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MIDDLE EAST
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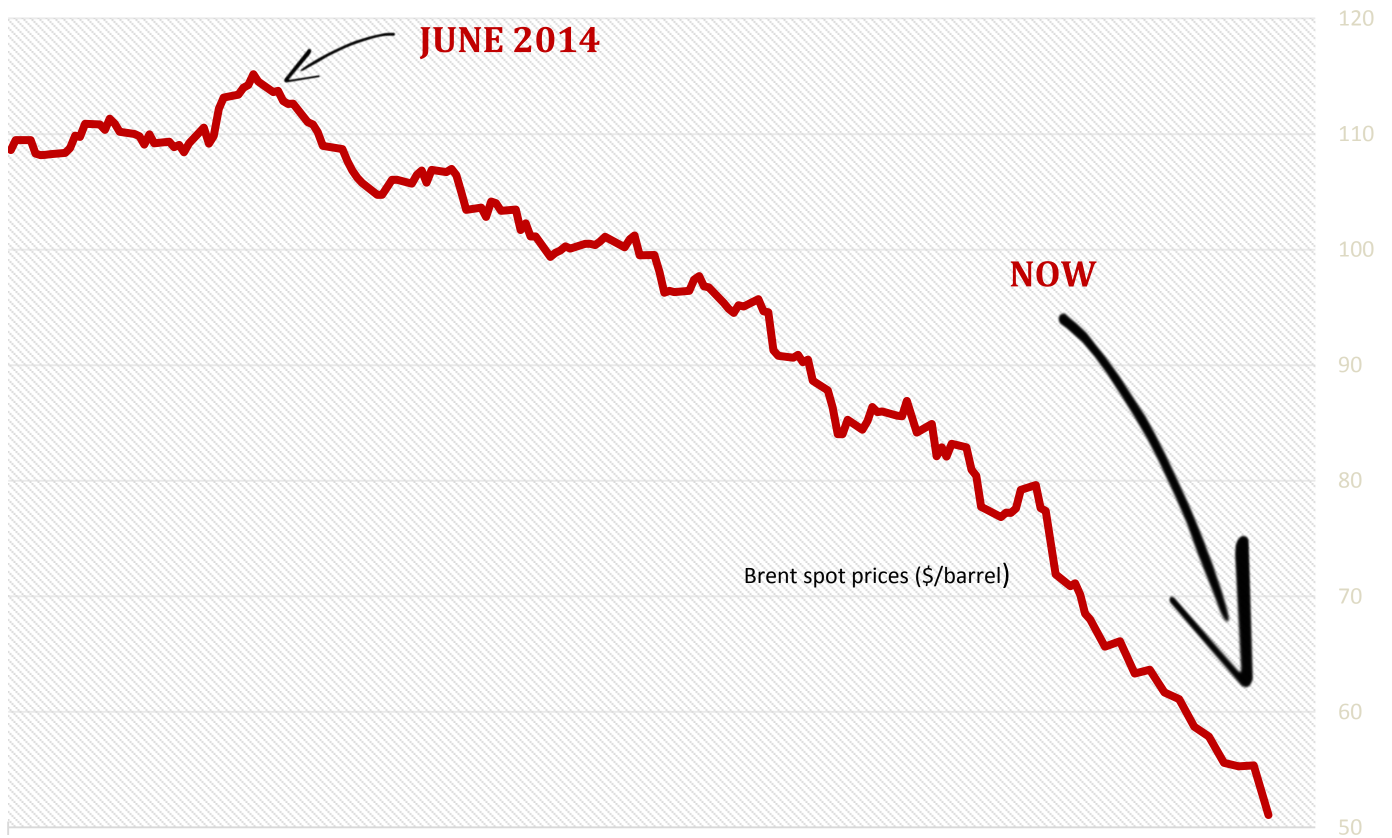
MENA QUARTERLY ECONOMIC BRIEF

PLUNGING OIL PRICES



Issue 4 January 2015

THE WORLD BANK

WORLD BANK MIDDLE EAST AND NORTH AFRICA REGION

MENA QUARTERLY ECONOMIC BRIEF

PLUNGING OIL PRICES

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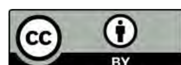

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WORLD BANK MIDDLE EAST AND NORTH AFRICA REGION

MENA QUARTERLY ECONOMIC BRIEF, January 2015

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HIGHLIGHTS

In the three months since most observers, including the World Bank, issued their last forecasts, the Middle East and North Africa (MENA) Region has changed substantially. Political tensions have eased somewhat with presidential and legislative elections completed in a few countries. Egypt's cabinet approved the electoral constituencies' law, the last step before calling for the House of Representatives elections, the final milestone in the political roadmap initiated in July 2013. Presidential elections were held in Tunisia, with Beji Caid Essebsi sworn in as the new president in December. Iran's nuclear talks with the P5+1 were extended for 6 months — while bilateral talks continue —with the aim of reaching a deal in July 2015. In Iraq, the government and the Kurdish region reached an agreement in December resolving a longstanding dispute over the budget and distribution of oil revenues. Meanwhile, Lebanon, Yemen and Libya still struggle to maintain a functional government. The global economy is estimated to have expanded by 2.6 percent (q/q annualized rate), better than the second quarter of 2014, but unchanged from the slow pace seen in 2012 and 2013.

But the most important development is that international oil prices have literally collapsed, reaching a level below $50 per barrel (Brent crude) in early January, a drop of 50 percent since their peak in mid-June 2014.

Plunging oil prices will have significant consequences for both oil exporters and importers in the MENA region. Oil importers will see improvements in their current account through lower import bills; and fiscal account as the cost of fuel subsidies (some of which are as high as 10 percent of GDP) declines. The economies of oil exporters could be hurt, as oil accounts for more than half their budget revenues and exports earnings (in Yemen and Libya, oil constitutes more than 90 percent of total exports). Fiscal spending has been on the rise in these countries and they will likely run larger budget deficits or their surpluses would shrink substantially. Their external accounts would also deteriorate, which could eventually put pressure on their currencies (Table 1). The GCC oil exporters are in a much better position to cushion the impact of falling oil prices, due to their ample reserves. Some of these countries have already started to take policy actions, however. The new budget in Saudi Arabia is expecting only a modest increase (0.5 percent) in spending compared to the 28 percent increase over spending in the previous year. On a positive note, falling oil prices will reduce imported inflation in both oil exporters and importers and, depending on the magnitude of the pass-through effects on domestic inflation, could benefit the poor. The slight increase in consumption from lower prices would also contribute to an uptick in growth.

This issue of the MENA Quarterly Economic Brief focuses on the implications of low oil prices for eight developing countries, or the MENA-8 (oil importers: Egypt, Tunisia, Lebanon and Jordan and oil exporters: Iran, Iraq, Yemen and Libya) and the economies of the GCC (Gulf Cooperation Council), who play a major role in providing funds in the form of aid, investment, tourism revenues and remittances to the rest of the countries of the region. We make the following assumptions about the future price of oil: (i) The price will average $65 - Brent p/b in 2015; (ii) a higher price $78 – Brent p/b will be used for comparison analysis.[1] As with other economic variables, there is uncertainty associated with the future price of oil, which adds to the error involved in projections. We assume no change in the quantity of oil imported or exported (in 2014) and calculate the impact as the effect of the change in price. The data for

[1] Oil prices of $78 and $65 are World Bank projections in December 2014 and early January 2015 (Global Economic Prospects, January 2015, World Bank).

2015 -2017 in the figures and tables are projections. These projections are based on statistical information available through early January 2015.

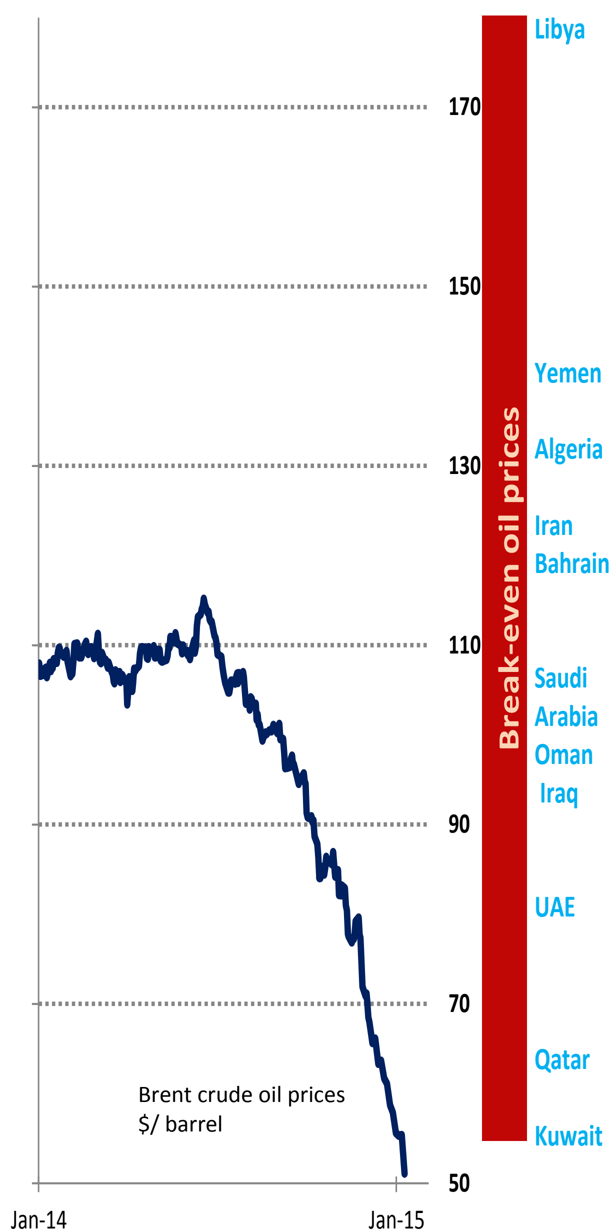
Table 1. At a glance: Changes in oil trade and fiscal balances

	Change in oil trade balance (US$ mln)	Change in oil trade balance (% GDP)	Change in fiscal balance (US$ mln)	Change in fiscal balance (% GDP)
Bahrain	-29	-0.1	-2,602	-7.7
Kuwait	-30,051	-16.2	-40,050	-21.9
Oman	-12,235	-14.9	-12,868	-15.2
Qatar	-8,741	-4.1	-19,193	-8.9
Saudi Arabia	-63,082	-8.2	-103,114	-15.1
United Arab Emirates	-39,440	-9.6	-41,655	-10.0
Iran	-17,739	-4.4	-8,648	-1.9
Iraq	-34,894	-14.1	-34,504	-14.9
Libya	-8,599	-14.7	-15,427	-26.9
Yemen	-2,628	-6.1	-1,970	-4.7
Egypt	1,504	0.5	…	…
Tunisia	292	0.6	935	2.0
Jordan	997	2.2	…	…

Source: World Bank staff estimates .The assumptions of $65 Brent crude oil and no policy change are used for projections. Oil trade balance is net oil exports.

FALLING OIL PRICES AND RECENT DEVELOPMENTS

Oil prices halved in the fourth quarter of 2014 and less than a month into 2015, they have fallen by another 9 percent. Brent crude oil dropped below $50 a barrel in early January 2015 for the first time since May 2009. Though they recovered slightly afterwards, there are indications that prices will not go back up anytime soon. The sharpness of the decline in oil prices is almost unprecedented--second only to the 2008 collapse when prices fell from $148 to $40 per barrel. Three reasons have been suggested for the oil prices collapse. From the supply side an increase in US shale oil production and a shift in OPEC's policy from price targeting to maintaining market share; and on the demand side weaker than expected global demand due to sluggish global growth. Unlike the 2008 oil price crash which was demand-driven, supply-side factors have been playing a dominant role in the current oil market.



Overall the decline in oil prices has already reduced inflation globally and could stimulate a global recovery. The World Bank estimates that a sustained 30 percent oil price decline, if resulting from a supply glut, could increase global GDP by around 0.5 percentage points in the medium term.[2] To be sure, the overall growth impact depends on several other factors that vary widely across regions and particular countries. In the developing world, the impact will vary greatly between oil exporters and importers. Plunging oil prices are expected to have serious adverse consequences for oil producers' fiscal and external accounts, particularly those who rely heavily on oil export receipts such as Russia and Venezuela.

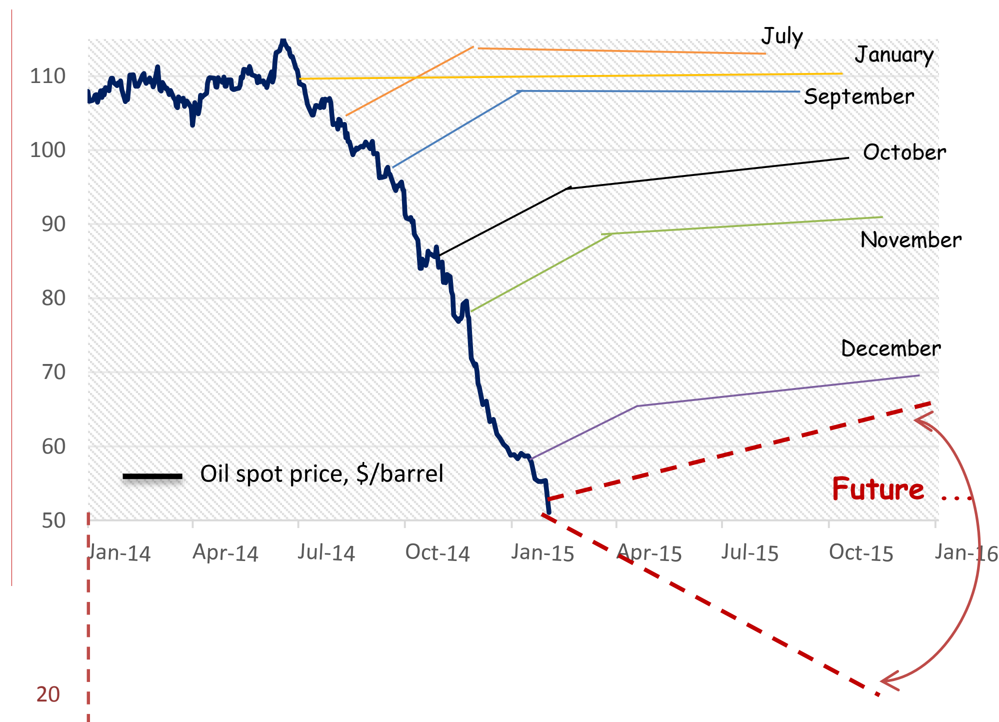
The positive impact of lower prices on oil importers will take more time to materialize and remains uncertain. The gains could be spread over a large number of countries but are likely to be modest on average, depending on the share of oil imports in GDP and overall level of confidence in the economy. In economies such as the Euro Area that are already struggling to stabilize deflationary expectations, declining oil prices could deepen existing concerns.

[2] Global Economic Prospects. January 2015, World Bank.

The oil price shock presents overlapping challenges to the economic prospects of the MENA-8 and the wider MENA countries, particularly those oil exporters who rely heavily on oil export receipts. In this context, the oil exporters of MENA-8 (Iran, Iraq, Libya and Yemen) have been eyeing an oil price below $60 p/b in next year's fiscal budget (and in some instances $40 p/b), which is much higher than the current (or futures) oil price and also much lower than their fiscal breakeven oil prices - prices at which the government's budget is balanced (Figure 1). If the current situation persists, let alone if oil prices drop further, it would be difficult for these governments to maintain their fiscal stance. Yemen and Libya are among the most vulnerable oil producers, with oil accounting for roughly 95 per cent of export earnings and budget revenues. Iran, Iraq, and Libya could experience a worsening of the oil trade balance (net oil exports) in excess of 10 percent of GDP in 2015. Falling oil prices are expected to benefit fiscal and external accounts for those countries that are heavily reliant on oil imports. Oil importers that are expected to gain include Jordan, Tunisia, Lebanon and Egypt, whose trade balances could improve by up to 2 percent of GDP.

The International Energy Administration (IEA) estimates that low oil prices will carry over into 2015. Unlike the 2008 crash, where futures markets stayed optimistic about a recovery in oil prices, there are no indications of such a response in the futures market at this time. Data from IEC futures show that the price of oil for delivery in August is about $56 a barrel. However, as with other economic indicators, predicting the oil market is not straightforward, as the experience of 2014 shows (Figure 2). Several unknown factors such as supply, demand, geopolitics, and the global monetary and regulatory environment could shift prices in different directions.

Figure 2. Oil prices forecasts in 2014 (Brent crude)



Source: The Economist and other international forecasters.

There is some speculation that the average price of about $65 p/b could stay through 2015, as the market will tend to self-correct over the long run, most likely through US shale companies' cutting their production. The production costs of many shale companies are in the range of $70 p/b and a sustained drop in oil prices below this threshold could lead many of them to shut down or trim investment in oil fields. This would slow down production and stop oil prices from falling further. Some producers have already started to slash the number of drilling rigs in early 2015. About 50 rigs are planned to be idle up over the next month, a reduction in shale drilling activity by 20 percent. However, some of the smaller companies are simply consolidating with the parent company, so production may not be affected any time soon.

The low price scenario is that oil prices could drop as low as $20 p/b in the short term, as the global economy and particularly the Euro area are not expected to turn the corner soon, and China (a major oil consumer) is entering a less oil-intensive stage of development. Furthermore, with a nuclear deal and removal of oil sanctions, an additional 1 million barrels per day of Iranian oil exports, combined with an increase in Iraqi and Libyan oil exports (in the case of easing geopolitical risks) could push oil prices further down.

EGYPT

A series of political and economic reform initiatives may have helped restore confidence in the Egyptian economy, leading to a growth rebound due to an increase in investment, tourism and remittance revenues. Official Egyptian data show that the estimated growth rate of 3.5 percent at the end of the fiscal year (FY, ended July 2014) accelerated by half a percentage point, reaching 3.9 percent for this period. The GDP growth rate for the first quarter of FY15 accelerated to 6.8 percent due to the base effect (Figure 3). There was also a slight decline in the unemployment rate in Egypt reaching 13.1 percent, compared to 13.3 percent in the last quarter of 2013/14. The government is targeting economic growth of up to 5.8 percent in the next three years, with the deficit staying at around 10.5 percent of gross domestic product. Business activity measured by Purchasing Managers Index (PMI) for the non-oil private sector has expanded over the last few months, staying above 50 in November. According to official data, tourism revenues jumped by 112 percent to $2 billion in the first quarter of FY15, compared to $0.1 billion in the same period last year. The number of tourists increased by 70 percent to 2.8 million in the first quarter of FY15, compared to 1.6 million in the same quarter last year. A set of ambitious targets are envisaged in the new budget circular for fiscal year 2016. Growth is set to reach 4.3 percent with unemployment lowered to 12 percent and the budget deficit and public debt to decline to about 10 and 90 percent of GDP respectively. These targets are supported through reforms aimed at consolidating government spending including streamlining fuel subsidies and widening the tax base. On a positive note, Egypt is looking to re-enter the international capital market, following a gap of four years. It is expected that the Eurobond issuance to be on two tranches of 10 years, and a longer period.

Figure 3. Egypt: Economic situation

Source: World Bank.

The impact of falling oil prices: Egypt is a net importer of oil as consumption has grown by an annual average of 3 percent over the past 10 years, outpacing oil production. The fall in oil prices is expected to affect the economy through lower fiscal and external deficits, inflation and poverty rates. The World Bank estimates a positive impact of falling oil prices on growth as lower oil prices can enhance both the government's and firms' ability to secure adequate energy supplies at market prices (by lowering the cost

of importing oil and gas), and hence can lead to higher production and capacity utilization and higher output levels. Also, lower oil prices may help the country avail additional energy supplies through the summer, avoiding blackouts, which in turn can help reinforce political and social stability. Since Egypt is one of the major recipient of remittances, foreign aid and investment from GCC countries, lower oil prices could likely reduce the flow of funds to Egypt. More than three quarters of remittances inflows to Egypt are from GCC countries. This could in turn affect growth negatively through lower investment. However, it is more likely that the latter channel would be contained unless the decline in oil prices is sustained over a prolonged period.

Reforms: Low oil prices are expected to create space for the government to continue with its reform program. Reducing fuel subsidies over the next 5 years is on the agenda and the government hiked fuel prices by 78 percent last year with the aim of removing them all in 2019. The decree on electricity tariffs, which is aimed at eliminating subsidies by the end of FY 2018/19, is still in effect. The government has already realized savings from low oil prices—spending on energy subsidies has fallen by a quarter-- that would probably be channeled to enhancing the quality of the infrastructure. Finally additional savings from lower fuel prices might accelerate (provide financing for) implementation of specific win-win measures, such as extending the natural gas grid across Egypt, diversifying the energy mix, upgrading the infrastructure base, etc.

Fiscal balance: Low oil prices would have a positive impact on reducing the high fiscal deficit mainly through a lower fuel subsidy bill. Egypt had budgeted EGP 100.4 billion for energy subsidies in FY2014/15 with an oil price assumption of $105 per barrel and factoring in energy reforms implemented in July 2014. Thus, with low oil prices, spending on fuel subsidies is expected to decline by around 25 percent (around 0.5 percent of GDP) in FY 2014/2015. It is noteworthy that the budget includes no additional GCC support beyond what was pledged last year.

External accounts: The impact of low oil prices on the external accounts is not clear and it may be negative depending on whether the projected lower import bill would surpass the likely decline in growth of remittances inflows, tourism receipts, and GCC inflows in the form of Foreign Direct Investment (FDI) or portfolio inflows (Annex 1). As a net fuel importer, lower oil prices could lead to a lower fuel trade deficit. The World Bank estimates the net oil trade deficit to decline by around 30 percent in FY 2014/15 (which should lead to savings of around $ 0.3-0.4 billion). Crude oil imports account for 22 percent of total petroleum imports and 5 percent of total imports. The decline in fuel prices would lower shipping and transportation cost and hence lower the cost of importing goods.

Flow of funds from GCC: There is a risk of reduced remittances from GCC countries (which account for almost 75 percent of total remittances inflows), as oil prices fall (Annex 1). This could negatively affect Egypt's external accounts. However, the impact in FY2014/15 should be contained as hiring and firing decisions take a longer time to take effect. Estimates show that a 5 percent decline in remittance inflows from GCC countries implies foregone receipts worth $ 0.7-0.8 billion in FY2014/15. Also, it is likely that tourism would be negatively affected (as Russian and Gulf tourists may start cutting their spending on tourism). Moreover, FDI into the oil and gas sector (representing around 50 percent of total FDI inflows) might be adversely affected. It is expected that this channel will be contained unless the oil price decline is sustained over the medium term. Putting these together, the World Bank projects a net negative impact on the external accounts in FY 2014/2015 at around $ 1-2 billion equivalent to 0.3-0.7 percent of GDP.

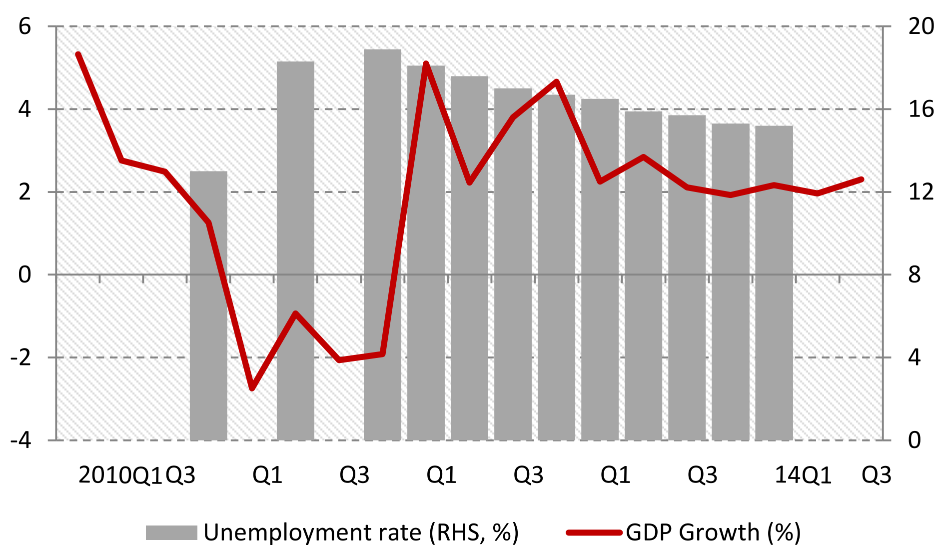
Inflation: The impact of low oil prices on inflation in Egypt depends on its impact on shipping and transportation costs. As domestic fuel prices are administratively set, lower international prices should

have no impact on transportation cost. But these developments would have a favorable impact on the cost of imported goods and hence on domestic inflation, especially food prices, which constitute 40 percent of consumer spending. The higher capacity utilization can also enhance aggregate supply and limit supply bottlenecks and shortages. A deteriorating external account may put extra pressure on the monetary authorities to further devalue the currency which, although stimulating exports, could lead to higher imported inflation. This channel is likely to be muted in the short term (FY 2014/15) given actual developments during the first half of the year. In light of these projected developments, the recent fall in oil prices is likely to have a slightly positive impact on poverty indicators, holding everything else constant.

TUNISIA

Parliamentary and presidential elections were held in Tunisia, with Beji Caid Essebsi sworn in as the new president in December. Since then, Habib Essid, a former Tunisian interior minister, has been nominated as prime minister and will form a new government. In the new budget, the government is expecting growth to accelerate to 3 percent in 2015 from an estimated 2.5 percent this year and the budget deficit to come down from 7.1 percent of GDP to 6.2 percent of GDP in 2015. The budget does not propose any increase in public sector wages, despite a threat by the Tunisian General Labour Union (French: Union Générale Tunisienne du Travail, UGTT) to launch strikes if pay raises were not included. Unemployment is showing some signs of declining but the rate of decline is very slow because current growth rates are too low and insufficient to create jobs for the bulge of unemployed youth (Figure 4).

Figure 4. Tunisia: Economic situation



Source: World Bank.

The impact of falling oil prices: If the oil price drop is sustained over the year, the overall impact on the Tunisian economy would be positive. The major impact will be on the fiscal side through reduced cost of energy subsidies and on external accounts through an improved oil trade balance. The impact on inflation, growth and poverty will be moderate.

Fiscal balance: World Bank simulation results show that the budget deficit would improve by about 2 percent to 4.5 percent of GDP in 2015 from 6.2 percent of GDP in 2014 (Table 2). The newly approved budget assumes an average oil price of $95 per barrel (Brent) and an exchange rate of 1.8 Tunisian Dinars (TND) per $. While there would be savings from the lower cost of fuel subsidies, there would also be (small) losses from reduced royalties on Tunisia's oil production.

External accounts: The latest World Bank projections, which were based on an oil price of $95 per barrel, foresaw an improvement in the current account deficit from 7.9 percent of GDP in 2014, to 6.6 percent in 2015. Under the oil price of $65, the energy trade balance (representing 36 percent of the trade deficit) would improve from -2.8 percent of GDP to -2.2 percent, resulting in a current account deficit of slightly below 6 percent of GDP.

Table 2. Fiscal status of low oil prices (TND million, unless indicated)

Expenditure impact	-2,165
Revenue impact	-635
Total impact on borrowing requirement	-1,530
Changes in fiscal balance (% of GDP)	1.7

Note: 2015 Budget law includes the impact of programmed increased in the administered retail energy tariffs: + 7 percent in electricity (January) and twice +3 percent in fuels (unleaded and diesel, January and September) amounting to a total saving of TND 356m (0.4 percent of GDP). It is not unreasonable to assume that the incoming Government (expected change in the first quarter of 2015) would refrain from incurring the political costs implementing the price hikes in the context of a steep decline in world prices.

Growth: The impact on growth would be marginal. Domestic oil production (2 percent of GDP) would continue its declining trend and energy sector FDI would decrease. On the other hand, demand would be sustained by higher net exports and private consumption, as well as public investment. Under the assumption of a permanent shock of a 30 percent decline in oil (and gas) prices, the effect on growth would be positive, ranging between 0.1 and 0.2 percent.

Exchange rate: While the improved energy balance would relieve pressure on the exchange rate and reserves (to the tune $ 300 million, improving import cover by about 0.5 months of imports of goods and services), it is unlikely that the government would reverse its policy of a slightly depreciating crawl. The recovery of Tunisian export markets--80 percent of exports go to the EU--will remain sluggish. So the (orderly and very gradual) exchange rate depreciation is seen as an adequate policy stance to support exports in addition to structural, supply-side reforms.

Inflation and poverty: The impact on inflation will be modest, as most energy prices and a large share of food prices are administered. A 30 percent decline in oil prices as simulated would close the gap between international and domestic administered prices, offering an ideal opportunity to introduce a flexible pricing mechanism for unleaded gasoline, for instance. The inflation forecast would be marginally altered to 4.8 percent in 2014 (from 5.5 percent in 2013). Taking into account the limited pass-through effects, and using the data from the most recent household consumption survey, the decrease in energy (-15 percent) and food prices (-5 percent) could increase real incomes of the poor by 3 percent and of the bottom 40 percent by 2.5 percent.

LEBANON

Improvement in the security situation following the adoption of a security plan in Tripoli and the formation of a new government led to a slight improvement in Lebanon's economic situation. Tourist arrivals increased by 40 percent in September 2014 compared to the same period in the previous year, and construction permits grew by 8.4 percent, all of which resulted in quarterly real GDP growth (measured by the World Bank's calculated Coincidence index) turning positive in the second quarter of 2014 relative to the previous year (Figure 5). The World Bank estimates that growth for 2014 will increase slightly to 1.5 percent, higher than the 0.9 percent that was seen in 2013. However growth is expected to remain low and not exceed 2 percent in 2015, far from its high level during the pre-2011 period. To boost growth, government is adopting a stimulus package worth $1 billion in the form of subsidized loans to the private sector. This could allow entrepreneurs in Lebanon to access reasonable finance and enter the market.

Figure 5. Lebanon: Economic situation

Source: World Bank.

The impact of falling oil prices: The overall impact on Lebanon's economy is expected to be positive. On the fiscal side, significant savings will come primarily from lower government transfers to the electricity company. The balance of payments is likely to experience a net favorable effect as lower energy imports will outweigh the reductions in remittances. The real-sector impact is uncertain as lower petroleum product prices would boost private consumption on the one hand while, lower remittances by the Lebanese diaspora in oil-producing countries may dampen it.

Fiscal balance: Thanks to lower oil prices, Lebanon's structurally weak fiscal position will improve. The central government's overall fiscal deficit is forecast to widen to 10.2 percent of GDP in 2014, up from 9.4 percent of GDP in 2013. The country is also projected to register a primary fiscal deficit in 2014 for the third consecutive year, rising to 1.2 percent of GDP. Gross public debt is projected to reach 149 percent of GDP at end-2014. The primary impact of lower oil prices will be through transfers to Electricité du Liban (EdL). In the past, government transfers to EdL have not been used for investment. Generating capacity

has deteriorated while demand has increased. Currently there is generating capacity of 2,019 MW, compared to peak demand of 3,195 MW, leading to daily power outages that are typically filled by private suppliers. The latter incurs a significant additional cost on consumers amounting to three times the level of EdL tariffs, deterring the authorities from raising electricity tariffs which have been constant since 1996 (when the price of oil was $23 per barrel). As a result, EdL covers only a fraction of its costs, leading to chronic deficits that are financed by direct transfers from the government, which have averaged 3.9 percent of GDP over the past decade. These transfers are correlated with oil prices, with a correlation coefficient of 0.4 since 2005. In the past few years, oil prices have been exceptionally high, leading to larger transfers to EdL, averaging 4.7 percent of GDP since 2011. A lower price of oil will have a positive impact on the fiscal position, by reducing transfers to EdL, albeit with a 6-9 month lag given the structure of outstanding contracts with fuel oil and gasoil providers.

External accounts: Notwithstanding its exposure to oil exporting countries through remittances and business, as a large net oil importer, Lebanon's balance of payments is expected to improve. The current account deficit is forecast to hover around 8 percent of GDP in 2014, similar to the previous two years. This is driven by a large trade deficit, which has averaged 34 percent of GDP since 2010. As a net oil importer, Lebanon's energy imports are a leading source of the trade deficit, averaging 8.3 percent of GDP during the same period. Moreover, to meet its balance of payments (BoP), Lebanon remains dependent on inflows, a large part of which are remittances, which amount to about 6.5 percent of GDP (2010-2013 average). Remittances are also affected by the price of oil since much of these emanate from the large Lebanese expatriate population in the GCC region. This region is also a source of significant income for many Lebanese businesses.

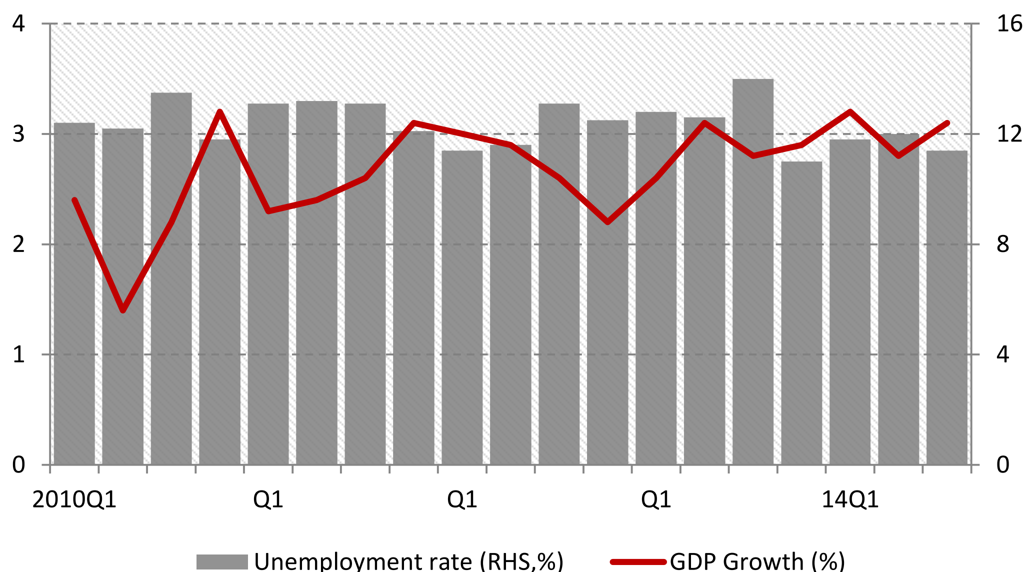
Overall, lower oil prices are expected to have two offsetting effects on the BoP in Lebanon. The first is positive driven by cheaper energy imports, while the second is negative caused by lower income receipts, with the overall net result dependent on the relative elasticities of energy imports and income receipts with respect to the price of oil. World Bank estimates the relative elasticities of energy imports and income receipts vis-à-vis oil prices at 0.25 and 0.12, respectively, for the period January 2010-July 2013. Considering that energy imports are also larger than income receipts, this suggests that lower oil prices will have an overall positive impact on the BoP.

Growth and inflation: The expected impact on growth is uncertain and would depend on the length and expectations of the oil price decrease. Lower oil prices would benefit consumers and boost growth, ceteris paribus, but on the other hand remittances from oil producing countries could come under pressure should there be a sustained decrease in oil prices. Headline inflation would decrease with lower oil prices.

JORDAN

There are signs that economic activity is picking up in Jordan. Official data show that growth in the tourism sector has been rising by 9 percent during the first three quarters of 2014. Total revenues increased to $3.4 billion over this period compared to $3.1 billion during the same period of 2013. This includes an increase in the number of Gulf and US tourists, in addition to Jordanian expatriates returning to the Kingdom for vacation. Visitors from Arab countries reached one million, with half a million from the Gulf States. Data from the Central Bank show that the inflation rate declined in the first 11 months of 2014 from its peak at 5.8 percent of last year. Furthermore unemployment declined to 11.4 percent in the third quarter of 2014 compared to the same period last year. Overall GDP growth has remained at around 3 percent on a quarterly basis and is expected to reach 3.3 percent in 2014 and accelerate to about 4 percent in 2015 on the back of a pick-up in economic activity and lower oil prices which could reduce pressures on the current account and fiscal balance in the latter part of the year (Figure 6).

Figure 6. Jordan: Economic situation



Source: Central Bank of Jordan

The impact of falling oil prices: The recent fall in oil prices is expected to have a positive impact on the Jordanian economy in the short run, lowering production costs and price pressures on citizens and refugees, reducing fiscal pressures related to oil imports for energy, negating the need for oil subsidy payments from the government to households, and ultimately reducing the twin deficits. In the medium-term, however, and depending on the length of the oil price slump, the net effect could turn negative primarily from lower grants from the GCC on which Jordan is dependent to fund its fiscal deficits, and lower remittances from its diaspora in oil-producing countries.

Fiscal balance: The overall and primary fiscal deficits (excluding grants), which were expected to widen by end-2014 to 14.7 percent and 11.1 of GDP could be contained given that lower oil prices will reduce losses to the National Electric Power Company (NEPCO). Disruptions to gas imports from Egypt in 2014 had

caused NEPCO to resort to increased imports of more expensive fuel oil, further dampening cost recovery efforts and hurting the external and fiscal accounts. While a lower oil price will improve the fiscal balance, this may be counteracted by lower grants from the GCC to Jordan in the medium term. If the price of oil remains low, this would affect GCC government revenues and possibly their propensity to provide outside grants, originally expected at 2.7 percent of Jordanian GDP in 2015. Another positive fiscal effect pertains to cash transfers aimed at compensating households for the removal of fuel subsidies for which about $300 million had been budgeted for each of 2014 and 2015 in the 2014 budget. As originally designed, when oil prices fall below $100, the cash transfer automatically stops. As a result, the December 2014 disbursement will not take place.

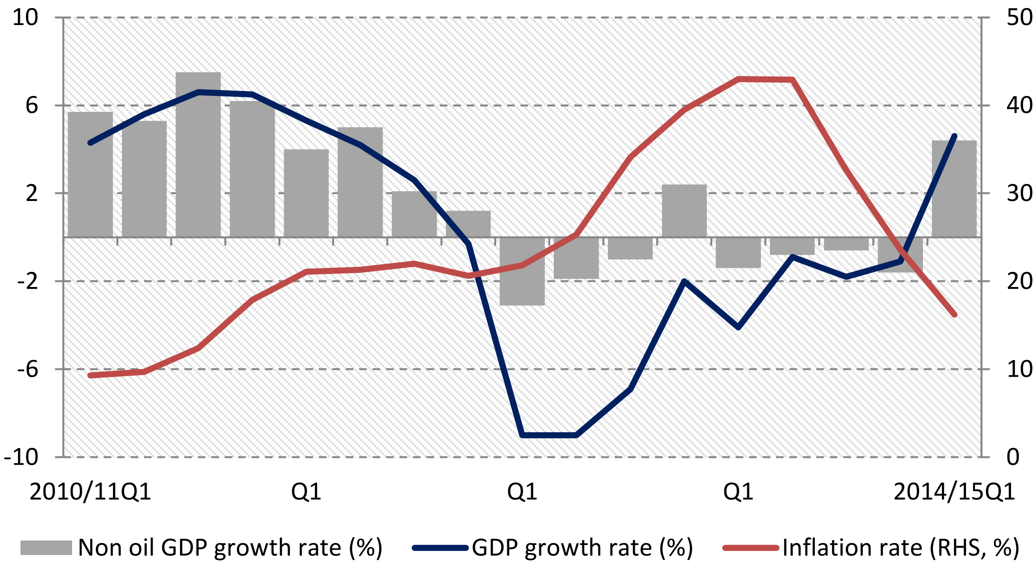
External accounts: As a net oil importer, Jordan's widening trade deficit in the first nine months of 2014 is anticipated to decelerate in the last quarter of the year on account of lower oil prices. While imports dropped by 21.1 percent in September 2014 as a result of the decline in international oil prices, this was outweighed by an 18.7 percent rise in energy imports during the first eight months of 2014 due to the disruption of cheap Egyptian gas. Given the recent sharp drop in oil prices, the World Bank projects that the growth rate of the trade deficit will decline in Q4-2014. However, Jordan may witness lower remittances in the medium term from its diaspora in the Gulf, particularly Saudi Arabia, should the oil price slump persist. Over 60 percent of remittances come from the GCC.

Growth and inflation: Jordan is currently benefiting from a positive supply shock represented by the large drop in oil prices, lowering production costs. Also, in November 2014, and at 2.4 percent (yoy), headline inflation dropped to its second lowest level since December 2009 on account of the pass-through of oil prices to fuel and transport prices. Further oil-driven reductions in headline inflation are expected.

IRAN

Similar to other countries in the MENA-8, Iran is looking at a sluggish growth recovery in 2014.The government has put in place an anti-stagflationary program. There have been signs that the economy is coming out of the recession which, combined with some sanctions relief following two interim agreements with the P5+1 in November 2013 and 2014, should boost economic activity in 2014. After two years of negative growth, Central Bank data show that growth in the first quarter of 2014 (March 21-May 21) reached 4.6 percent (compared to -4.1 percent in the same quarter of the previous year) driven by a boost in manufacturing and mining and also an increase in public spending. Despite low oil prices, the growth rate is expected to reach 2.2 percent for the year as a whole. Inflation has been halved to 18.2 percent in October 2014 compared to 40 percent in October 2013, as a result of tightening of monetary policy and stabilizing the black market exchange rate (Figure 7).

Figure 7. Iran: Economic situation



Source: Central Bank of Iran. Fiscal year ending March 21.

The Iranian nuclear talks with the P5+1 have been extended to July 2015 so that both sides could come to an agreement that could gradually remove sanctions going forward. If such an agreement is reached, the Iranian economy could expand significantly in 2016/17 and the following year, through increased oil production and expansion of trade with partners, especially the United Arab Emirates (UAE). Iran's exports to MENA countries are small (at about 5 percent of its total exports in 2013) and about half of them are destined to the UAE and Syria (see Annex Country Tables). UAE is also Iran's major importing partner, with its share in total imports having increased significantly over the past few years. The government has used an average oil price of $70 in next year's budget but the break even oil price for the budget is over $110. In a recent move the government is revising the budget to reflect the newly adopted price of $40. To counter the impact of lower oil prices, current and capital spending are being cut in the next fiscal year, while some of the capital projects will be put on hold. If a nuclear agreement is not reached, the economy will suffer dramatically, with negative consequences for both fiscal and external accounts, inflation, and the exchange rate.

The impact of falling oil prices: For Iran, the major impact of falling oil prices will be through fiscal and external balances and also the status of nuclear talks with the P5+1. In the event of a nuclear deal that leads to the lifting of oil sanctions, oil exports are expected to rebound to pre- sanction levels by 2017. An extra 1 million b/d could hit the international market. The economy could grow substantially since exports and fiscal revenues are dominated by oil (On average oil makes up about 80 percent of total export earnings and 50-60 percent of government revenues.) In FY 2010/11, prior to the sanctions, oil production was close to 3.7 mb/d of which 2 mb/d were exported. In 2012/13, soon after the sanctions were tightened, crude oil production and exports dropped by 1 mb/d. The World Bank's estimates show that in an upside scenario of reaching a "deal" with the P5+1 in July 2015 and gradual removal of sanctions, real GDP growth could reach 4 percent in 2016/17 and 2017/18, in line with the pre-sanction period of 2010/11 (Table 3 and Figure 8). However due to lower oil prices over this period compared to the peak in 2010, the fiscal deficit will remain, if not increase, over the forecasting period. The overall effect of the agreement could be positive as it could likely reduce unemployment while easing inflationary pressures.

Table 3. Iran's real GDP growth (under a nuclear deal and no deal)

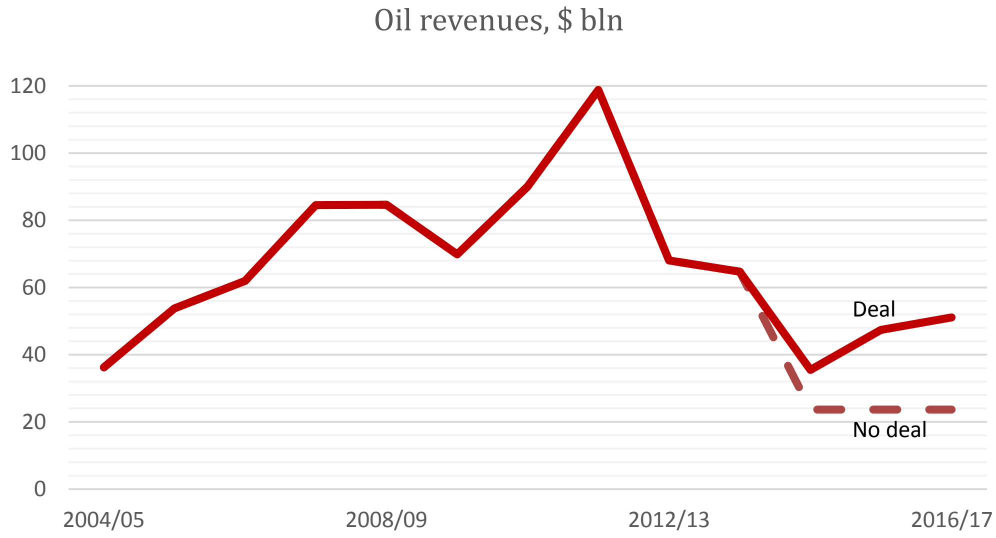
					Estimates		Projections	
Fiscal year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Deal	5.9	3.0	-5.8	-1.7	1.5	1.2	4.8	5.5
No Deal	5.9	3.0	-5.8	-1.7	1.5	0.0	-0.9	-1.3

Source: World Bank staff estimates.

Under a "no-deal" scenario and with oil prices remaining at an average level of $65 p/b, fiscal revenues would drop by 60 percent, reaching $23.7 billion in 2014/15 from its peak of $120 billion in 2011/12, a reduction equivalent to 20 percent of GDP. The real GDP growth rate is estimated to turn zero in 2015/16 from 1.5 percent in the previous year and the economy will continue to contract for the rest of the forecasting period (Table 3 and Figure 8). This will put tremendous pressure on inflation, unemployment and the fiscal deficit. In a case where oil prices fall further (which could likely happen), government oil revenues will dip even more, reaching the levels of 2004 (Figure 8), leading to a larger fiscal deficit.

The situation could turn worse because the government can only access a third (about $700 million out of $2 billion) of its monthly oil revenues under the current sanction relief. This could significantly put pressure on the government budget going forward, curtailing capital investment, development projects, current spending and, in turn, increasing inflation and unemployment rates. The Iranian currency, which has depreciated 50 percent after the tightening of sanctions in 2012, is expected to depreciate even more. Despite large foreign reserves estimated at $110 billion in 2013, and a Sovereign Wealth Fund (SWF) that could be tapped in the short-term, the economy is expected to remain in a dire situation.

Figure 8. Iran: Economic situation
(Under nuclear deal and no deal scenarios)



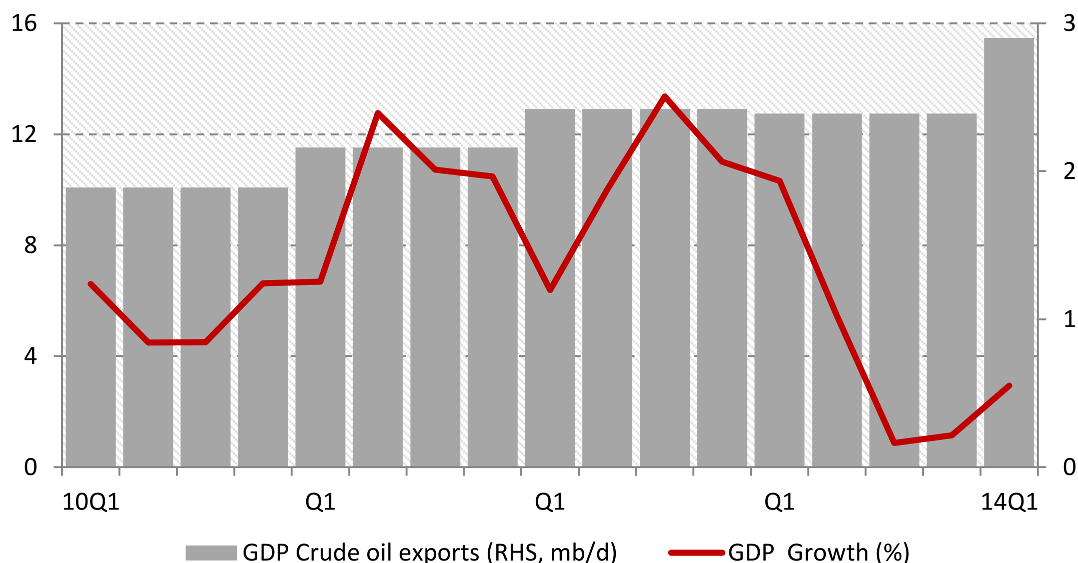
Source: Central Bank of Iran and World Bank staff estimates. Iranian fiscal year ending March 21.

IRAQ

A positive development was the ending of the long-standing dispute over distribution of oil revenues between the central government of Iraq and the semi-autonomous region of Kurdistan. Under the new agreement effective January 2015, Kurdistan will export 250,000 barrels of oil a day while the disputed province of Kirkuk will sell 300,000 barrels a day. Though good news for Iraq, the agreement will add to the downward tailspin in the oil market, with the additional barrels expected from Kirkuk adding to the already ample supply in the market. The central government's payments to the Kurdish region, accounting for 17 percent of the state budget, will resume with additional payment of $1 billion towards salaries and equipment of the Kurdish *peshmerga* forces fighting the Islamic State in Iraq and Syria (ISIS).

Despite the current turmoil, Iraq's oil exports have increased, reaching an average of 2.9 mb/d in December 2014, their highest level since 1980 (Figure 9) However, due to lower oil prices, oil receipts were much lower during this period compared to the early months of 2014. This has exacerbated the fiscal deficit, projected at 7 percent of GDP in 2014. It has come at a time when spending is higher than usual as the government battles to regain ground from ISIS. Current spending in Iraq accounts for more than 30 percent of GDP while capital expenditure is as much as half of that figure. Iraq's oil export revenues fell sharply in the second half of the year as a result of declining oil prices. Between May and November 2014, Iraq's monthly oil export value declined from $8 billion to $5.4 billion. This sharp decline mainly reflects the Iraq oil export price (which discounts to international benchmarks) declining from $100.7 to $70.4 during the same period. The prevailing insecurity has seriously hampered reconstruction and investment, which resulted in lower-than-foreseen oil production growth and hence slower economic growth.

Figure 9. Iraq: Economic situation



Source: World Bank.

A draft 2015 budget was presented to the Cabinet at the end of November based on an oil price of $70 per barrel and prioritizing salaries, military spending, and humanitarian relief. The budget showed a deficit of $39 billion, or 17 percent of GDP. As this was considered infeasible, the government is revising the budget and has focused instead on a freeze in hiring and rooting out the most glaring expenditure abuses (notably with the identification of 50,000 "ghost soldiers"). The rapprochement with the Kurdish Regional Government (KRG) on northern oil exports, both for KRG own-sourced oil exports and transit through KRG for oil from Kirkuk, will also relieve some pressure. From the perspective of the global oil market, the reopening of the northern export route adds 550,000 barrels per day of crude supply, though part of this figure represents existing KRG exports moving out of the grey market, as well as changes in the composition of Iraq's total exports.

The impact of falling oil prices: The major impact will be seen on fiscal and current account balances: The World Bank estimates that the fiscal deficit will rise to about 20 percent of GDP in 2015 from about 6 percent of GDP in 2014; and the oil trade surplus will be 14 percent of GDP. Real GDP growth will decline to about 1.5 percent in 2015, remarkably low for a country that should still be in reconstruction-driven growth. Given Iraq's lack of capital-market access and existing debt service obligations, the current account deficit implies a large financing gap, assuming unchanged policy on central bank reserves. As of December 2014, Iraq's gross international reserves amount to $69.1 billion.

Government spending: The most likely impact of lower oil prices on government spending would be through a reduction in capital spending by restricting the number of investments, which would return the public-sector borrowing requirement to the 2014 range (i.e. 4-8 percent of GDP). The government would seek to increase reliance on external financing for its capital program (especially through export credit agencies and bilateral/multilateral finance and aid from donors on humanitarian grounds). The government has sought a delay in its final reparation payments to Kuwait, which would defer nearly $5 billion of commitments. Even under optimistic external funding scenarios, none of these options can sustain the full capital program. The remaining financing buffers are central bank reserves, the domestic banking system, and the state pension fund. Tapping any of these sources (more than they are currently doing) raises fundamental questions about the integrity of already weak fiscal institutions.

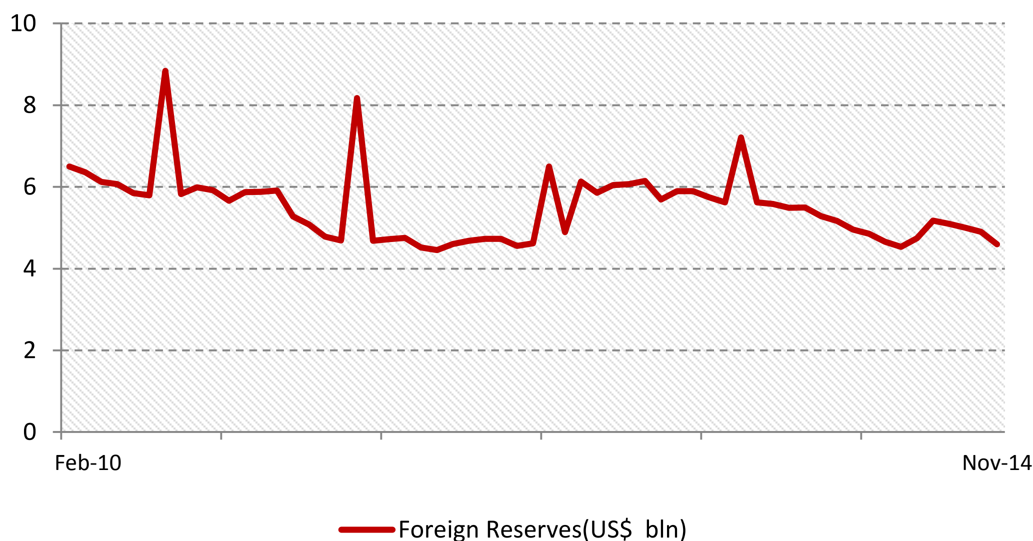
Poverty: As various consumer prices remain administered in Iraq, the impact on poverty will be mainly through the fiscal impact. Since northern Iraq is the main land transit route to the entire country, the increase in transport costs as a result of the ISIS crisis is affecting most non-oil merchandise trade. In particular, the cost of the universal Public Distribution System (PDS) ("food ration") is expected to increase. Since this program is seen as non-negotiable, the food price increase will be reflected in the fiscal impact.

Exchange rate: Iraq pursues a policy of a de facto peg to the U.S. Dollar, and therefore monetary policy is constrained in tackling the current shock. The Central Bank of Iraq (CBI) had kept the Dinar steady through January 2009. In 2014, the nominal exchange rate in the official market remained stable against the U.S. Dollar at 1,166 IQD/1 USD, but the rate in the parallel market increased. The CBI has recently taken steps to simplify foreign exchange market regulations, but has not eliminated all existing exchange restrictions and the multiple currency practice. With the peg, fiscal policy carries the burden of macroeconomic stabilization, but in this case does not have the space to do so.

YEMEN

Insurgent attacks on oil fields together with lower oil prices continue to adversely affect Yemen's economy. Houthi rebels who took over the capital, several other cities and state institutions have forced Yemen's president to resign on January 22nd. The Yemeni government submitted its resignation earlier this month. Yemen's foreign reserves fell to $4.6 billion (4.6 months of imports from 5.1 months in September) in November 2014 as oil exports declined due to continued insurgencies along with lower oil prices and Saudi Arabia's suspension of most of its aid (Figure 10). Foreign exchange reserves were used to support the currency as oil exports fell. Yemen's reserves include a $1 billion loan from Saudi Arabia, provided in 2012. Data from the Central Bank show that oil revenues have been halved, reaching $1.4 billion from January to October 2014, compared with $2.4 billion in 2013. More recent data are not available but it is expected that the sharp fall in oil prices have worsened fiscal revenues since October. Oil and gas account for more than three quarters of fiscal revenues.

Figure 10. Yemen: Economic situation



Source: World Bank.

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The impact of falling oil prices: The current decline of oil prices is likely to yield a net negative impact on Yemen's economy in the short term, unless Yemen gets external assistance to mitigate the loss of oil exports revenues.

Fiscal balance: The oil price decline will have a negative fiscal impact on Yemen. Oil dominates the government budget. Lower international oil prices, combined with political instability and continued sabotage of the oil pipelines are expected to reduce oil revenues by about 2 percentage points of GDP in 2015. In addition, taxes from companies dealing with oil companies are likely to decline. On the spending side, there are signs that the government will reduce fuel subsidies by about 1 percent of GDP in 2015, on account of the combined impact of reforms introduced in July 2014 and the decline in oil prices. Current

spending in Yemen is ten times the capital spending in terms of GDP and dominated by subsidies and public salaries. Overall, the fiscal deficit is expected to increase by 1 to 2 percentage points of GDP.

External accounts: The immediate impact of lower oil prices on Yemen's current account and balance of payments is likely to be negative. Oil made up to 90 percent of the country's total exports in the past decade. In terms of non-oil trade, where Yemen is a net importer, especially for food (55 percent of food products are imported), the decline in oil prices could lead to a lower trade deficit in principle, as the cost of importing goods (including shipping and transportation) would decline. However, this decline is likely to be limited by the availability of foreign reserves to finance imports. The impact on FDI would be negligible in the short-term as the country is unstable and not attracting much at this stage, but total remittances from Yemeni working in the GCC countries may decline. Yemen relies heavily on remittances inflows from the GCC which account for more than 90 percent of the total remittances inflows. Foreign reserves will likely decline with falling oil prices, and the country will need continued assistance from its development partners if it is to avoid a balance of payments crisis in the coming years.

Exchange rate: The Yemeni rial has been quasi-pegged to the U.S. dollar (at 214.9 rials for $1) since 2011. However, the rial has been under significant downward pressure since the 2011 political crisis, and the Central Bank of Yemen (CBY) has been running down its reserves—currently covering about 4 months of imports—to support the currency. In the context of falling oil prices and subsequently foreign reserves, the pressure on the exchange rate is likely to accelerate, unless Yemen gets assistance from its partners

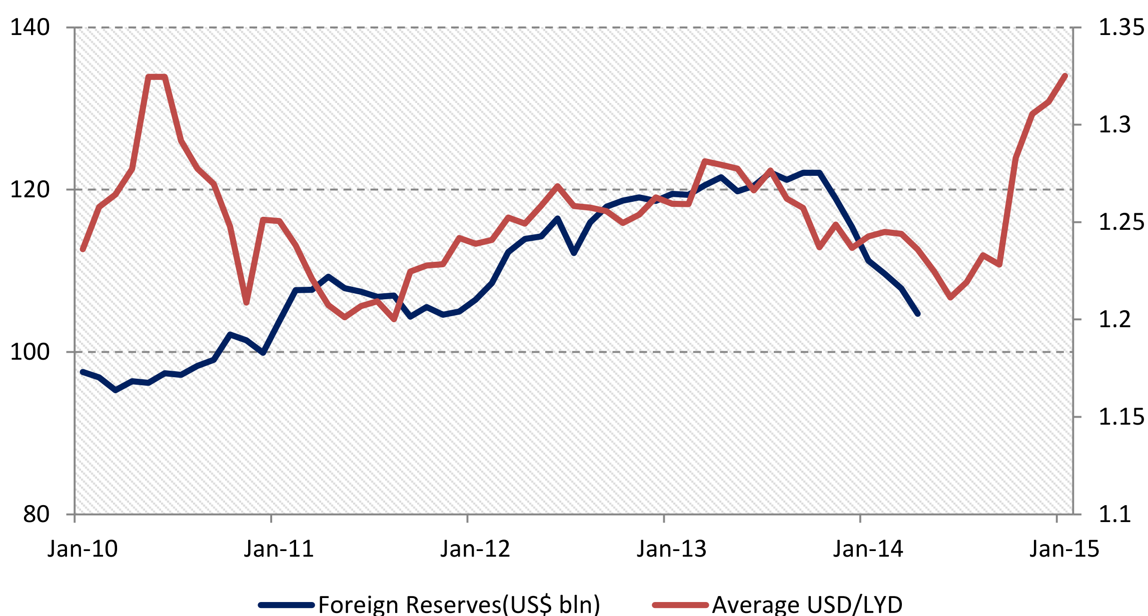
Poverty: Lower oil prices are expected to reduce prices of imported goods and boost household consumption, especially for food items, as 55 percent of food products are imported. In addition, inflation would likely drop, as food constitutes about 44 percent of the Yemeni consumer's spending. However, fuel subsidies to the poor are expected to decline. In addition, imported goods depend largely on the availability of foreign reserves, which are expected to be negatively affected by the fall of oil prices, and could lead to shortages in the country. In light of this, the expected impact of the decline in oil prices on poverty is likely to be, at best, neutral.

Growth: The drop in international oil prices is expected to help contain the fuel price increase which resulted from the fuel subsidy reform introduced in July 2014. This will benefit the agriculture sector, intensive in the use of diesel, as well as manufacturing industry which is expected to reduce its energy bill. However, the impact on the domestic oil industry is expected to be negative. In sum, the impact on growth is likely to be negligible.

LIBYA

Libya is currently split between rival tribes and political factions with two governments vying for legitimacy since an armed group seized the capital city of Tripoli in August, forcing Prime Minister Abdullah al-Thinni to relocate to the east. Neither side has prepared a budget for 2015. The price of not reaching an agreement is high, as oil production is currently at one-fifth of its pre-crisis 1.6 million b/d. That, combined with falling oil prices have forced the government to dip into its large reserves. Reserves reached $100 billion in August, falling by 20 percent since the start of the year and could be depleted in four years under the current situation (Figure 11). With oil prices plunging and limited oil exports (about 300,000 b/d due to continued fighting and insurgencies in the oil fields), the Libyan currency is under severe pressure. The value of Libya's currency has already depreciated in the international market by more than 20 percent.

Figure 11. Libya: Economic situation



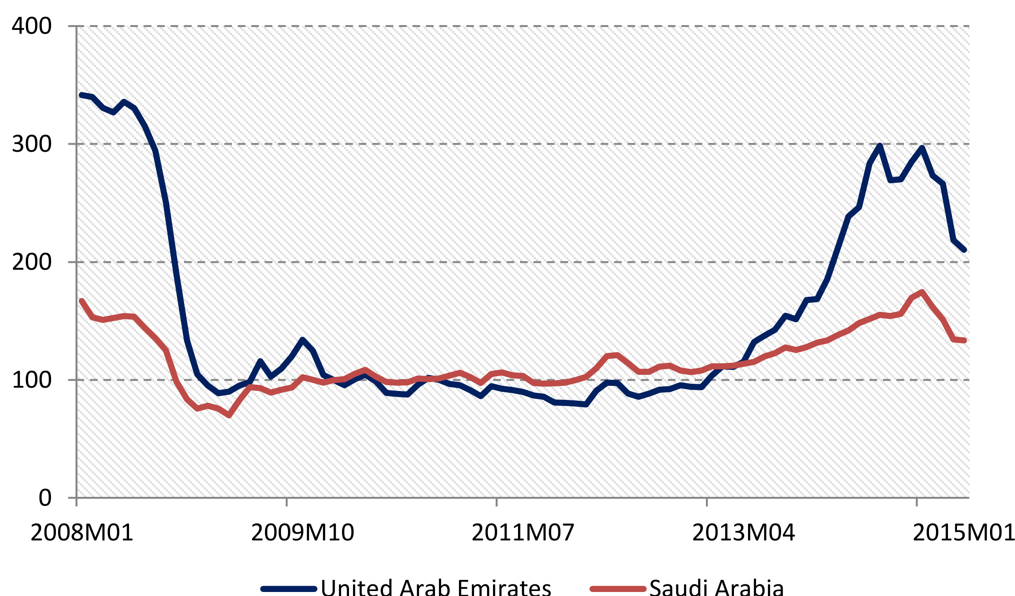
Source: World Bank and fxtop.com. Note: LYD is Libyan Dinar

The impact of falling oil prices: Since 2011, Libya has been running a budget deficit except in 2012 when oil exports increased substantially. The recent drop in oil prices combined with limited oil exports is expected to widen the deficit even further in 2015. The World Bank estimates that at oil prices of $65 and with the current capacity of oil exports remaining at 400,000 b/d, the 2015 budget deficit would increase to 31 percent of GDP in 2015 from 11 percent in 2014. Financing the fiscal gap will be difficult as oil exports are not expected to recover any time soon. The lion's share of Libya's budget is apportioned to energy subsidies and civil servants' wages. Salaries itself are a huge burden on the budget as a quarter of the Libyans are on the payroll and public sector wages have been increased by some 250 percent since the 2011 revolution. Foreign reserves and Libya's currency would be under severe pressure unless there is a major policy change in terms of lowering the wage bill and huge energy subsidies. The Tripoli-based rival parliament has recently announced that it was considering lifting fuel subsidies which stand at 20 percent of GDP. If implemented, this could increase government saving and reduce the fiscal gap.

GULF COOPERATION COUNCIL (GCC)

The price of oil, currently trading below $50 a barrel, has started to affect the income and development programs of the six states of the GCC. The fall in the price of oil has had consequences on capital markets, with GCC stock indices showing a substantial drop in recent weeks, and a material slowdown in the appreciation of real estate assets (Figure 12). If current low oil prices are sustained over the next 6 months, the regional governments are estimated to endure over a $215 billion loss in oil revenues, more than 14 percent of their combined GDP. At the current rate of spending and with oil prices remaining at $65 p/b, the World Bank estimates that the fiscal surplus in Kuwait and Qatar would shrink substantially and in Saudi Arabia, UAE and Oman turn into deficits in 2015; in Bahrain, the budget deficit will widen significantly. The combined fiscal surplus of about 10 percent of GDP in 2013 could turn into a deficit of 5 percent of GDP. While these countries have ample resources to finance their fiscal gap, under the current trend of rising government spending, growth prospects could eventually be affected for next year. Without the effect of the oil price drop, growth was estimated to be around 5 percent in 2015. Estimates by the IMF show that low oil prices could reduce growth by 1 percentage point in these countries over the coming year. In 2013, oil and gas revenues accounted for over half of the Gulf economies' GDP and 75 percent of total exports earnings.

Figure 12. Stock market index



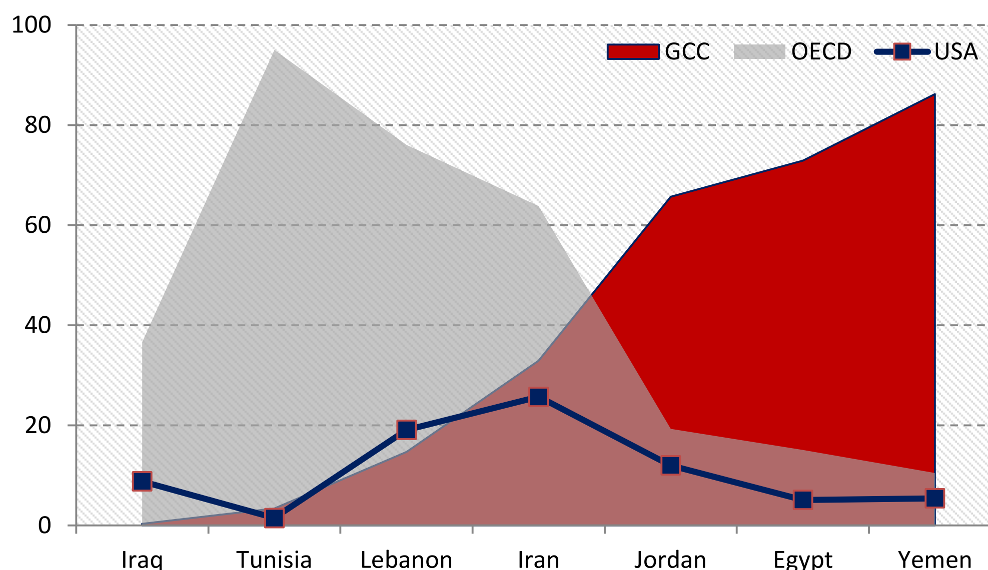
Source: World Bank.

Most of the GCC countries have sizeable reserve buffers that could help them withstand the pressure from lower oil prices without having to make significant adjustments in infrastructure spending or debt levels. Saudi Arabia has already accumulated more than $700 bln in reserves, not including funds in their Sovereign Wealth Fund. However, there are indications that the regional governments are rethinking their spending. For example capital expenditure has been capped at a certain level and prioritized in the 2015 new budget. In addition, the Saudi Government is preparing to increase energy and fuel prices and enhance efficiencies in non-oil revenues, especially through fees and charges. Under these policy adjustments, the fiscal deficit is estimated at about 1.9 percent of GDP (Table 4). With no adjustments in

government's policies, the fiscal deficit would have been about 6.9 percent of GDP. The new budget for Kuwait has set oil prices at $45 and provides a cushion through the Sovereign Wealth Fund (KIA) and reserves. Bahrain and Oman will be the most adversely affected countries in the region as they have higher fiscal breakeven prices and the lowest reserves. Although Oman has just released a budget for 2015 that does not envisage additional revenue measures or expenditure cuts, it may resort to these during the course of the year.

The government of Bahrain has already started thinking about eliciting budget support and disbursing GCC grants for capital investment. Without any reforms, the fiscal deficit in Bahrain is estimated to reach 10 percent of GDP. In Qatar, which hosts the 2022 soccer World Cup, spending on infrastructure will continue at the same pace. This could also increase remittances outflows from Qatar. Lower oil prices have prompted UAE to look for other sources of income, including a tax on remittances. If this policy is adopted in other Gulf States, it could adversely impact hiring expatriates and reduce remittance outflows to the rest of the world. Remittances are considered a major source of income in Egypt, Yemen and Jordan (Figure 13). Total remittances inflows from GCC countries totaled $21 bln in 2013, with Saudi Arabia accounting for half that figure.

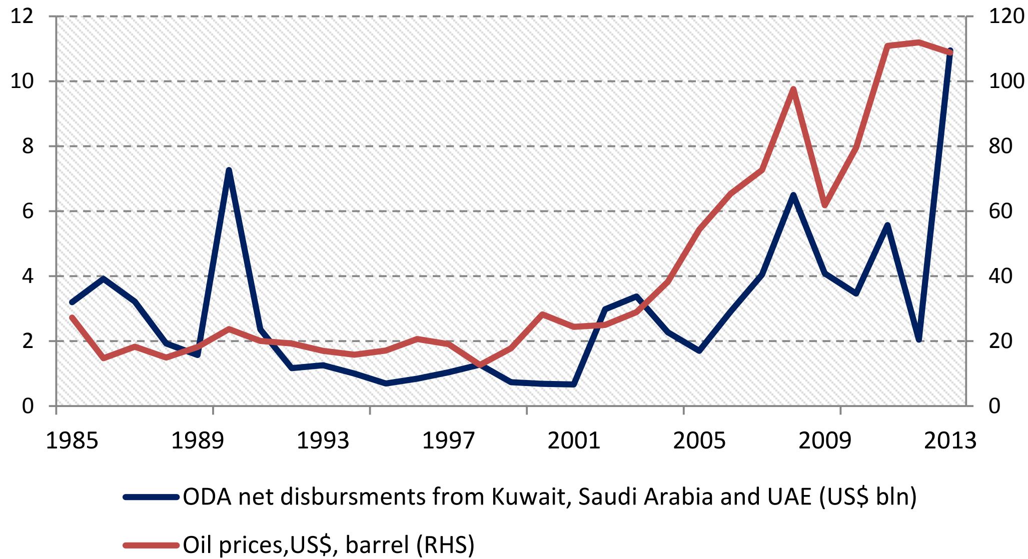
Figure 13. Remittances inflows from GCC to MENA countries (%)



Source: World Bank.

Low oil prices are expected to slow growth in remittances outflows from GCC countries to the rest of the region, mainly Egypt, Yemen and Jordan. The World Bank estimates that while remittances are expected to grow at positive rates, there may be a small deceleration in the growth rates (Annex 1). Aid flows from GCC to the rest of MENA may also decline as a result of low oil prices. Historically, bilateral aid has followed oil prices. Although in recent times, aid has been allocated on political considerations (Figure 14, see spike in 2012 when oil prices were flat), there may be reasons to think that this pattern will not recur in the current slump.

Figure 14. ODA disbursements from GCC countries



Source: For GCC ODA see: DAC, table 2a as of January 11, 2015

Table 4. Gulf States' finances due to oil price shock

Fiscal balance (% of GDP)			
		Projections	
	Average oil price $105	Average oil price $65	Average oil price $78
Saudi Arabia	8.7	-1.9	-2.8
Kuwait	31.7	3.1	5.6
Bahrain	-1.9	-5.3	-2.7
Oman	1.6	-11.6	-7.1
Qatar	11.1	-7.4	-5.8
UAE	6.5	-3.7	-2.3
Note: Projections for average oil price $65 take into account policy adjustments.			
Current account balance (% of GDP)			
		Projections	
	Average oil price $105	Average oil price $65	Average oil price $78
Saudi Arabia	16.2	2.8	6.8
Kuwait	40.5	5.4	7.3
Bahrain	8.0	-1.6	-0.1
Oman	8.9	-8.7	-4.9
Qatar	29.2	2.3	3.9
UAE	16.3	1.2	4.5

Source: World Bank staff estimates.

ANNEX 1.

FALLING OIL PRICES AND REMITTANCES FROM GCC COUNTRIES[3]

The Gulf region is an important destination for migrants. On average, migrants in GCC countries make up around 50 percent of the population. GCC countries are also among the top remitters worldwide. In 2013, Saudi Arabia and UAE were the second and third largest remittance-sending countries. Remittances are also significant shares of GDP. They amounted to 5.7 percent of GCC countries' GDP in 2013 (it is only 0.7 percent in the US, the top remittance sending country).

Annex table 1. Migrants and outward remittances in GCC countries

	Number of Immigrants mil (2013)	Immigrants % of total population (2013)	Reported remittances outflows $ mil	Estimated Outward Remittances $ mil (2013)	Remittances per migrant 2013 ($)	Outward Remittances % of GDP
Bahrain	0.7	54	2,166	2,566	3,518	7.8
Kuwait	2.4	69	15,242	11,495	4,790	6.5
Oman	1.1	28	9,104	4,789	4,307	6.0
Qatar	1.9	84	11,281	10,450	5,475	5.1
Saudi Arabia (2nd)	9.1	31	34,984	34,496	3,807	4.6
UAE (3rd)	8.0	85	17,933	29,574	3,690	7.4
Total GCC	**23.2**	**47**	**90,711**	**93,370**	**4,020**	**5.7**
United States (1st)	45.8	14	53,590	124,840	2,727	0.7
United Kingdom (4th)	7.8	12	2,222	24,585	3,142	0.9
Russia (5th)	11.0	8	37,217	23,178	2098	1.1

As most migrants in the GCC countries today are from South Asia, only an average of 22 percent of remittances outflow from GCC countries go to other MENA countries.

Annex table 2. Outward remittances from GCC to other MENA countries

	Total Remittances to MENA ($ mil)	Remittances to MENA share of total outward remittances (%)
Bahrain	496	19
Kuwait	3,885	34
Oman	279	6
Qatar	1,544	15
Saudi Arabia	10,674	31
United Arab Emirates	4,120	14
Total	**20,998**	**22**

[3] This section was prepared by Dilip Ratha, Kirsten Schuettler, and Seyed Reza Yousefi, World Bank.

MENA countries receive 43 percent of their remittances from GCC countries, 29 percent from Europe and 8 percent from the US. The top MENA remittance-recipient countries from GCC countries in absolute and relative terms are Egypt, Yemen, and Jordan. They are also the most vulnerable to changes in remittances from GCC countries.

Annex table 3. Inflows to MENA countries from GCC (%)

	Djibouti	Algeria	Egypt	Iran	Iraq	Jordan	Lebanon	Morocco	WBG	Syria	Tunisia	Yemen
GCC	0.0	0.0	72.9	32.9	0.3	65.7	14.7	1.3	7.9	49.8	3.4	86.2
USA	0.2	1.1	5.1	25.7	8.8	12.0	19.1	2.7	1.6	9.8	1.5	5.4
OECD	67.0	97.3	15.1	63.8	36.6	19.3	76.0	97.8	2.6	31.7	95.0	10.5

Note: OECD includes USA. WBG stands for West Bank and Gaza.

What variables influence remittance outflows from the GCC countries? Our regressions using a fixed effects model show a positive and statistically significant impact of oil prices on outward remittances. However, the elasticity is small, around 0.1. This is consistent with the findings by Naufal and Termos (2009)[4] who similarly find no sizeable impact of changes in oil prices on remittance outflows from GCC countries.

Annex table 4. Determinants of remittance outflows from GCC countries

	(1)	(2)	(3)	(4)
Lagged Remit	-0.069	-0.069	-0.071	-0.071
	[0.047]	[0.047]	[0.058]	[0.058]
GDP Growth	0.458***	0.458***	0.457***	0.457***
	[0.058]	[0.058]	[0.058]	[0.058]
Log Oil Price			0.138	
			[0.097]	
Log Oil Production			0.020	
			[0.170]	
Oil Price Growth		0.105***		
		[0.023]		
log Oil Revenue				0.020
				[0.170]
Constant	0.658*	0.500	0.076	0.629
	[0.253]	[0.347]	[1.150]	[1.863]
Observations	112	112	112	112
R-squared	0.427	0.427	0.427	0.427
Number of code	5	5	5	5

Note: Dependent variable is the growth in remittance outflows. Regressions are based on a panel fixed effects model with annual data controlling for time and country dummies. The sample includes GCC countries except Bahrain for which oil production data was missing. Lagged remittances controls for the convergence effect. Oil price is the average annual oil price per barrel (Brent). Oil production is the average oil production in thousand barrels/day.

[4] Naufal, George Sami and Termos, Ali A., The Responsiveness of Remittances to Price of Oil: The Case of the GCC. OPEC Energy Review Vol. 33 No. 3 – 4 , pp. 184 – 197 September/December 2009. Available at SSRN: http://ssrn.com/abstract=930810 or http://dx.doi.org/10.1111/j.1753-0237.2009.00166.x

The responsiveness of remittances to changes in GDP of the GCC countries is large. The findings also indicate that variations in GDP capture most of the impact of oil price (controlling for oil prices does not matter for the coefficient on home GDP).

Due to the lack of data, the responsiveness of outward remittances from GCC countries to government spending and investments are difficult to estimate and thus test if including these variables would improve the forecasting model.

World Bank projections for outward remittances from GCC are thus based on a forecast model using migrant stocks and changes in migrant incomes, approximated by the GDP of receiving and sending countries. For the GCC countries we use the latest growth forecasts of the World Bank's January Global Economic Prospects (GEP) that take lower oil prices into account. These forecasts have, however, not changed much since the recent fall in oil prices.

Annex table 5. Projections of outward remittances from GCC countries

	Revised Growth in Remittance Outflows					Growth in Remittance Outflows (Oct 2014)			
	2013	2014	2015	2016	2017	2013	2014	2015	2016
	Projections								
UAE	4.0	3.6	3.4	3.0	3.0	3.6	3.3	3.2	3.0
Bahrain	4.9	3.7	2.8	2.8	2.8	4.5	3.7	2.8	3.2
Kuwait	0.8	1.5	1.6	2.2	2.2	0.4	1.5	1.6	2.2
Oman	5.3	4.5	5.2	4.0	4.1	4.9	4.6	4.1	4.1
Qatar	-	-	-	-	-	-	-	-	-
Saudi Arabia	2.6	3.3	2.6	2.8	2.9	2.6	2.6	2.7	2.8

Note: The upward revision in 2015 for growth rate in UAE and Oman is due to an upward revision of the growth forecast.

As a result, it is expected that remittances will grow at positive rates close to the previous projections, only with slight changes. For some countries there is small deceleration in the growth rates of remittances, but no negative growth.

Annex 2. Country tables.

Egypt					
		GDP Growth (%)	Unemployment rate (%)	Domestic Debt (% of GDP)	FDI (Million US$)
FY10					
	Q1	4.6	9.1	62.3	1,731
	Q2	5.0	9.0	64.4	895
	Q3	5.6	8.9	67.1	1,706
	Q4	5.4	8.9	67.0	2,426
FY11					
	Q1	5.5	11.9	67.1	1,597
	Q2	5.6	11.8	63.0	656
	Q3	-4.3	11.9	68.0	-164
	Q4	0.4	12.4	70.5	99
FY12					
	Q1	0.3	12.6	65.9	440
	Q2	0.4	12.6	68.4	-858
	Q3	5.2	12.5	70.5	1,584
	Q4	3.3	13.0	74.9	2,817
FY13					
	Q1	2.6	13.2	71.4	1,164
	Q2	2.2	13.3	74.6	1,316
	Q3	2.2	13.4	80.0	1,075
	Q4	1.5	13.4	83.4	1,629
FY14					
	Q1	1.0	13.3	76.0	1,246
	Q2	1.4	13.1	77.3	1,603
	Q3	2.5	...	80.3	1,841
	Q4	3.7	...	85.1	...
FY15					
	Q1	6.8	...	...	...

Source: National official sources. FY indicates fiscal year; FY10 ending June 2010.

	Jordan			Lebanon			Tunisia		
	GDP Growth (%)	Unemployment rate (%)	Domestic Debt (% of GDP)	GDP Growth (%)	Domestic Debt (% of total debt)	FDI Billion (US$)	GDP Growth (%)	Unemployment rate (%)	Domestic Debt (% of GDP)
2010									
Q1	2.4	12.4	40.3	8.2	66.4	0.8	5.3	...	...
Q2	1.4	12.2	41.7	10.4	66.7	1.2	2.8	...	...
Q3	2.2	13.5	43.9	8.1	66.3	1.0	2.5	...	...
Q4	3.2	11.8	42.5	5.4	67.9	1.3	1.3	13	16
2011									
Q1	2.3	13.1	43.7	-0.9	67.6	0.3	-2.7	...	...
Q2	2.4	13.2	44.1	-0.3	67.9	1.3	-0.9	18.3	...
Q3	2.6	13.1	43.7	3.0	68.7	0.6	-2.1	...	17.7
Q4	3.1	12.1	48.8	6.3	68.4	1.3	-1.9	18.9	18.7
2012									
Q1	3.0	11.4	51.0	7.3	69.3	0.7	5.1	18.1	18.4
Q2	2.9	11.6	54.4	5.2	66.1	1.2	2.2	17.6	...
Q3	2.6	13.1	56.1	-1.3	66.8	0.9	3.8	17.0	18.3
Q4	2.2	12.5	57.7	-2.2	65.8	0.9	4.7	16.7	16.6
2013									
Q1	2.6	12.8	56.9	-0.7	67.4	0.6	2.2	16.5	18.1
Q2	3.1	12.6	57.5	-1.2	65.4	0.8	2.8	15.9	18.7
Q3	2.8	14.0	57.4	3.8	67.0	...	2.1	15.7	19.7
Q4	2.9	11.0	56.3	2.2	67.8	...	1.9	15.3	19.6
2014									
Q1	3.2	11.8	57.0	-0.8	68.0	...	2.2	15.2	20.1
Q2	2.8	12.0	55.6	0.5	68.4	...	2.0	...	20.2
Q3	...	11.4	...	...	...	...	2.3	...	...
Q4	...	...	...	...	...	...	...	...	...

Source: National official authorities.

	Egypt		Jordan		Lebanon	
	Foreign Reserves (Bn US$)	Tourism, # of Arrivals (Million)	Foreign Reserves (Bn US$)	Tourism # of Arrivals (Thousands)	Foreign Reserves without gold (bn US$)	Tourism, # of Arrivals (Thousands)
2010						
Jan	34.24	1.1	11.5	32	26.8	106
Feb	34.35	1.1	11.5	42	27.0	129
Mar	34.53	1.3	11.7	73	27.2	158
Apr	34.68	1.2	11.6	93	27.3	169
May	35.13	1.2	11.2	74	27.3	170
Jun	35.25	1.0	10.9	44	27.4	231
Jul	35.30	1.3	11.5	41	27.9	362
Aug	35.55	1.1	11.7	40	28.2	166
Sep	35.56	1.2	11.8	63	28.5	203
Oct	35.57	1.5	11.8	91	28.2	157
Nov	35.60	1.4	12.6	72	27.7	164
Dec	36.04	1.3	12.8	42	28.6	152
2011						
Jan	35.02	1.1	12.9	33	28.3	98
Feb	33.34	0.2	12.5	37	28.4	107
Mar	30.12	0.5	11.9	53	28.5	136
Apr	28.04	0.8	11.6	51	28.8	135
May	27.24	0.7	11.6	35	28.4	121
Jun	26.59	0.7	11.4	21	28.3	178
Jul	25.73	0.9	12.3	25	28.9	220
Aug	25.03	0.9	12.3	20	30.6	133
Sep	24.03	0.9	11.9	28	30.6	149
Oct	22.09	1.1	11.7	46	30.5	125
Nov	20.17	1.0	11.6	40	30.8	124
Dec	18.14	0.9	11.3	32	30.8	130
2012						
Jan	16.38	0.8	10.9	27	30.7	96
Feb	15.74	0.8	10.4	33	30.8	98
Mar	15.14	0.9	10.2	45	31.0	120
Apr	15.24	1.0	9.6	55	31.8	124
May	15.54	0.8	8.5	42	29.6	120
Jun	15.56	0.9	7.8	29	29.3	157
Jul	14.44	1.0	7.8	26	29.6	157
Aug	15.15	1.0	8.1	24	29.5	115
Sep	15.07	1.0	8.2	34	30.0	100
Oct	15.51	1.2	8.3	57	29.5	93
Nov	15.06	1.1	7.6	43	29.8	76
Dec	15.04	1.0	7.9	30	30.0	111
2013						
Jan	13.64	0.9	8.8	20	31.0	81
Feb	13.53	0.8	9.3	29	30.3	87
Mar	13.45	1.1	9.6	47	30.4	106
Apr	14.45	1.1	10.8	54	30.7	102
May	16.06	1.0	10.4	44	31.4	111
Jun	14.96	1.0	10.7	27	31.7	136
Jul	18.91	0.8	10.9	21	31.3	130
Aug	18.95	0.6	11.8	32	31.0	137
Sep	18.73	0.3	11.8	34	32.0	86
Oct	18.61	0.6	11.8	50	31.9	103
Nov	17.79	0.7	13.2	40	31.8	83
Dec	17.05	0.7	13.0	35	31.7	111
2014						
Jan	17.13	0.6	13.4	25	32.3	72
Feb	17.33	0.6	13.4	31	33.4	74
Mar	17.44	0.8	13.6	41	33.6	83
Apr	17.51	0.9	13.8	…	33.7	102
May	17.31	0.8	14.2	…	33.3	111
Jun	16.71	0.8	15.3	…	33.8	142
July	16.76	0.9	15.4	…	35.1	161
August	16.86	1.0	15.6	…	33.1	151
Sept	16.90	…	…	…	32.3	121
Oct	16.93	…	…	…	…	…
Nov	15.80	…	…	…	…	…

	Libya	Tunisia			Yemen	
	Foreign Reserves (bn US$)	Foreign Reserves (bn US$)	Tourism, # of Arrivals (Thousands)	FDI (Million TD)	Foreign Reserves (bn US$)	FDI (Million Rials)
2010						
Jan	97.5	10.4	333	...	6.5	27,270
Feb	96.9	9.8	325	275	6.4	28,091
Mar	95.3	9.7	441	476	6.1	29,774
Apr	96.4	8.8	495	609	6.1	30,427
May	96.2	8.8	612	764	5.8	30,892
Jun	97.4	8.7	703	937	5.8	28,854
Jul	97.2	8.8	1,064	1,179	8.8	32,452
Aug	98.3	9.0	810	1,433	5.8	29,154
Sep	99.1	9.5	690	1,699	6.0	29,120
Oct	102.1	9.7	646	1,901	5.9	31,135
Nov	101.5	9.3	368	2,227	5.7	31,098
Dec	99.9	9.5	416	2,418	5.9	236,569
2011						
Jan	103.8	9.4	178	...	5.9	240,312
Feb	107.6	9.2	184	215	5.9	234,267
Mar	107.6	9.2	252	339	5.3	225,939
Apr	109.3	8.4	314	518	5.1	224,020
May	107.9	7.9	358	580	4.8	217,430
Jun	107.4	7.7	...	775	4.7	216,092
Jul	106.8	8.2	656	868	8.2	211,807
Aug	106.9	8.6	...	1,077	4.7	211,327
Sep	104.3	8.0	...	1 238	4.7	210,211
Oct	105.5	8.0	494	1,379	4.8	209,058
Nov	104.6	7.7	372	1,451	4.5	211,885
Dec	105.0	7.5	326	1,718	4.5	212,081
2012						
Jan	106.4	7.5	310	172	4.6	206,576
Feb	108.5	7.3	256	321	4.7	206,753
Mar	112.3	7.1	372	441	4.7	206,929
Apr	113.9	6.6	469	628	4.7	244,871
May	114.2	6.4	499	942	4.6	208,026
Jun	116.5	6.4	596	951	4.6	218,608
Jul	112.2	6.5	743	1,116	6.5	236,277
Aug	116.0	6.5	740	1 166	4.9	238,153
Sep	117.9	6.5	689	1 554	6.1	231,980
Oct	118.6	6.4	495	1,440	5.9	221,741
Nov	119.0	6.4	386	1,547	6.0	227,461
Dec	118.6	8.4	396	3,079	6.1	231,747
2013						
Jan	119.5	8.3	396	206	6.2	230,399
Feb	119.4	7.4	248	290	5.7	240,388
Mar	120.6	7.3	279	424	5.9	244,871
Apr	121.5	7.2	...	479	5.9	245,841
May	119.8	6.6	...	...	5.7	245,260
Jun	120.5	7.2	...	939	5.6	239,627
Jul	122.1	7.2	...	1,079	7.2	235,641
Aug	121.2	7.1	...	1,208	5.6	243,288
Sep	122.1	7.2	...	1,492	5.6	243,863
Oct	122.1	7.2	...	1,668	5.5	249,018
Nov	118.9	7.3	...	1,777	5.5	251,409
Dec	115.4	7.3	...	1,960	5.3	267,523
2014						
Jan	111.3	7.5	...	...	5.2	268,732
Feb	109.6	7.4	...	192	5.0	269,740
Mar	107.8	7.3	...	441	4.9	263,467
Apr	104.7	7.0	...	407	4.7	261,971
May	...	6.8	...	...	4.5	257,757
June	...	6.7	...	...	4.7	...
July	...	7.1	...	...	5.2	...
August	...	...	...	...	...	...
Sept	...	...	...	...	...	...
Oct	...	...	...	...	...	...

Note: December data on FDI is cumulaive for the year. TD: Tunisian Dinars

Source: International Financial Statistics, National official sources

Youth Unemployment (% of labor force ages 15-24)

	2010			2011			2012		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
Egypt	54.6	14.8	26.3	65.0	23.6	35.5	64.9	23.8	35.7
Iran	40.8	25.2	28.4	40.6	25.1	28.4	40.5	25.8	28.9
Jordan	49.7	25.1	30.1	48.8	27.3	31.6	51.1	26.4	31.3
Lebanon	22.2	23.1	22.8	22.0	23.1	22.7	21.8	23.3	22.8
Libya	30.6	18.1	22.1	27.4	18.0	21.0	34.4	18.8	23.9
Tunisia	27.3	30.3	29.4	27.1	30.3	29.3	27.2	30.2	29.3
Yemen	53.3	27.9	35.1	52.4	27.8	34.8	51.7	28.1	34.8

Source: World Bank.

Yemen				
	2010	**2011**	**2012**	**2013**
GDP Growth (%)	3.32	-15.09	2.19	3.2
Unemployment Rate (%)	17.8	...	...	...
Domestic Debt (%GDP)	19.0	25.0	24.0	36.0
FDI (Million US$)	188.6	-517.8	-14.2	-133.6
Foreign Reserves (bn US$)	5689.0	4269.0	4917.0	4102.0
Tourism, # Arrivals (Thousands)	1024.8	829.2	874.4	1322.6

Source: National official sources.

		GDP Growth (%)	Unemployment Rate (%)	Domestic Debt (% of GDP)	FDI (Million US$)	Foreign Reserves (Million US$)	Tourism, International Tourism, Receipts (Million US$)
Iraq							
2010							
	Q1	6.6	...	...	...	...	...
	Q2	4.5	...	...	...	...	...
	Q3	4.5	...	...	...	...	...
	Q4	6.6	...	...	...	...	...
Annual			**15.1**	**7.1**	**1300**	**50639**	**1736000**
2011							
	Q1	6.7	...	...	...	...	...
	Q2	12.8	...	...	...	...	...
	Q3	10.7	...	...	...	...	...
	Q4	10.5	...	...	...	...	...
Annual			**11.1**	**6.7**	**1900**	**61085**	**1557000**
2012							
	Q1	6.4	...	...	...	...	...
	Q2	10.0	...	...	...	...	...
	Q3	13.4	...	...	...	...	...
	Q4	11.0	...	...	...	...	...
Annual			...	**5.9**	**2900**	**70327**	**1640000**
2013							
	Q1	10.3	...	...	...	...	...
	Q2	5.4	...	...	...	...	...
	Q3	0.9	...	...	...	...	...
	Q4	1.1	...	...	...	...	...
Annual			...	**5.5**	**5400**	**77700**	...
2014							
	Q1	2.9	...	...	...	...	...
	Q2	...	...	...	...	...	...
	Q3	...	...	...	...	...	...
	Q4	...	...	...	...	...	...
Annual		**...**	...	**6.6**	**1000**	**78600**	...

Source: Iraqi authorities, IMF, and WDI estimates

Iran		GDP Growth (%)	GDP Growth Non Oil	Oil Production (mln bpd)	Oil Export (mln bpd)	Inflation Rate (%)
2010/11						
	Q1	4.3	5.7	3.5	2.0	9.3
	Q2	5.6	5.3	3.5	2.0	9.7
	Q3	6.6	7.5	3.5	2.0	12.4
	Q4	6.5	5.5	3.5	2.0	17.9
2011/12						
	Q1	8.6	6.9	3.6	2.1	21.1
	Q2	3.5	9.6	3.6	2.1	21.3
	Q3	2.3	1.7	3.6	2.1	22.0
	Q4	2	5.6	3.7	2.2	20.6
2012/13						
	Q1	-9	-3.1	3.8	2.1	21.8
	Q2	-9	-1.9	3.7	...	25.3
	Q3	-6.9	-1.0	3.7	...	34.1
	Q4	-2	2.4	3.7	...	39.5
2013/14						
	Q1	-4.1	-1.4	...	...	43.0
	Q2	-0.9	-0.8	...	...	42.9
	Q3	-1.8	-1.8	...	...	32.6
	Q4	-1.1	-1.6	...	...	23.6
2014/15						
	Q1	4.6	4.4	...	...	16.2

Source: Central Bank of the Islamic Republic of Iran. Fiscal year ending March 21.

Iran	# of Construction (All Urban Areas)	Unemployment Rate (%)			
		Total	Female	Male	15-24
2010/11					
	42489	14.6	...	...	...
	37859	14.6	...	...	...
	45688	14.6	...	...	...
	54958	13.5	...	...	...
2011/12					
	43281	12.3	...	...	...
	42906	11.1	...	...	24.7
	46676	11.8	20.6	10.1	26.3
	58519	12.3	20.9	10.5	26.5
2012/13					
	49727	12.9	20.0	11.2	28.6
	44240	12.4	22.1	10.2	27.0
	38763	11.2	17.7	9.8	25.8
	56061	12.2	19.9	10.5	26.9
2013/14					
	47356	10.6	18.7	8.8	22.9
	46509	10.4	21.1	8.1	23.9
	32774	10.3	20.4	8.5	24.3
	46053	10.4	19.8	8.6	24.0
2014/15					
	32851	10.7	19.4	9.0	24.8

Source: Central Bank of the Islamic republic of Iran.

Trading partners, Exports (% of total exports)

Iran

	2011	2012	2013	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Mar	2014 Apr	2014 May	2014 Jun	2014 Jul
MENA	**2.94**	**3.97**	**5.13**	**5.73**	**5.30**	**4.62**	**5.10**	**5.23**	**5.08**	**5.06**	**5.15**	**4.82**
Algeria	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Egypt	0.02	0.04	0.04	0.04	0.04	0.04	0.04	0.05	0.07	0.03	0.02	0.04
Jordan	0.01	0.01	0.02	0.02	0.04	0.01	0.04	0.02	0.01	0.01	0.09	0.01
Lebanon	0.03	0.03	0.04	0.02	0.06	0.04	0.03	0.04	0.04	0.03	0.04	0.02
Morocco	0.01	0.18	0.60	0.68	0.57	0.58	0.61	0.63	0.64	0.59	0.59	0.59
Oman	0.12	0.03	0.06	0.06	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Qatar	0.04	0.03	0.06	0.06	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Saudi Arabia	0.72	0.97	1.16	1.25	1.21	1.08	1.18	1.06	1.10	1.21	1.23	1.24
Syrian Arab Republic	1.08	1.50	1.81	2.17	1.95	1.40	1.69	1.98	1.73	1.69	1.65	1.42
Tunisia	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Arab Emirates	0.86	1.16	1.38	1.47	1.36	1.39	1.42	1.38	1.41	1.41	1.44	1.43
Yemen, Republic of	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
China	21.18	22.08	26.96	28.37	27.02	28.90	34.64	28.65	39.28	37.57	26.94	29.08
India	8.06	11.92	10.65	8.43	12.31	13.61	9.23	13.31	9.08	8.86	9.75	11.78

Trading partners, Imports (% of total Imports)

Iran

	2011	2012	2013	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Mar	2014 Apr	2014 May	2014 Jun	2014 Jul
MENA	**31.40**	**34.55**	**37.55**	**38.36**	**34.09**	**39.50**	**34.46**	**39.94**	**37.42**	**31.30**	**35.23**	**29.25**
Bahrain	0.08	0.09	0.10	0.10	0.09	0.10	0.09	0.10	0.10	0.08	0.09	0.08
Egypt	0.11	0.08	0.04	0.04	0.03	0.06	0.03	0.06	0.02	0.02	0.04	0.03
Jordan	0.02	0.01	0.02	0.01	0.01	0.01	0.02	0.03	0.06	0.01	0.01	0.06
Kuwait	0.15	0.17	0.18	0.19	0.17	0.19	0.17	0.19	0.18	0.15	0.17	0.14
Lebanon	0.02	0.01	0.01	0.01	0.00	0.01	0.00	0.00	0.01	0.00	0.01	0.00
Oman	0.46	0.36	0.42	0.42	0.38	0.46	0.40	0.45	0.43	0.38	0.39	0.31
Qatar	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Saudi Arabia	0.32	0.35	0.38	0.39	0.35	0.40	0.35	0.41	0.38	0.32	0.36	0.30
Syrian Arab Republic	0.04	0.04	0.05	0.05	0.05	0.05	0.04	0.05	0.05	0.04	0.05	0.04
Tunisia	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Arab Emirates	30.19	33.42	36.33	37.14	32.99	38.19	33.33	38.63	36.15	30.28	34.11	28.28
China	16.97	13.87	18.87	20.11	25.49	22.53	29.46	21.60	28.33	33.63	25.82	37.33
India	2.94	3.10	6.48	6.61	5.81	6.40	4.79	5.70	4.39	4.08	5.97	4.29

Source: Direction of Trade Statistics, IMF.

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