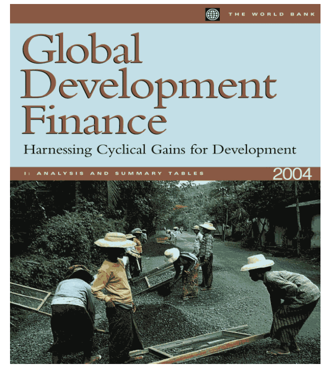
Middle East & North Africa

GDF 2004 Summary



Global Themes

- The global economic environment affecting capital flows to developing countries improved in 2003. Global growth gained momentum in the second half of the year as the locus of economic activity shifted towards business investment spending. Renewed confidence in international financial markets led to a considerable decline in risk spreads in bond markets and fueled a strong rally in equity prices. Worldwide, GDP growth increased from 1.8 percent in 2002 to 2.4 percent during 2003; it is projected to rise to 3.5 percent in 2004. But the global economy is emerging from the pervasive slowdown of recent years facing major macroeconomic challenges – including large fiscal deficits in many advanced economies and a large current-account deficit in the United States - which could have a critical bearing on the outlook for developing countries and the availability of external capital to finance their development.

- Developing countries as a group are markedly outperforming the high-income countries. Developing countries' GDP grew 4.6 percent in 2003, compared to a 1.9 percent advance in the high-income countries. The low-and middle-income countries are on track this year to match, or even surpass, the record 5.2 percent growth achieved in 2000, before the global slowdown. Since 2000, the developing world has been a net exporter of capital to the advanced economies. For developing countries as a whole, foreign-exchange reserves rose about $270 billion in 2003, bringing total reserves to $1, 225 billion—equivalent to nearly four times their short-term external debt. This buildup reflects a precautionary reaction to the costly crises of the 1990s, as well as broader factors related to trade and exchange rates.

- Official development assistance is still an important source of external finance for many countries. But, as private capital flows have grown, official aid flows have risen only slightly, and remain below the levels needed to achieve the Millennium Development Goals (MDGs). Political developments and changes in attitudes are dramatically altering the landscape for official flows. Net official development assistance did increase to $58 billion in 2002, but half of the $6 billion rise reflects debt relief donor agencies, rather than increased resources provided directly to developing countries. Moreover, the increase represents little progress toward meeting the commitments for higher aid made at the 2002 Monterrey conference.

- From 1992 to 2003, total international investment in developing countries' infrastructure is estimated to have been $622 billion—an average of $52 billion a year or 3.8 percent of total gross domestic investment in the developing world. Infrastructure needs in developing countries remain largely unmet—1.1 billion people lack access to safe drinking water, 2.4 billion are affected by inadequate sanitation, 1.4 billion have no power, and telecommunication links are five times less dense than in the developed world. Worldwide, future demand for infrastructure is likely to come mainly from the developing world. The bottlenecks in assuring a healthy flow of capital from international markets to developing-country infrastructure are related to policies, institutions, and regulation. Multilaterals can play a crucial role in providing risk-mitigation instruments (including guarantees and political risk insurance) and promoting the development of local capital markets. Efforts also need to be taken to develop a strong institutional framework for the protection of creditors' rights, effective covenants, and reliable avenues of legal enforcement and remedy. No single solution will fit all sectors and all countries.

- Developing countries' international trade is equivalent to about one-half of their gross national income. Trade finance supplies the liquidity needed to conduct trade, and governments can support it by ensuring a sound and efficient financial system. Finance linked to trade transactions may hold up better during crises than other forms of foreign borrowing for several reasons - lenders can rely on security arrangements linked to traded goods; supplier's information on their borrowers may limit contagion; suppliers have an incentive to support their customers during cyclical downturns; and, in some cases, governments have provided preferential treatment to trade finance in the context of rescheduling agreements. Trade credit from suppliers and customers appears to have held up better during crises than bank lending.

- The development community should view remittances as a welcome source of external finance and strive to improve the financial infrastructure supporting them. Workers' remittances have become a major source of finance for many developing countries. On an aggregate basis, they increased by more than 20 percent during 2001–03, reaching an estimated $93 billion in 2003, with more remittances being diverted to formal channels from alternatives—a result of efforts to curb money laundering. The increased focus on remittances resulted in better reporting of data in many developing countries.

Regional Themes

- Despite severe disruption in the Middle East and North Africa—tied in large measure to the Iraq conflict—GDP growth jumped from 3.3 percent in 2002 to 5.1 percent in 2003, the strongest economic performance since 1991. Underpinning the advance was a sharp upturn in growth for the region's oil-exporting economies, to 5.7 percent from 3.6 percent during 2002. Higher oil prices and a ramp-up in crude oil production provided substantial revenue gains, supporting increased public current and capital spending. As crude-oil production is scaled back once again (with OPEC quota reductions expected in 2004), growth among key oil exporters is expected to ease to 3.7 percent in 2004 and to maintain a similar pace of expansion through 2005.

- Capital spending expanded, providing a 2.3 percentage point fillip to growth in 2003, up from 0.2 points during 2002. Robust advances were made in Algeria, Iran, and Saudi Arabia, supported by rising petroleum revenues. Soaring oil receipts maintained the region's aggregate current account surplus near $25 billion, or 4.2 percent of regional GDP. Current-account surpluses should remain sizeable, however, providing resources that could be effectively channeled toward structural reforms.

- A pick-up in growth among the diversified exporters (from 3 to 3.9 percent in the year) reflected a rebound from severe drought in the Maghreb, while other countries—Syria, Egypt, and Jordan—witnessed a stabilization or moderate slowing of output. The softening of growth among the economies of the Gulf Cooperation Council—in particular—should be more than offset by firming activity among the diversified economies, as well as continued strong growth among the resource-rich, labor-abundant countries of the region—notably Algeria and Iran. Gradual recovery in Western Europe will be critical in stimulating exports from the Maghreb, as well as enhancing prospects for tourism and remittance revenues across the region. The balance of these factors suggests that regional growth should stand at 4 percent by 2006.

- MENA was the only region where private capital flows did not rebound in 2003, and in fact experienced significant decline. Gross bank lending declined from $12 billion in 2002 to $7 billion in 2003, while bend issuance declined from $3 billion to $1 billion. At the same time FDI also declined from $3 billion in 2002 to an estimated $2 billion in 2003.

- External financing for infrastructure to the Middle East and North Africa, has been small throughout the 1990s, with the bulk of such infrastructure financed projects being concentrated in a few countries. However, the ability of national and regional banks to provide medium to long-term local funding (including through Islamic financing instruments), has been instrumental in financing an array of desalination and independent water and power projects. These include the Barha project in Oman and the $1.8 billion Umm Al-Nar project in Abu Dhabi.

Other key regional points to note

- Investment reforms and gradual opening of economies to trade have been pursued to varying degrees in Jordan and Tunisia, two early reformers, and in Egypt and Morocco, as well as in the resource-based economies of Algeria and Iran. Among other initiatives, countries have been pursuing strengthened trade ties with Europe through the Euro-Med trade agreements, while intraregion trade is being promoted through the Pan Arab Free Trade Area (PAFTA). Geopolitical tensions form the principal backdrop of risk to the outlook, which may threaten steps toward freer trade and constrain the free movement of labor and worker remittances.

Middle East and North Africa outlook in summary, 1981-2004

	1981-90	1991-00	1998	1999	2000	2001	2002	2003e	2004f
Real economy									
(percent change, unless stated)									
Real GDP growth	2.4	3.3	3.5	1.9	4.4	3.5	3.3	5.1	3.7
Private consumption per capita	1.5	0.0	1.2	0.3	1.5	3.0	1.4	-0.1	1.3
GDP per capita	-0.6	1.0	1.7	0.1	2.5	1.6	1.4	3.1	1.8
Population	3.1	2.2	1.8	1.8	1.8	1.9	1.9	1.9	2.0
Gross Domestic Investment / GDP /a.	26.7	21.8	21.5	23.0	22.7	23.2	22.6	23.7	23.7
Inflation /b.	8.4	6.4	-0.4	7.6	10.9	0.9	2.6	1.1	0.8
Central Gvt budget balance / GDP	-3.9	-0.9	-3.2	-2.1	-1.1	-1.9	-2.9	-1.1	-3.3
Export Market Growth /c	5.3	7.4	1.0	8.1	14.7	-1.4	4.8	6.1	10.0
Export Volume /d.	0.7	5.0	-1.7	3.7	7.8	3.4	-0.4	7.3	6.4
Terms of Trade / GDP /e.	-0.6	-0.3	-4.8	0.0	5.8	-1.0	-1.0	-1.9	-2.0
Current Account / GDP	-1.7	-1.8	-4.2	1.2	7.2	4.4	4.6	4.5	2.4
Workers Remittances ($ billion)	--	11.2	10.6	10.7	11.0	13.2	13.0	13.0	--
Memorandum item:									
GDP growth: Resource poor, labor abundant	4.5	3.8	5.4	4.3	3.8	4.5	2.9	4.2	3.9
Resource rich, labor abundant	2.8	3.5	3.4	2.3	4.4	4.0	5.7	5.9	5.0
Resource rich, labor importing	-1.3	3.2	0.6	0.3	6.2	2.0	1.1	4.7	2.6
External Financing and Debt	1995	1996	1997	1998	1999	2000	2001	2002	2003e
(billions of dollar unless stated)									
Net inward FDI	-0.7	0.6	6.3	7.4	2.9	2.4	5.8	2.7	2.0
Net inward portfolio equity flows	0.0	0.2	0.7	0.2	0.6	0.2	-0.1	-0.3	0.0
Net inward debt flows	2.4	-0.9	-2.9	7.1	-1.8	-6.1	0.9	0.9	-7.8
From public sources	-1.1	-0.6	-3.7	-1.5	-2.5	-2.8	-1.1	-2.8	-2.0
From private sources	3.5	-0.3	0.8	8.6	0.6	-3.4	2.0	3.8	-5.7
Gross Market Based Capital Inflows	11.3	4.5	18.7	12.1	13.6	10.3	12.4	14.8	8.2
Total External Debt	186.4	180.5	172.6	189.3	193.6	180.7	178.4	189.0	188.1
Medium and Long Term	154.2	149.1	140.5	152.3	152.6	143.4	141.4	151.1	150.3
Short Term	32.2	31.4	32.1	37.0	41.0	37.3	37.1	37.9	37.9
Owed by Public Sector Borrowers	149.0	143.6	134.0	143.7	145.6	136.9	134.8	144.6	144.9
Owed by Private Sector Borrowers	37.4	36.9	38.7	45.6	48.0	43.8	43.6	44.4	43.2
Owed to Public Sector Creditors	107.9	107.5	99.7	104.1	98.5	90.9	88.6	91.5	94.1
Owed to Private Sector Creditors	78.5	73.0	72.9	85.2	95.1	89.8	89.8	97.5	94.1
Gross Foreign Exchange Reserves	44.9	56.4	63.0	61.6	64.2	76.5	85.2	97.4	106.6

-- Not Available

Note: e = estimate, *f* = forecast.

a. Fixed investment, measured in real terms.

b. Local currency GDP deflator, median.

c. Weighted average growth of import demand in export markets.

d. Goods and non-factor services.

e. Change in terms of trade, measured as a percentage of GDP.

External financing: Middle East and North Africa, 1997-2003
(billionsof dollars)

	1997	1998	1999	2000	2001	2002	2003e
Current account balance	5.1	-19.8	6.1	39.5	24.8	25.7	26.0
as % GDP	1.0	-4.2	1.2	7.2	4.4	4.6	4.6
Financed by:							
Net equity flows	7.0	7.6	3.6	2.7	5.7	2.4	2.0
Net FDI inflows	6.3	7.4	2.9	2.4	5.8	2.7	2.0
Net portfolio equity inflows	0.7	0.2	0.6	0.2	-0.1	-0.3	0.0
Net debt flows	-2.9	7.1	-1.8	-6.1	0.9	0.9	-7.8
Official creditors	-3.7	-1.5	-2.5	-2.8	-1.1	-2.8	-2.0
World Bank	-0.3	-0.2	0.2	-0.3	-0.1	-0.3	-0.3
IMF	0.3	0.0	0.0	-0.2	-0.1	-0.3	-0.5
Others	-3.8	-1.3	-2.7	-2.3	-0.9	-2.3	-1.2
Private creditors	0.8	8.6	0.6	-3.4	2.0	3.8	-5.7
Net M-L term debt flows	-0.2	3.9	-0.4	0.5	2.3	3.0	-5.7
Bonds	1.5	1.3	1.4	1.2	4.4	5.0	-0.8
Banks	-0.1	3.8	-0.6	0.9	-1.1	-1.5	-4.2
Others	-1.7	-1.3	-1.2	-1.6	-1.0	-0.5	-0.7
Net short-term debt flows	1.1	4.7	1.0	-3.9	-0.3	0.8	-0.1
Balancing item *	-2.5	3.6	-5.2	-23.8	-22.6	-16.8	-11.0
Change in reserves (- = increase)	-6.6	1.5	-2.6	-12.2	-8.8	-12.2	-9.2
Memo items:							
Bilateral aid grants (excluding technical co-operation grants)	3.0	3.5	2.7	3.1	2.2	2.4	3.6
Net private flows (debt+equity)	7.8	16.3	4.2	-0.7	7.7	6.1	-3.8
Net official flows (aid+debt)	-0.7	1.9	0.2	0.3	1.1	-0.4	1.6
Workers' remittances	10.8	10.6	10.7	11.0	13.2	13.0	13.0

Note : e = estimate

a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries