# Outlook 2013: MENA

## Middle East and North Africa

*The revolution that shook up the Arab world in 2011, continues to affect the region's economic performance, as well as political stability. The political impact ranges from drastic regime changes to business as usual, at least from the outside. Still, even for countries that have seen little political change, the impact of the protests is felt in the form of increased social spending. In addition, the region is sensitive to the ongoing crisis in the eurozone and slowing growth in other parts of the world. Although this mainly affects the region through the impact on oil prices, also non-oil exporters are vulnerable to a sudden drop in external demand.*

**Where we are now**

The Arab Spring of 2011 affected the entire region, though in varying degrees. In North Africa we saw the largest uprisings in Tunisia, Egypt and Libya, as all three countries underwent a regime change and, for the first time in a long time, organized free elections. Nonetheless, the process of democratization has only just started and it may take years if not decades before the full effects of these regime changes become visible. Until then, a certain degree of political instability is likely to endure, or rise, which will have economic repercussions as well. In both Tunisia and Egypt, newly elected governments have struggled to halt social uproar, as protests continue to deter both tourists and investors, while hampering local economic activity. The result is slow growth. In addition, the near-depletion of foreign exchange reserves in both countries is another worrying sign.

In Libya, political stability is much further away. The militias that helped oust Gadaffi continue to be active in especially the eastern part of the country, while the newly elected parties and politicians are struggling to form a government. Finally, given the lack of a shared national identity given that Libya is mostly a collection of regions, creating unity has been challenging. Unfortunately, without a strong, legitimate government and national army, the risk of another civil war is relatively high. In the meantime, Libya's oil reserves will keep the economy afloat for some time to come. After the civil war, drilling platforms were rapidly restored and oil production is now back to pre-war levels.

In Algeria and Morocco, the impact of the protests was much less severe. In Morocco, as in other kingdoms across the region, the popularity of the king shielded the country from drastic regime changes, although it did implement a new and slightly more democratic constitution. In Algeria, the memories of the previous (highly violent) revolution deterred many protesters. Still, the elite did see itself forced to hold new elections, which did not result in any significant change.

In the Middle East, the continuing unrest in Syria has a significant regional economic impact. In general, it has impacted foreign investor confidence and tourism for the entire region. Especially the small economies of neighboring Lebanon and Jordan were heavily impacted. Syria is Lebanon's largest trade partner and Lebanon also serves as a transit country for the transportation of imports and exports for both countries. Lebanese politics remains deeply divided on intervention in Syria, and is likely to refrain from taking a standpoint to avoid a government collapse. Since the international community remains divided over the possibility of an intervention, we do not see a resolution to the Syria conflict in the short term.

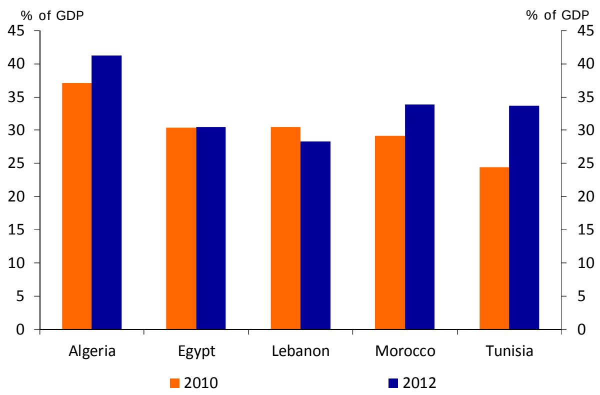
The social unrest in Bahrain also continues. Tensions between the dominant ruling Sunni elite and Shia's continue to be high, as the Shia's grievances over the lack of socio-economic reform remain unaddressed. We expect tensions to continue throughout 2013 and weigh on the economy. Saudi Arabia, Bahrain's largest trade partner, remains vigilant and could step in with military force. It has already done so last year, given that it views Bahrain as one of its provinces and as such we do not expect the unrest to escalate.

In Oman, the social unrest has eased and political stability has returned, as Sultan Qaboos bin Said al-Said has kept his promises by making constitutional amendments to endow the consultative council with legislative powers and expand the powers of parliament. In Israel, social unrest given the discontent over socio-economic reforms continues on a small scale, but is unlikely to escalate.

**Social spending on the rise**

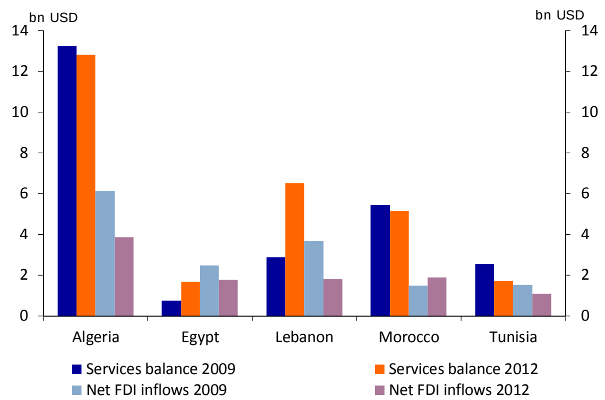
The widespread protests forced many governments to increase social spending to meet public demands and prevent protests from turning into riots. The results of this policy choice are mixed, but in all cases social spending has added to public expenditures (see figure 1). The increase in public expenditure was most pronounced in Tunisia, while also Egypt's new government has not shied away

**Figure 1: Government expenditures**




Source: EIU

**Figure 2: Capital flows**




Source: EIU

from using short term social subsidies to please the crowds. This combined with a fall in revenue as a result of the revolution and subsequent economic chaos has added to public debt. For 2013, we expect Egypt and Tunisia to continue to report considerable deficits. Fortunately, it is widely expected that the IMF will provide both countries with relatively cheap loans that should help them through this transition phase.

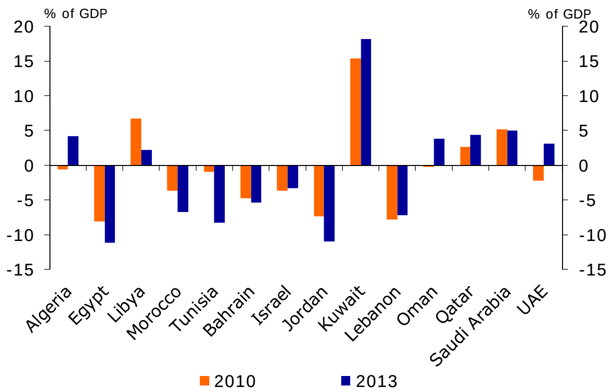
In the Middle East several countries have issued social spending programs to appease protesters. The fact that Jordan did not experience any marked social unrest was partly due to the popularity of the modern King Abdullah, but also due to costly social spending programs initiatives. This has put a severe strain on the fiscal balance. The same goes for richer countries such as Saudi Arabia, which sees its fiscal balances strained in 2013 as implementation of promised social and development spending takes place. Qatar and Oman have implemented smaller handouts, which are not expected to pressure fiscal balances significantly.

For the future, more far reaching measures are needed to secure long-term stability. Subsidies are not sustainable: when food and/or oil prices go up, subsidies become larger and put more pressure on the budget. In the worst case this could force governments to cut subsidies, with social unrest as the most likely outcome. More structural measures are clearly called for, including measures reducing income inequality and enhancing job creation for the large groups of unemployed youth across the region.

**Outlook oil importing countries: importing inflation**

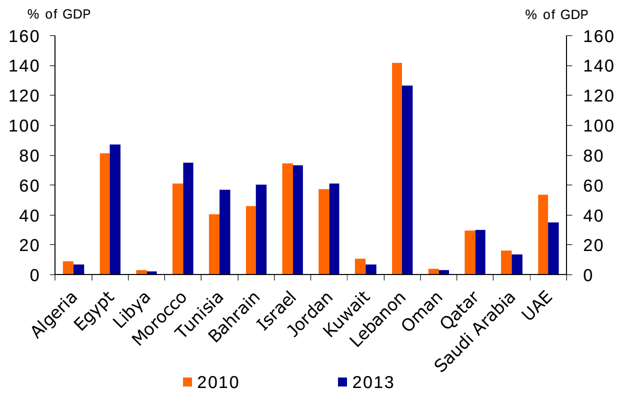
Growth in the oil-importing countries will be depressed by ongoing social unrest. This is especially true for Egypt and Tunisia, where the tourist sector is only recovering slowly, while investors continue to stay away. As a result we expect growth to come in around 3.5% in both countries, in 2013. In addition, rising

**Figure 3: Budget deficits**




Source: EIU

**Figure 4: Public debt**




Source: EIU

food prices are expected to further add to the import bill, as Egypt and Tunisia are the world's largest importers of wheat. The result will be a further depletion of FX reserves. However, a balance of payment crisis is deemed unlikely as both countries have access to emergency support from Gulf states. Rising food prices could also add to social unrest by increasing the cost of living. But, although this remains a downside risk, we do not expect a sharp rise in food prices. Moreover, current subsidies, although unsustainable, and other social spending should prevent a steep fall in purchasing power in the short term.
Morocco's economy will benefit from slightly higher demand from Europe, its main export market, while a return to social stability is expected to further benefit the economy. As a result we expect the economy to grow by roughly 4% in 2013, from an expected 2.4% in 2012. However, this outlook is subject to enormous downside risks, including a eurozone break-up and renewed social unrest.

In the Middle East, Jordan and Lebanon are the smallest economies and net-importers of both food and energy. The high import bill for Jordan along with social spending, will push back development projects. We anticipate economic growth to rise to 3.8% in 2013 from 2.5% in 2012, as social spending can make way for economic development projects and lower oil prices reduce the import bill. For the same reasons, we forecast economic growth in Lebanon to rise from 1.7% in 2012 to 2.5% in 2013. Israel's economy will continue to expand at the moderate pace of 3% in 2013, but a downside risk to this forecast is the sluggish US economy, which is the largest export market for Israel's exports.

**Outlook oil exporting countries: oil prices determine economic cycle**
Since the majority of the countries in the Middle East are large oil exporters, the economic cycle is largely determined by oil prices and volumes. Especially Oman, Kuwait, Qatar, the UAE, Bahrain and Saudi Arabia are dependent on oil exports to balance their their government budgets on an assumed oil price. The US and the larger Asian economies are the major export markets for Middle-

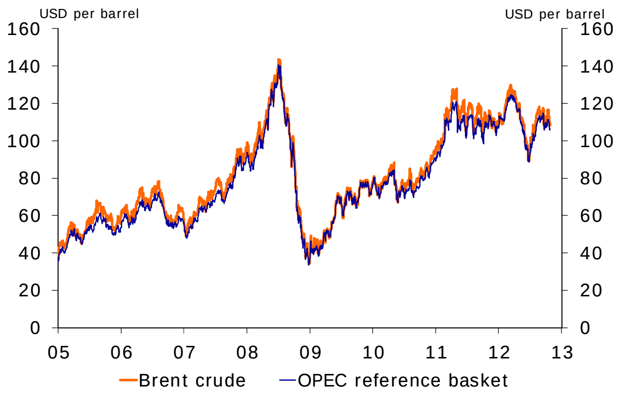
**Figure 5: MENA main exports**

| | Main export products | Major export partners |
|---|---|---|
| Algeria | Hydrocarbons, semi-finished goods | US, Italy, Canada, France |
| Egypt | Crude petroleum & -products, finished goods (incl textiles) | US, Spain, India, Italy |
| Libya | Hydrocarbon products | Italy, France, Spain |
| Morocco | Textiles, phosphoric acid, phosphoric rock, fertilizers | Spain, France, Brazil, US |
| Tunisia | Textiles, electrical equipment, petroleum & derivatives | France, Italy, Germany |
| Bahrain | Petroleum, aluminium & aluminium products, chemical products | Saudi Arabia, India, Japan, US |
| Israel | Chemicals, polished diamonds, electronic comm., medical & scientific eq. | US, Hong Kong, Belgium, India |
| Jordan | Manufactured goods, chemicals, crude materials | US, Iraq, UAE, India |
| Kuwait | Crude oil | South Korea, Japan, India, China |
| Lebanon | Precious stones & jewellery, machinery, chemicals | Syria, Switzerland, Saudi Arabia, UAE |
| Oman | Crude oil, liquefied natural gas | China, South Korea, Japan, UAE |
| Qatar | Liquefied natural gas, natural gas liquids, crude oil | Japan, South Korea, Singapore, India |
| Saudi Arabia | Crude petroleum, refined products | Japan, US, South Korea, China |
| United Arab Emirates | Crude petroleum, re-exports, gas | Japan, South Korea, Thailand, India |

Source: EIU

Eastern oil. As the US economy is still struggling and Asia appears to head for a soft landing, oil prices are not expected to pick up significantly in 2013 from the demand side. However, if regional tensions escalate this could cause supply side constraints and rising oil prices.

**Figure 6: Global oil prices**




Source: Reuters EcoWin

For Saudi Arabia, economic growth in 2013 will also be driven by the large government spending packages it issued in the wake of the Arab Spring, which should buoy consumer and investment demand. Since it is likely the global economic slowdown will persist in 2013, we expect Saudi Arabia to scale back oil production and the economy to cool to a still robust 4.5% growth in 2013.
The same goes for the UAE, which is expected to cool to 2.8% GDP growth in 2013. Oman's economic growth will increase only marginally to 5.1% next year, on the back of government investment and consumption. In Bahrain, the recovering tourism, financial and retail industries will continue to endure weakened consumer and investor confidence, since the social unrest still weighs on the economy. We forecast economic growth to slow marginally to 3.7% in 2013. Kuwait's economy is forecast to slow only marginally as well to 4.6% in 2013. Again, weak external demand for oil will be the main drag on economic growth, while the non-hydrocarbon growth will be spearheaded by government spending and transfers, which also in turn will bolster private consumption. Our lower growth forecast for Qatar of 4.4% in 2013 is only due to expected weak external demand. The domestic economy will support growth, especially the government investments in its gas production capacity and infrastructure projects. Contrary to its neighbor countries, Qatar's government has no need for substantial social spending packages as the social unrest is unlikely to spread to the country which boasts one of the highest GDP per capita in the world.

In North Africa, the recovery of Libya's oil industry is expected to result in strong growth of roughly 12%. In Algeria, the reparation of the country's largest refinery will reduce oil exports and GDP growth is expected to remain slow in 2012, only to pick up 2013, when the refinery comes back online.

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## Data tables

| Economic growth (Real GDP % change pa) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012e | 2013f |
| Algeria | 3.1 | 2.4 | 2.4 | 3.4 | 2.4 | 2.6 | 4.3 |
| Egypt | 7.1 | 7.2 | 4.7 | 5.1 | 1.8 | 1.9 | 3.5 |
| Libya | 5.0 | 2.7 | -0.7 | 3.3 | -27.9 | 34.4 | 12.2 |
| Morocco | 2.7 | 5.6 | 4.8 | 3.6 | 5.0 | 2.4 | 4.0 |
| Tunisia | 6.3 | 4.5 | 3.1 | 3.0 | -1.8 | 2.8 | 3.5 |
| Bahrain | 8.3 | 6.2 | 2.5 | 4.3 | 1.9 | 3.9 | 3.7 |
| Israel | 5.5 | 4.4 | 1.2 | 5.0 | 4.6 | 2.4 | 3.0 |
| Jordan | 6.9 | 5.8 | 2.3 | 3.1 | 2.6 | 2.5 | 3.8 |
| Kuwait | 6.5 | 4.2 | -7.8 | 11.4 | 9.3 | 5.0 | 4.6 |
| Lebanon | 7.5 | 9.3 | 8.5 | 7.0 | 1.5 | 1.7 | 2.5 |
| Oman | 6.7 | 13.1 | 3.9 | 5.0 | 5.2 | 4.9 | 5.1 |
| Qatar | 17.1 | 11.7 | 9.5 | 16.7 | 14.1 | 6.5 | 5.4 |
| Saudi Arabia | 2.0 | 4.2 | 0.1 | 5.1 | 7.0 | 5.6 | 4.5 |
| United Arab Emirates | 3.2 | 3.2 | -4.8 | 1.3 | 4.2 | 3.0 | 2.8 |

Source: EIU

| Budget balance (% of GDP) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012e | 2013f |
| Algeria | 6.2 | 9.1 | -5.7 | -0.6 | -0.2 | -2.4 | 4.2 |
| Egypt | -7.3 | -6.8 | -6.6 | -8.1 | -10.0 | -10.4 | -11.2 |
| Libya | 24.1 | 23.7 | 7.1 | 6.7 | -7.7 | 5.6 | 2.2 |
| Morocco | 0.2 | 0.4 | -2.7 | -3.7 | -6.0 | -7.5 | -6.7 |
| Tunisia | -2.6 | -0.7 | -2.7 | -1.0 | -5.9 | -8.9 | -8.3 |
| Bahrain | 3.1 | 6.6 | -6.0 | -4.8 | -3.5 | -1.6 | -5.4 |
| Israel | 0.0 | -2.2 | -5.2 | -3.7 | -3.3 | -4.0 | -3.3 |
| Jordan | -7.9 | -6.8 | -10.9 | -7.4 | -12.4 | -11.4 | -11.0 |
| Kuwait | 28.6 | 6.9 | 21.1 | 15.4 | 29.8 | 22.3 | 18.2 |
| Lebanon | -10.2 | -9.7 | -8.5 | -7.8 | -5.8 | -7.3 | -7.2 |
| Oman | 0.3 | 0.4 | -3.7 | -0.2 | 6.3 | 6.8 | 3.8 |
| Qatar | 10.9 | 10.7 | 14.1 | 2.7 | 8.4 | 5.9 | 4.4 |
| Saudi Arabia | 12.2 | 32.5 | -6.1 | 5.1 | 13.6 | 12.0 | 5.0 |
| United Arab Emirates | 7.3 | 16.8 | -12.8 | -2.2 | 3.1 | 4.2 | 3.1 |

Source: EIU

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| Public debt (% of GDP) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012e | 2013f |
| Algeria | 11.7 | 6.6 | 8.1 | 9.2 | 8.4 | 8.8 | 7.0 |
| Egypt | 102.4 | 86.2 | 83.5 | 81.4 | 83.6 | 85.0 | 87.1 |
| Libya | 3.6 | 2.9 | 3.9 | 3.2 | 4.3 | 1.9 | 2.5 |
| Morocco | 62.6 | 56.8 | 56.9 | 61.0 | 64.7 | 71.7 | 74.8 |
| Tunisia | 46.2 | 43.5 | 42.9 | 40.5 | 45.1 | 52.3 | 56.8 |
| Bahrain | 31.5 | 28.3 | 41.7 | 45.9 | 54.0 | 56.2 | 60.3 |
| Israel | 76.2 | 75.5 | 77.9 | 74.5 | 72.6 | 74.4 | 73.3 |
| Jordan | 67.1 | 54.8 | 57.4 | 57.3 | 57.5 | 59.1 | 61.2 |
| Kuwait | 11.8 | 9.6 | 11.0 | 10.9 | 7.5 | 7.1 | 6.8 |
| Lebanon | 168.4 | 158.5 | 147.6 | 141.7 | 134.0 | 127.9 | 126.5 |
| Oman | 3.1 | 2.6 | 5.2 | 3.9 | 3.8 | 3.6 | 3.4 |
| Qatar | 8.3 | 8.0 | 30.5 | 29.5 | 34.0 | 32.5 | 30.2 |
| Saudi Arabia | 24.7 | 18.6 | 22.4 | 16.3 | 12.6 | 12.9 | 13.6 |
| United Arab Emirates | 36.8 | 37.6 | 57.3 | 53.6 | 45.9 | 40.4 | 34.9 |

Source: EIU

| Consumer prices (% change pa, average) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012e | 2013f |
| Algeria | 3.5 | 6.7 | 5.7 | 3.9 | 4.5 | 8.5 | 4.1 |
| Egypt | 9.5 | 18.3 | 11.8 | 11.1 | 10.2 | 8.5 | 9.1 |
| Libya | 6.3 | 10.4 | 2.4 | 2.5 | 15.9 | 3.6 | -3.3 |
| Morocco | 2.0 | 3.7 | 1.0 | 1.0 | 0.9 | 1.4 | 2.2 |
| Tunisia | 3.4 | 4.9 | 3.5 | 4.4 | 3.5 | 5.9 | 4.6 |
| Bahrain | 3.3 | 3.5 | 2.8 | 2.0 | -0.4 | 3.0 | 2.5 |
| Israel | 0.5 | 4.6 | 3.3 | 2.7 | 3.5 | 2.1 | 2.4 |
| Jordan | 5.4 | 14.9 | -0.7 | 5.0 | 4.4 | 4.3 | 3.5 |
| Kuwait | 5.5 | 10.6 | 4.0 | 4.0 | 4.7 | 3.2 | 4.0 |
| Lebanon | 5.7 | 11.7 | 1.2 | 4.0 | 5.1 | 5.5 | 2.5 |
| Oman | 6.0 | 12.5 | 3.5 | 3.2 | 4.1 | 3.5 | 3.4 |
| Qatar | 13.6 | 15.2 | -4.9 | -2.4 | 1.9 | 1.9 | 3.1 |
| Saudi Arabia | 4.1 | 9.9 | 5.1 | 5.4 | 5.0 | 4.6 | 4.5 |
| United Arab Emirates | 11.1 | 12.3 | 1.6 | 0.9 | 0.9 | 1.1 | 2.2 |

Source: EIU

| Current account balance (% of GDP) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012e | 2013f |
| Algeria | 22.5 | 20.1 | 0.3 | 7.5 | 10.0 | 9.7 | 8.0 |
| Egypt | 0.1 | -0.8 | -1.6 | -2.5 | -2.7 | -3.3 | -3.1 |
| Libya | 38.8 | 37.5 | 13.6 | 20.5 | 6.9 | 34.1 | 32.1 |
| Morocco | -0.3 | -6.4 | -5.9 | -4.6 | -8.4 | -8.9 | -6.4 |
| Tunisia | -2.4 | -3.8 | -2.8 | -4.8 | -7.3 | -8.3 | -7.6 |
| Bahrain | 15.7 | 10.2 | 2.9 | 3.0 | 12.6 | 10.5 | 5.9 |
| Israel | 2.7 | 1.1 | 3.8 | 3.8 | 0.8 | -1.1 | -0.3 |
| Jordan | -16.7 | -9.2 | -5.3 | -6.8 | -9.7 | -10.7 | -8.1 |
| Kuwait | 36.1 | 40.9 | 26.7 | 31.9 | 44.0 | 43.4 | 39.2 |
| Lebanon | -6.4 | -13.8 | -19.5 | -20.1 | -10.4 | -17.6 | -17.3 |
| Oman | 5.9 | 8.3 | -1.2 | 8.6 | 14.7 | 13.6 | 8.6 |
| Qatar | 10.8 | 12.8 | 6.8 | 16.5 | 30.0 | 30.5 | 27.8 |
| Saudi Arabia | 24.3 | 27.8 | 5.6 | 14.6 | 26.5 | 23.1 | 16.5 |
| United Arab Emirates | 7.6 | 7.1 | 3.0 | 2.5 | 9.1 | 6.9 | 5.2 |

Source: EIU