and front-loaded countercyclical policies are boosting domestic demand. Improved terms of trade as well as rising consumer and business confidence should also bolster the recovery, bringing growth closer to potential.

Peru's recovery will benefit from stronger demand for commodity exports, particularly from Asia. Furthermore, the Free Trade Agreement with China, which comes into operation in January 2010, will further boost exports, in particular those of fishmeal and minerals. Government consumption and investment should be firm in 2010 as the government maintains efforts to support economic growth through new spending on public works and social programs, and it should remain a high priority ahead of the April 2011 presidential and congressional elections.

Growth in Central America is expected to bounce back in 2010 in line with developments in the United States and other major economic partners. Recovery in the region is highly dependent on workers' remittances from the United States and Europe (El Salvador, Guatemala, Honduras, and Nicaragua), and is projected to be more gradual, as the expected jobless recovery in high-income countries will put pressure on remittances, thereby delaying the recovery in private consumption in these countries. Similarly, tourism in the region (of particular importance for the Caribbean) is expected to recover only moderately as labor markets in client countries recover only gradually. FDI, which was a major source of growth over the 2003–08 period, is unlikely to return to pre-crisis levels while excess capacity lingers. The recovery in most countries in Central America will thus be anemic at best. In Jamaica, low alumina and bauxite production and export prices will constrain the recovery. Growth in these regions will continue to be undermined further by crime, corruption, weak democratic institutions, and a lack of competitiveness.

Risks

In countries where domestic demand is strengthening rapidly, delays in withdrawing policy stimulus represent an upside risk to growth and inflation. In such cases, output gaps could close faster than anticipated, leading to an inflationary environment. In particular, the risks for Brazil have shifted to the upside as domestic demand is rebounding strongly, while the effects of already enacted monetary loosening and countercyclical fiscal policy easing have not yet run their course. Another upside risk emanates from commodity prices, should the world economy (particularly in resource-intensive economies such as China) stage a stronger-than-expected rebound.

The recent run-up in equity markets and stronger capital inflows in general, stemming in part from still large interest rate differentials, have put upward pressure on real effective exchange rates in some countries. The surge in capital inflows to the region, which reached $87.2 billion in the second half of 2009 (of which $34.3 billion came in December), compared with $36.8 billion in the first half of the year, has prompted the Brazilian government to impose a 2 percent financial transaction tax on foreign portfolio inflows. However, this measure has been ineffective in preventing capital inflows and real currency appreciation. Should such flows persist, this may lead to renewed asset price bubbles. Also, some economies may lose external competitiveness because of real currency appreciation at a time when external demand recovery remains fragile.

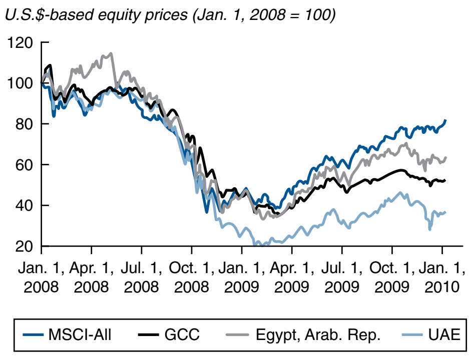
Middle East and North Africa

Recent developments

The impact of the global financial crisis for the developing economies of the Middle East and North Africa region varied across oil exporters and importers of the region.[13] Initially, the decline in regional equity markets was sharper than the average for emerging markets (figure A17). Since then, recovery in these markets has been hesitant owing to the unfolding of the Dubai World debt problems in the United Arab Emirates as well as concerns regarding growth prospects for the broader region.

Conditions at the outset of the financial crisis were less than propitious for the Middle East and North Africa. The "food-fuel" crisis

Figure A17 Equity markets in the Middle East dropped quickly, and GCC recovery has been muted



Source: Morgan-Stanley through Thomson/Datastream.

Note: MSCI-AII is all emerging markets; GCC is Gulf Cooperation Council; UAE is United Arab Emirates.

of 2007–08 was a challenge for the region, the largest net exporter of oil and the largest net importer of food. Oil exporters were less adversely affected, but food import bills rose sharply. Hardest hit were countries in the Maghreb, as well as Jordan and Lebanon, which are large importers of both food and fuel; and the Arab Republic of Egypt (high food-import dependence). The policy environment had to shift quickly from mitigating the effects of higher commodity prices to shoring up banking systems and applying fiscal stimulus to bolster domestic demand.

Over the course of 2009, net terms-of-trade movements for the developing oil exporters (Algeria, Islamic Republic of Iran, Syrian Arab Republic, and Republic of Yemen) and the Gulf Cooperation Council (GCC) were favorable, as oil prices increased and food prices declined. But high oil prices have been maintained at the expense of much reduced output. Because of falling oil production, key GCC oil exporters suffered modest GDP declines during the year, only partially offset by fiscal stimulus programs and more buoyant non-oil sectors. Developing oil exporters in contrast saw a marked downturn in oil sectors of their economies, but stimulus measures and stronger non-oil developments helped to maintain positive overall growth. For the more diversified economies (Egypt, Jordan, Lebanon, Morocco, and Tunisia) steep declines in external demand (notably from the dominant Euro Area) had a negative effect on merchandise exports, compounded by falling tourism volumes, lower worker remittances, and declining FDI inflows, notably those from the GCC economies. The decline in FDI was at first linked to falling oil revenues among the GCC and softer conditions in host markets. This came to be further clouded by the question of sovereign debt sustainability on the part of Dubai, owing to past overinvestment in real estate and tourism ventures within the United Arab Emirates.

Against this background, GDP growth in 2009 for the *developing countries* of the region is estimated to have eased to 2.9 percent, from 4.3 percent in 2008. For developing oil exporters, growth almost halved, to 1.6 percent from 2.9 percent in 2008. GDP gains for the oil importers (diversified economies) faltered by almost 2 percentage points in the year, from a strong 6.6 percent outturn in 2008 (powered by growth of more than 7 percent in Egypt) to 4.7 percent in 2009. And for the *high-income* GCC economies covered in this report, GDP is estimated to have contracted by 0.6 percent in 2009 following a firm 4.6 percent growth in the preceding year, as the sharp slide in oil production and revenues dampened output (table A7).

Developments among regional oil exporters. The global economic crisis ended the oil boom that saw oil prices peak at more than $150 a barrel on an intra-day basis in mid-2008 (figure A18), and prices have settled into a range of $65–$80 a barrel, supported by OPEC (Organization of Petroleum-Exporting Countries) production cuts. As part of this effort, regional oil exporters scaled back production by nearly 10 percent (11 percent among high-income producers and 7.3 percent among the developing exporters of the region). The combination of much lower prices and reduced output caused oil and gas

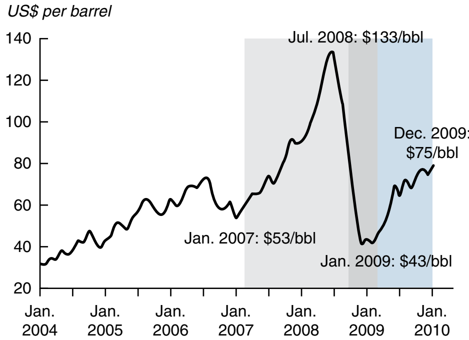
Table A7 Middle East and North Africa forecast summary
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[g]	2010[h]	2011[h]
GDP at market prices (2005 US$)[b]	4.4	5.2	5.9	4.3	2.9	3.7	4.4
GDP per capita (units in US$)	2.7	3.5	4.1	2.6	1.2	2.0	2.8
PPP GDP[c]	4.5	5.4	6.2	4.3	2.7	3.6	4.4
Private consumption	4.2	4.8	6.3	1.2	4.6	4.5	5.1
Public consumption	3.3	5.7	2.2	11.3	10.6	7.5	6.4
Fixed investment	6.5	5.9	18.7	19.4	8.0	4.0	4.6
Exports, GNFS[d]	4.9	5.9	6.5	0.2	−8.8	2.3	5.2
Imports, GNFS[d]	5.7	7.0	12.4	9.0	1.1	5.2	6.7
Net exports, contribution to growth	−0.2	−0.1	−1.6	−3.0	−3.5	−1.1	−0.8
Current account balance/GDP (%)	2.9	11.6	10.1	10.5	−0.1	1.5	1.0
GDP deflator (median, LCU)	5.2	8.3	6.1	16.0	6.7	6.2	3.9
Fiscal balance/GDP (%)	−2.2	−0.9	0.4	1.9	−6.1	−4.1	−3.7
Memo items: GDP							
Middle East and North Africa geographic region[e]	4.0	4.6	4.9	4.4	1.4	3.5	4.3
Selected GCC Countries[f]	3.6	3.8	3.6	4.6	−0.6	3.2	4.1
Egypt, Arab Rep.	4.4	6.8	7.1	7.2	4.7	5.2	6.0
Iran, Islamic Rep. of	4.8	5.9	7.8	2.5	1.0	2.2	3.2
Algeria	4.0	2.0	3.0	3.0	2.1	3.9	4.0

Source: World Bank.

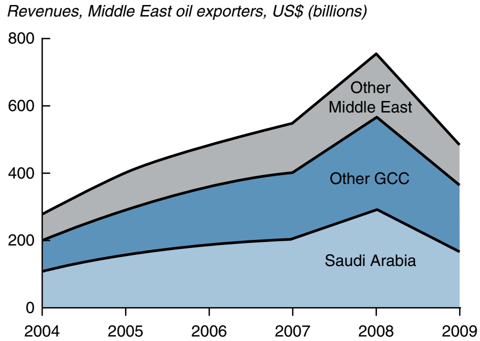
a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services.
e. Geographic region includes high-income countries: Bahrain, Kuwait, Oman, and Saudi Arabia.
f. Selected GCC countries: Bahrain, Kuwait, Oman and Saudi Arabia.
g. Estimate.
h. Forecast.

Figure A18 Oil prices, 2004–09



Sources: IEA and DECPG Commodities Group.

Figure A19 Lower oil prices and lower Middle Eastern output yield sharp decline in oil revenues in 2009

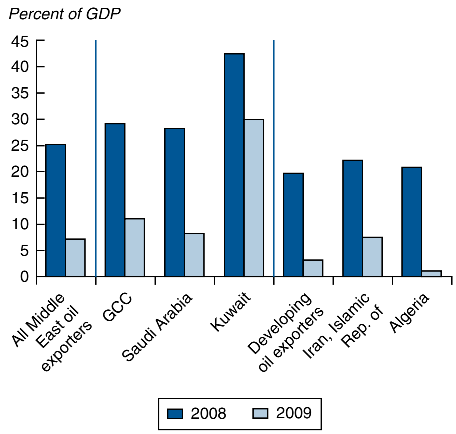


Sources: World Bank and International Energy Agency.

revenues for all exporters to drop from $755 billion in 2008 to $485 billion in 2009—a decline equivalent to 30 percent of the group's GDP (figure A19). For the developing exporters, the decline in revenues was less severe, but nonetheless a substantial 12.5 percent of GDP. Current account surplus positions fell sharply across the region for all oil exporters, from

Figure A20 Reduced oil revenues cut current account surplus positions in 2009

Current account balance for Middle East oil exporters



Sources: Word Bank data and estimates.

25 percent to 7.3 percent of GDP between 2008 and 2009, and from 19.7 percent to 3.3 percent for developing oil exporters (figure A20). With public expenditure growing at a rapid pace, fiscal deficits for developing exporters increased sharply during 2009, to 11 percent of GDP in Algeria (though well covered by reserves of some $150 billion), 5.5 percent in Syria, 3.8 percent in the Islamic Republic of Iran, and 2 percent in the Republic of Yemen.

GDP growth in Algeria slowed to 2.1 percent in 2009 from 3 percent in 2008. A 2 percent decline in the oil sector was partly offset by non-oil activity, which increased by 5.7 percent, supported by construction and services tied to a long-running infrastructure development plan (PIP). The program has continued to be implemented in part as a stimulus measure, and in early 2009 the government announced it would put about $60 billion from its oil-linked fiscal surplus toward the investment program. Even though partial national accounts data for 2009 are not available for the Islamic Republic of Iran, growth is estimated to have slowed to 1 percent in 2009, from 2.5 percent during 2008, as crude oil production contracted 7.3 percent and oil and gas export revenues plummeted 40 percent. This placed substantial pressures on budget revenues, which normally support domestic demand. Inflation continues at rates near 20 percent, and the current account surplus fell from 22 percent of GDP in 2008 to 7.5 percent in 2009.

Iraq is facing a major short-term financing gap in the year ahead owing to the global slowdown, with a fiscal deficit of 26 percent of GDP accrued in 2009 and a current account that moved from substantial surplus in 2008 (13.3 percent of GDP) to major deficit in 2009 (31 percent).

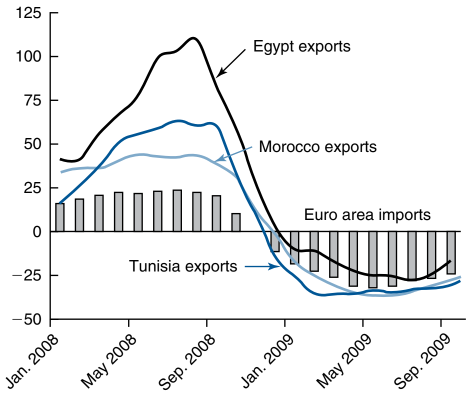
The diversified economies. The Euro Area is the destination for more than 70 percent of export goods from the diversified economies of the Middle East and North Africa region. Moreover, the Euro Area is also the host for overseas workers from the Maghreb and Mashreq and an important source of remittance flows and tourism arrivals to the developing region. As investment and trade plummeted in key Euro Area economies, GDP for the zone declined to 0.5 percent growth in 2008, and it is anticipated to contract by a sharp 3.9 percent in 2009, the deepest recession since WWII.

The effects of the European downturn on exports from the region have been dramatic, with Egypt's merchandise exports declining from growth of 33 percent in 2008 to minus 15 percent by July 2009 (year-on-year). Similar patterns of export decline were registered in Jordan, Morocco, and Tunisia (figure A21). Together with only modest declines in imports (supported by stimulus measures), the current account position for the group deteriorated from a deficit of 2.1 percent of GDP in 2007 to 5.2 percent by 2009. Deficits during 2009 varied between 2.5 percent of GDP in Egypt and Tunisia, 5.8 percent in Morocco, and 7.0 percent in Jordan.

Slackening economic activity and worsening labor conditions in Europe, as well as across the GCC economies over the course of 2009 caused worker remittances flows into the developing region to decline by 6.3 percent for the year—in contrast to the strong gains of 23.0 and 11.3 percent in 2007 and 2008,

Figure A21 Middle Eastern exports declined sharply as European demand fell

Import, export values (US$), percentage change, three-month average, year over year

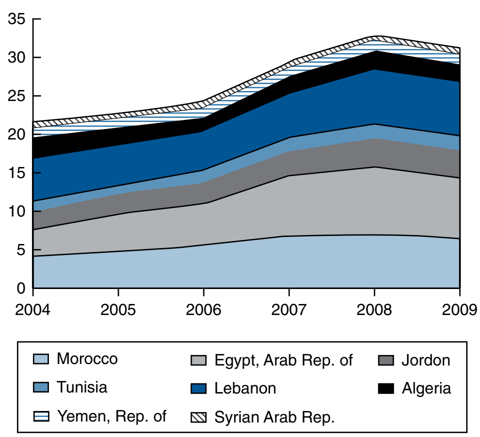


Sources: Haver Analytics; World Bank.

respectively (figure A22). Among the larger recipient countries, Egypt appears to have been most adversely affected, with flows declining 9 percent, while Morocco experienced an 8 percent drop in receipts. Jordan, Lebanon, and Tunisia experienced lesser declines, varying between 1 and 3 percent.

Figure A22 Worker remittances fell by a moderate 6.3 percent in 2009

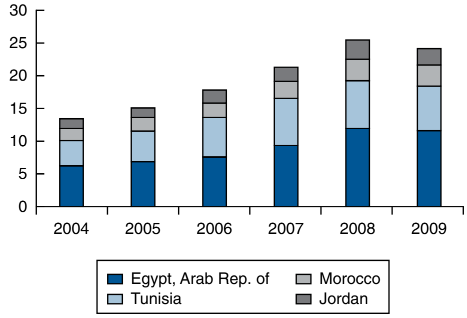
Workers' remittance receipts, US$ (billions)



Source: World Bank; IMF; national agencies.

Figure A23 Tourism receipts fall from record 2008 performance, but modest recovery likely

Tourism receipts, US$ (billions)



Sources: World Bank, IMF, World Tourism Organization.

Tourism receipts are a key source of foreign currency (equivalent to 14 percent of GDP for the diversified economies of the region). With Europe suffering increasing unemployment rates, faltering wage growth, and efforts by households to repair balance sheets badly damaged by the financial market meltdown of 2008, tourism receipts are estimated to have declined by 5 percent during 2009, following strong gains in the 20 percent range since 2006 (figure A23). Tunisia appears to have bucked the downtrend with a gain of 4 percent. But declines elsewhere range from 8 percent in Morocco to 3 percent in Egypt.

Foreign direct investment (FDI) inflows to the diversified group, which is increasingly sourced from the GCC economies, fell to 4.3 percent of GDP in FY09 from 8.1 percent a year earlier. Morocco and Tunisia registered a 35 percent decline in inflows during calendar year 2009, while FDI in Jordan dropped by 80 percent during the first quarter of 2009. These declines reflect the substantial deterioration of financial conditions in the wake of the Dubai World debt-payment standstill, inducing GCC economies to scale back on current investment projects and putting earlier planned FDI endeavors on hold.

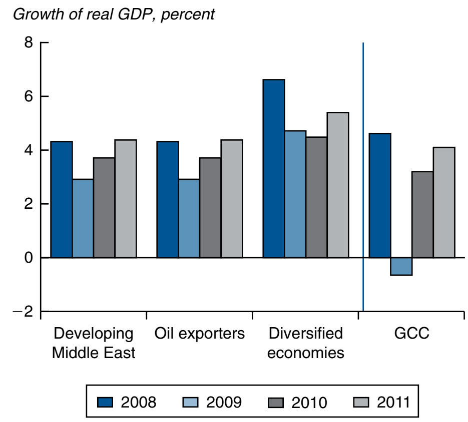
In addition to pressures on FDI, the Dubai financial crisis may have adverse consequences for the countries of the Mashreq (Jordan, Lebanon, and Syria), which hold particularly close ties to the GCC. Lower investment within the GCC portends fewer job opportunities for workers from these countries, lower remittances, and consumption in home markets.

Growth in *Egypt* slowed to 4.7 percent in FY09, from 7 percent during the three previous years. The slowdown was driven by lower external demand with exports of goods and services declining by 25 percent; growth was negative in economic sectors with a strong exposure to external markets such as the Suez Canal (down by 7.2 percent, compared with 18 percent growth in FY08) and hotels, restaurants, and related activities linked to tourism (down by 1.3 percent in real terms compared with 30 percent growth). Declining fixed investment (down 10 percent compared with 14.8 percent growth a year ago) has moved in tandem with increases in unemployment, which rose to 9.4 percent from 8.4 percent a year earlier. In response, the government implemented a crisis stimulus plan featuring fiscal, monetary, and direct support measures in the form of LE 15 billion in additional spending, including higher subsidies and social benefits. On the monetary side, the Central Bank of Egypt cut policy rates six times between February and September 2009, reducing overnight deposit and lending policy rates by 325 and 275 basis points, respectively.

Medium-term outlook

Following the tortuous conditions of 2009, prospects for both the developing and high-income economies of the Middle East and North Africa should improve through 2011. Growth is projected to increase to 4.4 percent by that year, the same pace registered on average between 1995 and 2005. Though domestic absorption will be a continuing source of strength, the forecast for regional recovery is premised on a revival in global oil demand and a rebound in key export markets. Despite the gradual withdrawal of fiscal stimulus measures, moderate advances in consumer and capital spending are expected to underpin the strengthening of growth (see table A7). But

Figure A24 Oil price and export revival hold key to recovery in the Middle East and North Africa



Source: World Bank.

the regional profile masks both the diversity of performance across countries and the driving forces for growth.

Oil prices are expected to remain broadly stable over the forecast period, at around $75 a barrel. Stronger global activity should allow for crude oil and gas production to return to positive growth, implying moderate revenue gains. As a result, current account positions for developing oil exporters are projected to stabilize near 5 percent of GDP by 2011. GDP growth for developing oil exporters should reach 3.1 and 3.7 percent, respectively, in 2010 and 2011 (figure A24). By 2011 growth will vary from 3 percent in the Islamic Republic of Iran to 5.5 percent in Syria, grounded in developments in non-oil sectors and in investment in hydrocarbons capacity (table A8).

GDP for the high-income GCC economies is anticipated to increase by 3.2 percent in 2010 and 4.1 percent in 2011, as oil production firms and a higher average oil price help to restore revenues, albeit in more moderate increments. Current account surplus positions for the group are expected to rebound from 11 percent of GDP in 2009 to 14.5 percent by 2011, providing a means to support

Table A8 Middle East and North Africa country forecasts
(annual percent change unless indicated otherwise)

	1995–2005[a]	2006	2007	2008	2009[c]	2010[d]	2011[d]
Algeria							
GDP at market prices (2005 US$)[b]	4.0	2.0	3.0	3.0	2.1	3.9	4.0
Current account balance/GDP (%)	8.2	25.0	22.4	20.8	−3.4	2.7	5.6
Egypt, Arab Rep. of							
GDP at market prices (2005 US$)[b]	4.4	6.8	7.1	7.2	4.7	5.2	6.0
Current account balance/GDP (%)	0.4	2.4	0.3	−0.9	−3.2	−3.5	−3.2
Iran, Islamic Rep. of							
GDP at market prices (2005 US$)[b]	4.8	5.9	7.8	2.5	1.0	2.2	3.2
Current account balance/GDP (%)	7.3	9.2	12.0	22.2	7.5	3.6	3.2
Jordan							
GDP at market prices (2005 US$)[b]	4.7	8.0	8.9	7.9	3.2	3.9	4.5
Current account balance/GDP (%)	0.0	−10.8	−16.7	−11.4	−10.1	−9.7	−9.2
Lebanon							
GDP at market prices (2005 US$)[b]	3.2	0.6	7.5	8.5	7.0	7.0	7.0
Current account balance/GDP (%)	−20.0	−11.3	−11.1	−20.5	−14.5	−15.2	−14.2
Morocco							
GDP at market prices (2005 US$)[b]	4.4	7.8	2.7	5.6	5.0	3.0	4.4
Current account balance/GDP (%)	0.7	2.0	−0.3	−5.4	−5.9	−5.7	−5.2
Syrian Arab Republic							
GDP at market prices (2005 US$)[b]	3.2	5.1	4.2	5.2	3.0	4.0	5.5
Current account balance/GDP (%)	2.9	−2.8	−3.3	−4.0	−3.2	−4.3	−4.0
Tunisia							
GDP at market prices (2005 US$)[b]	5.0	5.7	6.3	4.5	3.3	3.8	5.0
Current account balance/GDP (%)	−3.0	−2.0	−2.6	−4.2	−3.5	−2.6	−2.0
Yemen, Rep. of							
GDP at market prices (2005 US$)[b]	4.9	3.2	3.3	3.6	4.2	7.3	4.5
Current account balance/GDP (%)	3.1	1.1	−7.0	−5.6	−5.2	−2.3	−2.5

Source: World Bank.

Note: World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Djibouti, Iraq, Libya, and West Bank and Gaza are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. Estimate.
d. Forecast.

domestic growth while once more accumulating international reserves. A rekindling of interest in regional FDI may emerge as financial and economic conditions begin to normalize.

Economic recovery in Europe and among the GCC countries will be supportive of a revival for the diversified economies, suggesting a resumption of export growth, a rebound in remittances and various services receipts, and improvement in business expectations, leading to a revival in capital spending. GDP gains in Jordan, Morocco, and Tunisia are likely to be driven by domestic demand, with the help of fiscal and monetary stimulus measures, as external contributions fade. The anticipated normalization of agriculture in Morocco (following the post-drought boom of 2009) will be a drag on growth in 2010, and gains for the diversified group are projected to pick up to 4.5 percent in 2010 and 5.4 percent in 2011, respectively.

Risks

The broadly favorable outlook for the Middle East and North Africa over 2010–11 remains subject to substantial downside risks, which would pose additional challenges to policy makers already grappling with the current crisis. A deeper and more protracted global recession (the deeper growth recession discussed in chapter 1) cannot be ruled out. Within the region, political tensions remain a constant, tending to restrain international capital flows that might otherwise contribute to a deepening of capital markets and private investment. Further, needed reform efforts, some initiated during the crisis period, could receive less attention and commitment once economic conditions start to normalize.

The recent difficulties of Dubai World holding company—an entity of the Government of Dubai, United Arab Emirates—in asking its creditors for a six-month standstill on all scheduled debt payments, indicates that financial institutions in the region were not entirely unaffected by the global financial crisis. Given the very high investment levels of the past several years, as well as asset inflation (property prices increased particularly sharply in Egypt and Morocco), there may be additional large-scale financial losses that have yet to be realized. Though a systemic crisis in Dubai will likely be averted thanks to the diversified holdings of the Dubai government and emergency support from the emirate of Abu Dhabi (both bilaterally and through the federal authorities), it may have an adverse impact on the balance sheets of local and regional banks holding Dubai World debt. The financial problems facing Dubai, along with previous defaults by two large Saudi private companies, will continue to raise concern amidst the need for comprehensive corporate governance and debt restructuring reforms in the region.

South Asia

Recent developments

The global financial crisis contributed to a marked deceleration in real GDP growth in South Asia, from 8.7 percent in 2007 to 6.0 percent in 2009, which was largely driven by a pronounced decline in investment growth and, to a lesser extent, private consumption. While exports contracted sharply with external demand, the decline in imports was steeper, and net trade actually supported growth on the regional level. As the crisis took hold, equity markets and exchange rates plunged in most countries in the region. Sovereign bond spreads spiked with the contraction in capital flows, as both domestic and international investors sought safe-haven assets outside the region.

Although the global financial crisis had a sharp negative impact on South Asia, the slowdown in regional GDP growth was the least pronounced among all developing regions. This partly reflects the relatively closed nature of the region's economies. Private capital inflows—a key transmission channel of the crisis—are less significant as a share of South Asia's GDP (particularly foreign direct investment), compared with most other regions. Economic activity in South Asia is also less specialized in manufacturing and natural resources—sectors that have been particularly negatively affected by the crisis. Correspondingly, the region's greater reliance on services trade—roughly double the 7.7 percent average share of GDP for developing countries in 2008—also provided a buffer to the crisis, as services tend to be more resilient during downturns (although smaller countries with important tourism sectors, such as the Maldives, were hit hard). Domestic demand in the region was relatively resilient, having been cushioned by countercyclical macroeconomic policies. Interest rates were rapidly cut across most economies. Although fiscal space in most economies was limited, substantial fiscal stimulus measures were introduced in India (including pre-election spending), Bangladesh and Sri Lanka (in the form of incentives and safety net expenditures). Relatively robust, albeit moderating, regional remittance inflows have been supportive, particularly in Bangladesh, Nepal, and Sri Lanka, where they continue to represent over 5 percent of GDP. Real incomes were also boosted by the collapse in global