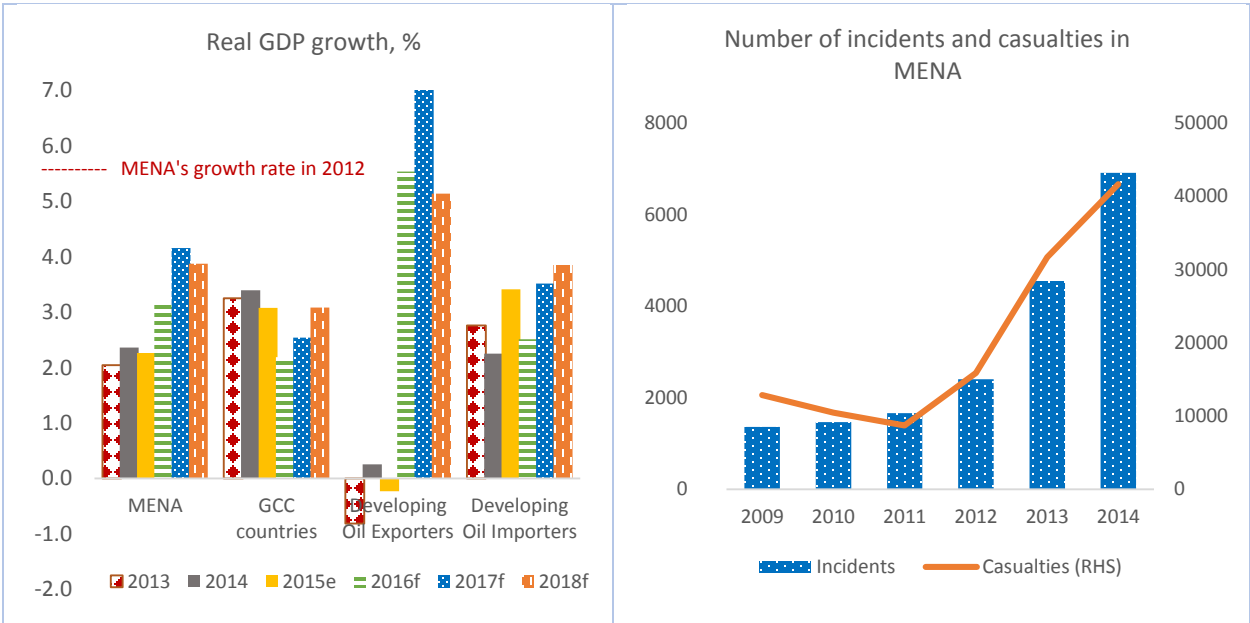
Sources: U.S. Energy Information Administration (EIA), World Bank, ICE Futures and UCube by Rystad Energy, published by CNN.

Thus the oil market is settling into a “new normal” of low oil prices where the U.S. and not Saudi Arabia is the swing producer. Studies show that while the shale oil boom in the U.S. does not explain the sharp fall in oil prices starting in mid-2014, it does put an upper bound on the level of prices at around \$60 p/b, which is where most shale becomes profitable.

MENA Economies

The short-term economic outlook for the Middle East and North Africa (MENA) region has not changed fundamentally and remains “cautiously pessimistic”, as described in the January 2016 [MENA Quarterly Economic Brief](#). A combination of civil wars and refugee inflows, terrorist attacks, cheap oil, and subdued global economic recovery, is expected to keep average growth in the MENA region around 3 percent in 2016. Since 2013, MENA has not been able to escape the spiral of slow growth for a variety of reasons including the incidence of war and conflict (Figure 1.3, right panel). These factors are expected to dampen the short-term economic prospects in the region, unless there is some progress in the peace talks. If the recent truce in Syria and the ongoing peace talks in Yemen and Libya materialize - in turn reducing the spread of insecurity and conflict elsewhere in the region – economic growth in MENA could improve over the forecast period (2017 and 2018). But the base case estimate is that real GDP in the MENA region will grow close to 4 percent in 2017 and 2018, still low by historical standards (Table 1.1 and Figure 1.3, left panel).

Figure 1.3 Short-Term Economic Outlook and Terrorism Incidents in MENA



Sources: World Bank and Global Terrorism Database.

Table 1.1 Macroeconomic Outlook

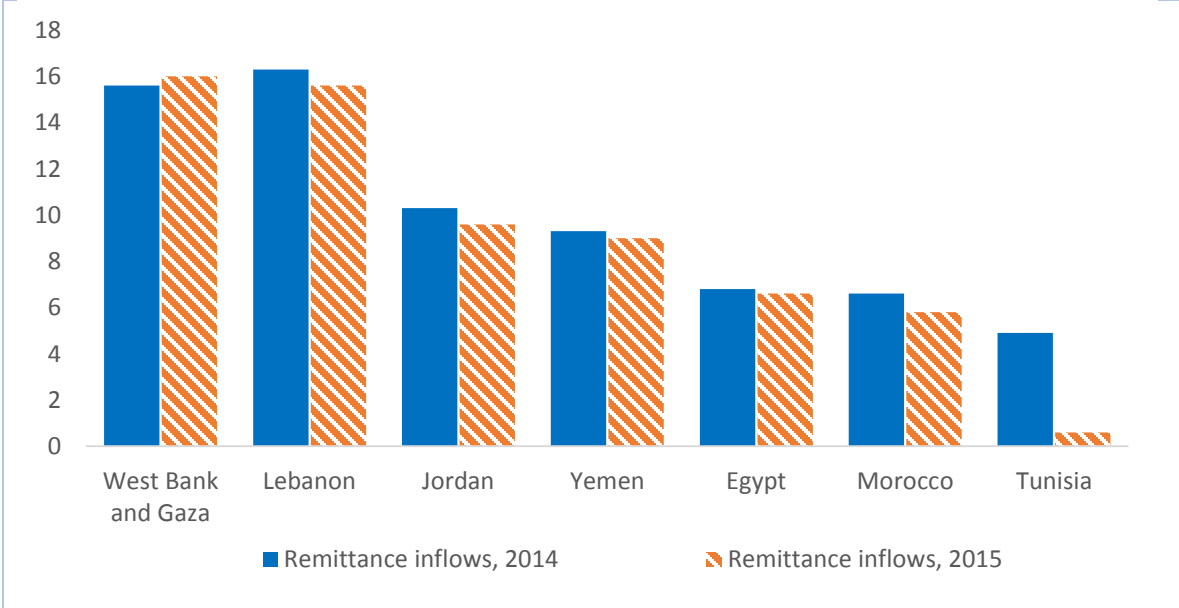
	Real GDP Growth						Fiscal Balance, % of GDP						Current Account Balance, % of GDP					
	2013	2014	2015e	2016f	2017f	2018f	2013	2014	2015e	2016f	2017f	2018f	2013	2014	2015e	2016f	2017f	2018f
MENA	2.0	2.4	2.3	3.2	4.2	3.9	2.2	-2.1	-10.2	-9.9	-7.1	-4.2	8.8	4.7	-5.1	-6.1	-3.0	-1.1
Developing MENA	0.5	1.0	1.2	4.4	6.0	4.6	-5.5	-7.1	-9.5	-9.5	-6.7	-3.8	-2.4	-4.6	-7.5	-8.7	-5.9	-4.3
Oil Exporters	1.9	2.3	2.0	3.3	4.2	3.8	5.7	-0.2	-11.3	-11.1	-7.3	-4.3	14.2	8.6	-4.3	-5.9	-1.5	0.0
GCC countries	3.3	3.4	3.1	2.2	2.5	3.1	10.9	3.5	-10.9	-10.4	-7.5	-4.5	21.3	15.1	-2.2	-3.1	0.7	1.6
Bahrain	5.4	4.5	3.2	2.2	2.0	1.9	-2.9	-3.3	-12.5	-16.9	-15.3	-13.5	7.3	4.5	-3.2	-8.2	-7.2	-6.3
Kuwait	1.1	-1.6	-1.3	1.3	1.6	2.4	35.4	18.7	-3.6	0.5	4.0	8.0	40.4	36.9	9.6	3.3	11.3	10.9
Oman	3.9	2.9	3.3	1.6	1.9	2.6	4.3	-3.4	-17.7	-16.8	-11.0	-9.7	6.7	5.0	-13.1	-14.1	-6.7	-3.6
Qatar	4.6	4.0	3.7	3.3	3.5	4.0	14.2	17.1	0.4	-5.0	-1.9	0.7	29.9	23.6	-0.8	-6.9	-3.5	-0.5
Saudi Arabia	2.7	3.6	3.5	2.2	2.6	3.1	5.8	-3.6	-18.9	-16.3	-13.8	-11.3	18.2	10.0	-5.2	-2.8	1.4	2.1
UAE	4.3	4.6	3.4	2.0	2.4	3.0	10.4	5.0	-4.3	-5.2	-2.1	2.0	18.4	13.7	0.2	-1.7	-0.4	-0.2
Developing Oil Exporters	-0.8	0.3	-0.2	5.5	7.5	5.1	-3.2	-6.4	-11.8	-12.3	-6.9	0.0	2.2	-2.5	-8.0	-11.1	-5.2	0.0
Libya	-13.6	-24.0	-10.2	22.2	46.2	14.6	-4.0	-43.3	-75.3	-59.9	-10.1	2.0	0.0	-54.8	-75.6	-69.0	-14.7	-1.9
Yemen, Rep.	4.8	-0.2	-28.1	...	...	...	-7.8	-8.0	-11.4	...	...	...	-2.9	-1.7	-5.6	...	...	...
Algeria	2.8	4.1	2.9	3.4	3.1	2.7	-1.4	-7.7	-15.9	-15.7	-12.6	-10.4	0.4	-4.6	-15.2	-16.2	-14.4	-13.4
Iran, Islamic Rep.	-1.9	3.0	0.5	4.2	4.6	4.7	-0.9	-1.2	-2.7	-1.8	-1.0	-0.7	6.0	3.8	0.6	-0.4	1.2	2.0
Iraq	6.6	-2.1	2.4	7.2	4.7	5.2	-5.7	-5.6	-14.5	-20.0	-14.2	-6.3	1.3	-0.7	-6.6	-15.3	-9.0	-3.9
Syrian Arab Rep.	-20.6	-18.0	-15.8	...	...	...	-18.5	-22.3	-21.8	...	...	...	-14.7	-17.8	-12.7	...	...	...
Developing Oil Importers	2.8	2.2	3.4	2.5	3.5	3.8	-8.0	-7.9	-7.3	-7.1	-6.5	0.0	-7.5	-6.8	-7.0	-6.6	-6.6	0.0
Egypt, Arab Rep	2.1	2.2	4.2	3.3	4.2	4.6	-13.0	-12.2	-11.5	-11.3	-9.8	-8.8	-2.2	-0.9	-3.7	-4.6	-4.6	-3.4
Tunisia	2.3	2.3	0.8	1.8	2.5	3.0	-4.5	-5.0	-4.6	-4.4	-4.2	-3.7	-8.6	-8.9	-8.7	-8.0	-7.8	-7.5
Djibouti	5.0	6.0	6.5	6.5	7.0	7.0	-6.9	-12.7	-17.0	-11.9	-1.6	-3.4	-23.3	-25.6	-31.0	-25.8	-14.8	-14.5
Jordan	2.8	3.1	2.4	3.0	3.3	3.6	-14.2	-14.0	-6.7	-5.5	-4.0	-2.4	-10.0	-7.1	-9.1	-6.6	-6.0	-5.5
Lebanon	0.9	1.8	1.5	1.8	2.3	2.5	-9.5	-6.6	-7.3	-7.4	-8.7	-8.6	-26.6	-26.7	-23.2	-21.3	-22.5	-23.1
Morocco	4.7	2.4	4.4	1.7	3.4	3.6	-5.2	-4.9	-4.3	-3.6	-3.0	-2.7	-7.3	-5.8	-2.3	-1.4	-1.7	-2.4
West Bank & Gaza	2.2	-0.2	3.3	3.3	3.5	3.6	-12.6	-12.5	-11.6	-10.9	-10.1	-9.2	-13.7	-8.9	-6.9	-7.9	-9.4	-11.0

Source: World Bank. Note: Fiscal balance for Jordan excludes grants.

Despite low oil prices, growth in the group of oil importers will slow down from its 2015 level by 0.9 percentage point at 2.5 percent in 2016, increasing to 3.5 percent and 3.8 percent respectively in 2017 and 2018. Persistent security concerns and slow activity in tourism and remittance inflows are just a few of the factors explaining slow growth in this group of countries. The tourism industry was hard hit by the aftershock of terrorist attacks in Tunisia and Egypt. The number of bookings to Egypt and Tunisia declined by 40 percent in 2015. In Egypt, tourism receipts are expected to decline from a peak of \$13 billion in 2010 to \$8 billion in 2016. Foreign exchange shortages are expected to worsen Egypt’s external balances and slow down the already weak economic recovery going forward (Table 1.1). Fiscal deficits and debt in this group of countries remain high. Lebanon’s public debt, already high at 138 percent of GDP, is expected to increase by 7 percentage points of GDP in 2016.

Remittance inflows from GCC countries to the rest of the region have been slowing down. The World Bank estimates that remittances declined by 0.4 percent in 2015 against the 1.6 percent increase predicted in October 2015. The GCC governments that are coping with the impact of falling oil prices have been cutting spending, discussing plans to tax remittances, and raising debt. This has reduced remittances, aid and grants to the rest of the region, particularly to those countries that rely on them heavily (Figure 1.4). Egypt, Lebanon, Jordan, Tunisia and to some extent Morocco are significant recipients of remittances from the GCC. The slowdown is expected to further strain their balance of payments, outweighing the positive benefits from lower oil prices.

Figure 1.4 Remittance Inflows to MENA as % of GDP



Source: World Bank Development Prospects Group.

In addition, exchange rate fluctuations have affected the decision to send remittances back home. In Morocco, the dollar value of remittances declined by 11 percent in the first three quarters of 2015 compared to the previous year. Remittance inflows to Egypt were also affected by the apparent overvaluation of the Egyptian Pound.² By contrast, nominal remittance inflows to Lebanon and Jordan (whose currencies are pegged to the US dollar) are estimated to have remained flat. The World Bank estimates that remittances in MENA will grow only modestly in 2016 and 2017, significantly slower than all other regions.

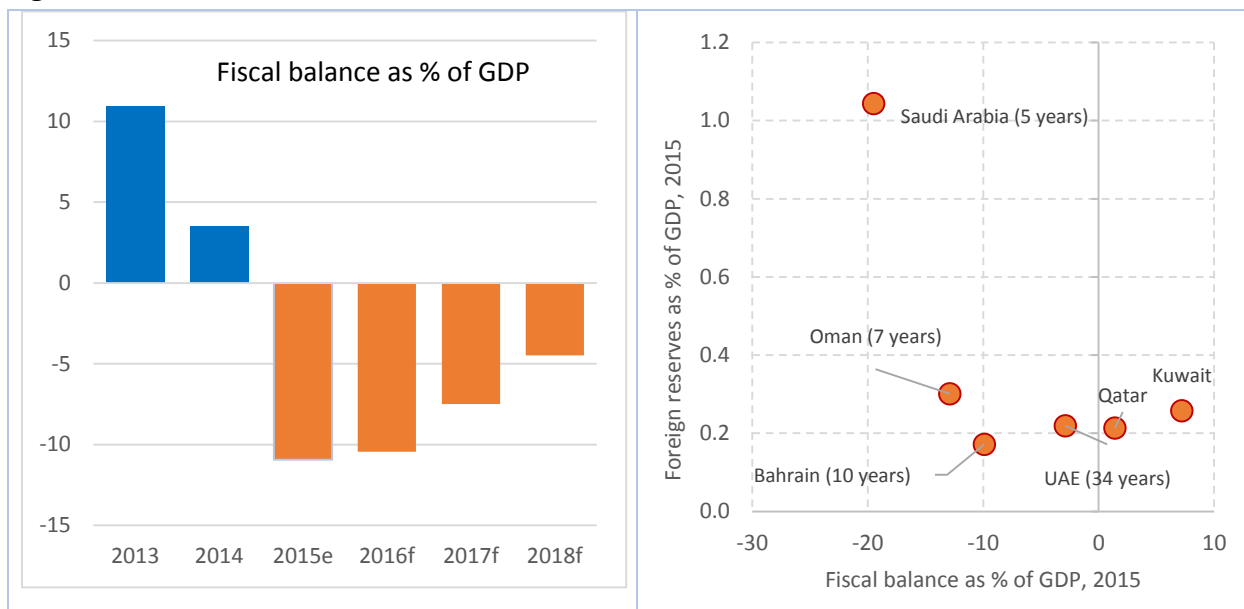
Growth in oil exporters, including the six GCC countries, will be affected by persistently low oil prices. Growth in the GCC countries is expected to fall to 2.2 percent in 2016 from 3.1 percent in 2015. It is expected that growth will pick up slightly over the forecast period (Table 1.1). Growth in this group of countries, however, has been halved since 2014 (Figure 1.1, left panel and table 1.1), suggesting that GCC countries have been “growing by oil and slowing by oil”. Among other oil exporters, Libya and Iraq are expected to witness large fiscal deficits, of 59.9 percent of GDP and 20 percent of GDP in 2016, which could barely be sustained without spending reform schemes in place. Iran on the other hand is expected to benefit from the lifting of sanctions in 2016 and beyond (Devarajan and Mottaghi, 2015b). The country is managing to increase oil exports to pre-sanctions levels, approximately 2.4 million barrels per day (b/d). This is projected to increase growth to above 4 percent in 2016 and 2017 though that growth remains oil driven. The World Bank estimates growth for the group of oil exporters to pick up slightly in 2016 and 17 due to a rebound in oil production in Libya, Iraq and Iran (Table 1.1).

The fiscal balances of oil exporters are deteriorating, threatening fiscal sustainability (Table A1). At current oil prices, fiscal deficits are expected to remain stubbornly high in oil exporters (Table 1.1) and above 10 percent of GDP in three GCC countries in 2016, for the second year in a row, before declining in 2017 and 2018 (Figure 1.5, left panel). Among them, the highest deficits will be in Saudi Arabia and Bahrain at 16.3 and 16.9 percent of GDP respectively. Saudi Arabia faces a forecast deficit of \$118 billion in 2016 and \$97 billion in 2017.³ Qatar is expected to see its first fiscal deficit in 2016 after years of double digit surplus (Table 1.1). The estimated fiscal deficit of the GCC countries of about \$145 billion in 2015 and \$150 billion in 2016 have forced these countries to borrow and also use their foreign reserves. Saudi Arabia, having exhausted 20 percent of its foreign reserves already, can rely on reserves for another five years (Figure 1.5, right panel). The government has also borrowed significantly including \$26 billion last year. Estimates by the World Bank show that the combined GCC public debt is expected to rise in 2016. Among them, it is expected that public debt will rise in Saudi Arabia to 20 percent of GDP and in Bahrain to 83.7 percent of GDP in 2016.

² On March 14th, the Egyptian pound was devalued by 14 percent.

³ In the previous oil slumps, the deficit was \$23 billion in 2009 and \$13 billion in 1998.

Figure 1.5 Finances in GCC Countries

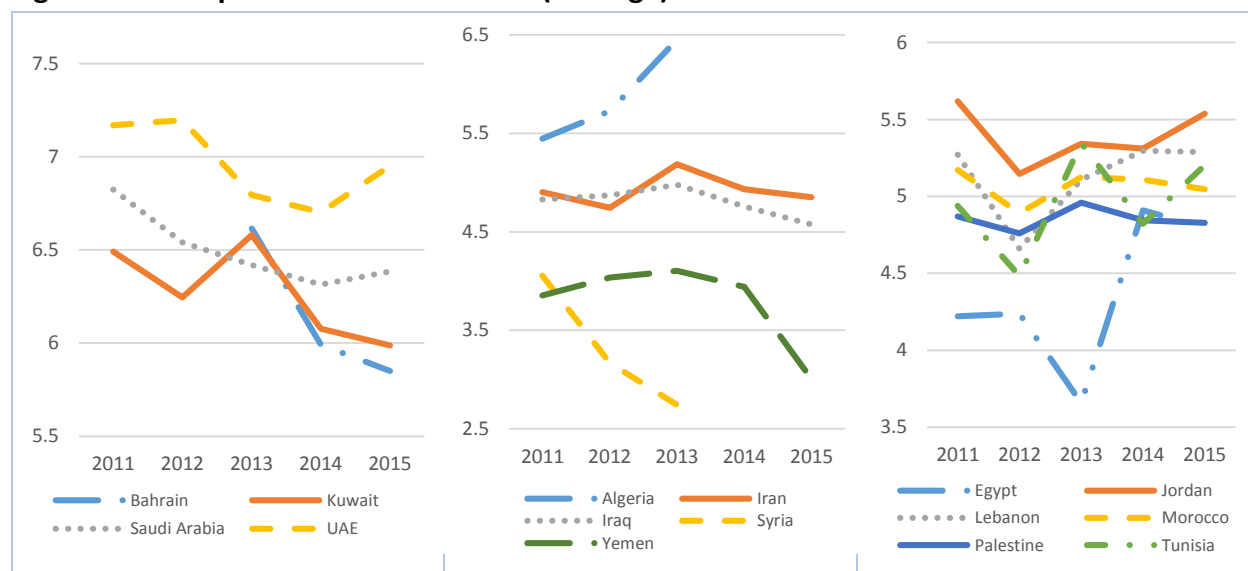


Source: World Bank.

How do people in MENA evaluate their economic prospects? Macroeconomic indicators, such as GDP growth and inflation, are indirect, albeit important, indicators of people’s current and future welfare. It is useful to compare these with people’s own assessments of their welfare. Subjective Well Being (SWB) indicators, such as Gallup’s life satisfaction index, the quality of life as expressed by the citizens. Specifically, they answer the following question: *“Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?”*

According to the Gallup life satisfaction index, more and more people, particularly in GCC countries and the war-torn countries such as Yemen and Syria, are increasingly dissatisfied with the quality of their lives (Figure 1.6). In Bahrain and Kuwait, for example, average life evaluation level declined from 6.5 in 2013 to below 6 in 2015. Perceptions of unhappiness were also evident in Egypt, Tunisia, Yemen and Syria prior to 2011, although life satisfaction has rebounded somewhat in Tunisia and Egypt since 2013-4, following the favorable oil prices shock of 2014 together with some positive signs of political stability (Figure 1.6).

Figure 1.6 Gallup Life Satisfaction Index (Average)



Source: Gallup World Poll.

What if oil prices drop further? If they fall to an average \$30 p/b in 2016, the World Bank estimates that the group of oil exporters will lose a combined total of \$151 billion in oil revenues in 2016 (from \$51 p/b on average in 2015, Table 1.2a). With no reform, their fiscal deficits will increase to 21 percent of their combined GDP. Under a scenario of further decline in oil prices to an average \$20 p/b in 2016, these countries will lose about \$199 billion in oil revenues in 2016 and their fiscal deficits would increase to 24 percent of their GDP combined (Table 1.2b). Among them, the fiscal deficit is projected to increase in Saudi Arabia to 28 and 32 percent of GDP respectively under the two scenarios. If they implement some fiscal reforms, the fiscal deficits will be lower (See Table A1).

Besides the war-torn countries of Syria, Libya, and Iraq, the economic and humanitarian situation in Yemen is deteriorating (Devarajan and Mottaghi, 2016). Data published by the Ministry of Planning in Yemen show that real GDP has declined by about 34 percent in 2015. Despite cutting fuel subsidies, the government’s fiscal deficit is widening. Oil and gas revenues have declined by 77 percent in 2015 from sabotage of the oil and gas fields and a decline in foreign aid. Yemen used to produce about 102 million barrels of oil in 2010; it has declined to less than 30 million barrels in 2015. Yemen’s public expenditure has declined by 25 percent as a result of the fuel subsidy removal (subsidies now stand at 1.1 percent of GDP compared to 26.7 percent in 2010) and a total suspension of cash transfers.⁴ Capital expenditures are on hold with spending on

⁴ The poor and vulnerable groups have been directly affected by the suspension of cash assistance disbursement to the Social Welfare Fund (SWF) beneficiaries in 2015 as more than 39 percent of them are disabled, orphans and women with no caretaker (divorced and widowed).

Table 1.2a Oil Exporter Finances in 2016 with No Fiscal Reforms (Oil Prices \$30 p/b)

	Change in Fiscal Balance as % of GDP	Projected Fiscal Balance as % of GDP	Changes in Oil Revenues \$ bln
Iran	-4.4	-6.0	-18.1
Iraq	-10.7	-28.4	-18.9
Yemen	-4.9	-14.1	-1.3
UAE	-5.3	-9.3	-18.9
Libya	-9.3	-72.7	-3.0
Kuwait	-12.3	-12.3	-15.9
Saudi Arabia	-8.9	-28.3	-57.2
Oman	-10.6	-30.6	-6.4
Algeria	-3.3	-14.6	-6.0
Qatar	-2.4	-3.9	-4.5
Bahrain	-2.1	-16.1	-0.7

Source: World Bank staff estimates.

Table 1.2b Oil Exporter Finances in 2016 with No Fiscal Reforms (Oil Prices \$20 p/b)

	Change in Fiscal Balance as % of GDP	Projected Fiscal Balance as % of GDP	Changes in Oil Revenues \$ bln
Iran	-6.5	-8.1	-26.9
Iraq	-15.9	-33.6	-28.0
Yemen	-7.3	-16.5	-2.0
UAE	-0.8	-4.8	-2.8
Libya	-13.8	-77.3	-4.5
Kuwait	-18.3	-18.2	-23.5
Saudi Arabia	-13.2	-32.6	-84.8
Oman	-15.7	-35.7	-9.5
Algeria	-4.9	-16.2	-9.0
Qatar	-3.5	-5.0	-6.7
Bahrain	-3.1	-17.1	-1.0

Source: World Bank staff estimates.

education, health, water and electricity reduced significantly. The fiscal deficit has been totally financed through direct borrowing from the Central Bank, escalating the already high inflation in Yemen to over 30 percent in 2015. Poverty data are not available but the situation has made it difficult for Yemenis to access basic services, pushing more people into poverty, currently standing at 80 percent. Domestic debt is estimated to have tripled, reaching 69.3 percent of GDP in 2015 compared to 22.8 percent in 2010.

Can MENA countries benefit from cheap oil? Low oil prices together with high fiscal deficits have pushed the governments of oil exporters to streamline their economies. Almost all of them are cutting, or planning to cut, current spending, and capital expenditures are on hold. All of the GCC governments have cut subsidies (Box 1.1), halted investment projects, and plan to introduce new taxes, including the Value Added Tax (VAT), to better align their spending with their revenues (Table 1.3). The VAT is planned to go into effect in January 2018. They are also keen on improving water and energy efficiency. In Saudi Arabia, for example, the Saline Water Conversion Corporation (SWCC) is planning to double energy efficiency from the current level of about 26-27 per cent to 54-55 per cent. In Algeria, public hiring is on hold and in Iraq, the government has cut its fiscal spending in the 2016 budget. Oil importers, particularly Egypt, Tunisia, Jordan and Morocco, have already started reforming their fiscal spending and are now focusing on improving the efficiency of energy use.

Even if they weather the oil price shock, how can MENA countries mitigate the wars, violence and conflicts that are weighing so heavily on their economies and their people? With the battles still ongoing, MENA's short-term prospects remain grim as the humanitarian and economic situation in the war torn countries keep deteriorating. In the next section, we will explore ways in which a strategy of reconstruction of Syria—the most war-ravaged country in the region—could help foster a sustainable peace.

Table 1.3 Public Spending Reform in MENA

	Introduction of VAT	Lifeline Tariff for Electricity	Other Measures
Bahrain	√	√	Cut in capital expenditure
Kuwait	√	√	Cut in capital expenditure and impose 10% flat tax on corporate earnings
Oman	√	√	Cut in capital expenditure
Qatar	√	√	Cut in capital expenditure
Saudi Arabia	√	√	Reduced the wage bill to less than 15 percent of GDP in the 2016 budget through reducing public-sector wage increases, renegotiating all contracts down 5%, and cut in capital expenditure
UAE	√	√	Cut in capital expenditure
Egypt			Property tax introduced in 2015
Algeria			Froze public-sector hiring, which accounts for 60 percent of employment
Iraq			Reduced the 2016 budget spending by USD 900 million

Source: News reports and country authorities.

Box 1.1 Energy Subsidy Reform in GCC and Oil Importer Countries

High fiscal deficits in GCC countries, except for Kuwait, and others resulting from falling oil prices and high government spending have forced several governments to reform their energy subsidies.

The **United Arab Emirates** (UAE) adopted a monthly adjustment of transport fuel prices aligning them with international levels in July 2015. Since then, gasoline and diesel prices have been declining for the fifth consecutive month and presently (January 2016) most drivers are paying less than they did when fuel was subsidized. The gap between the price of gasoline and diesel is also narrowing and diesel is expected to go lower than gasoline (as is the case in many European countries). Electricity prices have also been adjusted but mainly applied to expatriates. New tariff increases were announced in January 2016 with the tariff for expatriates in Abu Dhabi increasing by 50 percent for electricity and 6.6 percent for water. This follows a tariff increase of 40 percent and 170 percent applied for electricity and water respectively in January 2015. Natural gas, accounting for the bulk of UAE subsidies, remains well below international levels.

Saudi Arabia announced at the end of December 2015 a 5-year plan to raise prices of fuels including natural gas, gasoline, diesel, and electricity along with water. The largest price increases are 133 percent for ethane, 79 percent for transport diesel, and 67 percent each for natural gas and low-grade gasoline. Prices of electricity and water have also been raised by up to 60 percent for higher tiers of residential consumption and by varying amounts for commercial and industrial users.

Bahrain announced at the end December 2015 increases by 60 percent for low-grade gasoline and by 20 percent for transport diesel, exempting fisheries and bakeries from the tariff increase; and for water and electricity, limiting the increase to higher tiers of consumption and to commercial and industrial users. It had earlier raised gas prices to industrial users by about 10 percent per year from April 2015 with phased increases that will take the gas price to \$4/MMBTU in 2022.

Oman increased by a third the price of low-grade gasoline from 13 January 2016 and by 10 percent the price of diesel with the aim of cutting subsidies for petroleum products, electricity and other goods by over 60 percent. Oman also doubled gas tariffs for industrial producers and the power industry in January 2015.

Qatar was the last GCC country to increase the price of low-grade gasoline, on 15 January 2016, by up to 35 percent (the first increase since 2011) after raising the price of diesel by 50 percent in May 2014 and increasing electricity and water prices, tiered according to consumption in October 2015.

Kuwait is still struggling to lower the cost of subsidies by nearly 35 percent from \$19 billion in 2015. Earlier attempts to increase were reversed one month after the announcement in February 2015 and new reforms are yet to be announced. As regards the electricity tariff, in 1966 Kuwait dropped its electricity tariff from 27 fils per kWh to 2 fils and it has remained the same ever since. For larger houses or villas, the price of electricity has, however, been raised to 10 fils/kwh (\$3.5).

Egypt cut fuel subsidies in July 2014, raising prices by up to 78 percent. Subsidy spending in Fiscal Year (FY) 16 is 30 percent lower than the last budget, thanks to lower oil prices and the government's initiative to cut subsidies.

Jordan and **Morocco** reduced fuel subsidies prior to the 2014 oil price shock.

Sources: GCC Knowledge note and country briefs, World Bank, February 2016.

Annex Tables

Table A1. Fiscal Sustainability in MENA Oil Exporters

	Hydrocarbon Sector, 2014	Hydrocarbon Exports, 2014 1/	Government Debt, Q3 2015 2/	Oil Price Assumed in 2016 Budget 2/	Sovereign Wealth Fund Assets, 2015 3/	Reserves, 2015 4/	2015 Fiscal Breakeven Price (\$)
	(% of GDP)	(% of goods exports)	(% of GDP)	\$ (p/b)	(% of GDP)		
Bahrain	24	59	52	50	36	5	106.3
Iran	29	70	16	40	16	18	87.1
Iraq	47	94	62	45*	...	8	81
Kuwait	59	95	4	25	480	7	67
Oman	39	84	5	45	19	5	94.6
Qatar	35	88	32	48	133	8	55.5
Saudi Arabia	46	87	11	Low \$40s	95	30	105.6
United Arab Emirates	24	30	16	...	358	3	72.5

Sources: World Economic Outlook October 2015; Sovereign Wealth Fund Institute; World Development Indicators; individual IMF Article IV staff reports; Haver Analytics; World Bank country teams. *Expected to be reduced to \$30 p/b.

1/ Share of Petroleum and gas products out of total goods exports of 2014.

2/ Government debt for Q3 2015 or latest. Bahrain in percent of 2015 GDP. Latest government, IMF, or World Bank projection for Algeria, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab.

3/ Latest available data on sovereign wealth fund assets in percent of 2015 GDP.

4/ Includes sovereign wealth fund assets controlled by monetary authorities, as reported under foreign exchange in the IMF IFS, in months of goods and services imports.

Table A2. Finances of GCC Countries in 2016 with Fiscal Reforms

	Fiscal Balance % of GDP 2016	Current Account Balance % of GDP 2016
Saudi Arabia	-24.1/-30.9	-33.1/-41.6
Kuwait	-10.3/-19.1	-5.7/-14.5
Bahrain	-23.4/-25.7	1.9/-2.1
Oman	-14.4/-15.3	-21.4/-22.9
Qatar	-5.7/-7.8	-17.9/-27.4
UAE	-5.0/-6.2	-18/-22.6

Source: World Bank, Macro & Fiscal Management.

Note: At averaged oil price of \$30/\$20 p/b in 2016 (See box 1.1 and table 1.3).

SYRIA: RECONSTRUCTION FOR PEACE

Introduction

As European policymakers grapple with the inflow of refugees from Syria and other countries, it is easy to forget that each refugee comes with his or her own history. Addressing the so-called “refugee crisis” therefore requires understanding the proximate causes that led the refugee to take a perilous journey to the shores of Europe. This report explores the plight of Syrian refugees and of the Syrian people more generally. Those coming to Europe are the tip of the iceberg, representing a mere 10 percent of registered refugees. The majority are in neighboring countries of Turkey, Lebanon, Jordan, and Iraq. In addition, among those who remained within the borders of Syria, 7.6 million people are now considered Internally Displaced Persons (IDPs). Five years after its onset, the Syrian Civil War has claimed anywhere between 132,000 and 470,000 lives and has led almost half of Syria’s 22 million population into forced displacement.⁵ A preliminary and partial assessment sets the damages caused by the conflict to the capital stock at \$70-80 billion as of mid-2014.

In light of the ever-worsening situation inside the country, with devastating humanitarian consequences, this report argues that the impact of the civil war on the Syrian society will be persistent, and that development institutions can take immediate actions to help preserve development achievements and foster peace. The challenges facing the country need to be addressed *now*. The report first takes stock of the damage and death through the experiences of refugees in neighboring countries, and then delves into the violence and devastation inside the country. The final section illustrates that a more audacious development agenda can help bring about relief and appeasement in the short-term, and stability in the long-term. While full-scale reconstruction may have to wait for peace before it can start, a credible reconstruction strategy can foster the return to peace. The report calls for the international community to be the guarantor of an inclusive reconstruction strategy that not only makes peace sustainable tomorrow, but makes it happen today: peace and reconstruction are two sides of the same coin.

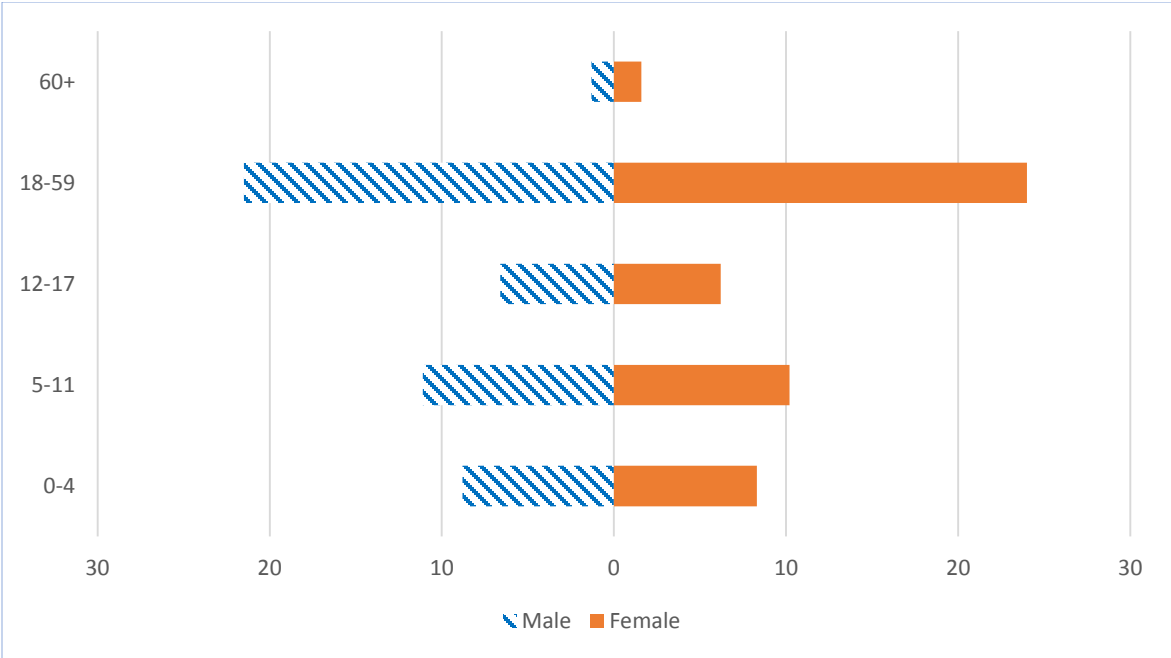
Refugees and the War

The waves of refugees arriving on the shores of Europe, and the passionate public reaction that followed, pushed the Syrian refugee crisis to the center of the policy agenda in Europe. As the international community focuses on how to curtail the flows of asylum seekers crossing the

⁵ The lowest number is from Violations Documentation Center (VDC) that acknowledges that they cannot fully account for the deaths among regime fighters, while the highest number is from the Syrian Center for Policy Research (SCPR) that counts both direct and indirect deaths in the conflict.

Mediterranean Sea and the UN-sponsored peace talks drag on, it is important to remember that the first victims of this war are mostly in and around Syria. The latest UNHCR statistics reveal that half of the Syrian population has been forcibly displaced, with an estimated 7.6 million internally displaced persons (IDPs) and 4.8 million registered refugees (UNHCR, 2016). According to the same statistics, the number of Syrians arriving in Europe seeking international protection represents only 10 percent of refugees, with most Syrians fleeing the conflict relocating across the border: an estimated 2 million found refuge in Arab countries while 2.7 million are now in Turkey (UNHCR, 2016).

Figure 2.1 Demographics of Syrian Refugees



Source: UNHCR.

As shown in Figure 2.1, the population of refugees is relatively young, with a 49.3 percent to 50.7 percent male - female split. A recent study on the welfare of Syrian refugees in Jordan and Lebanon carried out by the World Bank and UNHCR finds that the composition of the refugee population that arrived in Jordan and Lebanon before December 2014 differs from pre-crisis Syrians in a number of characteristics (Verme et al., 2015). Refugees tend to be relatively younger: 81 percent are under age 35, versus 73 percent of pre-crisis Syrians. The share of children aged 0–4 is higher, close to 20 percent versus 11 percent. The displaced in these neighboring countries also tend to have larger households, with more children. They are also more likely to be farmers with slightly lower levels of education: 83.6 percent and 86.7 percent of Syrians in Jordan and Lebanon, aged five years or more, have primary education or below, compared to 83 percent in pre-crisis Syria (Verme et al., 2015). A recent UNICEF report finds that

one third of all Syrian children were born during the conflict, with 300,000 of these 3.7 million Syrian children born as refugees (UNICEF, 2016). These demographic patterns raise concerns about the prospects of a generation of Syrian children and youth living through conflict and displacement. Thousands of young Syrians have only known displacement for most of their lives. As past experiences with civil war and displacement have documented, they will likely struggle with questions of identity and self-worth (Abdi, 2005; Schmidt, Kravic, & Ehlert, 2008).

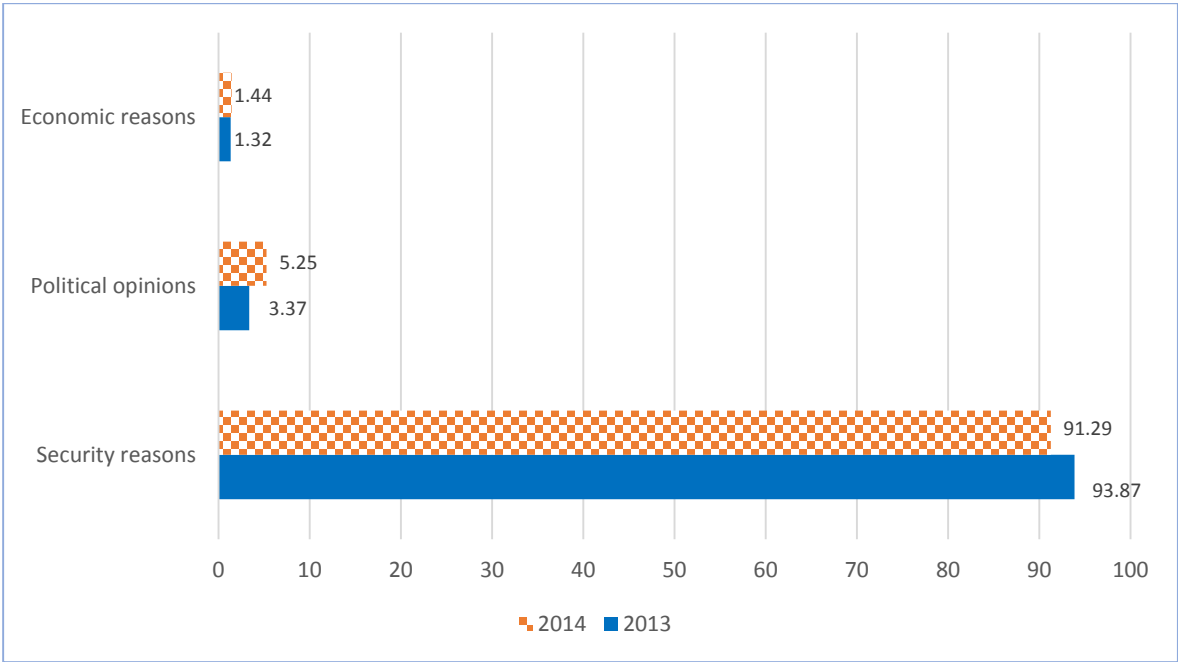
The refugee crisis is but one consequence of a violent conflict, yet the experiences of the exiled give us a window into the devastation of the ongoing war. The Disaster and Emergency Management Presidency of Turkey (AFAD) has carried out a three-wave survey in 2013, 2014, and 2015, which gives us a sense of the loss endured to date (Balcilar, 2016). Turkey is hosting the largest Syrian refugee population, with first arrivals dating back April 2011. Inflows peaked in late 2012- early 2013 as Syria experienced higher levels of fighting intensity. The top three stated reasons for flight are shown below (Figure 2.2), with more than 90 percent of the surveyed households reporting, as one could have expected, that they left because of security. Political opinions and economic reasons are also drivers of departure, with higher proportions in 2014 as the conflict disrupted economic activity and shortages took their toll.

Despite raging conflict, refugees still keep contact with their communities back home. They still hold strong connections to their country and bear the burden of trauma.⁶ In 2014, 44 percent of surveyed refugees reported going back and forth across the border. The main reasons for such transits are to visit family members (53.7 percent) and to check on property (22.6 percent). Trade motivates a smaller proportion, with 3 percent of the Syrians crossing back doing so to conduct business (Balcilar, 2016).⁷ The death toll of the conflict has been heavily reported, with the UN suggesting that more than 250,000 were killed by the summer of 2015 (Taylor, 2016). The fleeing population is also affected by human loss: more than a third of surveyed refugees in Turkey report losing at least one family member in the conflict. The proportion of households that know their homes to have collapsed seems to have increased over time, reaching over 50 percent in 2015. Nearly half of the surveyed households think that a family member needs psychological support. This echoes recent reports on the dramatic increase in psychological trauma affecting Syrians (Dunmore, 2016).

⁶ Some refugees are even heading already back, citing hardship in exile as a reason for return (Robinson, 2016).

⁷ The southern regions of Turkey have witnessed the development of Syrian-owned firms and an increase in exports to Syria (Dogan 2015).

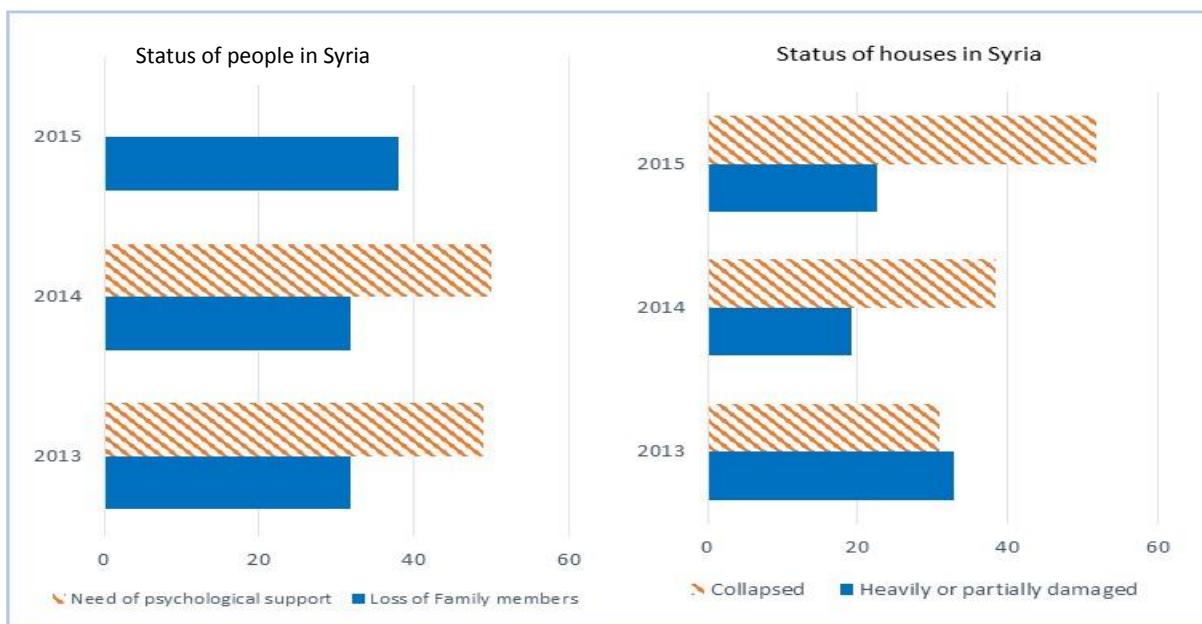
Figure 2.2 Reasons for Departure



Source: AFAD survey results.

The plight of refugees illustrate the fracture that the civil war has created in the Syrian society. These scars can be expected to endure, and may worsen as the conflict lingers (Figure 2.3). For instance, mental health is a persistent outcome that does not perfectly correlate with alternative conventional indicators such as poverty, consumption or income (Das et al., 2007, 2009). Do and Lyer (2009) argue that mental health recovery does not necessarily follow the same recovery path as economic activity or political developments, while Friedman and Thomas (2008) find that mental health did not recover, even when income recovered to its pre-crisis level, in the aftermath of the 1997-98 East Asian crisis. Beyond the personal stigma associated with exposure to extreme levels of violence, attitudes in Syrian society are potentially permanently affected. Although social and institutional legacies of conflict are still elusive (Blattman and Miguel, 2010), a study on the impact of violence on behavior finds that exposure to violence is associated with lower trust and fairness within local communities in post-conflict Tajikistan (Cassar et al., 2013). The longer the conflict lasts, the harder it will be to bring back cohesion in the society.

Figure 2.3 What Refugees Lost



Source: AFAD survey results.

Inside Syria: A Country in Ruins

Death and Violence

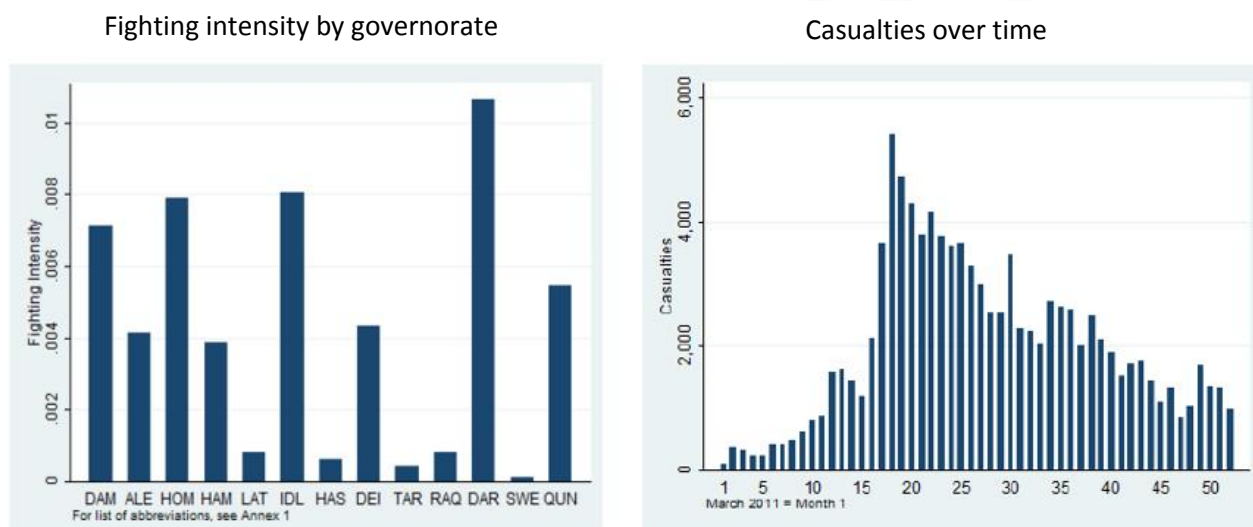
The majority of the displaced fled after their homes were destroyed or because they were facing a direct threat or violence (UNOCHA, 2015). Displacement trends and the geographic distribution of violence correlate strongly. By 2012, the Syrian Civil War had reached intense levels of fighting, and conflict became the leading cause of death in Syria (WHO, 2016). Conflict-related deaths include all deaths due to poor sanitation and severe disruption to Syria’s healthcare system, and deaths directly caused by violence (Guha-Sapir et al., 2015). The Syrian Center for Statistics and Research, the Syrian Network for Human Rights, the Syrian Observatory for Human Rights, and the Violations Documentation Center in Syria (VDC) have provided records of violent deaths in the Syrian conflict. However, VDC is the only source that disaggregates casualties at a fine geographical level, documents the type of weapon used and distinguishes between civilian and combatant deaths (Guha-Sapir et al. 2015, Abdel Jelil and Do, 2015).

Figure 2.4 displays the total number of casualties by month and shows the evolution of the conflict over the period March 2011-June 2015. From March to June 2011, the conflict, which was concentrated in the governorate of Daraa, took the form of peaceful demonstrations mirroring those in Tunisia and Egypt. Starting July 2011, faced with an unyielding regime, the opposition began to organize and unify its forces. Toward the end of 2011, clashes escalated.

In 2012, the conflict expanded into Aleppo and Damascus: the country had stepped into full-blown civil war (Al-Salah and White 2013).

The casualty count shows that the conflict has been mostly concentrated in the governorates of Aleppo, rural Damascus, Hama, Homs, Idleb, and Daraa (Figure 2.5), which are also the main governorates of origin of the displaced (UNOCHA, 2015). These are situated in the western part of the country, are ethnically and religiously diverse, and comprise most of the country's population and middle class. In spite of combating factions claiming they would only target combatants, civilians represent 71 percent of all casualties, and 92 percent of bombing-related victims. Women account for 11 percent and children 17 percent of civilian victims, and the spatial distribution of female or child casualties follows the same pattern as the general population. However, women and children are more likely to fall victims to explosives and chemical weapons (Guha-Sapir et al. 2015; Abdel Jelil and Do 2015).

Figure 2.4 Casualties in Syria⁸



Source: Abdel Jelil and Do (2015).

A great deal of effort has been dedicated to assessing whether the number of casualties in a given area is overestimated due, for example, to false reporting or duplicates, while little has gone into assessing whether there might be under-reporting (Price et al., 2014). The consequences of casualty underreporting in Iraq and the “seeds of hatred” it may have generated are yet to be fully understood (Leigh, 2010). An analysis of monthly UN Mine Action Service (UNMAS) data and district level casualty mapping suggests that areas with intense fighting will tend to be more

⁸ Fighting intensity is measured by the ratio of the number of reported deaths and governorate’s population in 2010.

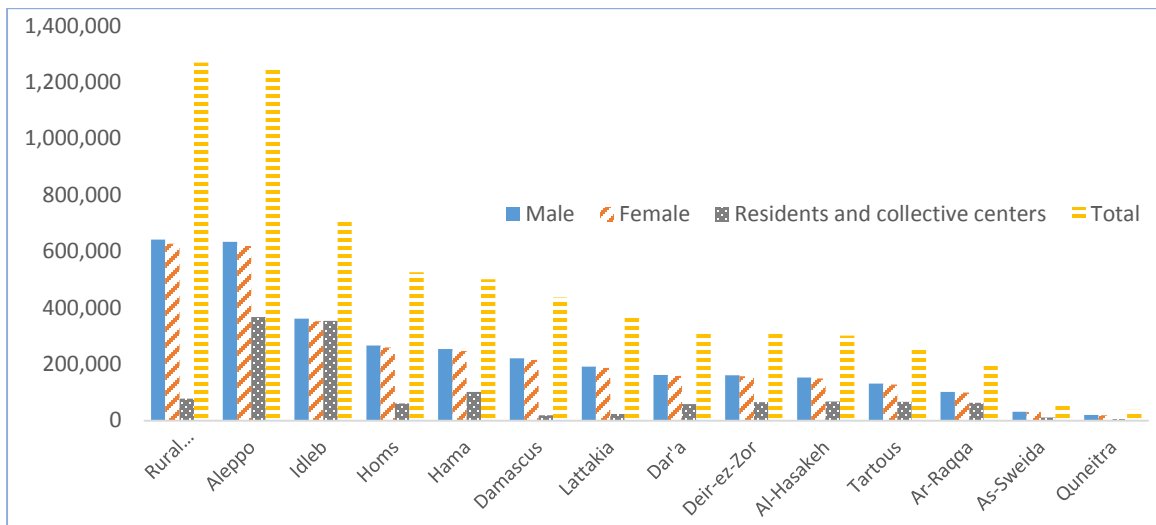
covered, and technology might influence the extent of and the accuracy with which casualties are being reported (Abdel Jelil and Do, 2015).

A Worsening Situation for the Syrians Left Behind

The population left in contested areas is facing a deteriorating humanitarian crisis. The disparities within the country in terms of access to services have been exacerbated by fighting patterns, internal displacement, and isolation. An estimated 35 percent of the current urban population are IDPs, with a large share in need of shelter. Some 1.7 million are living in more than 3,000 camps and settlements in Syria (UNOCHA, 2015). IDPs in urban areas often live in precarious conditions. In some cities, the vast majority of the displaced population is in need of humanitarian assistance. Households headed by children, the elderly, and women tend to relocate within camps and are particularly vulnerable (UNOCHA, 2015). Higher displacements have occurred mainly in the northern governorates because of increased instability and continuous shifts of the front lines. Aleppo and Homs have sustained the vast majority of the housing stock damage. By the end of 2013, 302,000 housing units were already partially or fully damaged in Aleppo, which represents 52 percent of the city's 2011 housing stock (UN- HABITAT, 2014). In the same period, nearly half of the displaced resettled within the governorate as informal camps started to develop in some sub-districts. The main city was divided by areas of control, and a more recent survey finds that over half of eastern Aleppo's population consists of internally displaced persons (REACH, 2016), while the western part is subject to intermittent siege.

The Damage and Needs Assessment (DNA) carried out by the World Bank reported that only 33 percent of public hospitals were even partially functioning by the end of 2014. In terms of damages, almost a third of hospitals, medical centers, and pharmacies had been affected, resulting in a shortage of beds and medicines to treat patients. The situation seems to have deteriorated since, due to increased isolation and poor service delivery. The UN estimates that 42 percent of the population lack access to basic health services (UNOCHA, 2015). Furthermore, some 4.5 million people are located in hard-to-reach areas, with 400,000 Syrians besieged with very limited access to medical and humanitarian services. Most of the requests submitted by WHO for authorization to deliver medicines and supplies go unanswered.

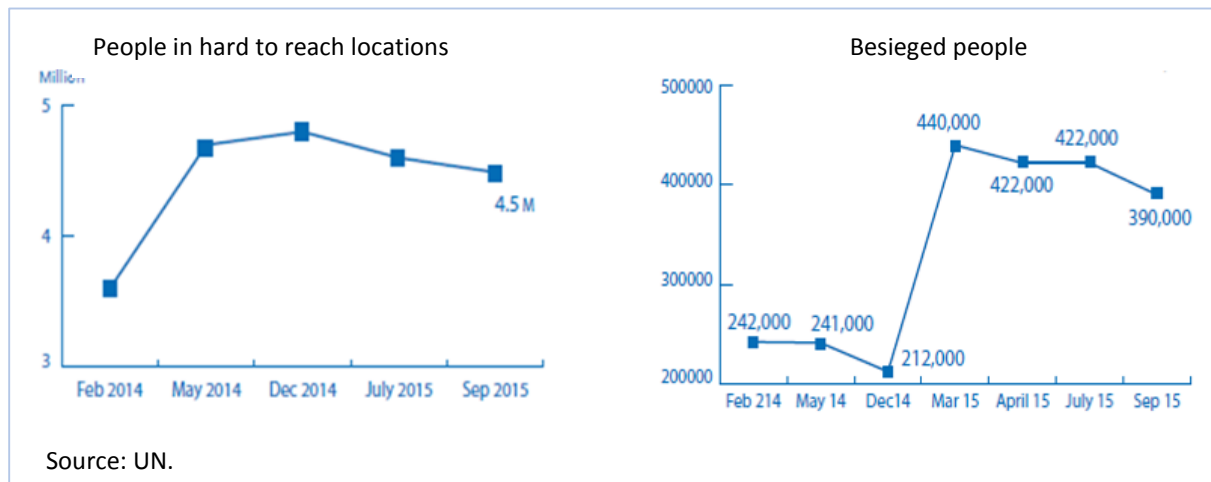
Figure 2.5 Internally Displaced People



Source: Humanitarian Needs Overview 2016.

The situation of women and children in the country is of particular concern (Figure 2.6). UNOCHA estimates that 3 million children under five years of age and pregnant women in Syria are at risk of malnutrition and in need of preventive and curative nutrition services. Diseases such as polio, long thought to be eradicated, have re-emerged and spread across the country due to lack of safe drinking water and basic sanitation, and the inability of routine immunizations to take place (Sharara and Kanj, 2014). The water supply system is functioning at a third of its pre-crisis level. There have been outbreaks of hepatitis A across Syria, with a cumulative total of over 49,300 cases at the end of the year. Over 50,000 cases of cutaneous leishmaniosis, nearly 2,400 cases of pertussis and 1,617 suspected measles cases were reported in 2015. All three of these diseases are preventable with proper sanitation or vaccination (WHO, 2015).

Figure 2.6 Isolated Population



Source: UN.

Another factor that contributes to the decline in the quality of services is the high risk of casualties among health sector workers. The Syrian Network for Human Rights has recorded 27 hits to medical points and 10 medical personnel were killed in May 2015. The NGO Physicians for Human Rights declared that 697 medical workers had been killed in Syria since the start of the uprising (Amnesty International, 2016). Doctors are now concentrated in safer governorates, while a lack of human resources is documented in North and North Eastern regions of the country. By February 2014, 15,000 doctors had fled Syria (Baker, 2014) and it was estimated that there were only 62 out of 6,000 physicians left in all of Aleppo as of May 2015. The exodus of medical workers may be hard to recover from, as some of the highly educated Syrians will not stay in the region. A recent preliminary survey of refugees in Greece suggests that high-skilled Syrians, including doctors and pharmacists, are on their way to Europe (UNHCR, 2015).⁹ Lack of medical care has become the second cause of death (Baker, 2014). A recent report indicates that life expectancy has dropped to 55 years in 2015, and 70,000 deaths were due to lack of adequate health services and medicines, especially for chronic diseases (SCPR, 2016). Some NGOs like Save the Children estimate a higher number of deaths from chronic diseases due to lack of drugs.

Shortages also affect access to water and sanitation. The early DNA finds that water infrastructure has suffered little or no damage (World Bank, 2015). Major water infrastructure such as major dams, pumping stations, and reservoirs that feed irrigation networks have largely avoided damage, as they are located outside population centers where conflict is concentrated. However, recent reports indicate that severe life-threatening shortages exist and may be deliberate in areas including Aleppo, Damascus, Rural Damascus, Daraa and Hama (UNICEF, 2016). The UN estimates that 12.1 million people have no access to clean water in Syria and 69 percent of the population gets water from medium- to high-risk sources (Figure 2.7). The most vulnerable are located in heavily-contested areas in Aleppo, Homs and Hama. Typically, they are poor, IDP families living in precarious or isolated settlements where water, sanitation, and hygiene services are often minimal (UNOCHA, 2015).

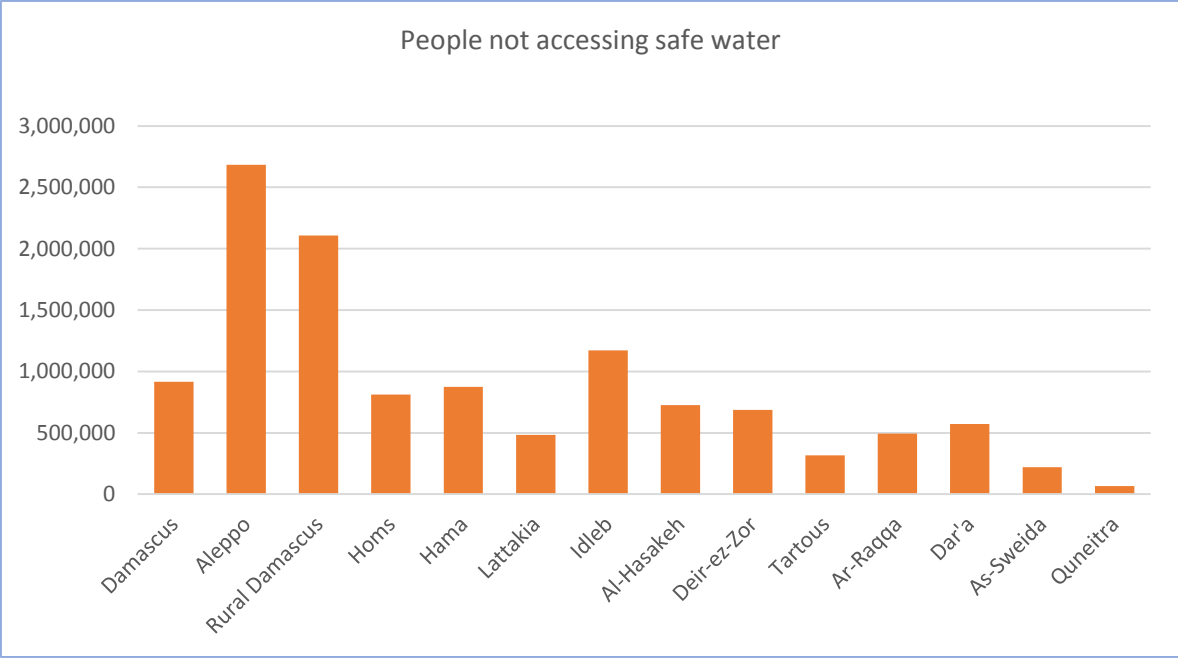
Electricity generation has been declining since 2013. In the cities of Aleppo, Hama and Daraa, damage has disrupted power supply (World Bank, 2015). Power plants in these contested cities are producing at a fraction of their capacity, and households that still have access to the network only receive electricity sporadically.¹⁰ A survey of factories in northwestern governorates by the Syrian Economic Forum indicates that production is limited by access to energy, with 95.7 percent of factories relying mainly on electricity for production, but 56.5 percent of them receiving electricity for less than 3 hours a day (Syrian Economic Forum, 2014). A quarter of surveyed firms

⁹ The survey is not representative, as the sampling was not random, yet it comprises the largest sample of Syrian refugees interviewed upon arrival in Europe.

¹⁰ In contested areas electricity is only available for two to four hours, if at all (BBC 2016).

report using private generators, which implies a higher marginal cost and volatile production due to intermittent access to fuel. Workers' irregular schedules and salaries result in lower incomes for those still able to secure a job, while facing higher prices.

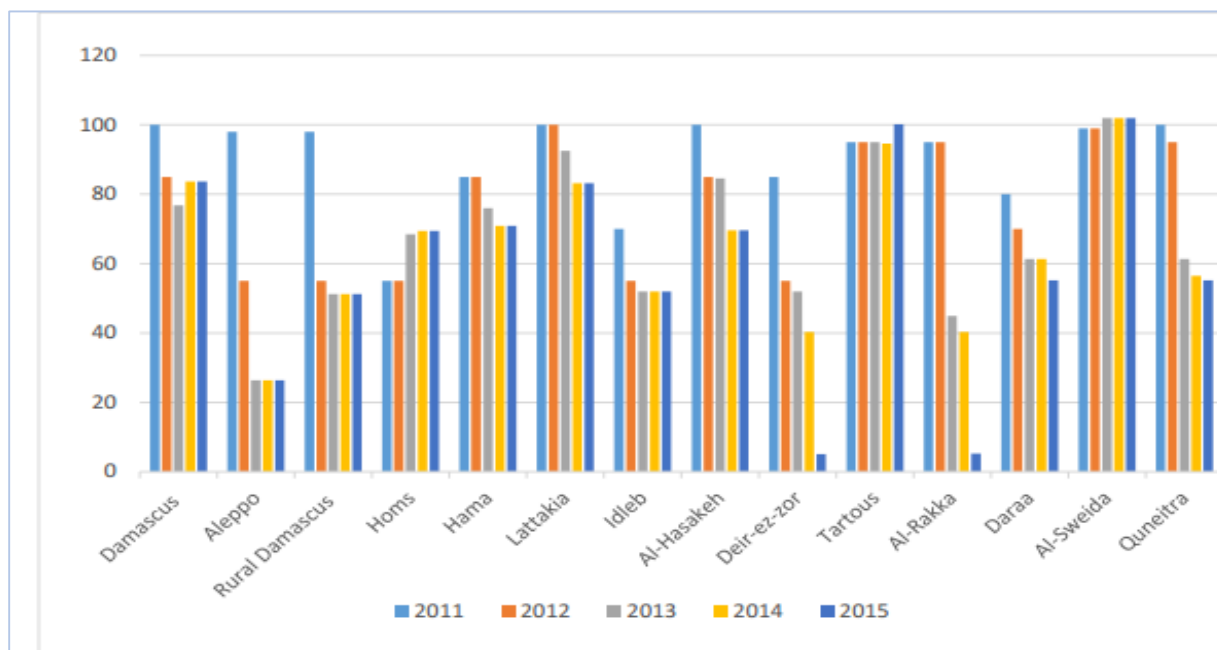
Figure 2.7 Safe Water in Damascus and the 14 Governorates



Source: Humanitarian Need Overview 2016.

The conflict heavily damaged the education system and reversed years of educational attainment in the country (Devarajan and Mottaghi, 2016). Although the 2014 DNA estimates only record a few hundred damaged facilities in six major cities, most of which are in Aleppo and Daraa, UNOCHA recently reported a crumbling system with thousands of schools destroyed or converted into shelters for displaced families, and more than 2 million children out of school inside Syria today (UNOCHA, 2015). This suggests that the situation has dramatically worsened during the past year. According to the same report, some 50,000 teachers and education personnel are no longer working, and a substantial number of teachers do not receive salaries anymore. Total enrollment in pre-primary, primary and secondary school has dropped by 44 percent, from its pre-war level (Figure 2.8). There are significant differences between contested rebel areas and Daesh-controlled areas on the one hand, and regime-controlled districts, where reports indicate that service continues, on the other hand (World Bank, 2015).

Figure 2.8 School-Age Attendance Rates by Governorates



Source: SCPR Impact of Syria Crisis Report 2015.

Children in contested areas face several barriers to attending school, not the least of which is the risk of being targeted. UN agencies and NGOs have reported at least 32 attacks on schools in Syria in 2015, and the killing of 160 children in schools in 2014 (Save the Children, 2015). The steep decline in incomes and loss of family breadwinners also push students out of school, as households cope with the shocks through child labor: young boys are thus forced to work for armed groups, who are the main employers in some areas.

The sustained exposure to violence in contested governorates and the drop in basic service delivery will have long-term effects on a generation of Syrians. The literature on violence and human development highlights the importance of early experiences for an individual's future well-being. Birth outcomes are linked to cognitive development, socioeconomic status and long-term health. Early exposure to violent conflicts negatively affects health at birth outcomes. Using random exposure to landmine explosions, Camacho (2008) shows that stress due to terrorist attacks decreases a child's birth weight, while Akresh et al. (2011) exploit variation in the Eritrean-Ethiopian conflict's geographic variation and timing to show that war-exposed children in both countries have lower height-for-age scores. Furthermore, the prolonged distress that families are facing, and the subsequent increase in child labor as a coping mechanism will have long-term effects. The children involved are likely to have fewer opportunities in the future. The prospect of a lost generation in Syria, and the increasing number of deaths due to the lack of

basic services makes it all the more critical to provide immediate solutions to the humanitarian crisis and push for a lasting peaceful resolution of the conflict.

A Need for Immediate Action

Provision of Goods and Services during the Conflict

As the level of violence in Syria shows no signs of abating and the humanitarian situation deteriorates, the need for more mitigation and resilience projects inside the country becomes acute. The risks of increased flows of refugees and the looming threat of a radicalized youth requires a more innovative development response. UN agencies and non-state actors are already involved in such efforts in most Syrian governorates, with a focus on IDPs, youth and woman-headed households. UNDP has launched a program on community engagement and rapid employment activities, focusing on labor-intensive rehabilitation of basic community infrastructure and the restoration of disrupted livelihoods (UNDP, 2015).¹¹

Short-term interventions can help preserve human capital, and reduce the long-term effects of the war. Providing jobs and economic empowerment now, especially for female-headed households, can have considerable gains. It has been documented that violent conflict is associated with increased female labor force participation (Justino, 2012), and the percentage of female-headed households has been increasing in Syria. Supporting these women through jobs may improve the nutritional and schooling outcomes of Syrian children and accelerate the household's recovery after reconstruction. Indeed, Justino et al., (2012) argue that the resilience of women during the conflict can contribute to the economic recovery of households once peace is reached.¹²

A more audacious effort on the health sector in the country may reduce the long-term cost of the war on Syrian society. In order to restore service delivery it is important to train health workers to fill the gap of the exodus of the qualified in the short-term, and provide incentives for talented medical providers to return to Syria in the longer term. Improvements in the provision of emergency services and access to medicine can reduce the death toll, since thousands of casualties have been reported as preventable deaths (Yourish et al., 2015). This includes addressing shortages of ambulances, specialized medical staff, equipment and supplies (World Bank, 2015). Improving access to health services may also improve economic outcomes in the

¹¹ So far, 1,000 woman-headed households received livelihoods support directly benefiting 3,399 persons (UNDP 2015).

¹² However, evidence show that women tend to lose their jobs in after the conflict due to, among other factors, social pressure (Justino et al., 2012).

short run. The Syrian Economic Forum reports access to emergency services as one of the main reasons for the drop in factories' productivity in Aleppo (Syrian Economic Forum, 2015), second only to security and energy access. Some innovative approaches are already under way, relying on context-specific knowledge and community engagement. For instance, NGOs have provided funding for equipment and salaries matching the health sector needs of communities in Syria, through a process that fosters local ownership (Devi, 2016).

The need to engage more actively in all sectors in Syria can be accomplished through partnerships with neutral and well-established non-state actors. By securing grant funding and technical assistance, international organizations can provide needed relief in the country while engaging in a knowledge generating process. This would allow the international community to gradually scale up its assistance once peace is reached. The experience of South Sudan, where tensions between local authorities and foreign experts have been cited as one of the reasons for the slow progress in the reconstruction plan, should incentivize early engagement in conflict affected countries like Syria (Badiy, 2014). Furthermore, analytical work on the main challenges on the ground can be relevant and contribute to the awareness and understanding of the issues that may emerge in the reconstruction process.

Boosting the Odds of Peace

The gains from any short-term intervention cannot be sustained without a definitive ceasefire agreement. Although political negotiations between all actors, both local and international, are getting a lot of attention as they should, the role of reconstruction in the peace process seems to be neglected.

The Syrian population, both inside and outside of the country, have a lot riding on the peace process: an analysis of the latest survey in Turkey shows that more than 70 percent of surveyed refugees in 2015 want to go back home when the fighting stops (Balcilar, 2016). A devastating humanitarian crisis and the spread of security challenges to the region make it all the more crucial for negotiating parties to come to a peaceful settlement as soon as possible. Yet, several rounds of negotiations have yielded little progress (Guardian, 2014). The momentary suspension of the peace talks in February 2016 illustrates the complexity of peacebuilding in a setting where multiple players have veto power and there is a high level of mistrust.¹³ In this case, fewer mutually acceptable agreements, information asymmetries and shifting alliances create incentives for a lengthy process (Cunningham, 2006). At the heart of the negotiation process lies the distribution of power and resources in post-war Syria, and more importantly, the credibility of parties to commit to agreed-upon divisions of said power and resources (Cunningham, Reed,

¹³ Negotiations were suspended two days after they started in February 2016 due to escalation in violence. They resumed in mid-March, after a fragile ceasefire was reached (Black & Wintour, 2016).

& Sawyer, 2016; Arkhipov & Meyer, 2015). As warring parties fail to reach an agreement talk after talk, present successes on the battlefield become all the more important since they determine one party's bargaining power (Powell 2006; Blattman and Miguel, 2010). The escalation of fighting in Syria before a round of negotiation can be viewed as a consequence of this failure. Each side attempts to secure more bargaining power by moving front lines.

Walter (1997) argues that the international community can substitute for weak local institutions, and help secure credible commitments. This makes future reconstruction an instrument for peace negotiations, hence delineating a clear role for multilateral institutions as providing a means to enforce inclusion clauses and resource sharing rules in future reconstruction plans. The role of the World Bank in that capacity is not new: in his biography, James Wolfensohn, World Bank president from 1995 to 2005, argues that the involvement of the Bank while the Bosnian conflict was still raging helped secure the Dayton Agreement that put an end to three and a half years of civil war (Wolfensohn, 2010).

A credible reconstruction strategy, therefore, can be used as an instrument to bring warring parties closer to a peace deal in the first place. Reconstruction and peace are two sides of the same coin.

What Comes After Peace

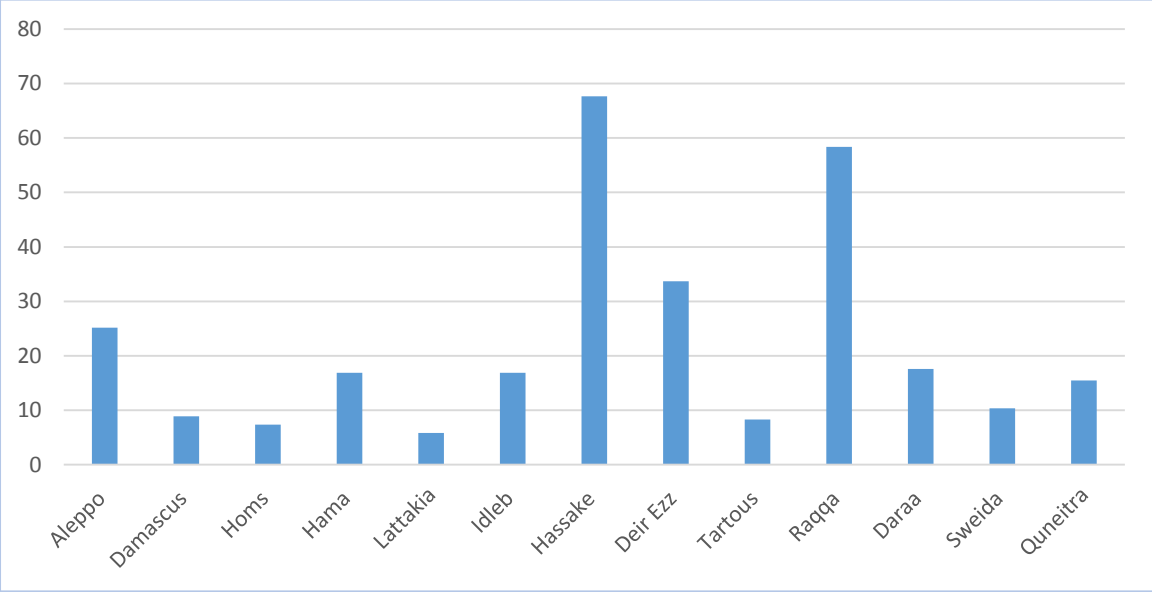
The Damage and Needs Assessment carried out by the World Bank and UNESCWA's National Agenda for the Future of Syria, reflect the view that the international community needs to be ready for the day after (Cambanis, 2015). For an ambitious reconstruction strategy is needed to promptly put the country back onto a trajectory of growth and prosperity.

After five years of an extremely violent conflict, any attempt at reconstruction will have to address the factors that led to the conflict and its persistence. As in most of the MENA region, the state-led economic model followed by Syrian regimes contributed to poverty reduction and equity overall (Devarajan and Mottaghi, 2015a). However, the sustained pre-crisis economic growth did not translate evenly across Syria's regions, nor did it translate into higher citizen satisfaction.¹⁴ An analysis of the 2006 Multiple Indicator Cluster Survey (UNICEF MICS) highlights substantial disparities among Syria's governorates. The sample consisted of 20,000 households across the country; the dataset gives information on the assets of each household. The assets support different household domains, such as chores, transportation, communication, and basic services. The constructed asset-based index reflects both household levels of disposable income and access to public services, such as water, electricity, or telecom infrastructure. Figure 2.9 reports, for each governorate, the percentage of the population belonging to the poorest quintile

¹⁴ On the eve of the Arab Spring, average life satisfaction was particularly low in Syria (Ianchovichina et al., 2015)

of the country. The poorest people were concentrated in the northern governorates of Hassaka and Raqqa, while Syrians living in Lattakia and Sweida belonged mostly to the top quintiles. This echoes the reported increasing contribution of spatial inequality to expenditure inequality in Syria (Hassine, 2015). Despite the overall increase in average incomes, governorates in Northern Syria lagged behind.

Figure 2.9 Poverty and Remoteness



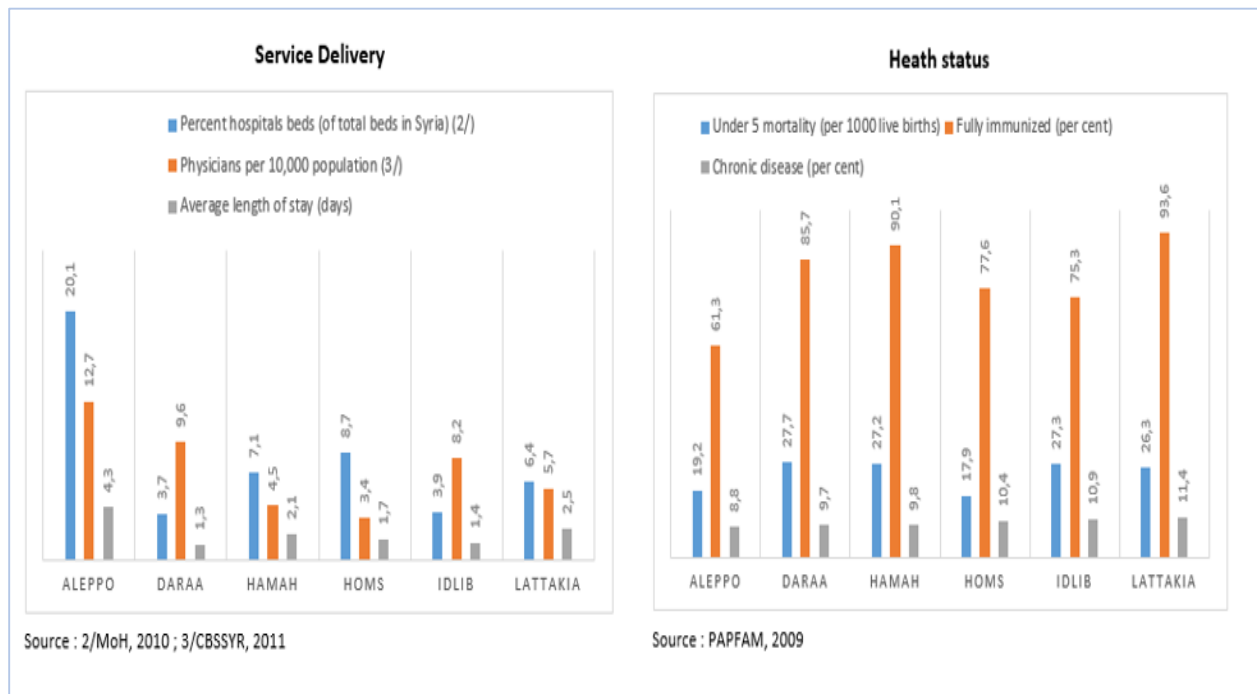
Source: Author’s analysis of UNICEF’s 2006 MICS.

The country’s pre-crisis health system had significant variations in health status and an inequitable distribution of resources (Figure 2.10). It was characterized by skewed health outcomes, limited financial protection, and a lack of needed infrastructure (World Bank, 2015). By 2010, Syria had achieved significant progress in improving the health status of the population. However regional variation persisted, with governorates such as Daraa and Hama having worse health outcomes, and disparities in vaccination coverage compared to 60 percent coverage in Aleppo and 90 percent in Latakia (PAPFAM, 2009). There was also large variation in health infrastructure, physician density and bed capacity across the selected governorates (CBSSYR, 2011).

The role of grievances as a source of conflict is well documented (Collier & Hoeffler, 2004), and rebuilding the dissatisfaction that led to the war in the first place can have devastating effects. In neighboring Iraq, the failure to provide justice, security, health care and coverage of basic needs are thought to have alienated a large section of the population, in spite of a great amount of funds allocated to rebuilding the country (Smith, 2013; Strasser, 2016). The failure to deliver

landmark reconstruction projects, despite 60 billion dollars spent (Londono, 2013), have contributed to the atmosphere of mistrust. Contracting abuses and mismanagement in expensive projects, with little ownership, have created a channel for corruption and amplified regional tensions. The lack of inclusive governance and the perceived exclusion of Sunni Muslims have been alleged to severely intensify sectarian tensions and increased support for armed groups (Strasser, 2016; Healy & Gordon, 2011).

Figure 2.10 Health Sector Pre-Crisis



In sum, the reconstruction of Syria cannot be solely driven by infrastructure projects; it has to deliver inclusive institutions that are necessary for rebuilding trust and mitigating the social tensions. For instance, Whitt (2010) finds strong links between ethnic trust and trust in institutions, suggesting that they are vital for promoting reconciliation. Rebuilding a stable Syria also means understanding the underlying causes of civil war. The violence and persistence of conflict have to be taken into account and reflected in the post-war reconstruction. Abdel Jelil and Do (2015) illustrate how the regime had a stronghold in places it favored, such as Tartous and Latakia, but ignored the more remote areas such as Deir Ezzour, Raqqa and parts of Hassake that quickly fell under rebel and then Daesh control. These remote areas are Syria's oil producing regions, and while contributing to the central government's budget, were left behind. Similar situations, as recent as the conflict in the Niger delta or the case of South Sudan, have been fueling political instability. Inclusion in post-war Syria thus needs to be not just ethnic and religious, but also geographic.

Conclusion

As the country enters its sixth year of civil war, the conflict that has claimed between 132,000 and 470,000 lives, pushed half of the Syrian population out of their homes, and destroyed \$70-80 billion in capital stock by mid-2014, needs to come to an end. Development organizations have a role to play in alleviating the suffering of the Syrian population both inside and outside Syria. They have the scope to champion a comprehensive and inclusive reconstruction plan that will not only foster peace today but also sustain peace tomorrow.

COUNTRY NOTES

Algeria

The slump in global oil prices since mid-2014 has led to deterioration in macroeconomic balances. In 2015, growth slowed to 2.9 percent from 4.1 percent in 2014, hit by a falling average oil price from \$100 p/b. in 2014 to \$59 p/b. in 2015. Under initial expectations that the fall in oil prices would be short-lived, lack of fiscal consolidation led the budget deficit to double to -15.9 percent of GDP in 2015. The current account deficit tripled to -15.2 percent of GDP in 2015. Hydrocarbon exports amount to 95 percent of total exports and around two-thirds of government revenues. Hydrocarbon exports have fallen from a peak of 36 percent of GDP in 2011 to 19 percent of GDP in 2015, while hydrocarbon revenues have dropped from a peak of 27.4 percent of GDP to 14 percent of GDP. Due to very large drawdowns, the size of the oil stabilization fund has fallen from 25.6 percent of GDP in 2014 to 16.2 percent of GDP. International reserves remain high at 28 months of imports, but are declining fast. Despite tight monetary policy, inflation rose to 4.8 percent as the partial result of pass-through effect from a 20 percent nominal depreciation of the dinar, aimed to correct the external imbalance. Unemployment rose to double digits and was acute among women and youth.

The 2016 budget emphasizes fiscal consolidation, and assumes an average oil price of \$35 p/b. It calls for a 9 percent cut in expenditure (mostly investment) and a 4 percent increase in tax revenue based on a 36 percent hike in gasoline prices and higher taxes on electricity and gasoline, and on car registrations. The budget empowers the government to approve further cuts if oil prices fall lower than its average oil price assumption, and to engage in external borrowing if needed. The Government will also apply new import licenses and is considering raising electricity prices closer to the production cost. Monetary Authorities will allow the dinar to have the flexibility needed so as to prevent its misalignment.

Policy makers continue to face difficult trade-offs in the next few years. The government has little choice but to restore fiscal and external balances. Growth, however, is projected to remain modest at 3.4 percent driven by modest dynamism in the hydrocarbon sector, with gas projects coming online, and by the non-hydrocarbon sectors. Growth would benefit from reduced, but still positive, public expenditure and stagnant hydrocarbon exports, especially if the oil prices remain weak or fall further, and if the global recovery remains tepid. In 2017-18, following some recovery in oil prices, growth will continue to be driven by public investment and still significant subsidies. Private investment will remain tepid due to domestic uncertainty and continuous regional security threats.

Risks are tilted to the downside. Externally, these include sharper than assumed declines in energy prices and a slow growth recovery in Algeria's trade partners in Europe and China. Domestically, risks include mounting social discontent from budget cuts, tax hikes and high youth unemployment levels. The political will and national consensus to rationalize inefficient and generous subsidies is slowly emerging, but such reform requires improved safety nets, a cash transfer system reaching the needy and a solid media campaign during its implementation. These risks notwithstanding, the decline in oil prices represents an opportunity to structurally reorient the economy away from oil and public-led dominance towards more diversified growth featuring increased private sector participation.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	4.1	2.9	3.4	3.1
Inflation Rate (%)	3.9	4.8	4.3	4.0
Fiscal Balance (% of GDP)	-7.7	-15.9	-15.7	-12.6
Current Account Balance (% of GDP)	-4.6	-15.2	-16.2	-14.4

Bahrain

The growth momentum has slowed, following the drop in oil prices. GDP growth has slowed to 3.2 percent in 2015 from its 5.4 percent level in 2013 and 4.6 percent in 2014, reflecting a slowdown in both the hydrocarbon and non-hydrocarbon sectors. Non-oil GDP slowed during 2015 to 3.9 from 4.9 percent in 2014, despite resilience in hotels and restaurants sectors. Hydrocarbon GDP remained constant in 2015. Inflation was subdued at an average rate of 1.8 percent in 2015 reflecting lower international food prices and appreciation of the US Dollar. The current account surplus turned into a deficit of 3.2 percent of GDP in 2015. Reserves declined to 2.6 months of imports. Unemployment fell to 3.1 percent in September 2015, from 3.8 percent at end-2014.

The government maintained an expansionary fiscal stance since 2009 resulting in budget deficits and rising debt. However, the situation has worsened in 2015 with a decline in oil revenues by about 10 percent of GDP and a general fiscal deficit estimated at 12.5 percent of GDP (from 3.3 percent in 2014). Public debt to GDP ratio has increased to 63 percent (compared to 8 percent in 2008). This was financed through GCC grants (which increased by 85 percent to \$3.7 billion during 2015) and the issuance of a \$1.5 billion bond. The government had to raise the public debt ceiling to BD10 billion, representing 80 percent of GDP to enable additional borrowing. The new debt ceiling is well over the GCC-agreed debt-threshold criterion of 60 percent. S&P downgraded Bahrain's rating to BBB-/A-3 in 2015 with a negative outlook, and further downgraded it in 2016 to BB/B, but with a stable outlook.

The government took significant fiscal consolidation measures in 2015. Revenue enhancing measures, such as higher tobacco and alcohol taxes and government services fees were introduced. A cost-cutting program entailed the raising of petrol prices by up to 60 percent in January 2016 (likely to create savings worth \$148.4 million), the gradual phasing-in of price increases for electricity, water, diesel, and kerosene subsidies by 2019, an increase and unification of natural gas prices for industrial users, and the removal of meat subsidies. Lower oil prices are forcing the government to cut back on capital spending, since restraining current spending may exacerbate the already tense political scene. Parliamentarians have proposed a law to privatize several state-owned businesses to help curb the deficit.

The outlook is for growth to decline in the next few years. Real GDP growth is projected at 2.2 and 2.0 percent in 2016 and 2017 respectively, as continuing low oil prices depress private and government consumption. Beyond 2018, growth is expected to pick up as new aluminum and refinery capacity comes on stream, and as other projects are completed, including the Airport expansion, retail and GCC Development Fund social housing projects. Bahrain National Gas Company signed a \$355 million deal with a Japanese company for a new gas plant, which is expected to increase capacity by 350 million cubic feet, starting 2018. Average inflation is expected to increase to 3.2 percent in 2016, reflecting subsidy reform and moderate to 2.3 percent thereafter. The current account is likely to record a deficit of 8.2 percent of GDP in 2016 projected to trend downwards thereafter, as oil prices recover and global demand for aluminum rises. International reserves are expected to reach 2.3 months of imports in 2016, down from 2.6 in 2015 and 3.2 in 2014.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	4.5	3.2	2.2	2.0
Inflation Rate (%)	2.7	1.8	3.2	2.3
Fiscal Balance (% of GDP)	-3.3	-12.5	-16.9	-15.3
Current Account Balance (% of GDP)	4.5	-3.2	-8.2	-7.2

Djibouti

GDP grew at an estimated 6.5 percent in 2015, up from 6 percent in 2014 and 5 percent in 2013. This growth acceleration was mainly driven by transport and port-related capital-intensive activities, such as transit trade with Ethiopia and transshipments, attracting large public and foreign investments. Despite the strong growth, inflation remained muted at 3 percent in 2015 due to the stabilization of international food prices and a lowering of electricity tariffs for low-income households, combined with a low domestic demand due to high poverty and unemployment.

The primary fiscal deficit widened by 4.3 percentage points in 2015 from 12.2 percent of GDP in 2014; reflecting the high capital expenditures in port infrastructures development and construction projects while revenues remain subdued. The external deficit soared by 5.4 percentage points in 2015 from 25.6 percent of GDP in 2014 due to increased capital imports while exports remained depressed. External debt (mainly public) reached 66 percent of GDP in 2015. FDI slightly declined to 8.5 percent of GDP in 2015 from 9.1 percent 2014. Djibouti has maintained sound international reserves over the past years, sufficient for the currency board coverage in the 2015-2020 horizon. Reserves are estimated at 350 million US dollars in 2015 (a coverage for 3.6 months of imports and 109 percent of currency board). The banking sector remains weak with deteriorating loan portfolio of commercial banks and rising nonperforming loans (NPLs). The ratio of NPLs to total loans increased to over 22 percent in June 2015 from 16.5 percent in June 2014.

The medium-term outlook is favorable with strong growth spurred by the surge of public and private capital investment. Growth is expected to reach 7 percent on average in 2016-2018. The fiscal deficit is anticipated to narrow to an average of 5.2 percent of GDP in 2016-2018. This will result from a combined expectation that: (i) current investments will translate into higher revenues through new production and export capacity creation to offset the debt repayment burden, and (ii) the government engages in series of reforms to improve revenue mobilization. In addition, as major infrastructure projects near their end, government spending will also soften.

The current account deficit is expected to improve in the medium term, narrowing down to 14.5 percent of GDP by 2018. This improvement is expected to be derived from the softening of capital imports related to construction projects while exports gradually pick up. FDI inflows and capital transfers should continue to finance the deficit. Inflation is projected to modestly accelerate by 0.5 percentage point in 2016, spurred by housing and services sectors-stimulated demand. Reserves are expected to continue to guarantee adequate currency board and import coverage (of well over four months of import coverage), thus sustaining the peg of the Djibouti Franc to the U.S. dollar at 177.72 Djiboutian Franc/\$1.

Despite the positive outlook, growth and macroeconomic stability remain subject to important risks. The main downside risks include delays in the construction and the lack of efficiency in the management of the new infrastructures, adverse economic events in Ethiopia, whose transshipment and trade transits account for more than 80 percent of Djibouti's port activities. Security developments in neighboring countries, or in the Red Sea, and domestic social and political instability due to the upcoming presidential elections could jeopardize growth.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	6.0	6.5	6.5	7.0
Inflation Rate (%)	2.9	3.0	3.5	3.5
Fiscal Balance (% of GDP)	-12.7	-17.0	-11.9	-1.6
Current Account Balance (% of GDP)	-25.6	-31.0	-25.8	-14.8

Egypt

Economic growth doubled (to 4.2 percent) in FY15, after four years of slow growth. Yet challenges remain, and were aggravated by the recent foreign exchange crunch. Growth in FY15 (July 2014/June 2015) was attributed to the restoration of stability and improved confidence, resilient private consumption, and the government's public investments that started to crowd in private investments. The first quarter of FY16 witnessed subdued growth (of 3 percent, from 5.6 percent a year earlier), mainly due to foreign exchange shortages that stifled production. The inadequacy of foreign exchange along with an overvalued Pound hampered Egypt's competitiveness; lowering the volume of exports by 26 percent in Q1-FY16. Unemployment inched downwards (to 12.8 percent in the H1-FY15 versus 13.3 percent a year earlier), albeit partially reflecting dropouts from the labor force. The labor force participation rate dropped to 46 percent of the adult population (those above 15 years old) versus 50 percent at end-2010. Headline inflation eased slowly in early-2016, reaching 9 percent in February 2016, from an average of 11 percent in the previous three months. The Central Bank of Egypt (CBE) has recently started tightening monetary policy to curb inflation, especially in light of the recent exchange rate depreciation.

The CBE allowed the official exchange rate to weaken in mid-March as pressures on external accounts intensified. Net international reserves (NIR) dropped in FY16, due to large debt repayments, the unfavorable external environment, the recent crash of the Russian airplane over Sinai, as well as the CBE's ongoing injection of foreign exchange to meet import needs and to clear forex backlogs. Thus, NIR declined to just below \$16.5 billion in October 2015, and has stabilized at this level through end-February 2016. The CBE left the official exchange rate to weaken by 14.3 percent on March 14, 2016, after the parallel market premium had surged to 18 percent above the official rate. The CBE held a later auction at a slightly stronger exchange rate, but still signaled a move towards more flexibility.

The fiscal stance improved in FY15 due to key consolidation measures, but the reform momentum has faded in FY16. The budget deficit reached 11.5 percent of GDP in FY15 (compared to 12.2 percent of GDP in FY14, and 13 percent of GDP in FY13), thanks to the partial streamlining of energy subsidies, revenue-enhancement measures, and the drop in international oil prices. This was achieved whilst the government raised allocations to health, education, and infrastructure, in line with the constitutional mandate. Yet, the reform pace has slowed down in FY16, as the energy subsidy reform program was only partially implemented, and the ratification of the VAT and the mining laws have been delayed.

The outlook is for GDP growth to slow down to 3.3 percent in FY16, before rebounding thereafter. A combination of unfavorable domestic and external factors is undermining growth in FY16. Important sectors have been underperforming, notably, the extractives which continue to suffer from liquidity issues (accumulated arrears were recorded at \$3 billion in end-2015); and tourism, affected by the Russian plane crash last October. Externally, the sluggish recovery of the Euro zone is expected to weigh on Egypt's growth, while the lower oil prices and slowdown in Gulf countries might negatively impact Egyptians' remittances; hence private consumption. The deficit is expected to decline to 11.3 percent of GDP in FY16, and decline further in the medium term, with continued fiscal consolidation effort. Egypt's external accounts are likely to worsen in FY16 before recovering afterwards, provided that monetary authorities continue to ease restrictions on foreign exchange and re-align the exchange rate.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	2.2	4.2	3.3	4.2
Inflation Rate (%)	10.1	10.9	9.8	9.5
Fiscal Balance (% of GDP)	-12.2	-11.5	-11.3	-9.8
Current Account Balance (% of GDP)	-0.9	-3.7	-4.6	-4.6

Iran

The lifting of the nuclear-related sanctions in January 2016 and the strong electoral wins from moderates and reformers in Parliament and Assembly of Experts are supporting the reform-oriented Rouhani administration. The successful implementation of the Joint Comprehensive Plan of Action (JCPOA) between Iran and the P5+1 (United States, United Kingdom, France, Russia, China and Germany), that was signed in July 2015, meant Iran reached Implementation Day on January 16, 2016, at which point materially all nuclear-related sanctions were lifted. The February 2016 Parliamentary and Assembly of Experts (whose main task is the selection of the Supreme Leader) elections, saw major gains from moderates and reformers as well as losses from prominent conservatives. These developments along with a reform-minded government provide a favorable environment for economic reforms. These also arise in the context of the new five-year development plan starting March 21, 2016, which targets a rate of annual real GDP growth of 8 percent.

The dynamism created by the interim Joint Plan of Action (JPOA) between Iran and the P5+1 in November 2013 led to an economic recovery in 2014¹⁵, but this recovery was paused in 2015 by the uncertainty regarding the timing of the lifting of sanctions and the viability of the JCPOA. Following a severe sanction-related recession in 2012 and 2013, real GDP increased by 3 percent in 2014; this recovery was driven by the rise in consumer and business confidence supported by the partial lifting of sanctions under the interim JPOA. In 2015, the Iranian economy is estimated to have advanced at a growth rate of 0.5 percent. Inflationary pressures on the economy continued to abate under the less accommodative monetary policy stance, with the Consumer Price Index falling to 12.6 percent per annum in January 2016, from a peak of 45.1 percent in October 2012. Yet, the pace of job creation has remained weak and the unemployment rate rose to 11.7 percent in 2015, up from 10.6 percent in 2014. The fiscal deficit also widened due to low oil prices, from 1.2 percent of GDP in 2014 to 2.7 percent of GDP in 2015. Similarly, the current account surplus is estimated to have dropped from 3.8 percent of GDP in 2014 to 0.6 percent of GDP in 2015.

The lifting of the sanctions and a more business-oriented environment are projected to increase real GDP growth to 4.2 percent and 4.6 percent in 2016 and 2017, respectively. On the production side, growth will be mainly driven by higher hydrocarbon production. On the expenditure side, consumption, investment and exports are expected to be the main drivers. Inflation is forecast to remain moderate, by Iran's standards. The lifting of sanctions, and in particular the positive impact these will have on the banking system will significantly reduce international transaction costs. Strong capital inflows, including FDI and the repatriation of part of the frozen assets, could put upward pressure on the Iranian rial, which will help contain imported inflation. The fiscal deficit is projected to narrow to 1.8 and 1 percent in 2016 and 2017, respectively, mostly on account of improved oil revenues. The current account balance is projected to turn into a surplus in 2017, also primarily driven by rising oil exports. Risks to the outlook include lower oil prices, slower global growth, and the possibility that the country idiosyncratic risk stays elevated because of the residual uncertainty that non-nuclear-related sanctions create for foreign businesses. A key challenge relates to the prospect of undertaking structural reforms that can move the country toward the sustained and inclusive growth envisaged in its sixth five-year plan.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (using factor prices, %)	3.0	0.5	4.2	4.6
Inflation Rate (%)	15.6	14.2	13.1	11.6
Fiscal Balance (% of GDP)	-1.2	-2.7	-1.8	-1.0
Current Account Balance (% of GDP)	3.8	0.6	-0.4	1.2

¹⁵ The Iranian calendar year runs from March 21 to March 20 of the following year.

Iraq

Iraq has faced two simultaneous crises since the second half of 2014: the ISIS insurgency and the oil price shock. These have severely impacted the economy and compounded structural vulnerabilities. The twin crisis, coupled with political instability in 2014, decelerated private-sector consumption and investment, and limited government spending, particularly on investment projects. As a result, the non-oil sector is estimated to have contracted by 9.0 percent in 2015, following an 8.8 percent fall in 2014. In contrast, growth in the oil sector has remained resilient, with output rising 12.9 percent in 2015 to a new high of 3.5 million barrels per day, supported by the southern oil fields, which are beyond ISIS' reach, and which account for 90 percent of total production. After contracting 2.1 percent in 2014, real GDP is estimated to have rebounded to 2.4 percent in 2015. Inflation was 1.4 percent in 2015.

The twin crises have resulted in a sharp deterioration of both fiscal and external accounts and worsening poverty. The fiscal deficit widened to 14.5 percent in 2015, due significantly to lower oil revenues and higher humanitarian, and security-related expenditure. The government implemented fiscal consolidation measures in mid-2015, aimed at improving revenue collections, in particular from oil, and at containing non-oil primary spending. The large fiscal deficit, meanwhile, has been financed through external borrowing, including loans from the IMF and the World Bank. The twin crises have also led to the widening of the current account deficit to 6.6 percent of GDP in 2015, reflecting a 47.3 percent drop in export earnings in 2015. Poverty reached 22.5 percent in 2014 nationwide; and in the ISIS-affected governorates, the direct impact of economic, social and security disruptions is estimated to have doubled poverty rates to 41.2 percent. Internally displaced persons make up half a million of Iraq's poor in 2014.

The economy is projected to recover from a low base, growing at 7.2 percent in 2016 and to hover around 5 percent in the next few years. This is driven by the projected ramp-up in oil production, increase in oil-related FDI, structural reforms, implementation of the IMF program, and a lessening of the incremental impact of the ISIS insurgency going forward. With the Iraqi selling oil price projected at \$30, which is significantly below the 2015 oil price and the 2016 budgeted price of \$45 p/b, fiscal and external positions are expected to remain under pressure. Despite the moderate reduction in military-related spending and the fiscal consolidation measures, the fiscal situation is projected to worsen due to lower oil revenues, with the fiscal deficit expanding from 5.6 percent points of GDP in 2014 to 20.0 percent of GDP in 2016 on current policies, though the financing of such a deficit will be challenging. On the external side, the current account deficit is projected to widen from 6.6 percent of GDP in 2015 to 15.3 percent of GDP in 2016. Higher-than-projected oil prices would improve both the fiscal and external balances.

The macroeconomic outlook is subject to significant risks related to the global environment, social and political developments, and the ISIS insurgency. A weaker pace of global economic growth or continued excess global oil supply could put downward pressure on global oil prices and renew pressures on the twin deficits. Any worsening of the ISIS insurgency would materially and negatively impact the economy. Domestic political tensions could rise anew, which could undermine the reform effort. The large fiscal consolidation effort, especially highly sensitive streamlining of the wage bill, could also give rise to social tensions, impact the implementation of reforms, and exacerbate further existing fragilities and conflict.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	-2.1	2.4	7.2	4.7
Inflation Rate (%)	2.2	1.4	2.0	2.0
Fiscal Balance (% of GDP)	-5.6	-14.5	-20.0	-14.2
Current Account Balance (% of GDP)	-0.7	-6.6	-15.3	-9.0

Jordan

GDP growth moderated during 2015 to an estimated 2.4 percent, the slowest pace in four years, magnifying already-high unemployment. Security spillovers from regional conflict worsened, negatively impacting tourism, construction, investment and trade. However, growth in a number of sectors held up well through the third quarter of 2015, including in finance and insurance services, transport, storage and communications, electricity and water, and mining and quarrying. Unemployment rose to 13.0 percent in 2015, an increase of 1.1 percentage points relative to 2014. There was a mild deflation for most of 2015 due to further falls in global oil prices, a weakened Euro, a negative output gap, and easing of supply side pressures experienced in previous years (notably on housing prices, due to the large influx of refugees in 2012-13). Monetary policy remained expansionary with the central bank reducing the key policy lending rate by 125 basis points during the course of 2015. International reserves slightly rose to \$ 14.2 billion (7.5 months of imports) by end-2015.

The fiscal deficit was narrower in 2015 thanks to lower expenditures and lower transfers to the National Electric Power Company (NEPCO), which outweighed the fall in domestic revenues and grants. NEPCO resorted to borrowing from commercial banks instead of the government in 2015 providing a 7.0 percent of GDP relief to the fiscal balance, without which the fiscal deficit would have widened. NEPCO's debt continues to be government guaranteed and combined with the fiscal deficit and slowing GDP growth contributed to pushing the gross debt to GDP ratio to an estimated 93 percent at end-2015.

The current account deficit is expected to have widened in 2015, mainly due to lower public transfers and a 7.1 percent fall in tourism receipts, and despite a narrowing trade deficit. The merchandise trade balance narrowed by 14 percent on account of a 40.4 percent fall in energy imports. These outweighed a 7.1 percent contraction of direct exports (themselves buttressed by 10.9 percent growth in phosphate exports) affected by land trade route closures with Syria and Iraq, traditionally Jordan's largest export partner. Remittances are slowing, growing by only 1.5 percent during 2015.

Growth is expected to improve to 3.0 percent in 2016, assuming no further worsening in the regional security situation and associated spillovers. This is driven by an expansion in mining and quarrying sector and positive base effect of tourism and construction sectors. Jordan is working towards an Extended Fund Facility (EFF) with the IMF. The EFF is anticipated to support further fiscal consolidation efforts in parallel with growth-enhancing and job-creating structural reforms. The baseline growth forecasts assume agreement on an EFF leading to a fiscal adjustment and a lower debt-to-GDP level. The balance of risks is on the downside. Managing repercussions from the regional security and political situation is a key risk in addition to the challenges of hosting a substantial number of Syrian refugees. Additionally, persistently low oil prices are a risk this year and in the medium term, given their potential impact on remittances, exports, FDI and grants from the GCC. Fiscal adjustment measures are likely to be difficult. Furthermore, the willingness and speed of reform implementation particularly to improve the business climate will be crucial to meet the country's investment aspirations.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	3.1	2.4	3.0	3.3
Inflation Rate (%)	2.9	-0.9	1.3	2.7
Fiscal Balance (incl. grants) (% of GDP)	-9.1	-3.4	-2.1	-1.3
Current Account Balance (% of GDP)	-7.1	-9.1	-6.6	-6.0

Kuwait

Kuwait's GDP contracted by an estimated 1.3 percent in 2015, following a 1.6 percent decline in 2014.

Oil production dropped by 1.7 percent in 2015. Growth in the oil sector, which accounts for two-thirds of GDP, was affected by an ongoing dispute with Saudi Arabia over shared resources, leading to the closure of a neutral zone oilfield in mid-2015. Growth in the non-oil sector also moderated further in 2015 as the slump in global oil prices took a toll on sentiment and activity, particularly in real estate and construction. Inflation remains muted, averaging just 3.3 percent in 2015.

Fiscal and current account pressures are increasing. Oil revenues, which have contributed three-quarters of government income in recent years, fell by nearly 50 percent during 2015 in line with oil prices. With spending adjusting more slowly, Kuwait is expected to record its first fiscal deficit since 1999, of 3.6 percent of GDP in FY2015/16 (on a general government basis, including investment income and transfers to the SWF). The current account surplus has narrowed significantly from over 30 percent of GDP in 2014, but remains at 9.6 percent of GDP in 2015. With the Kuwaiti dinar pegged to a basket of currencies dominated by the US dollar, the central bank raised its policy rate by 25 basis points to 2.25 percent following the rate increase by the US Federal Reserve Bank in December 2015. Private sector credit is growing at a moderate pace, mitigating concerns about financial risks.

Fiscal reforms remain limited. With current spending amounting to 90 percent of total spending, cutting expenditures has proved challenging. Electricity and fuel subsidy cuts have been proposed, but face strong opposition in Parliament. In mid-March, the Cabinet approved a reform package focused on public sector and expenditure reforms, PPP and privatization, SME development, labor market and investment climate reforms, but these still need to be approved by Parliament. Under the 2015-19 Development Plan, the government has accelerated efforts to implement major projects including modernization of existing refineries, a new refinery, and major transport projects. Implementation is critical for laying the foundations for a post-oil economy, and for raising hydro-carbon output in the near to medium term.

The outlook is for growth to recover to 1.3 percent in 2016 and to gradually firm up in the medium term.

Activity should be supported by rising oil output (due to recent discoveries, improved production efficiencies, and as production from the Neutral Zone oilfield resumes in 2017). After years of stalled projects and delays, prospects for investment have also improved, with major infrastructure and development projects awarded in 2015. Growth in the non-oil sector should accelerate in parallel. Also, fiscal and current account positions should gradually strengthen in line with a modest recovery in oil prices and output. Public finances should also be supported by the gradual implementation of spending and revenue reforms, including the implementation of a VAT (expected in 2017). Risks are tilted to the downside. External risks include spillovers from geo-political tensions and conflict, protracted weakness in global oil prices, and global financial volatility that dampens appetite for private sector investment in PPPs, which the government is increasingly likely to rely on given fiscal constraints. Key domestic risks include slow implementation of infrastructure projects and parliamentary gridlock that delays critical fiscal reforms. The banking sector is well capitalized, yet has exposure to the real estate sector.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	-1.6	-1.3	1.3	1.6
Inflation Rate (%)	2.9	3.3	3.0	3.0
Fiscal Balance (% of GDP)	18.7	-3.6	0.5	4.0
Current Account Balance (% of GDP)	36.9	9.6	3.3	11.3

Lebanon

Real GDP growth in 2015 is expected at 1.5 percent, a downward adjustment from earlier estimates due to a sharp unexpected decline in economic activity in Q3 2015. Overall, 2015 experienced a resurgent tourism sector and healthy private lending, as the Banque du Liban renewed its stimulus package in the amount of \$1 billion. The real estate sector, on the other hand, acted as a drag, with registration fees and cement deliveries contracting in 2015 by 10 percent and 14 percent, respectively.

Fiscally, a decline in transfers to Electricité du Liban (EdL) due to lower oil prices helped maintain a primary surplus in 2015. This is despite a small widening of 0.7 percentage points (pp) of GDP in the overall fiscal deficit due primarily to lack of the one-off revenue measures that boosted revenues in 2014 (e.g., telecom arrears dividend payment). On the external accounts, a broad contraction in imports is estimated to have induced a 3.5 pp of GDP narrowing of the current account deficit. This, however, was more than offset by lower capital inflows adversely affecting the net foreign assets' position of the country. As a result, foreign exchange reserves at BdL declined by 5.4 percent to \$30.6 billion by end of 2015.

In the absence of political progress, sluggish economic conditions are expected to persist in 2016. The economic prospects over the medium term are highly affected by geopolitical and security conditions, which remain decidedly volatile. Projections assume that the Syrian war persists and that spillovers into Lebanon, while significant, remain contained. Based on this, we forecast growth over the medium term at a sluggish 2.5 percent annually. Potential growth can only be reached when the Syrian war is resolved in a manner that does not compromise the structure and stability of Lebanon.

Key risks include the indirect impact of sustained low oil prices and political risks. To date, low oil prices have had a net positive impact on the Lebanese economy via higher private consumption, stronger fiscal balance, and improved balance of payments. However, the indirect impact of sustained low oil prices on the GCC countries will be negative for Lebanon through lower remittances and capital flows. Falling oil prices have also been a principal cause of deflation in 2015, which at 3.7 percent helped drive the debt-to-GDP ratio higher by 3.1 pp of GDP in 2015 to reach 148.7 percent.

Spillovers from the war in Syria remain the principal challenge. Domestically, creeping political paralysis rendered the three main branches of government either vacant (the Presidency, since April 2014), idle (Parliament) or ineffective (Government). The population is increasingly bearing the consequences of failed governance via a marked deterioration of government services, such as electricity, water supply and a visually powerful garbage crisis that has left piles of it uncollected on the streets.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	1.8	1.5	1.8	2.3
Inflation Rate (%)	1.2	-3.7	1.5	2.5
Fiscal Balance (% of GDP)	-6.6	-7.3	-7.4	-8.7
Current Account Balance (% of GDP)	-26.7	-23.2	-21.3	-22.5

Libya

The political conflict has taken a severe toll on the economy, which has remained in recession for the third consecutive year in 2015. Political strife, weak security conditions, and blockaded oil infrastructures continue to constrain the supply side of the economy, which shrank by 10 percent in 2015. Production of crude oil fell to the lowest level on record, to around 0.4 million barrels per day (bpd), which represents a quarter of potential. The non-hydrocarbon sectors remained weak due to disruptions in the supply chains of both domestic and foreign inputs, as well as lack of financing. Inflation accelerated to 9.2 percent in 2015, mainly driven by a 13.7 percent rise in food prices. Lack of funding to finance imports (especially subsidized food) generated shortages and an expansion of the black market. Prices of flour quintupled.

Protracted political standoff, coupled with lower international oil prices, have hit public finances hard. Budget revenues from the hydrocarbon sector have fallen to only a fifth of the level in the pre-revolution period, while spending has remained high. The share of the public wage bill in GDP is at a record of 59.7 percent, mainly reflecting new hiring of civil servants. Meanwhile, investments have been insufficient for sustaining adequate public provision of health, education, electricity, water and sanitation services. However, savings have been realized on subsidies, which fell by 23.6 percent thanks to tougher control of the supply chains of subsidized products and lower import prices. Overall, the budget deficit rose from 43 percent of GDP in 2014 to 75 percent of GDP in 2015. The deficit was mainly financed from the Government's deposits at the Central Bank of Libya (CBL).

The balance of payments deteriorated further in 2015. Oil exports declined to 0.3 million bpd. Oil export revenues are estimated to have reached less than 15 percent of their 2012 level. At the same time, consumption-driven imports remained high. The current account swung from balance in 2013 to a deficit estimated at 75.6 percent of GDP in 2015. To finance these deficits, net foreign reserves are rapidly being depleted. They were halved from \$107.6 billion in 2013 to an estimated \$56.8 billion by end 2015. The official exchange rate of the Libyan Dinar (LYD) against the \$ continued to weaken, depreciating further by more than 9 percent in 2015. In the parallel market, the LYD depreciated by around 160 percent, due to restrictions on foreign exchange transactions that were implemented by the CBL.

Improvement of the economic outlook depends crucially on the endorsement by the House of Representatives of the Government of National Accord (GNA) formed under the auspices of the UN. The economic and social outlook assumes that the GNA begins governing the country by restoring security and launching programs to rebuild the economic and social infrastructures. In this context, production of oil is projected to improve to around 1 million bpd by end 2016. On this basis, GDP is projected to increase by 22 percent. However, the fiscal and current account deficits will continue in 2016, as revenues from oil will not be sufficient to cover the budget expenditures and consumption-driven imports. This should keep the budget deficit at about 60 percent of GDP and the current account deficit at 70 percent of GDP. As oil production reaches full capacity, growth is projected to rebound at 46 percent in 2017 and 15 percent in 2018, before stabilizing between 5 and 5.5 percent thereafter. Both the fiscal and current account balances will significantly improve, with the budget running surpluses expectedly from 2018 onwards, while current account deficits will progressively decline to less than 0.5 percent of GDP in 2019. Foreign reserves will average around \$22 billion during 2017-2019, representing the equivalent of 8.2 months of imports.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	-24.0	-10.2	22.2	46.2
Inflation Rate (%)	2.4	9.2	3.5	3.0
Fiscal Balance (% of GDP)	-43.3	-75.3	-59.9	-10.1
Current Account Balance (% of GDP)	-54.8	-75.6	-69.0	-14.7

Morocco

Economic activity rebounded in 2015 after a mixed economic performance in 2014. Supported by a strong agricultural season, economic growth accelerated from 2.4 percent in 2014 to 4.4 percent in 2015. However, growth outside agriculture was sluggish at below 2 percent; the good performance of the “new” industries (automobile, aeronautics, and electronics) could not compensate for the decline in traditional sectors (such as textile and clothing) and tourism. Inflation has been under 2 percent, reflecting a prudent monetary policy and the fall in international commodity prices. Total unemployment declined to 9.7 percent. Yet, the unemployment rates among the urban young and educated remained disproportionately high at around 40 percent and 20 percent, respectively. The fiscal deficit decreased from 7.2 percent of GDP in 2012 to 4.3 percent in 2015 as a result of the authorities’ efforts to solidify the tax base and sharply reduce spending on energy subsidies. The central government debt stabilized at around 64 percent of GDP in 2015. The current account deficit was also reduced from 9.2 percent of GDP in 2012 to 2.3 percent in 2015. The current account was supported by the good export performance of Morocco’s new industries, the crash of international oil prices, and an increase in workers’ remittances by 3 percent. Tourist receipts have been adversely impacted by the current regional security situation and slumped by 1.3 percent in 2015. The capital account was also strengthened by steady FDI inflows, access to international bond markets, and the continued financial support from development partners. International reserves increased by almost 13 percent at end-2015 to reach \$22.7 billion or the equivalent of 6.9 months of imports.

In 2016, economic growth is projected to decelerate to 1.7 percent, under the assumption of a below average cereal output and a limited rise of nonagricultural GDP. The economy has been hit hard by a drought in the fall of 2015, which compromised the 2016 cereal production. The authorities’ emergency plan to safeguard livestock, protect plant resources and support rural income should however help contain the contraction of the agriculture GDP below 10 percent in 2016. Non-agricultural GDP growth is expected to remain in the neighborhood of 2.5 percent in the absence of more decisive structural reforms. According to the 2016 Budget law, the fiscal deficit is expected to decline further to 3.6 percent of GDP in line with the government’s commitment to bring down the deficit to 3 percent by 2017. With low oil prices, the current account deficit is projected to decrease further to 1.4 percent of GDP in 2016.

The economic prospects over the medium-term hinge on the pursuit of sound macroeconomic policies and an acceleration of structural reforms. The emergence of new growth drivers in higher value-added export industries and the expansion of Moroccan companies in Western Africa are potentially creating the conditions for Morocco to become a hub for trade and investment between Europe and Africa and boost its position in global value chains. Assuming the full implementation of a comprehensive reform agenda following the autumn 2016 parliamentary elections, economic growth could accelerate and sustainably exceed 3.5 percent over the medium term. Key challenges include structural orientation toward non-tradable activities; a volatile, weakly productive agriculture; and the need to increase productivity and competitiveness through comprehensive reforms of empowering market institutions (competition rules, labor code, and trade and investment regimes), strengthening the rule of law and the overall governance of public administration and services, boosting human capital, especially primary and secondary education.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	2.4	4.4	1.7	3.4
Inflation Rate (%)	0.4	1.6	1.5	2.0
Fiscal Balance (% of GDP)	-4.9	-4.3	-3.6	-3.0
Current Account Balance (% of GDP)	-5.8	-2.3	-1.4	-1.7

Oman

Real GDP growth rate is estimated at 3.3 percent in 2015. New oil recovery techniques and greater efficiency led to record production levels in 2015, peaking at 0.98 million barrels per day. Hydrocarbon GDP grew by 4 percent in 2015, compared to a contraction of 0.8 percent in 2014. Non-hydrocarbon GDP is estimated to have grown by 3 percent in 2015. The central bank enacted expansionary monetary policy by reducing lending rates to support economic growth. The current account balance recorded a deficit in the first half of 2015. Consumer price inflation averaged 0.1 percent in 2015.

A record high fiscal deficit is estimated for 2015, at 17.7 percent of GDP. Hydrocarbon revenue fell by 45 percent in 2015, which stymied government spending hindering potential economic growth and decreasing tax receipts. Approximately half of the deficit in 2015 was financed by drawing on reserves, and the remainder by borrowing from domestic and external sources. Oman issued its first sovereign Islamic bond (sukuk) for \$519.5 million, and \$1 billion through syndicated loan. Standard & Poor's downgraded the country's debt to BBB-/A-3 in February. The central bank is currently marketing an OR100 million five-year bond, and announcing plans to raise between \$5 and \$10 billion from the international market, to avoid squeezing the domestic banking liquidity further.

The government reduced spending in 2015, avoiding an even larger deficit, and has laid out an extensive austerity plan for 2016. Reforms included the doubling of gas prices for industrial users, amending labor laws and designating an office for speeding up the process for issuing licenses. The 2016 budget indicates further reforms; with subsidy spending expected to fall by 64 percent in 2016 and diesel and petrol prices increasing by up to 33 percent. Revenue is expected to increase through a higher corporate income tax (from 12 percent to 15 percent), the removal of some tax exemptions, and the implementation of a GCC-wide VAT. Other measures envisaged to enhance revenue include: revising electricity and water tariffs and increasing fees for government services.

The macroeconomic outlook is highly vulnerable to the behavior of oil prices and hinges on the success of the government's efforts to capitalize on non-hydrocarbon revenues. Real GDP growth is projected at 1.6 percent in 2016, lower than in 2015, reflecting lower oil revenue and the associated dampening of spending and domestic demand. Growth is projected to pick up again starting 2017, as the non-oil sector expands, despite lower levels of investment spending, which will constrain growth in the oil sector. Non-urgent projects are expected to be postponed. The government will continue to prioritize infrastructure investment, including in tourism, airports, railways and ports. A new mining law is expected to streamline and centralize licensing processes, to improve the industry's efficiency. Since Oman has maintained consistently good relations with Iran, new trade and investment opportunities are expected including a gas pipeline between the two countries. However, in light of the projected level of oil prices, the fiscal and current account are estimated to be in deficit at 16.8 and 14.1 percent of GDP respectively in 2016. Oman is expected to maintain its peg to the US dollar despite pressures, and raise interest rates later in 2016.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	2.9	3.3	1.6	1.9
Inflation Rate (%)	1.0	0.1	2.3	3.0
Fiscal Balance (% of GDP)	-3.4	-17.7	-16.8	-11.0
Current Account Balance (% of GDP)	5.0	-13.1	-14.1	-6.7

Palestinian Territories

An economic recovery is underway following the 2014 recession caused by the Gaza war. The economy is estimated to have expanded by 3.3 percent in 2015. Reconstruction efforts have provided a boost to the Gaza economy where real GDP growth is estimated to have reached 5 percent in 2015, driven by strong growth in the construction sector as well as retail and wholesale trade. However, growth in the West Bank slowed in 2015 with real GDP expanding by 2.8 percent, which is 2.5 percentage points lower than in 2014. The slowdown is mainly attributed to a significant decline in foreign aid in addition to the Israeli decision to suspend the transfer of Palestinian taxes in early 2015, resulting in a severe liquidity squeeze. Unemployment continues to be stubbornly high at 26 percent. In the West Bank, it amounted to 19 percent by the end of 2015 while it was twice as high in Gaza. Unemployment is exceptionally high amongst Palestinian youth, particularly in Gaza where more than half of those aged between 15 and 29 are out of work. Inflation remains low and stable, at 1.4 percent in 2015.

The Palestinian Authority's (PA) fiscal deficit (before grants) narrowed in 2015 to 11.7 percent of GDP. Expenditure growth was high, exceeding 6 percent (in nominal NIS terms), mainly driven by spending on transfers and goods and services. However, it was offset by strong revenue growth of 9 percent. Aid in 2015 dropped by almost 30 percent relative to the previous year and was less than needed to cover the deficit, leading to a US\$650 million financing gap. The PA resorted to accumulation of arrears and domestic borrowing to cover the gap.

The current account deficit (excluding official transfers) is estimated to have declined to 11.3 percent of GDP in 2015 due to a narrowing of the trade deficit. Preliminary estimates indicate that the trade deficit reached 36.6 percent of GDP in 2015, which is 3 percentage points lower than its 2014 level. This was mainly driven by a decline in imports from Israel as growth slowed in the West Bank.

The economic outlook continues to be highly uncertain. Under a baseline scenario that assumes no change to the Israeli restrictions on trade, movement and access, growth is expected to remain unchanged in 2016 at 3.3 percent. In the West Bank, growth is projected at 2.8 percent assuming that the ongoing clashes do not escalate. Growth in Gaza is projected at 5 percent, as reconstruction advances. If reconstruction continues at its current pace, Gaza's GDP will not rebound to its prewar levels until 2018. In the medium term, overall growth in the West Bank and Gaza is expected to hover around 3.5 percent, leading to stagnant per capita incomes and rising unemployment.

Significant downside risks remain that could significantly worsen the economic outlook. First, the pace of reconstruction and recovery in Gaza has been slower than anticipated and despite some acceleration in recent months, additional setbacks are possible. Second, the outcome in the West Bank may be worse than expected if tensions continue to escalate. This environment may significantly weaken consumer and investor confidence, and hence, negatively impact economic activity. Finally, the failure to form a unified government for West Bank and Gaza has created two parallel regulatory frameworks: one in the West Bank and another one in Gaza. All this could potentially have a negative impact on the business climate.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	-0.2	3.3	3.3	3.5
of West Bank	5.3	2.8	2.8	3.0
of Gaza Strip	-15.1	5.0	5.0	5.0
Inflation Rate (%)	1.7	1.4	2.1	2.2
Fiscal Balance (% of GDP before external support)	-12.5	-11.6	-10.9	-10.1
Current Account Balance (% of GDP)	-8.9	-6.9	-7.9	-9.4

Qatar

Growth moderated to an estimated 3.7 percent in 2015 from 4 percent in 2014. It has been primarily driven by the non-hydrocarbon sector, and remains strong as construction, transport, communications, and financial sectors continue to perform well. The hydrocarbon sector has been suffering both from stagnating production since 2012 (largely due to the self-imposed moratorium on additional production from the North Field), and from plummeting oil and gas prices since mid-2014.

The fiscal and external positions have deteriorated despite some measures to rein in spending. After a decade of comfortable surpluses, the fiscal balance has been deteriorating (from a surplus of 17.1 percent of GDP in 2014 to an estimated surplus of 0.4 percent of GDP in 2015) due to falling oil and gas prices and revenues. The current account balance has shrunk from a large surplus (23.6 percent of GDP in 2014) to an estimated deficit of 0.8 percent of GDP in 2015. The government is tightening fiscal policy, with the announced 2016 budget showing a decline in both current and capital spending, and a resulting in a total budget of QAR202.5 billion compared to QAR218.4 billion in 2015. However, the investment commitments for the FIFA World Cup 2022, and its plan to diversify the economy, have limited its ability to reduce capital spending. The government is starting to remove subsidies, and has raised fuel prices by 30 percent in January. Further, it is developing new revenue sources, including through planning for the implementation of a value added tax with other GCC countries.

Monetary policy has been accommodative and the banking sector continues to grow, albeit at a slower rate. Qatar's Central Bank chose not to mirror the US Federal Reserve's raising of the policy rate in December 2015. But in order to maintain the currency peg to the US dollar, Qatar will need to follow suit if the Fed continues to tighten monetary policy. The commercial banks have adequate liquidity and deposit growth reached 8.2 percent in 2015. This deposit growth, however, is slow compared to previous years (19.7 percent in 2013 and 9.6 percent in 2014) due to the decline in public sector deposits.

The outlook for economic growth remains moderate, despite the slowdown in the hydrocarbon sector. Qatar may sustain real GDP growth averaging 3.6 percent between 2016 and 2018, driven by growth in non-hydrocarbon sectors. Nonhydrocarbon growth, however, may be slower than in previous years due to a reduction in manufacturing growth as the push from the expansion of the fertilizers and petrochemicals sectors fades. Services (real estate, transport, communications, and business services) are projected to contribute the bulk of GDP growth over the forecast period, although these sectors will grow at a slower rate than in the past as population growth decelerates and fiscal spending is reined in. The fiscal and current account balances will deteriorate in 2016 before starting to recover over the following two years. Oil production will decline as lower prices discourage investment in maturing fields. Conversely, gas production will increase as the Barzan gas project comes on stream (2016) and expands (2017). As gas production increases and oil and gas prices recover, hydrocarbon exports will experience sizable growth.

The main medium-term risk for the economy is the persistence of the sharp drop in global oil and gas prices, in addition to intensifying competition in the gas market. Continued weakness in oil markets could adversely impact hydrocarbon revenues, economic growth, and financial sector health. Increasing gas market competition in the medium term may further weaken growth.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	4.0	3.7	3.3	3.5
Inflation Rate (%)	3.3	1.7	2.1	2.8
Fiscal Balance (% of GDP)	17.1	0.4	-5.0	-1.9
Current Account Balance (% of GDP)	23.6	-0.8	-6.9	-3.5

Saudi Arabia

The economy grew at a modest pace in 2014-15, with real GDP growth at 3.6 percent in 2014 and an estimated 3.5 percent in 2015. Oil production increased from an average of 9.7 million bpd in 2014 to 10.1 million bpd in 2015. Increased oil output along with an expansionary fiscal stance helped support economic growth. Average inflation stood at 2.2 percent in 2015.

The fiscal deficit widened substantially in 2015, with moderate tightening in 2016. Expenditure cuts were limited to a modest 2.5 percent in 2015 while the revenues dropped by 38 percent. The fiscal deficit had a large increase to 18.9 percent in 2015. The deficit was financed largely by SAMA's large stock of foreign assets (estimated to exceed \$600 billion by the end of 2015). The 2016 budget reflects a moderate tightening. Domestic oil prices were raised by 50 percent, and natural gas and water prices are planned to be increased as well. In addition, budgetary allocations for education, health, and municipality services have faced significant cuts in an attempt to consolidate the deteriorating fiscal balances. Some revenue measures were recently introduced, including a 2.5 percent tax on undeveloped land and \$23 airport fee for international visitors. Other measures, including a 5 percent Value Added Tax (VAT) and additional taxes on tobacco and soft drinks, have been announced awaiting implementation.

The current account balance deteriorated with low oil prices, as hydrocarbons account for 89 percent of exports. The current account balance moved from a surplus of 10 percent of GDP in 2014 to a deficit of 5.2 percent of GDP in 2016.

On the monetary policy front, a passive stance continues. With a peg to the US dollar, SAMA followed the US Federal Reserve and increased its lending rates by 25 basis points in December 2015 amidst a slowing economy. Notwithstanding its benefits of providing stability and predictability, the peg has led to significant real appreciation of the riyal against currencies of the KSA's major trading partners since the global financial crisis. From 2008 to 2016, the Real Effective Exchange Rate of the riyal, defined in broad terms, has appreciated by more than 35 percent. Going forward, further interest hikes by the FED are likely to magnify this effect by further appreciating the US dollar, and thus, the Saudi riyal.

The structural reform agenda is gaining momentum. The authorities have recently announced the launch of the National Transformation Plan, which aims to introduce structural measures like improvements in public sector efficiency, privatization, further subsidy reforms and revenue diversification initiatives.

Tradeoffs between growth-enhancing public spending and fiscal sustainability will prevail in the short-term. With the introduction of moderate fiscal austerity measures, the economy is projected to grow at a slower rate of 2.2 percent in real terms in 2016. However, with \$37 average oil price in 2016 (the latest World Bank projections), current fiscal measures are insufficient to have a large impact on the fiscal deficit, which is projected at 16.3 percent of GDP. Efforts to raise non-oil revenues will remain modest and expenditure cuts will occur gradually, focusing primarily on the capital budget. Imports will fall following cuts in public capital expenditures, and although exports will also fall, the fall in imports is projected to be greater in magnitude. Thus, the current account balance is expected to improve but remain in deficit at 2.8 percent of GDP in 2016.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	3.6	3.5	2.2	2.6
Inflation Rate (%)	2.7	2.2	2.3	2.9
Fiscal Balance (% of GDP)	-3.6	-18.9	-16.3	-13.8
Current Account Balance (% of GDP)	10.0	-5.2	-2.8	1.4

Syria*

The violent conflict in Syria has taken a heavy toll on life of the Syrian people and is resulting in large outflow of refugees. The estimated death toll has exceeded 250,000 people (as per the UN); and a recent report by the Syrian Center for Policy Research (SCPR) put the death toll to 470,000. One million two hundred thousand people were injured and many more displaced. The latest UNHCR statistics reveal that half of the Syrian population has been forcibly displaced, with an estimated 7.6 million internally displaced persons (IDPs) and 4.8 million registered refugees (UNHCR, 2016). In addition, 900,000 asylum applications were filed by Syrians in Europe during 2011-February 2016. The Refugee Protection (3RP) and humanitarian program (UN) estimated that there were 4.8 million Syrian refugees in February 2016 in the neighboring host countries alone (Egypt, Iraq, Jordan, Lebanon, and Turkey).

The conflict has significantly damaged the country's public and private assets including health, education, energy, water and sanitation, agriculture, transportation, housing and other infrastructure. The World Bank's Damage and Needs Assessment report (conducted for six governorate capitals namely, Aleppo; Dar'a; Hama; Homs; Idlib; and Latakia) estimated the total damage for the six cities to be in the range of \$3.7 to 4.5 billion as of [December 2014]. The SCPR estimated that, for the whole country, the destruction of physical infrastructure amounted to \$75 billion. The UN estimated that it would need an investment of \$180 billion to bring Syrian GDP back to pre-conflict levels.

The GDP is estimated to have contracted by an annual average of 19 percent in 2015 and is projected to continue to contract in 2016, by 8 percent. After rising by nearly 90 percent in 2013, inflation is estimated to have increased by 30 in 2015 and is estimated to grow by 25 percent in 2016 because of continued trade disruption, shortages and sharp depreciation of the Syrian pound.

Public finances have worsened since the start of the conflict. The overall fiscal deficit increased sharply by an average of 12 percent of GDP during the period 2011-14 and is estimated to worsen to 20 and 18 percent of GDP in 2015 and 2016, respectively. Total revenue fell to an all-time low of below 7 percent of GDP during 2014-15 due to the collapse of oil revenues and tax revenues. In response, government spending was cut back, but not by enough to offset the fall in revenues. Reduction in outlays on wages and salaries were not far-reaching enough, while military spending increased.

The severe decline in oil receipts since the second half of 2012 and disruptions of trade due to the conflict put a pressure on balance of payments and the exchange rate. Revenues from oil exports decreased from \$4.7 billion in 2011 to an estimated \$0.22 billion in 2014, and are estimated to have declined further to \$0.14 billion in 2015 as most of Syria's oil fields are under control of opposition forces of ISIS. Therefore, current account balance is estimated to continue its trend and reached a deficit of 22 and 15 percent of GDP in 2015 and 2016, respectively. As a result of the civil war, it is estimated that total international reserves have declined from \$20 billion at end-2010 to \$0.7 billion by the end of 2015. Depressed export revenue and declining international reserves have caused a significant depreciation of the Syrian pound from 47 pounds per USD in 2010 to 375 pounds per USD at end-February 2016.

The medium-term macroeconomic prospects hinge on containing the war and finding a political resolution to the conflict, and rebuilding the damaged infrastructure and social capital. Violence continues to disrupt the production and distribution of goods and services, and impedes economic activity. Barring a cessation of the conflict, the country's human and physical capital stock is expected to continue to shrink. Physical harm, poor nutrition and health services, unemployment, poverty, and the breakdown of public service delivery will continue to weigh heavily on the population.

* The World Bank has no independent national accounts estimates for Syria for the period after 2010. All national accounts figures referred to in the text come from the Syrian Center for Policy Research (SCPR), the United Nations Economic and Social Commission for Western Asia (ESCWA), or Syrian government sources.

Tunisia

The social tensions that marked the first half of 2015, as well as the combined effects of three dramatic terrorist attacks have been the main drivers of Tunisia's economic performance in 2015. GDP growth reached a mere 0.8 percent only thanks to a strong performance in agricultural production (+9.2 percent) particularly olive production, while most other sectors of the economy contracted or stagnated. A combination of strikes and social unrest in mine-producing regions (phosphate) and the long-term decline in the production of oil and gas led to a sharp contraction in chemical industries (-5.3 percent) and oil refining (-18.2 percent) and an overall decline of non-manufacturing industries (-4.1 percent). After a marked acceleration throughout the first half of 2015, CPI inflation steadily decelerated to 4.1 percent (y-o-y) by end-2015 reaching an annual average of 4.9 percent, the same rate as the previous year. The unemployment rate remains high at 15.4 percent, particularly for women (22.6 percent), university graduates (31.2 percent) and the youth (31.8 percent).

For the first time since 2011, the fiscal deficit was contained below 5 percent of GDP in 2015, thanks to the sharp drop in international oil prices and de facto lower energy subsidies. Total revenue declined to 23 percent of GDP, from 23.9 percent in 2014 but at a slower pace than expenditures reflecting weak economic activities. Public expenditure remained dominated by recurrent spending, including a wage bill, which increased to 13.4 percent of GDP (from 12.8 in 2014) to reach almost 50 percent of total spending. Capital expenditure continued to be squeezed, reflecting slow investment execution. Public debt reached 52 percent of GDP in 2015 (up from 40 percent in 2010).

The current account deficit remained large at 8.7 percent of GDP in 2015. The trade deficit was reduced to 11.3 percent of GDP in 2015, against a record high of 13.7 percent of GDP in 2014, in line with the deceleration of private domestic demand, and lower international energy prices. Notwithstanding exceptional olive oil exports, total exports declined as a result of low production in mining and energy sectors and a weak performance in manufacturing. Imports contracted with the sharp drop in international oil prices and low demand for equipment and machinery import. Reflecting the weak security environment, tourist arrivals and receipts dropped by 30.8 and 35.1 percent, respectively. Remittances also decreased. FDI inflows increased by 9 percent in 2015 and gross foreign exchange reserves declined by \$200 million to \$7.5 billion at the end of 2015 to represent 4 months of import coverage.

The immediate economic outlook is subject to the lingering impact of the security shocks and social tensions that marked much of 2015 and early 2016. In a favorable scenario, economic growth would pick up in the medium term. GDP growth is projected to recover modestly to 1.8 percent in 2016 as phosphate production picks up. The twin deficits are projected to be -8.0 (current account) -4.4(fiscal balance) percent of GDP. In a scenario that would combine the pursuit of structural reforms, the reinforcement of security and improvement in the regional situation (most notably a start of normalization in Libya), greater social stability, and a moderate increase in external demand, economic growth is projected to accelerate to 2.5 percent in 2017 and 3 percent in 2018. Fiscal pressures should continue to grow with increasing current expenditure exacerbated by the announced wage increase starting in 2016 and new recruitments in security and defense forces. The current account is likely to benefit from the gradual recovery of remittances and services trade and would decline gradually toward 7.8-7.5 percent of GDP in 2017-18. Debt servicing payments are projected to reach 4 percent of GDP per annum in 2016-2018.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	2.3	0.8	1.8	2.5
Inflation Rate (%)	4.9	4.9	4.5	4.5
Fiscal Balance (% of GDP)	-5.0	-4.6	-4.4	-4.2
Current Account Balance (% of GDP)	-8.9	-8.7	-8.0	-7.8

United Arab Emirates

The economy continues to experience a slowdown in economic growth as a result of low oil prices. Real GDP achieved sustained growth of over 6 percent per year in recent decades, with oil surpluses invested into the non-oil economy. In particular, the country has managed to develop the Dubai financial and real-estate centers, international airline hubs in Dubai and Abu Dhabi, and sports-tourism in a number of Emirates as well as light manufacturing and transport and retail trade services. However, since June 2014, it has been affected by the plummeting of global oil prices which has resulted in a drop in hydrocarbon exports and revenues. While it managed to sustain growth rates of 4.6 percent in 2014, growth in 2015 is estimated to have declined to 3.4 percent.

Fiscal and external balances are deteriorating and macro-financial risks are increasing. A drop in hydrocarbon revenues coupled with expansionary fiscal policy has pushed the fiscal balance down from a surplus of 10.4 percent of GDP in 2013 to a 5 percent surplus in 2014 and to an estimated deficit of -4.3 percent of GDP by end-2015. The fiscal deficit of 2015 is the first since the financial crisis of 2009 when the real estate bubble in Dubai burst. The current account surplus fell from 18.4 percent of GDP in 2013 to 13.7 percent of GDP in 2014 and to a mere 0.2 percent of GDP by end-2015.

Monetary policy is tightening, as is liquidity in the banking system. The Central Bank raised the interest rate on its certificates of deposit by 25 basis points in December 2015 in response to the United States' Federal Reserve rate increase. It is expected to continue mirroring the Fed's interest rate hikes. At the same time, reduced government deposits are resulting in reduced liquidity in the banking sector.

The growth outlook is one of slow recovery, averaging 2.5 percent between 2016 and 2018. Oil production will increase as a result of investment in oilfield development. Non-hydrocarbon growth will rise as megaproject implementation ramps up ahead of Dubai's hosting of Expo 2020, and as the lifting of sanctions on Iran translates into increased commerce, trade, and investment between Iran and the UAE (particularly Dubai). These developments will jointly help to narrow the current account deficit from an estimated deficit of -1.7 percent of GDP in 2016 to a forecasted deficit of -0.2 percent of GDP in 2018.

Fiscal policy will continue to tighten, but ensuring fiscal sustainability will require additional policy measures to cut spending, develop new revenue streams, and manage fiscal risks. The UAE government has reported that it will be implementing a value added tax (VAT) at the latest by 2018, along with other GCC countries. It is also considering the introduction of a corporate tax. This will help improve the fiscal balance. Other consolidation measures are needed, including a reduction in electricity and water subsidies and a gradual slowdown in the implementation of GRE's (Government Related Entities) megaprojects. The main sources of medium-term risk are associated with the financial management of Dubai's GREs megaprojects. In an environment of low oil prices, macro-financial risks could be exacerbated by declining liquidity in the banking system, increased volatility in the stock markets, and disruptive declines in the real estate sector.

Key Economic Indicators

	2014	2015e	2016f	2017f
Real GDP Growth (%)	4.6	3.4	2.0	2.4
Inflation Rate (%)	2.3	4.1	3.1	3.4
Fiscal Balance (% of GDP)	5.0	-4.3	-5.2	-2.1
Current Account Balance (% of GDP)	13.7	0.2	-1.7	-0.4

Yemen

The country's economic and social fabric is crippling after one year of conflict. The economy has contracted sharply. Official reporting suggests that the GDP contracted in 2015 by approximately 28 percent. The escalating conflict since March 2015 has led to widespread disruptions of economic activities and infrastructure destruction. Since the second quarter of 2015, oil and gas exports have come to a halt. Imports have also contracted, except for critical food and energy products. Annual inflation reached around 30 percent in 2015, and is expected to increase further as the fiscal performance is continuously weakening.

Public finances are under severe stress. The fiscal deficit widened to 11.4 percent of GDP in 2015 from about 5 percent of GDP in 2014. Foreign financing of the budget has largely come to a halt, as many development partners suspended their engagement. Where possible, partners moved to emergency and relief operations. Non-hydrocarbon tax collection declined by about 25 percent compared to 2014. The government had to delay or suspend many public expenditure obligations while servicing wage and interest payment obligations. All premiums on wages were cut. Public investment has come to a complete stop.

The escalated conflict has complicated the management of monetary and exchange rate policy. The 2015 loss in foreign financing and especially in oil and gas exports led to increased pressures on Central Bank of Yemen (CBY) foreign exchange reserves, limiting gradually its space to finance imports while maintaining a stable exchange rate. International reserves declined to less than \$2 billion in late 2015 (2 months of imports). Consequently, the CBY stopped in February 2016 supporting imports at the official exchange rate except for wheat and rice. Meanwhile, the government's reliance on central bank financing of the fiscal deficit has increased domestic debt stock by about 18 percent of GDP, to an estimated 53 percent of GDP.

Social indicators were already poor before the 2015 crisis. Yemen has the highest poverty incidence in the Middle East, with about 37.3 percent of the population living below the poverty line of \$2 (2005 PPP) a day per person, and poverty is more widespread and persistent in rural areas. Yemen also has one of the highest malnutrition rates in the world, with almost 60 percent of children under the age of five having chronic malnutrition, 35 percent underweight, and 13 percent having acute malnutrition in 2012.

An alarming humanitarian crisis is unfolding in the face of conflict and war. The civilian death toll is estimated to have exceeded 6000, with about 28,500 wounded. As of end 2015, 2.5 million people were estimated to be internally displaced in Yemen. As in any conflict, the poor are suffering the most: 21.2 million Yemenis or roughly 82 percent of the population are in need of emergency humanitarian assistance; 14.4 million Yemenis are facing chronic food insecurity, which has increased by 35 percent since the conflict began; and 19.3 million Yemenis are without safe drinking water or sanitation. According to UN-OCHA, this has led to a sharp increase in malnutrition and disease burden as forced reliance on water from unprotected sources make people, particularly the young, vulnerable to diarrhea and cholera.

Economic and social prospects in 2016 and beyond will depend critically on rapid improvements on the political and security fronts to be able to rebuild the economy. Providing relief and basic humanitarian assistance is needed to the many suffering from the conflict in the short-term. Even in a post-conflict period, the country will depend more than ever on foreign assistance and donor support to recover from this conflict and rebuild confidence, including in its institutions. Restoring peace and political stability is critical for beginning reconstruction and addressing the country's deep-rooted governance, institutional, economic, social, and environmental challenges.

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