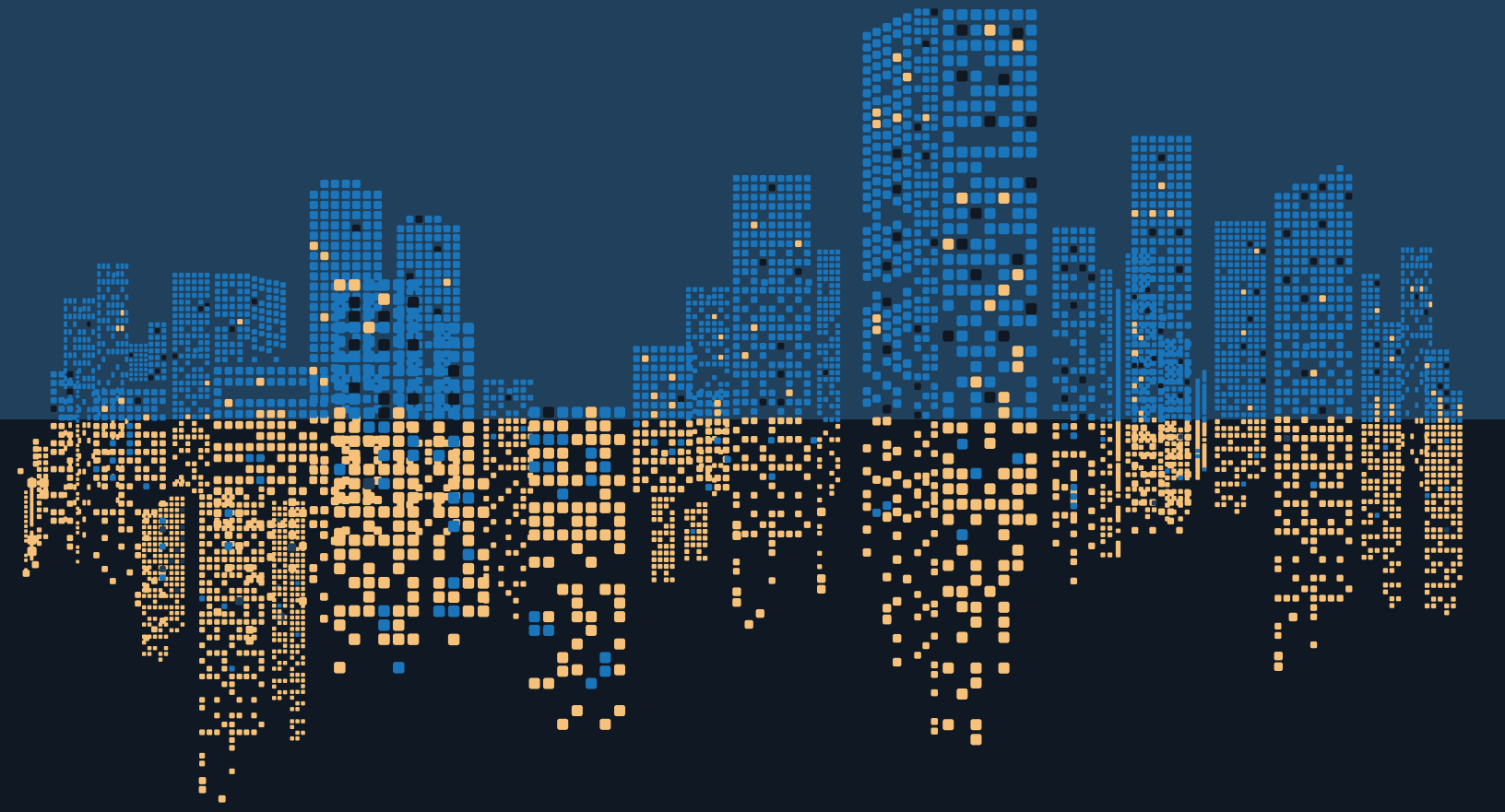
MENA ECONOMIC UPDATE APRIL 2025

SHIFTING GEARS

The private sector as an engine of growth in the Middle East and North Africa



Roberta Gatti, Harun Onder, Asif M. Islam, Jesica Torres, Gianluca Mele, Federico Bennett, Sumin Chun, Rana Lotfi, Ilias Suvanov

WORLD BANK GROUP

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Abbreviations

ADM2	Second Order Administrative Units
ARE	United Arab Emirates
BAPCO	Bahrain Petroleum Company
BACI	Base pour l'Analyse du Commerce International
BHR	Bahrain
BOS	Businesses of the State
B-READY	Business Ready (World Bank)
CCCM	Camp Coordination and Camp Management
CEO	Chief Executive Officer
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales
CPI	Consumer Price Index
DJI	Djibouti
DOE	Developing Oil Exporters
DOI	Developing Oil Importers
DZA	Algeria
EAP	East Asia and the Pacific
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EGY	Arab Republic of Egypt
EIB	European Investment Bank
EMDEs	Emerging Markets and Developing Economies
EU	European Union
FCI	Finance, Competitiveness and Investment
FCS	Fragile and Conflict-Affected Situations
FLFP	Female Labor Force Participation
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GTA	Global Trade Alert
GVC	Global Value Chains
HHI	Herfindahl-Hirschman Index
HICs	High Income Countries
IDPs	Internally Displaced Persons
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IPC	Integrated Food Security Phase Classification
IRN	Islamic Republic of Iran
IRQ	Iraq
ISIC	International Standard Industrial Classification of All Economic Activities
JMMC	Joint Ministerial Meeting Monitoring Committee
JOR	Jordan
KWT	Kuwait
LAC	Latin America and the Caribbean
LBN	Lebanon
LBY	Libya
MAR	Morocco
mb/d	Million barrels per day
MENA	Middle East and North Africa
MMbtu	Metric Million British Thermal Unit
N/A	Not available
NASA	National Aeronautics and Space Administration of the United States
OCHA	Office for Coordination of Humanitarian Affairs (UN)
OECD	Organization for Economic Cooperation and Development
OMN	Oman
ONOMM	OPEC and Non-OPEC Ministerial Meeting
OPEC	Organization of the Petroleum Exporting Countries
OPEC+	Organization of the Petroleum Exporting Countries plus other oil-producing countries
PCBS	Palestinian Central Bureau of Statistics
PMR	Product Market Regulation
PPP$	Purchasing Power Parity Dollars
PSE	West Bank and Gaza
QAT	Qatar
R&D	Research and Development
RNE	Répertoire National des Entreprises (Tunisian National Company Registry)
ROW	Rest of the World
SAR	South Asia Region
SAU	Saudi Arabia
SITC	Standard International Trade Classification
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
STPD	Services Trade Policy Database
STRI	Services Trade Restrictiveness Index
SYR	Syrian Arab Republic
TFP	Total Factor Productivity
TUN	Tunisia
UAE	United Arab Emirates
UCDP	Uppsala Conflict Data Program
UK	United Kingdom
UMICs	Upper Middle Income Countries
UN	United Nations
UNHCR	United Nations High Commission for Refugees
U.S.	United States
US$	United States Dollar
WB	World Bank
WBES	World Bank Enterprise Surveys
WBL	Women, Business and Law
Y/N	Yes/No
YEM	Republic of Yemen

Foreword

The region's economic outlook remains uncertain, with ongoing challenges and fragility shaping its trajectory. While some positive signs are emerging in conflict-affected economies, the situation remains fragile, and deep structural challenges persist amidst global policy uncertainty. However, there are also reasons for measured optimism. Our macroeconomists forecast a moderate acceleration of growth in 2025 and 2026. Realizing the potential of the region will depend on navigating risks and advancing much-needed reforms.

The previous edition of our MENA Economic Update, published in October 2024 highlighted that the region struggles with low standards of living—consumption per capita is a mere 19 percent of the frontier—and that much of this is explained by low productivity. This edition of the MENA Economic Update sheds light on a critical engine of productivity growth: the private sector. Businesses are the engines of innovation and job creation. In MENA, the private sector is particularly crucial. By 2050, about 25 years away from today, nearly 300 million young people will be looking for a job. Can the private sector create these jobs?

The diagnosis from this report indicates that in MENA there is significant room for improvement for the private sector with low labor productivity growth, investment, innovation, and market dynamism. The region is characterized by a divide between a small formal private sector and a large informal sector. Despite high levels of education, the region underutilizes its human capital, particularly women, who are largely excluded from the labor market. With high uncertainty, the private sector in MENA is ill prepared to absorb shocks such as conflict and extreme weather events. However, there are signs that businesses in MENA can adapt in the face of adversity.

Our Chief Economist and her co-authors suggest that unlocking the MENA private sector as an engine of growth requires governments to rethink their role in markets and firms to harness talent more effectively.

Governments in the region can achieve considerable economic gains by shifting perspectives on how to approach the private sector. Promoting competition in markets, leveling the playing field for firms, and improving the business environment can unleash the region's growth potential. Embracing data openness and evidence-based policymaking can guide the path forward.

Businesses in MENA can build capacity by harnessing talent. Improvements in management practices can allow firms to better utilize their existing talent, paving the way for more innovation and growth. Experts tell us that management practices may account for about a third of the total factor productivity gap between the US and other economies.

The MENA private sector can harness the untapped talent of women by attracting more women business leaders. Like the rest of the world, firms in MENA managed by women are more likely to hire more women workers. This presents an opportunity. Having more women business leaders may be the tide that lifts all boats, as they provide the double dividend of having more women managers and workers. Policymakers can encourage women entrepreneurship by reforming discriminatory laws, supporting women's human capital development, and increasing market contestability that can create job opportunities for women while also serving as a countervailing force against discrimination.

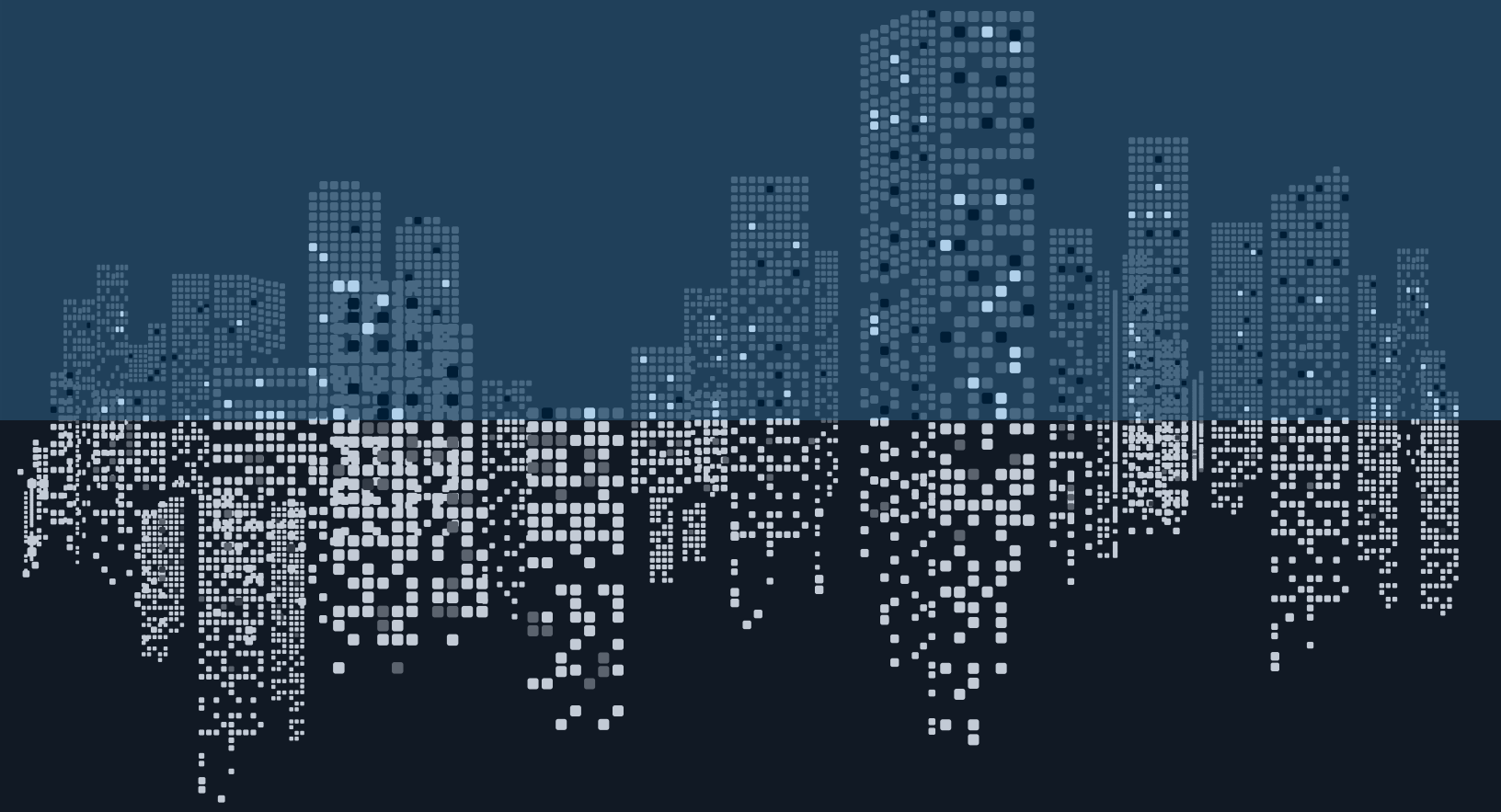
A brighter future for the MENA private sector is possible if governments embrace their role as stewards of competitive markets and firms better harness the wealth of talent across the region.

Ousmane Dione

Vice President
Middle East and North Africa Region
The World Bank

SHIFTING GEARS

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INTRODUCTION AND OVERVIEW OF FINDINGS

The global economy is facing heightened uncertainty, clouding economic forecasts. Growth in the Middle East and North Africa (MENA) averaged a modest 1.9 percent in 2024 and, as of April 8, 2025, is forecast to moderately accelerate to 2.6 percent in 2025 and 3.7 percent in 2026. These forecasts, however, are shrouded in uncertainty, given the potential impacts of changing trade dynamics on global growth, inflation, and oil markets. Conflict has dialed back development across the region, and the effects will remain for a long while after, compounding a history of chronic low growth. The region has low standards of living, with consumption per capita at only 19 percent of the frontier. Low total factor productivity accounts for between a third and a half of this gap. A dynamic private sector is essential to close it.

Businesses can fuel growth, generate jobs, improve livelihoods and serve as an engine of innovation in the economy. But overall, the private sector in MENA is not dynamic. Labor productivity growth is largely declining across the region. Few firms invest and innovate. There is little entry into and exit from markets. Moreover, a divide persists between a small formal private sector and a large informal sector. Notwithstanding increased schooling, with lower secondary education completion rates averaging around 70 percent, the region has long underused human capital. Women are largely left out of the labor market. As a result of these challenges, the private sector in MENA is ill prepared to deal with shocks such as conflict and extreme weather events, although there are hints that businesses adapt in the face of adversity.

To boost the performance of the private sector, governments in the region may need to rethink their role. Promoting competition in markets, levelling the playing field for private and state-affiliated firms, and fostering a business-friendly environment could go far toward unleashing the growth potential of the region. Embracing data openness and evidence-based policymaking could guide the path forward, including the constant evaluation of industrial policy, which is a topic of debate among policymakers and economists around the world. Businesses themselves can build capacity by improving their management practices. At the same time, harnessing the untapped talent of women entrepreneurs and workers could foster growth.

Regional growth prospects in uncertain times

In 2024, real GDP growth in MENA averaged a modest 1.9 percent—roughly the same rate as in 2023. These aggregate numbers mask differences within the region. Growth in Gulf Cooperation Council (GCC) countries picked up from 0.4 percent in 2023 to 1.9 percent in 2024. Oil prices and production fell sharply in 2023 leading to an almost standstill in growth, while the modest expansion in 2024 was driven by the non-oil sector in Saudi Arabia and the United Arab Emirates.

The upturn in GCC economies was offset by a slowdown in the rest of the region. In developing oil importing economies, growth decelerated sharply from 3.2 percent in 2023 to 1.9 percent in 2024, primarily due to slower growth in the Arab Republic of Egypt because of poor performance of the manufacturing sector, import restrictions, and reduced Suez Canal traffic. In developing oil exporters, the deceleration was even more pronounced—from 3.6 percent in 2023 to 1.9 percent in 2024, largely driven by the Islamic Republic of Iran as oil production plateaued.

As of April 8th, regional GDP growth is forecast to average 2.6 percent in 2025 and 3.7 percent in 2026. The region's oil exporters are expected to benefit from a gradual increase in oil production, while oil importers may gain from strong private consumption and easing inflation. These forecasts, however, are shrouded in uncertainty. Global policy uncertainty, subdued global demand, volatility in oil markets, and fragility pose risks to the projected pickup in the region's economic activity. Lower global demand may reduce oil export revenues adding pressure on oil exporters' fiscal and external accounts. Oil importers may benefit from lower oil prices. However, fall in remittances, along with worsening consumer confidence and investor sentiment, can lead to capital outflows, thereby straining their external balances. How global trade policy uncertainty plays out will have significant bearing on whether forecasts materialize.

Heightened trade policy uncertainty can have real effects. It could negatively impact private sector decisions, especially regarding investments, market entry and exit, and productivity. Vulnerability to trade shocks depends on several factors. Countries with significant oil exports are more vulnerable to developments in global oil markets, both through the impact of trade shocks on global demand and adjustments in supply. Economies that are more integrated into international markets are likely more vulnerable to trade shocks—even though trade liberalization and integration are typically associated with higher long-term growth, albeit with distributional effects. Vulnerability to trade shocks may also be higher when exports are concentrated in a few products or a few trading partners, as the lack of diversification limits the ability of the economy to absorb sector- or country-specific shocks. Changing global trade dynamics are likely to have a limited direct impact for several MENA economies, given existing trade patterns. However, indirect effects through global conditions, including oil prices, present significant downside risks. Pass-through effects from changing trade dynamics could slow down consumption. How uncertainty unfolds will depend on overall policy responses of other trading partners of the MENA region. In a longer time horizon, trade shocks faced by other countries could also affect MENA indirectly through trade reorientation. These effects may be negative or positive depending on the context. Amidst the uncertain global environment, existing challenges posed by conflict and fragility persist across several MENA economies.

Peace and recovery remain precarious

Conflict has undermined economic progress across MENA. The loss of human life and societal disruption are immeasurable and the economic impacts long lasting. No war-torn country in the region has fully recovered from the economic devastation of recent decades.

Economic losses from the recent conflict centered in Gaza are staggering. In 2024, real GDP in the Palestinian territories fell by 27 percent on average—83 percent in Gaza and 17 percent in the West Bank. Gaza's economic role in the overall Palestinian economy has been severely curtailed, shrinking its share from 17 percent before the conflict to 3.3 percent by the end of 2024—even though roughly 40 percent of the population of the Palestinian territories lives in Gaza. As of December 2024, nearly all of Gaza is in poverty. The poverty rate in the West Bank is 28.5 percent. In February, the World Bank, the United Nations, and the European Union, in a joint Interim Rapid Damage and Needs Assessment, estimated total recovery and reconstruction needs at US$53 billion. The economic outlook for the Palestinian territories remains highly uncertain.

In Lebanon, the election of a reform-oriented government in early 2025 ended more than two years of political paralysis. By the end of 2024, Lebanon's cumulative GDP decline since 2019 approached 40 percent, following five years of crises in the country. A World Bank Rapid Damage and Needs Assessment found that physical asset damage reached US$6.8 billion, economic losses totaled US$7.2 billion, and recovery and reconstruction costs amounted to US$11 billion.

In the Syrian Arab Republic, the end of former President Bashar al-Assad's regime in December 2024 has sparked a political transition after more than a decade-long conflict that displaced over half of the pre-war population. Nighttime light data indicate a modest decline in economic activity during the transition of control. Against this backdrop, GDP is projected to contract by 1 percent in 2025, following a 1.5 percent decline in 2024. Extreme poverty is forecast to continue to increase as GDP contracts.

Since 2000, real GDP per capita in the Republic of Yemen fell 59 percent. Most Yemenis have sunk into poverty and human capital has been severely eroded. By 2020, more than 40 percent of houses, 38 percent of health facilities, and 29 percent of transport infrastructure were damaged according to the World Bank's Rapid Damage and Needs Assessment. About 63 percent of Yemeni households reported inadequate food consumption according to the World Food Programme's Food Security Update (February 2025).

MENA's chronic low growth syndrome

Conflict is intertwined with a long history of sluggish economic growth in MENA. Since 2000, per capita GDP growth in MENA has been lower than its median income peers, already not a high bar. Much of this lackluster growth stems from the poor performance of the private sector.

MENA businesses are informal, unproductive, and ill prepared to face shocks

Productivity growth of the private sector in MENA is low and declining. Based on the latest data available from the World Bank Enterprise Surveys on formal firms, growth in sales per worker fell on average by 8 percent, which is far worse than in low-middle-income (-0.4 percent), upper-middle-income (0.4 percent) and high-income economies (2.4 percent). While differing widely across countries, ranging from -15 percent in Egypt to -1.2 percent in Morocco, sales per worker growth remains negative across the region. To boost productivity, investment in various inputs and innovation is critical. However, few firms invest or innovate. On average, about 21.7 percent of firms in MENA invest in physical capital, which is far less than income peers. About 14.5 percent of firms in MENA offer formal training, a form of investment in human capital, which is less than half the average of middle-income economies. Limited investment in physical and human capital go hand in hand with low rates of innovation in products and processes, as well as low spending on research and development (R&D).

The availability of firm-level data over multiple years in Morocco and Tunisia allows for a detailed productivity decomposition, pointing at diverging dynamics. In Morocco, the most productive firms do not grow to command a larger share of the market. However, increasing average technical efficiency—which means that firms are making more efficient use of factors of production—has contributed positively to labor productivity growth. In Tunisia, the opposite is the case. More productive firms do capture a larger share of the market, although low technical efficiency has hurt labor productivity growth. These observations underscore the need for high-quality firm data for a better understanding of the private sector.

Furthermore, two features of MENA economies likely contribute to weak productivity growth: the long-standing segmentation between formal and informal sectors and the exclusion of women from the workforce. Informality accounts for about 10 to 30 percent of total output and 40 to 80 percent of total employment. Data on informal firms are scarce. Surveys of Iraqi and Egyptian informal firms indicate that these businesses are on average less productive than formal

enterprises. However, in Iraq, unproductive informal firms coexist with productive ones, the latter likely being competitive with their formal peers. Policy actions targeting the informal sector should take this heterogeneity into account.

The region has the world's lowest rate of women in the workforce—at 18 percent, well below the world average of 49 percent in 2023. Research estimates that closing the gender employment gap would increase income per capita by around 50 percent in the typical MENA economy. Emerging evidence also shows that putting more women in leadership positions could bring more women into the workforce. In MENA, on average, the share of women workers in firms run by women is almost twice that in firms run by men, regardless of the sector of activity. Yet, MENA economies have fewer firms with female top managers than their income peers. Even in Saudi Arabia, which has implemented important reforms that have increased women's labor force participation, only 2.95 percent of firms have a female top manager—much lower than the high-income average of 18.7 percent.

Because of low growth and productivity, the MENA private sector is ill prepared to absorb shocks. Conflict has afflicted many economies in MENA. The region is also one of the most vulnerable to more frequent extreme weather events and natural disasters that come with high economic costs. These shocks severely disrupt and hinder business growth. However, evidence shows some degree of resilience and adaptation.

A better future for MENA's private sector

Both governments and businesses can play a part in developing a more dynamic private sector. Governments should reconsider their role and engagement with markets, including promoting contestability, improving business environment, and using industrial policy prudently. Investing in data collection and access is essential to understanding firm dynamics and effectively targeting policies. Businesses can further build their own capacity with two promising avenues: upgrading management practices and harnessing women's entrepreneurship.

The footprint of the state in MENA is large. Public sector employment diverts talent away from the private sector. State-owned enterprises (SOEs) dominate with significant advantages in sectors that are typically served by private businesses in other parts of the world. Competitive neutrality could go a long way in ensuring that SOEs and private sector firms are treated fairly. Poor business environment also hurts firms. More enterprises in MENA complain about political instability, corruption, onerous licensing, and permit procedures relative to income peers. Improving the regulatory framework, providing public services more efficiently, and reducing the cost of compliance with regulation are likely to boost the business environment. While industrial policy is gaining traction globally, it can have unintended consequences, especially if distortions are already prevalent in the economy. And getting it right is not easy. Significant government capacity is needed to identify the market failure to be addressed, credibly implement industrial policy, and evaluate the outcomes to course correct when needed. Data collection and use of evidence are critical for this phase. Given the extensive list of difficulties in industrial policy, the ideal approach may be to first handle existing distortions that affect the general economy, particularly in the current context of heightened trade policy uncertainty.

Improving administrative firm-level data availability and accessibility will also enable a more complete picture of the private sector and better inform government actions. Much of the analyses in this report and elsewhere comes from a limited sample of (primarily) formal firms or from a handful of countries in which more extensive data are available. By articulating clearly what is known and not known about the MENA private sector, this report hopes to galvanize efforts toward data openness and use for evidence-based policymaking.

In parallel, businesses can build capacity by harnessing talent. At the intensive margin, improvements in management practices—which have been shown to account for about a third of the total factor productivity gap between the United States and other economies—can pave the way for more innovation and growth. At the extensive margin, businesses can find more talent by attracting women leaders, who in turn will hire more women.

Worldwide, businesses are a key source of productivity growth, innovation and jobs. But in MENA, the private sector is not dynamic. With limited productivity growth and segmented markets, firms in MENA are ill prepared to absorb shocks such as those arising from conflict and extreme weather events. A brighter future for the MENA private sector is within reach if governments rethink their role and firms effectively harness talent.

PART I MACROECONOMIC OUTLOOK

Key messages

- The economic outlook for the Middle East and North Africa (MENA), as is the case globally, is shrouded in great uncertainty. This is due to the potential impacts of rapidly changing trade policy and commodity price dynamics on global growth and inflation trends.
- Growth in MENA remained tepid in 2024, settling at 1.9 percent, roughly at the same level as the year before. As of April 8, 2025, real GDP growth in MENA is expected to average 2.6 percent for 2025 and 3.7 percent for 2026.
- Economic activity in oil exporters is expected to benefit from the rollback of oil production cuts, despite recent additional downward pressure on the price of oil. For MENA oil importers, growth is forecast to pick up due to the rebound in the agricultural sector and strong private consumption as inflation is forecast to ease.
- For MENA countries in fragile and conflict-affected situations, prospects for peace and recovery remain precarious. In addition to the devastating human toll, massive economic losses will require significant investments in physical and human capital to reverse.

I.1 Rising uncertainty around the globe

Since the last edition of the MENA Economic Update in October 2024, global economic policy uncertainty has risen greatly (Figure I.1 Panel A).[1] This trend is dominated by the increase in trade policy uncertainty, which rose sixty-fold between September 2024 and March 2025 (Figure I.1 Panel B).[2] In addition to its direct impact on export and import flows, trade policy uncertainty can negatively affect private sector decisions, such as investments and market entry and exit (see Box I.1). Lower investment and disruptions to trade flows could, in turn, negatively impact growth rates in both the near and longer term (Box I.1 and IMF 2025). A dampening of global demand, in addition, could put further downward pressure on oil prices, with ripple effects on growth throughout the MENA region.

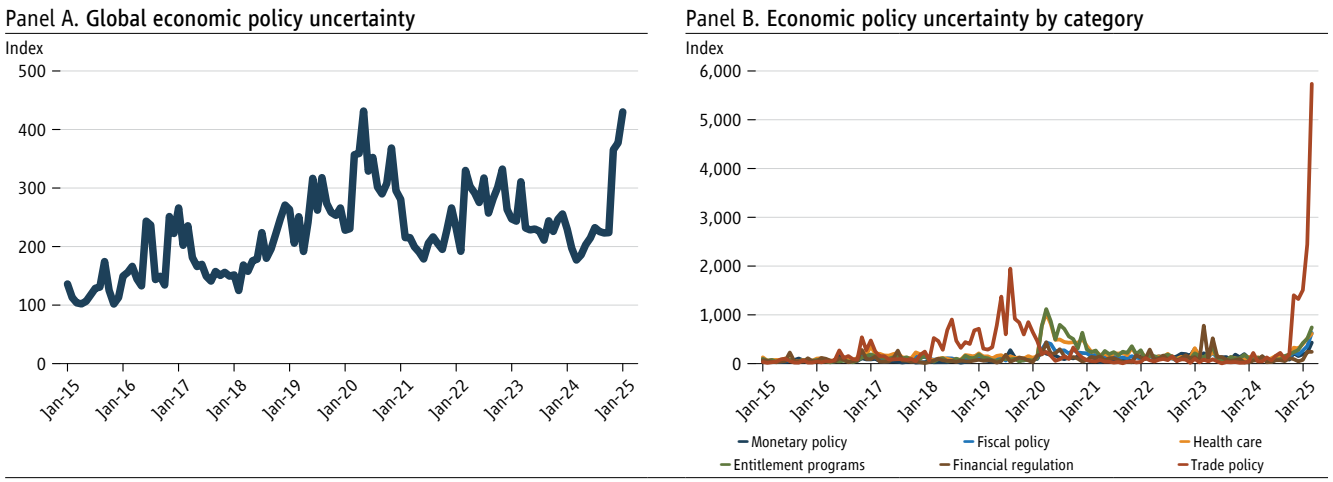
Energy prices dropped in 2024, driving down inflation globally (World Bank, 2025a), and this trend has continued in the early months of 2025. The benchmark Brent crude oil price in 2024 averaged US$80 per barrel, a modest decline from average prices in 2023. During the first quarter of 2025, oil prices fell precipitously from a peak of US$80 per barrel in mid-January to less than US$65 per barrel in early April 2025—the lowest levels recorded since 2021 (Figure I.2, Panel A). This recent drop can be attributed to two factors: first, the increasing global economic uncertainty due to a global trade policy landscape that is evolving almost daily; second, the expected rollback of OPEC+ oil production cuts, which was accelerated for the month of May, potentially underpinning the medium-term prospects of robust oil

1 The Global Economic Policy Uncertainty index is a GDP-weighted average of national Economic Policy Uncertainty indices for 21 countries: Australia, Brazil, Canada, Chile, China, Colombia, France, Germany, Greece, India, Ireland, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Sweden, the United Kingdom, and the United States. Each national Economic Policy Uncertainty index reflects the relative frequency of own-country newspaper articles that contains a trio of terms pertaining to the economy, policy and uncertainty. For more details refer to www.policyuncertainty.com.

2 The categorical Economic Policy Uncertainty indices are based on US newspaper coverage of policy-related economic uncertainty. For more details see Baker et. al (2016).

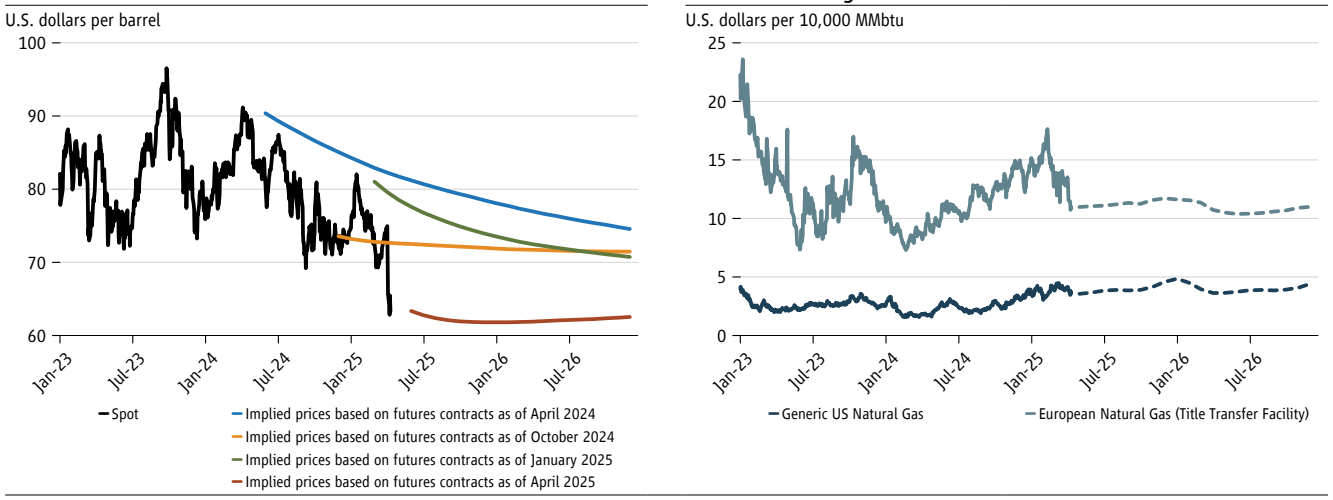
supply.[3] As of April 10, 2025, futures markets indicate that Brent crude oil prices are expected to remain low over the next two years with contracts trading at US$62.5 per barrel for delivery in December 2026. This is a relatively sharp drop from expectations during the previous year. The same futures contracts for delivery in December 2026 were trading at US$74.6 per barrel in April 2024 and at US$70.7 per barrel in January 2025 (Figure I.2, Panel A). On the other hand, U.S. and European natural gas futures point to a relatively stable price through 2026. (Figure I.2, Panel B).

Figure I.1 Economic policy uncertainty index



Source: Baker, Bloom and Davis, "Measuring Economic Policy Uncertainty," at www.PolicyUncertainty.com.
Note: The Global Economic Policy Uncertainty index is a GDP-weighted average of national Economic Policy Uncertainty indices for 21 countries: Australia, Brazil, Canada, Chile, China, Colombia, France, Germany, Greece, India, Ireland, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Sweden, the United Kingdom, and the United States. Each national Economic Policy Uncertainty index reflects the relative frequency of own-country newspaper articles that contains a trio of terms pertaining to the economy, policy and uncertainty. The categorical Economic Policy Uncertainty indices are a normalized index of the volume of US newspaper articles discussing economic policy uncertainty. For more details see Baker et.al (2016) and www.PolicyUncertainty.com.

Figure I.2 Oil and gas spot prices and futures



Sources: Bloomberg, L.P. and World Bank staff calculations.
Note: Panel A: The black lines indicate the spot price of generic Brent Crude Oil. The colored lines illustrate the futures prices on different dates (April 8, 2024; October 1, 2024; January 13, 2025 and April 10, 2025), with contract expiry dates on the x-axis. The latest observation for the future contracts is for December 2026. Panel B: The solid lines indicate the spot price of generic U.S. natural gas and European natural gas (Title Transfer Facility). The dotted lines illustrate the latest (as of April 10, 2025) futures prices for each commodity, with contract expiry dates on the x-axis.

3 The Organization of the Petroleum Exporting Countries (OPEC) is comprised of Algeria, Congo, Equatorial Guinea, Gabon, Iraq, the Islamic Republic of Iran, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, and Venezuela. OPEC+ refers to countries that have signed OPEC's Declaration of Cooperation which includes OPEC member countries plus Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan, and South Sudan. On December 5, 2024 OPEC announced a plan to gradually phase-out oil production cuts between April 2025 and September 2026. On April 3, 2025, OPEC announced that the schedule of the roll-back would be accelerated by increasing the agreed upon oil production quota for May 2025.

In short, uncertainty surrounding international trade policies and resulting trade volumes, a potential slowdown in global growth, and volatility in oil prices present significant downside risks to the near-term macroeconomic outlook for MENA economies.

Box I.1 The effects of trade policy uncertainty

Trade policy uncertainty impacts the economy through various channels. In their review, Handley and Limão (2022) mention that reduced uncertainty *increases exports and the number of exporters*. For example, the reduced uncertainty after Portugal joined the European Community in 1986 accounted for a substantial share of the observed growth in the number of exporting firms (61 percent) and export values (87 percent) (Handley and Limão, 2015). Similarly, Borchert and Ubaldo (2020) estimate that the reform of the European Union (EU)'s Generalized System of Preferences in 2014 that reduced uncertainty regarding the renewal of preferential tariffs for developing countries exporting to the EU increased exports by about 7 percent.

Increased trade policy uncertainty, as expected, has the opposite effects. Crowley et al. (2020) find that the uncertainty UK companies felt about trade rules with the EU after the Brexit vote, led to larger reductions in the number of UK firms specializing in products that risked higher tariffs. *Trade diversion* is another effect. Douch et al. (2019) found that UK firms that produce products facing higher future tariffs from the EU switched to exporting countries outside the EU instead.

Trade policy uncertainty can *increase producer prices directly* as firms delay costly investments to expand their production capacity, to upgrade their technology or facilitate their entry into additional export markets (Handley and Limão, 2017). In turn, the increase in producer prices will translate into *higher consumer prices*—the extent of which depends on the share of these goods in the consumption basket and on how much importers pass through the increased producer prices. Competition between domestically produced and imported goods also indirectly affects consumer prices. When trade policy is more predictable, more productive import-competing domestic firms further invest in technology and expand their market share against producers abroad, which leads to lower consumer prices.

Beyond raising prices, trade policy uncertainty can affect *how and where businesses source their raw materials and intermediate inputs*. Decisions to import and use foreign intermediate inputs could entail irreversible changes in production structures. Imbruno (2019) shows that reducing uncertainty via tariff bindings (agreements to keep a tariff at or below a certain level) boosts imports including imports of intermediate goods. The positive effects on sourcing of predictable trade policies can further improve aggregate productivity and lower production costs.

I.2 Modest growth in MENA in 2024, with an improving but uncertain outlook for 2025 and 2026

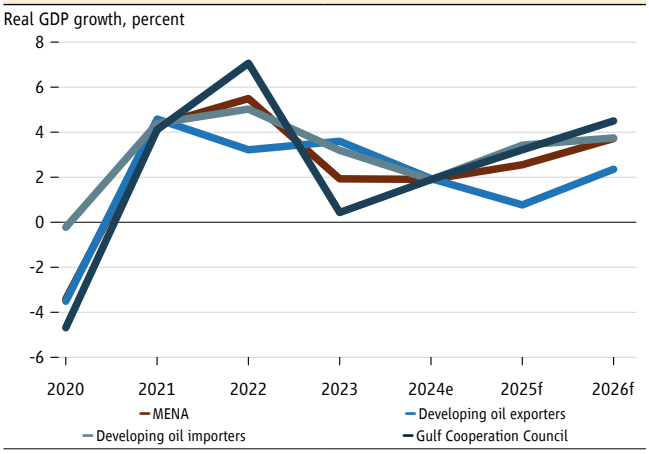
In 2024, the region as a whole grew at a modest 1.9 percent, roughly at the same rate as the year before.[4] As of April 8, 2025, real GDP growth in MENA is expected to moderately accelerate to 2.6 percent in 2025 and to 3.7 percent in 2026.[5] The current economic outlook for both oil importers and oil exporters in the region, however, is cast under an environment of elevated global policy uncertainty.

MENA's slow and uneven growth in 2024

Aggregate growth in MENA has been volatile over the past five years (Figure I.3). GDP contracted by 3.4 percent in 2020, expanded solidly during the next two years—by 4.3 percent in 2021 and 5.5 percent in 2022—and then slowed to 1.9 percent growth in 2023. In 2024, as in 2023, the region grew at 1.9 percent.

Aggregate growth numbers for 2024 mask differences within the region. Although growth in Gulf Cooperation Council countries (GCC—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates) picked up from 0.4 percent in 2023 to 1.9 percent in 2024, economic activity in other MENA economies slowed. In developing oil-importing economies (DOIs—Djibouti, the Arab Republic of Egypt, Jordan, Morocco, Tunisia, West Bank and Gaza)[6], growth decelerated from 3.2 percent in 2023 to 1.9 percent in 2024. In developing oil exporters (DOEs—Algeria, the Islamic Republic of Iran, Iraq, Libya) the deceleration was more pronounced—from 3.6 percent in 2023 to 1.9 percent in 2024.

Figure I.3 MENA subgroups GDP growth



Source: April 2025 *Macro Poverty Outlook*.
Note: e = estimate, f = forecast. Developing Oil Exporters = Algeria, the Islamic Republic of Iran, Iraq and Libya. Developing Oil Importers = Djibouti, the Arab Republic of Egypt, Jordan, Morocco, Tunisia and the West Bank and Gaza. Gulf Cooperation Council = Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Aggregates exclude Lebanon, Syrian Arab Republic and the Republic of Yemen due to high degree of uncertainty for these countries.

Different reasons underpin these divergent dynamics in 2024. GCC members' growth revived from near stagnation in 2023—when oil prices and exports fell sharply—to modest expansion in 2024, despite continuing oil production cuts (see Appendix). The non-oil sector in Saudi Arabia and the United Arab Emirates was the key driver of growth in 2024, as the oil sector was constrained by voluntary reductions in crude oil output under OPEC+ agreements.

A combination of continuing structural challenges and current shocks underlaid the economic slowdown in oil importers (Figure I.3). In the Arab Republic of Egypt, for example, weak performance of the manufacturing sector, import restrictions, and reduced traffic through the Suez Canal contributed to slowing economic growth in its 2024 Fiscal Year (FY).[7] In Morocco, the sixth consecutive year of drought weighed on the agriculture sector, which contracted by

4 Regional aggregate growth rates are weighted by GDP and include Algeria, Bahrain, Djibouti, the Arab Republic of Egypt, the Islamic Republic of Iran, Iraq, Jordan, Kuwait, Libya, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, the United Arab Emirates and West Bank and Gaza. They exclude Lebanon, Syrian Arab Republic and the Republic of Yemen due to high degree of uncertainty for these countries.
5 World Bank's April Macro Poverty Outlook (World Bank, 2025b).
6 Lebanon, Syrian Arab Republic and the Republic of Yemen are excluded in the calculation of these averages due to high degree of uncertainty for these countries.
7 The Arab Republic of Egypt fiscal year starts in July and ends in June of the following year. For example, FY 2025 starts in July 2024 and ends in June 2025.

2.8 percent in 2024. Economic growth remained modest in Tunisia in 2024 at 1.4 percent, as continued droughts and low domestic and external demand weighed on economic activity.

Oil sector developments shaped the sharp deceleration experienced in 2024 in DOEs (Figure I.3). Oil production plateaued in 2024 in the Islamic Republic of Iran. Voluntary production cuts constrained the oil sectors in Iraq and Algeria per OPEC+ agreements.[8] In Libya, despite the resumption of oil production in the last quarter of 2024, average oil output for the year was 6 percent lower than the 2023 level.

An improving but uncertain outlook for 2025 and 2026 for both oil importers and oil exporters

As of April 8, 2025, real GDP in MENA is expected to moderately accelerate in 2025 and 2026 (Figure I.3). According to the World Bank's Macro Poverty Outlook, the region's aggregate GDP growth rate in 2025 is forecast at 2.6 percent, with member countries of the GCC forecast to grow by 3.2 percent, developing oil exporters by 0.8 percent, and developing oil importers by 3.4 percent (Figure I.3).[9] In 2026, real GDP is projected to grow by 4.5 percent among GCC economies, by 2.4 percent among developing oil exporters, and by 3.7 among developing oil importers.

Despite downward pressures on oil prices, economic activity in Algeria, Iraq, Kuwait, Oman, Saudi Arabia, and the United Arab Emirates is likely to benefit from gradual increase in oil production planned by the OPEC+ between April 2025 and September 2026. After multiple delays in the rollback of production cuts since they were first announced (see Appendix), on April 3, 2025, OPEC declared that it would accelerate the rollback schedule for the month of May 2025.[10]

Country-specific developments shape the distinct growth trajectories of oil exporting countries. Diversification efforts will continue to expand non-oil sectors, especially in the case of Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Completion of BAPCO refinery upgrades and oil production recovery should also increase the growth rate in Bahrain. Economic growth in Qatar is forecast to accelerate modestly in 2025 with a more noticeable pickup in 2026, as expanded liquified natural gas capacity comes online. Conversely, the oil sector in the Islamic Republic of Iran is expected to contract in FY 2025, which, combined with a projected non-oil GDP contraction due to lower oil prices and energy shortages, will lead to a significant slowdown in growth.[11]

As in oil exporters, growth in oil-importing economies is also expected to pick up. In the Arab Republic of Egypt, GDP growth is forecast to increase from 2.4 percent in FY 2024 to 3.8 percent in FY 2025, driven by strong private consumption as inflation eases. A rebound in the agricultural sector in 2025 is expected to sustain growth at 3.4 percent and 1.9 percent in Morocco and Tunisia, respectively, under the assumption of improving rainfall.

Weather shocks like the continuing drought in Morocco and Tunisia, volatility in global oil markets, fragility, a potential slowdown in global demand, and increased global policy uncertainty all pose risks to the projected pickup in economic activity in the region. Subdued global demand and volatility in oil markets would present a significant downside risk for the economic growth of oil exporters, even with increased production. Decreased oil export revenues would add pressure on their fiscal and external accounts. Conversely, for oil importers, lower oil prices could partially cushion other potential

8 OPEC+ comprises the members of the Organization of the Petroleum Exporting Countries (Algeria, Congo, Equatorial Guinea, Gabon, the Islamic Republic of Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, Venezuela) plus 10 other oil exporters that have signed the Declaration of Cooperation.

9 Source: World Bank's Macro Poverty Outlook available at https://www.worldbank.org/en/publication/macro-poverty-outlook.

10 Note, however, that OPEC's earlier press release indicates that the gradual increase in oil production "may be paused or reversed subject to market conditions."

11 The Iranian fiscal year 2025 runs from March 21/22, 2025 to March 20/21, 2026.

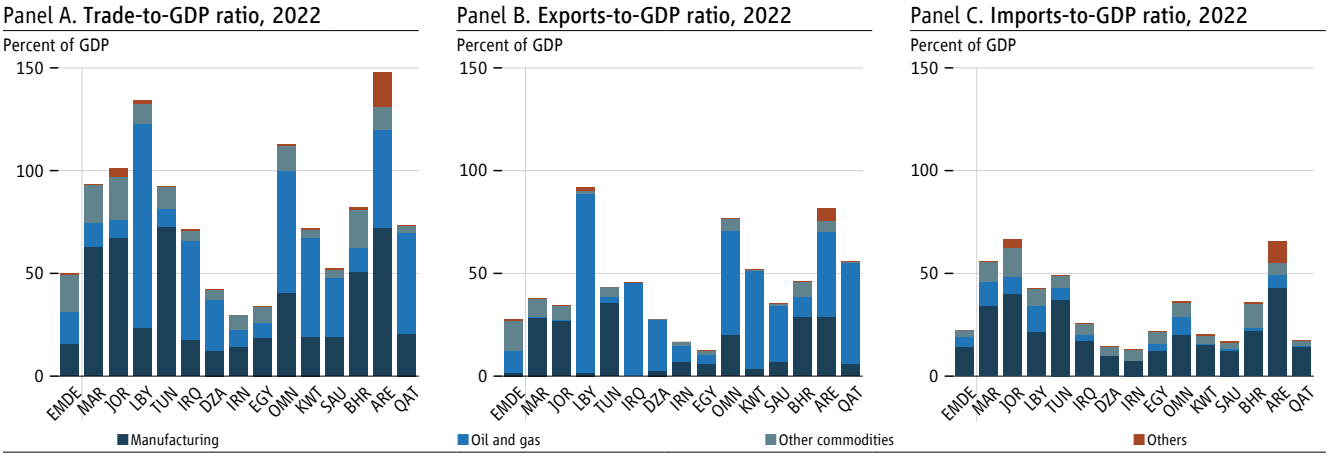
negative impacts on their terms of trade. However, the prospect of lower remittances, sent by their workers in the GCC countries, along with worsening consumer confidence and investor sentiment, potentially leading to capital outflows, could strain their external balances and exacerbate concerns about foreign exchange liquidity. In addition, in Djibouti, a dampening of import demand could significantly reduce port traffic.

Table I.1 MENA GDP growth forecasts

	April 2025 forecasts			Changes since October 2024		
	2024e	2025f	2026f	2024e	2025f	2026f
Percent						
MENA	**1.9**	**2.6**	**3.7**	**-0.1**	**-1.3**	**-0.4**
Middle-Income MENA	**1.9**	**1.9**	**3.0**	**-0.1**	**-1.7**	**-0.8**
Oil Exporters	**1.9**	**2.3**	**3.7**	**0.0**	**-1.7**	**-0.5**
Gulf Cooperation Council	**1.9**	**3.2**	**4.5**	**0.0**	**-0.9**	**0.1**
Qatar	2.6	2.4	5.4	0.5	-0.3	-0.1
United Arab Emirates	3.9	4.6	4.9	0.6	0.5	0.8
Bahrain	3.0	3.5	3.0	-0.5	0.2	-0.3
Saudi Arabia	1.3	2.8	4.5	-0.3	-2.2	-0.3
Kuwait	-2.9	2.2	2.7	-2.0	-0.3	-0.1
Oman	1.7	3.0	3.7	1.0	0.3	0.5
Developing Oil Exporters	**1.9**	**0.8**	**2.4**	**0.0**	**-2.9**	**-1.4**
Libya	-2.9	12.3	6.4	7.2	1.6	-6.7
Islamic Republic of Iran	3.0	-1.6	0.6	-0.6	-4.4	-1.7
Algeria	3.3	3.2	3.1	0.1	-0.6	-0.2
Iraq	-1.5	1.3	5.3	-0.6	-2.6	-0.5
Developing Oil Importers	**1.9**	**3.4**	**3.7**	**-0.2**	**0.0**	**-0.1**
Arab Republic of Egypt	2.4	3.8	4.2	-0.1	0.3	0.0
Tunisia	1.4	1.9	1.6	0.2	-0.3	-0.6
Jordan	2.4	2.4	2.5	0.1	-0.2	-0.1
Morocco	3.2	3.4	3.3	0.3	-0.5	0.0
Djibouti	6.0	5.2	5.1	0.0	-0.1	0.3
West Bank and Gaza	-26.6	-1.6	4.0	-9.5	-7.1	-0.1
Economies not Included in Aggregates						
Lebanon	-7.1	4.7	N/A	-6.1	N/A	N/A
Republic of Yemen	-1.5	-1.5	0.5	-0.5	-3.0	N/A
Syrian Arab Republic	-1.5	-1.0	N/A	0.0	0.0	N/A

Source: World Bank staff calculations based on data from the World Bank's *Macro Poverty Outlook*, April 2025 and October 2024.
Note: e = estimate, f = forecast and N/A = not available. Countries are listed in descending order based on 2023 GDP per capita (constant 2021 PPP$) within each category. Data are rounded up to a single digit. Data for the Arab Republic of Egypt are for fiscal years (beginning on July 1 and ending June 30), and for the Islamic Republic of Iran (beginning March 21/22 and ending March 20/21). Lebanon, the Syrian Arab Republic, and the Republic of Yemen are not included in MENA regional and sub-regional averages because of uncertain values. Middle-Income MENA = Algeria, the Arab Republic of Egypt, Djibouti, the Islamic Republic of Iran, Iraq, Jordan, Libya, Morocco, Tunisia, the West Bank and Gaza. The macroeconomic forecasts for Iraq presented here are based on the World Bank estimates of real GDP at constant market prices. For the years between 2024 and 2026, real GDP growth rates for Iraq at constant market prices are identical to those at constant factor prices. Real GDP growth regional and sub-regional weighted averages are calculated using previous year real GDP as weights. Numbers are updated as of April 8, 2025.

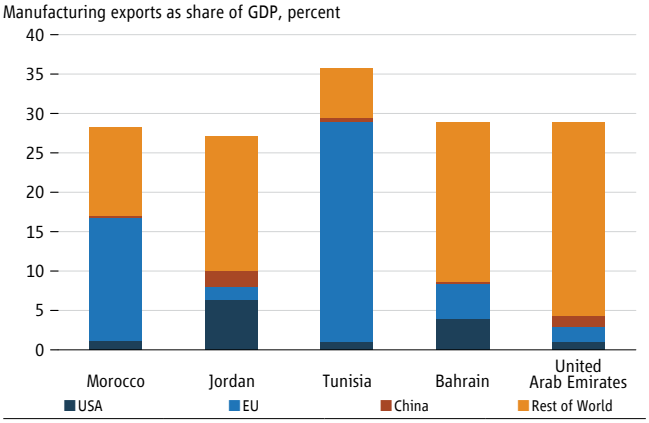
Figure I.4 Trade composition in the Middle East and North Africa



Sources: World Bank staff calculations based on data from Base pour l'Analyse du Commerce International (BACI) from Centre d'Etudes Prospectives et d'Informations Internationales (CEPII). World Bank, *World Development Indicators*.
Note: EMDE = emerging market and developing economy. DZA= Algeria. BHR = Bahrain. EGY = the Arab Republic of Egypt. IRQ = Iraq. IRN = the Islamic Republic of Iran. JOR = Jordan. KWT= Kuwait. LBN = Lebanon. MAR = Morocco. OMN = Oman. QAT = Qatar. SAU = Saudi Arabia. SYR = the Syrian Arab Republic. TUN = Tunisia. YEM = the Republic of Yemen. ARE = United Arab Emirates. Some MENA countries are excluded from the analysis due to significant discrepancies between national data and BACI. The figure shows total trade, exports and imports as a share of GDP for countries in the Middle East and North Africa and for the median EMDE. Total trade is divided into four sub-categories: manufacturing; oil and gas; other commodities; others. These categories originate from SITC rev. 4 (Standard International Trade Classification, Revision 4). As per Eurostat definition, manufacturing trade includes SITC sections 5, 6, 7 and 8. Oil includes Section 3. Other commodities include Sections 0, 1, 2 and 4. Other goods correspond to Section 9. Countries are ordered in ascending 2022 GDP per capita (2021 PPP$). The median EMDE is the country with the median total trade as a percentage of GDP among EMDEs. Figures for some countries may differ from other sources of data due to CEPII's procedures to reconcile the declarations of exporter and importer countries in United Nations COMTRADE data, thus providing a more accurate measure of trade flows for analytical purposes. For more information on these adjustment procedures, see https://www.cepii.fr/PDF_PUB/wp/2010/wp2010-23.pdf.

In the near term, lower demand from major destinations could negatively affect those MENA exporters that are better integrated into international markets, even if the direct impact of trade policy changes is comparatively modest. In terms of volume, MENA countries trade more than the median EMDE. Trade (imports plus exports) as a share of GDP averages 69 percent in the region compared to about 50 percent among EMDEs, excluding MENA (Figure I.4, Panel A). For most MENA countries, exports as a share of GDP also exceeds the EMDE median. Oil dominates the exports in GCC countries and other oil exporters (Figure I.4, Panel B), whereas MENA oil importers tend to export manufactured products. In Jordan, Morocco, and Tunisia, manufacturing accounts for around 75 percent of total exports. The United Arab Emirates, Bahrain, and Oman, even though they are major oil exporters, also export manufactured goods worth more than 20 percent of their GDP. Manufactured goods are the dominant imports in all countries in the region (Figure I.4, Panel C).

Figure I.5 Manufacturing exports to selected destinations as a share of GDP, 2022



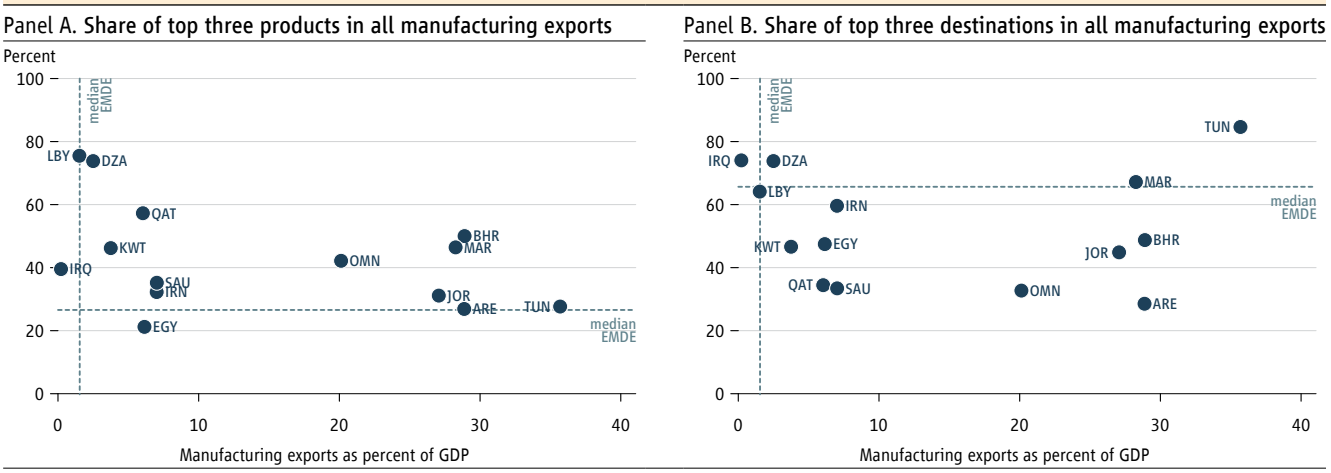
Source: World Bank staff calculations based on data from BACI-CEPII. World Bank, World Development Indicators.
Note: JOR = Jordan. MAR = Morocco. ARE = United Arab Emirates. BHR = Bahrain. TUN = Tunisia. USA = United States of America. EU = European Union. China = People's Republic of China. The figure shows the composition of manufacturing exports as a share of GDP by destination for five MENA countries. Only MENA countries with total manufacturing export exceeding 25% of GDP are shown. Goods are classified from SITC rev. 4 (Standard International Trade Classification, Revision 4). As per Eurostat definition, manufacturing trade includes SITC sections 5, 6, 7 and 8. Countries are ordered in ascending 2022 GDP per capita (2021 PPP$). Figures for some countries may differ from other sources of data due to CEPII's procedures to reconcile the declarations of exporter and importer countries in United Nations COMTRADE data, thus providing a more accurate measure of trade flows for analytical purposes. For more information on these adjustment procedures, see https://www.cepii.fr/PDF_PUB/wp/2010/wp2010-23.pdf.

Among MENA countries where manufacturing exports exceed 25 percent of GDP, the share of exports that could be directly affected by changes in trade policies is comparatively small (Figure I.5). Even in Bahrain, where some non-oil commodities could be impacted, the share of some major destination markets remains small. Conversely, the potential effects of lower demand from specific partners may be more important, especially for economies like Morocco and Tunisia with extensive trade with countries in the European Union.

Navigating vulnerability and efficiency in exposure to shocks

Integration into global markets offers benefits but also presents challenges for economies. The ability to specialize in sectors where countries have a comparative advantage can lead to a more efficient global resource allocation, overall productivity and wage gains, as well as job creation. Through these channels, trade liberalization and integration are typically associated with higher long-term growth and economic development. However, integration can also have a negative impact on employment and wages in sectors more exposed to import competition. In many countries, these tend to be the industries that are more intensive on unskilled labor (Utar and Torres Ruiz, 2013 and Autor et al., 2016). Moreover, integration into international markets could make economies more vulnerable to the immediate impacts of shifting trade dynamics and global trends (Rodrik, 1998), especially when exports are concentrated in a few sectors or with a few trading partners. Lack of diversification might limit an economy's ability to manage sector- or country-specific shocks.

Figure I.6 Indicators of specialization of manufacturing exports in the Middle East and North Africa

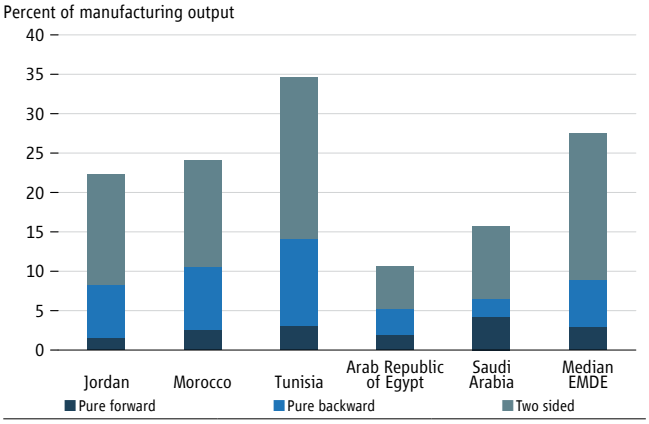


Source: World Bank staff calculations based on data from Base pour l'Analyse du Commerce International (BACI) from CEPII.
Notes: EMDE = emerging market and developing economies. DZA= Algeria. BHR = Bahrain. EGY = the Arab Republic of Egypt. IRQ = Iraq. IRN = the Islamic Republic of Iran. JOR = Jordan. KWT= Kuwait. LBN = Lebanon. MAR = Morocco. OMN = Oman. QAT = Qatar. SAU = Saudi Arabia. SYR = the Syrian Arab Republic. TUN = Tunisia. YEM = the Republic of Yemen. ARE = United Arab Emirates. Some MENA countries are excluded from the analysis due to significant discrepancies between national data and BACI. Manufacturing product classification category originate from SITC rev. 4 (Standard International Trade Classification, Revision 4). As per Eurostat definition, manufacturing trade includes SITC sections 5, 6, 7 and 8. The median EMDE is the country with the median total trade as a percentage of GDP among EMDEs.
Panel A. Vertical axis is the combined share of the three most exported manufacturing (four-digit) products as the share of total manufacturing exports. Panel B. Vertical axis is the combined share of top three manufacturing export destination countries as the share of total manufacturing exports. The European Union is treated as one destination country in calculating the country shares. Figures for some countries may differ from other sources of data due to CEPII's procedures to reconcile the declarations of exporter and importer countries in United Nations COMTRADE data, thus providing a more accurate measure of trade flows for analytical purposes. For more information on these adjustment procedures, see https://www.cepii.fr/PDF_PUB/wp/2010/wp2010-23.pdf.

Panel A in Figure I.6 shows the combined share of the top three products (within total manufacturing exports) for the MENA countries as a measure of their manufacturing export concentration. Tunisia, Jordan, and the United Arab Emirates are among the leading manufacturing exporters, with manufacturing exports accounting for 25 to 40 percent of GDP. They are well diversified, with the top three products comprising only around 30 percent of all manufacturing exports. In contrast, Bahrain and Morocco have similar shares of manufacturing goods exports relative to their GDP, but their exports are more concentrated, making them comparatively more vulnerable to shocks. At the other extreme, Libya has the least diversified manufacturing export portfolio, with three products accounting for almost 80 percent of all manufacturing exports. However, manufacturing exports only amount to less than 5 percent of GDP, moderating the overall impact of trade vulnerability.

Another critical factor is the concentration of export destinations. For example, although Tunisia's export product portfolio is quite diversified, its destination markets are less so, with the three largest destinations accounting for more than 80 percent of all manufactured exports (Figure 1.6 Panel B). Morocco is slightly more diversified than Tunisia in terms of destination markets, but still less than the median EMDE. Other major manufacturing exporters have a more diversified pool of manufacturing export destinations, with the top three partners accounting for between 25 to 50 percent of manufactured exports.

Figure I.7 Manufacturing output participation in global value chains



Source: World Integrated Trade Solution.
Note: GVC = global value chain. The figure shows all MENA countries where the indicator of participation in GVC is available. Pure forward GVC output consists of value-added produced by sector *n* that is sold abroad—directly by *n*, or indirectly through other sectors that are part of the same domestic value chains—and subsequently re-exported by the partner country *r*, hence crossing two borders or more. Pure backward GVC output is defined as imported inputs bought by a sector *n* directly from abroad or indirectly through domestic chains that are embedded in sector *n*'s final goods production. While pure forward and pure backward GVC output pertain to activities at the origin—value-added creation—or at the end—final goods production—of a value chain, two-sided GVC output is found in all the other activities in an intermediate position. Countries are ordered in ascending 2023 GDP per capita (2021 PPP$). The median values for each type of GVC participation is shown in the Median EMDE category.

The emergence of Global Value Chains (GVCs) has been a defining feature of trade integration over the last decades. In a GVC, each country specializes in a different stage of the production network, rather than different products altogether. This specialization creates potential efficiency gains but also generates vulnerabilities since countries will now be exposed to a wider set of shocks that affect portions of the production chain. Some countries in MENA, such as Saudi Arabia and the Arab Republic of Egypt, are less integrated into GVCs than the typical economy, whereas others, such as Jordan and Morocco, are closer to the global norm. Tunisia is comparatively more integrated into GVCs than the median country in the world (Figure I.7). Morocco's and Tunisia's integration into GVCs occurs disproportionately in the production of final goods using foreign inputs, which is known as "backward linkages."[12] In both Morocco and Tunisia, textile and leather goods producers are the dominant participants in GVCs. In addition, the automotive industry is also integrated into GVCs at the end of the value chain. In Saudi Arabia, despite its relatively low integration into GVCs, the economy has comparatively high "pure forward linkages"—that is, it exports intermediate goods, mainly coke, refined petroleum products, and chemical products.

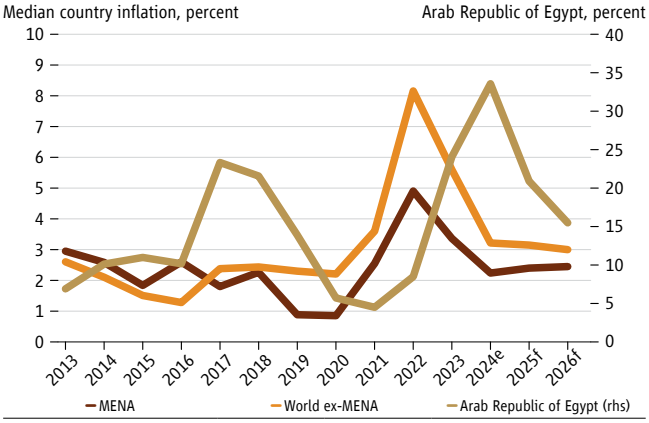
While MENA economies trade more than the median EMDE and firms in some countries participate in GVCs, existing analysis shows that there is potential for greater international trade. Estimates from a gravity model show that manufacturing exports could be 2 to 5 times larger in some MENA countries (Gatti et al. 2025).[13] Therefore, reorientation of global trade patterns could present some opportunities for MENA countries in key products or critical parts of different value chains, further leveraging their proximity to the large markets in the European Union. How these shifts unfold will depend on the global economy as well as the policy responses of the main trading partners of the MENA economies.

Rising trade policy uncertainty is but the latest of a sequence of shocks to which governments in the region have been pressed to respond. As they navigate current challenges, policymakers must not lose sight of the long-term fundamental reforms needed to make their economies more resilient.

12 Borin et. al. (2021) propose a tripartite classification of GVC involvement—backward, forward, and two-sided.
13 The gravity model controls for various determinants of trade volume, including the size of partner economies (measured by GDP), geographical distance and contiguity, whether the countries share a common language or colonizer, and existence of free trade agreements. The model predicts potential trade volumes which are estimates of bilateral trade flows given these conditions.

I.3 Inflationary pressures moderating in the region but with increased risks to the upside

Figure I.8 Median inflation in the MENA region and the world economy

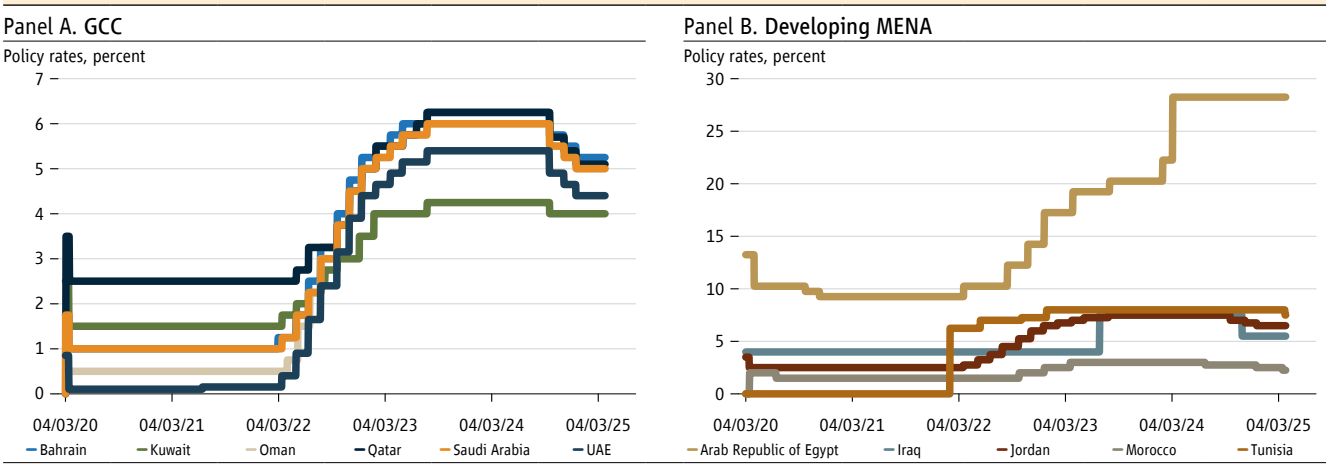


Source: Authors' calculations based on the April 2025 *Macro Poverty Outlook*.
Note: e = estimate, f = forecast. MENA = Middle East and North Africa (sample comprises Algeria, Bahrain, Djibouti, the Arab Republic of Egypt, the Islamic Republic of Iran, Iraq, Jordan, Kuwait, Libya, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, West Bank and Gaza and the United Arab Emirates—and exclude Lebanon, Syrian Arab Republic and the Republic of Yemen due to high uncertainty about forecasts for these countries). World = 170 countries, excluding the 16 MENA countries. Data for the Arab Republic of Egypt are for fiscal years (beginning on July 1 and ending June 30), and for the Islamic Republic of Iran (beginning March 21/22 and ending March 20/21).

During 2024, inflationary pressures continued to moderate in the region, tracking inflation trends in the rest of the world (Figure I.8). The median rate of inflation in MENA fell from 3.4 percent in 2023 to 2.2 percent in 2024. As of April 8, inflation is forecast to stabilize at 2.4 percent in 2025, according to the World Bank's Macro Poverty Outlook. These forecasts, however, are also affected by the increased uncertainty surrounding changing global trade dynamics.

Among MENA oil importers, the median rate of inflation decreased from 6 percent in 2023 to 4.6 percent in 2024, helping boost domestic demand. For 2025, the forecast is almost a percentage point lower at 3.6 percent (Table I.2). The decline reflects sharp increases in policy rates (Figure I.9 Panel B) aided by lower global energy and food prices.

Figure I.9 MENA policy rates



Source: Central Bank websites.
Note: GCC = Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates). MENA = Middle East and North Africa. Developing MENA = Algeria, the Arab Republic of Egypt, the Islamic Republic of Iran, Iraq, Jordan, Lebanon, Libya, Morocco, the Syrian Arab Republic, Tunisia, West Bank and Gaza, the Republic of Yemen. Values as of April 8, 2025.

In the Arab Republic of Egypt, headline urban inflation has eased, after peaking in the third quarter of 2023 at 37.3 percent, but remains in double digits at 12.8 percent (February 2025). Exchange rate adjustments earlier in 2024 combined with high policy rates contributed to anchoring inflation expectations. Favorable base effects will continue to play a role in the year-on-year drop in inflation. The forecast for inflation for fiscal year 2025 at 20.9 percent is about two-thirds of the average rate in fiscal year 2024 (Figure I.8). Similarly, inflation in Tunisia continued to moderate since the peak of February 2023, declining to 5.7 percent in February 2025 with a forecast of 5.5 percent for 2025. Inflation,

however, remains slightly above the pre-pandemic average (4.2 percent). In Morocco, inflation declined sharply in 2024 to 0.9 percent from 6.1 percent the year prior, which has allowed Bank al-Maghrib to cut the policy rate to 2.25 percent. Inflation is projected to remain contained.

Inflationary pressures have also been receding in MENA oil exporters. Among developing oil exporters, the deceleration was especially strong in Algeria, where inflation decreased from 9.3 percent in 2023 to 4.0 percent in 2024. A stable dinar coupled with the acceleration of agricultural production, the expansion of subsidies, the moderation of import prices, and the removal of import restrictions on many products were the main factors. In GCC economies inflation expectations remain contained with projections hovering at 2 percent.

Uncertainty surrounding trade policy, however, could reignite inflationary pressures in the region. Potential negative shocks to terms of trade from supply chain disruptions may directly feed inflationary pressures, which would be moderated if global economic activity slows down. Among oil importers, in addition, strains on their external accounts, and specifically concerns about their foreign exchange liquidity, could pass-through into domestic inflation, but this could be mitigated by declines in energy prices.

Table I.2 Inflation in the Middle East and North Africa, by economy, 2022–2026f

	2022	2023	2024e	2025f	2026f
MENA	**4.9**	**3.4**	**2.2**	**2.4**	**2.3**
Gulf Cooperation Council	**3.8**	**2.0**	**1.6**	**2.0**	**2.1**
Qatar	5.0	3.1	1.1	1.5	1.9
United Arab Emirates	4.8	1.6	2.3	2.2	2.1
Bahrain	3.6	0.1	0.9	1.8	2.2
Saudi Arabia	2.5	2.3	2.1	2.3	2.2
Kuwait	4.0	3.6	3.0	2.5	2.3
Oman	2.5	0.9	1.0	1.6	2.0
Developing oil exporters	**7.1**	**6.9**	**3.3**	**4.2**	**3.9**
Libya	4.6	2.3	2.1	3.6	2.5
Islamic Republic of Iran	46.5	52.3	35.4	42.0	43.2
Algeria	9.3	9.3	4.0	4.3	4.1
Iraq	5.0	4.4	2.5	4.0	3.7
Developing oil importers	**5.9**	**6.0**	**4.6**	**3.6**	**2.7**
Arab Republic of Egypt	8.5	24.1	33.6	20.9	15.5
Tunisia	8.3	9.3	7.0	5.5	5.0
Jordan	4.2	2.1	1.6	2.2	2.4
Morocco	6.6	6.1	0.9	2.0	1.8
Djibouti	5.1	1.4	2.2	2.1	2.0
West Bank and Gaza	3.7	5.9	53.7	5.0	3.0
Economies not Included in Aggregates					
Lebanon	171.2	221.3	45.2	15.2	N/A
Republic of Yemen	29.5	0.9	30.4	20.2	16.1
Syrian Arab Republic	63.7	127.8	58.1	19.7	N/A

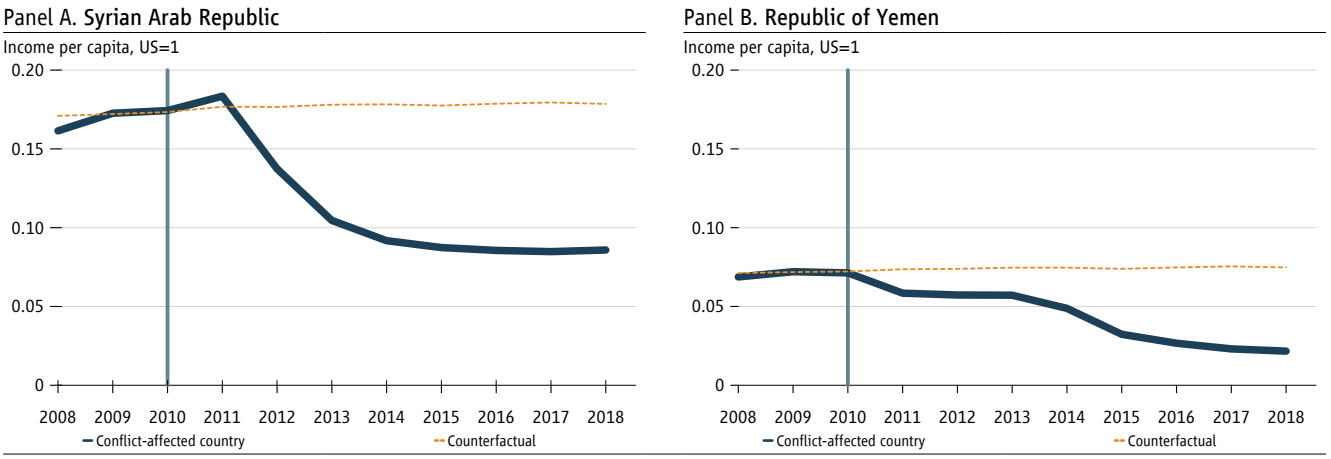
Source: World Bank, *Macro and Poverty Outlook*, April 2025.
Note: e = estimate, f = forecast, N/A = not available. Numbers for subgroups (Gulf Cooperation Council, Developing Oil Exporters, Developing Oil Importers) are the median of the countries within each group. Entries for countries under Economies Not Included in Aggregates are subject to high degree of uncertainty. These economies are excluded from subgroup aggregates. Data for the Arab Republic of Egypt are for fiscal years (beginning on July 1 and ending June 30), and for the Islamic Republic of Iran (beginning March 21/22 and ending March 20/21).

I.4 Precarious prospects for peace and recovery[14]

Conflict as development in reverse

Conflict has been referred to as "development in reverse" (Collier et al. 2003) because of its power to undo decades of economic progress and its long-lasting detrimental effects. For example, real GDP per capita (measured in 2015 constant dollars) plunged 43 percent in the Syrian Arab Republic and 59 percent in the Republic of Yemen since 2000.[15] Using synthetic control methods, Gatti et al. (2024a) find that per-capita income in the Syrian Arab Republic could have been twice as high as it was in 2018 if there had not been a conflict. (Figure I.10 Panel A). Similarly, their analysis suggests that per capita income in 2018 could have been three times higher in the Republic of Yemen had the crisis of 2011 not occurred (Figure I.10 Panel B).

Figure I.10 Counterfactual estimates of income per capita around selected conflict events



Source: Reproduced from Gatti et al. (2024a).
Notes: To determine what the standard of living would be in a country in conflict were there no conflict, economists construct a group of countries that were so similar to the conflict country before the crisis that taken together, their standards of living could reasonably proxy what would have happened in the conflict country. These so-called synthetic control groups are based on a weighted average of five variables. In both Panels, weights are chosen to match the five variables: 1) growth rates three years prior to the conflict; 2) in the year prior to the conflict, income per capita relative to the frontier; 3) trade openness in the year prior to the conflict; 4) the exposure to terms-of-trade shock in the year prior to the conflict; 5) the share of investment-to-GDP in the year prior to the conflict. Because data were unavailable, Panel A excludes the share of investment-to-GDP. For the Syrian Arab Republic, the top countries in the synthetic control group are Bangladesh (0.17), Burundi (0.06), Niger (0.02), and Uganda (0.02), and Mozambique (0.02). For the Republic of Yemen, the top countries in the synthetic control group are Guinea (0.27), Burundi (0.23), Mozambique (0.12), Haiti (0.06), and Guinea-Bissau (0.02).

The cost of conflict, however, transcends what economic indicators can capture. In addition to hundreds of thousands of casualties, the conflict in the Syrian Arab Republic has triggered one of the largest waves of displacement since World War II, affecting more than half of the country's pre-war population. As of December 2024, there were around 5.5 million Syrian refugees in Türkiye, Lebanon, Jordan, Iraq, and the Arab Republic of Egypt, and 1.2 million in the European Union.[16] Extreme poverty, almost non-existent before the war, affected more than one in four Syrians in 2022, and 67 percent of the population lived in poverty using the international poverty line of $3.65 per person per day.[17] In the Republic of Yemen, by 2020, about 40 percent of houses, 38 percent of health facilities, and 29 percent of transport infrastructure were damaged according to the World Bank's Rapid Damage and Needs Assessment.[18] In 2025,

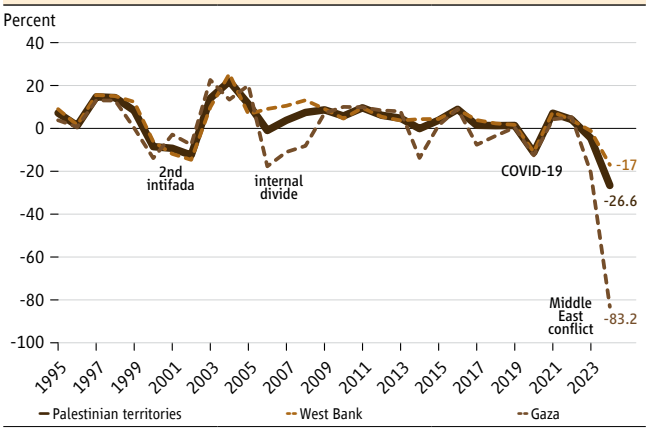
14 This chapter reflects events as of March31, 2025. Any subsequent developments are therefore not accounted for.
15 Source: World Bank national accounts data, and OECD National Accounts data files. For more information, see the metadata for NY.GDP.PCAP.KD from the World Bank Open Data website.
16 Source: UNHCR (2025b).
17 Source: World Bank (2024d).
18 Source: World Bank (2020).

an estimated 19.5 million people in the Republic of Yemen are in need of some kind of humanitarian assistance and protection.[19] About 63 percent of Yemeni households reported inadequate food consumption according to the World Food Programme's Food Security Update (February 2025).

More recent episodes of conflict in the region have also resulted in staggering numbers of casualties, widespread displacement, and extensive destruction of housing, infrastructure, and industry. The economic repercussions of the conflict centered in Gaza are potentially long-lasting for the entire Palestinian territories. Since the start of hostilities in October 2023, close to 2 million people, almost the entire population of Gaza, have been uprooted from their homes.[20] The total recovery and reconstruction needs are estimated by a joint assessment of the World Bank, UN, and European Union at around US$53 billion.[21]

The impact of the conflict on economic activity in the Palestinian territories surpasses that of any crisis of the past three decades (Figure I.11). In 2024, real GDP in the Palestinian territories plummeted by 27 percent on average—83 percent in Gaza and 17 percent in the West Bank. Gaza's share of the overall Palestinian economy has shrunk from 17 percent before the conflict to 3.3 percent by the end of 2024—even though about 40 percent of the population in the Palestinian territories lives in the Gaza Strip.

Figure I.11 Real GDP growth in the West Bank and Gaza



Source: World Bank staff, based on data from the Palestinian Central Bureau of Statistics.

The conflict has sharply worsened income inequality between Gaza and the West Bank. By the end of 2024, real income per capita in Gaza fell to less than U.S.$200, the lowest ever recorded, since US$2,328 in 1994.[22] In Gaza, poverty levels are approaching 100 percent—compared with 63 percent before the conflict. The economic shock in Gaza is predominantly a massive supply-side disruption. Prices in Gaza rose significantly during 2024. The CPI rose by more than 230 percent, driven mainly by supply chain disruptions caused by the conflict. According to the latest Integrated Food Security Phase Classification (IPC) report,[23] more than 90 percent of Gaza's population is experiencing high levels of acute food insecurity, and the risk of famine is elevated in the northern area of the Gaza Strip. This includes more than 875,000 individuals who face emergency levels of food insecurity and 345,000 who are at catastrophic levels. The conditions are particularly acute for children and pregnant women. This situation presents both immediate damage to and long-term risks for human capital, undermining health, productivity, and resilience.[24]

The devastating impact of the conflict on poverty extends far beyond Gaza. The economic shock in the West Bank is akin to a major demand-side disruption. In the West Bank, in addition to income losses from new restrictions and the cancellation of work permits for Palestinian workers in the Israeli labor market, the constrained fiscal capacity of the

19 Source: OCHA (2025).
20 Source: UN OCHA, https://www.unocha.org/occupied-palestinian-territory.
21 Source: World Bank, EU, and UN: Gaza and West Bank Interim Rapid Damage and Needs Assessment, February 2025.
22 Source: Palestinian Central Bureau of Statistics (PCBS).
23 Source: Integrated Food Security Phase Classification (IPC); https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1157985/?iso3=PSE; consulted online on April 2, 2025.
24 A large body of literature shows how food insecurity can have profound and lasting impacts that can span generations. Children who experience famine, even in utero, often suffer adverse long-term outcomes in health, education, and labor. For instance, several studies of famine in Bangladesh (Eskander and Barbier, 2024), China (Meng and Qian, 2006), the Netherlands (Painter et al., 2008), and Ethiopia (Dercon and Porter,2014) have linked early famine exposure to poorer health outcomes, fewer years of schooling, higher exposure to metabolic diseases, and reduced earnings in adulthood. Gatti et al. (2023) estimate that the four months of high food inflation that followed Russia's invasion of Ukraine increased the risk of stunting among children in the developing MENA region by 17–24 percent.

Palestinian Authority has undermined the effectiveness of social protection programs. The West Bank also grappled with a severe drop in employment, largely reflecting jobs that have been lost or have become inaccessible in Israel and in the settlements, resulting in an unemployment rate of 29 percent.[25] As a result, short-term poverty levels in the West Bank are projected to have risen to 28.5 percent as of December 2024, from 11.7 percent in 2023, before the conflict.

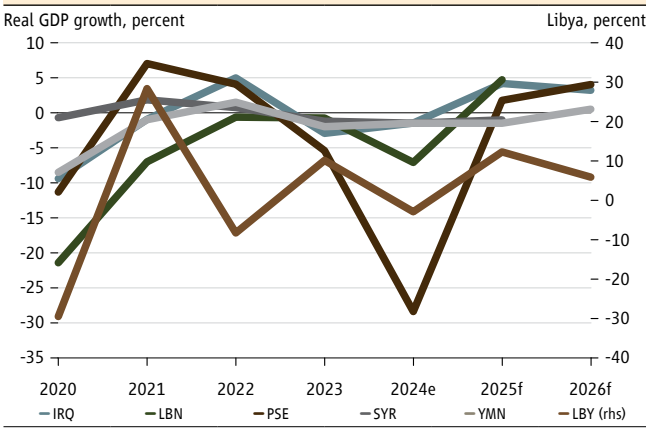
The significant escalation of the conflict between Israel and Lebanon in September 2024 displaced over a quarter of Lebanon's population at its peak (over 1.2 million people), with around 99,000 remaining internally displaced, according to the World Bank's Macro Poverty Outlook.[26] Beyond the heavy human toll, the conflict has devastated the country's economy and capital stock, particularly in the South. A World Bank Rapid Damage and Needs Assessment report released in March 2025 found that physical asset damage was US$6.8 billion, economic losses were US$7.2 billion, and recovery and reconstruction costs were US$11 billion.[27] By the end of 2024, compounding the conflict with the impact of the pre-existing economic crisis, Lebanon's cumulative GDP decline since 2019 approached 40 percent.[28] Lebanon dropped from the Upper Middle Income bracket to Lower Middle Income status in 2023.

The conflict is expected to deepen poverty and vulnerability in Lebanon. Agriculture, commerce, and tourism—which account for 77 percent of economic losses—are critical income sources for low-wage and informal workers, who are now at risk (World Bank, 2025b). Agricultural losses have dealt a severe blow to southern Lebanese communities, while disruptions in health, education, and housing further deepen vulnerabilities and heighten the risk of long-term poverty. These setbacks reduce household incomes and strain public services, worsening conditions for displaced persons and host communities (World Bank, 2025b).

Substantial challenges ahead for economies in fragile and conflict-affected situations

Following the end of the conflict and the resolution of political paralysis with the election of a reform-oriented government, real GDP growth in Lebanon is expected to be around 4.7 percent in 2025 (Figure I.12). After the significant decline in economic activity over the past years, this positive growth rate is supported by the anticipated implementation of reforms, a rebound in tourism and consumption, and inflows for reconstruction (albeit limited), in addition to a favorable base effect. However, there are considerable risks including a deterioration of the security situation, which may affect sentiment, tourism, financial flows, and consumption, in addition to the indirect effects of rising global trade uncertainty. With most CPI basket components now dollarized (and assuming exchange rate stability), inflation is expected to decline to 15.2 percent in 2025 (World Bank, 2025b).

Figure I.12 GDP growth outlook in Fragile and Conflict-Affected Situations (FCS)

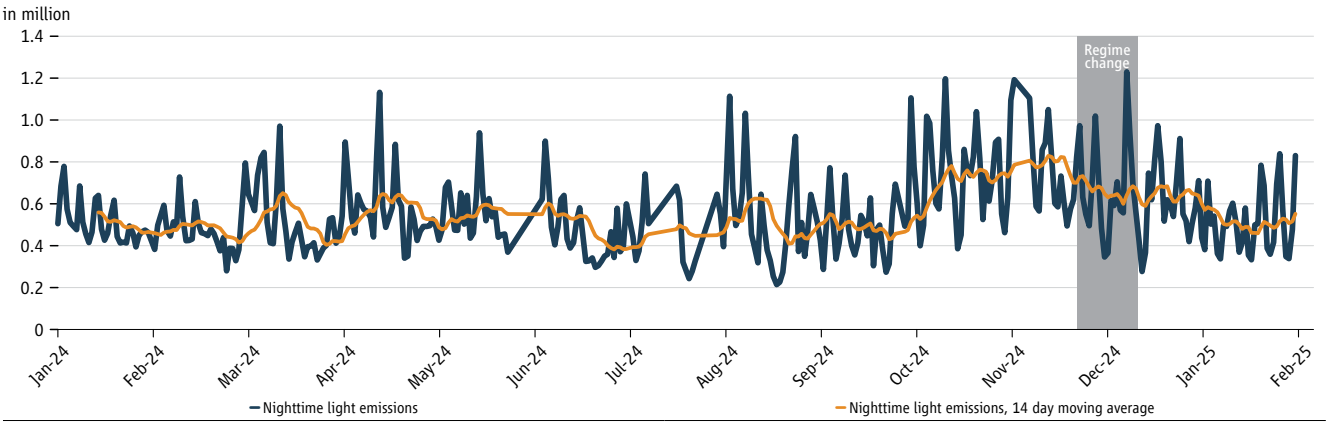


Source: April 2025 *Macro Poverty Outlook*.
Note: e = estimate, f = forecast.

25 Source: Palestinian Central Bureau of Statistics (PCBS); https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ42024E.pdf.
26 Source: April 2025 Macro Poverty Outlook.
27 Source: https://www.worldbank.org/en/news/press-release/2025/03/07/lebanon-s-recovery-and-reconstruction-needs-estimated-at-us-11-billion *and* https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099030125012526525/p5063801f58e97062197c31ebf5a511c4e1.
28 Idem.

In the Syrian Arab Republic, the end of former President Bashar al-Assad's regime in December 2024 has sparked a political transition after more than a decade-long conflict. Security challenges, however, remain. The lack of liquidity (weekly withdrawal limits, suspended e-payments, and delayed government salaries), which constrains cash availability, and ongoing security issues will continue to restrain economic activity, despite stabilizing price levels. Nighttime light data indicate a modest decline in economic activity during the transition of control (Figure I.13). Against this backdrop, GDP is projected to contract by 1 percent in 2025, following a 1.5 percent decline in 2024. Extreme poverty is forecast to continue to increase as GDP contracts.

Figure I.13 Nighttime light data in the Syrian Arab Republic



Source: Satellite images from NASA's Black Marble; World Bank staff estimates.
Notes: Nighttime light emissions are commonly used as a proxy for overall economic activity. The shaded areas represent the period of regime change in the Syrian Arab Republic from November 27, 2024 to December 8, 2024.

Returning refugees and internally displaced persons (IDPs) require assistance and support to re-integrate into their communities. This demand will have economic implications, including additional fiscal pressure. As of early March 2025, UNHCR estimates that some 301,900 refugees have returned to the Syrian Arab Republic via neighboring countries since early December 2024.[29] An estimated 885,000 IDPs have returned to their homes since November 27, 2024.[30] An additional 1 million IDPs living in camps in north-west of the country have expressed their intent to return to their areas of origin within the next year.[31] Returns have been concentrated in the central belt linking Hama, Homs and Damascus. Key short-term needs for these returnees include food, water, and fuel. In the medium term, these returnees could boost growth by bringing much needed skills and capital, increasing aggregate demand and labor supply.

In the Palestinian territories, the outlook remains characterized by extreme uncertainty. Pre-existing structural fiscal weaknesses have been deepened by the economic crisis triggered by the conflict. The outlook includes risks of widespread public service disruptions, continued partial salary payments, and the potential for a systemic fiscal collapse,[32] as worries are growing about the government's ability to meet its obligations in the medium term. In this context, the fiscal gap for 2024 is estimated at approximately 9.5 percent of GDP—significantly larger than in prior years. The only way for the PA to bridge this gap is by borrowing from domestic banks and accumulating arrears to the private and public sectors.

29 Source: UNHCR (2025a).
30 Source: UNHCR (2025a).
31 Source: CCCM Cluster, UNHCR, and REACH (2025).
32 A combination of dwindling domestic revenues and increased deductions by Israel on the amount of taxes (known as 'clearance revenues') it collects on behalf of the authority, has forced the PA to reduce public salary payments to approximately 60 to 70 percent of what is owed.

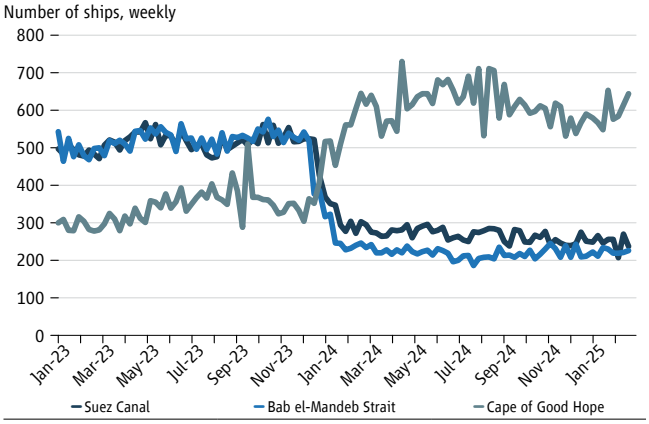
After the January 2025 ceasefire, the CPI declined by over 50 percent from the December 2024 level but remained more than 70 percent higher than at the start of 2024. The situation, however, remains very volatile, with potential significant implications for poverty and food security levels: as of mid-March 2025, the failure to extend the ceasefire and the resumption of the conflict have precipitated a new large supply shock, resulting in sharp price increases in the Gaza Strip, with flour and vegetable costs surging by a factor of 100.[33]

The Palestinian financial sector has so far remained resilient, thanks to strong capitalization. At the same time, risks are on the rise with respect to possible credit losses, dwindling profits, and operational challenges, especially in Gaza. As of early 2025, a cash shortage in the Gaza Strip intensified, affecting aid delivery, remittances, food security, and access to basic services. Overall, the exposure of the Palestinian banking system to the public sector has increased in recent months, amplifying underlying macro-financial sector risks.

Neighboring economies, especially the Arab Republic of Egypt and Jordan, can benefit from an end to the hostilities in the region and stabilization in the Syrian Arab Republic. In Jordan, the initial signs of Syrian refugees returning might help ease the burden on public services. As of February 2025, UNHCR reports that 43,704 registered refugees have left for the Syrian Arab Republic.[34] Adjustments in Jordan's labor market may follow, given that Syrian men comprise 13 percent of prime age (25–54) men, and are mainly employed in construction and agriculture.[35]

In the Arab Republic of Egypt, the receipts from the Suez Canal are forecast to continue suffering from regional instability, as shipping companies use alternate routes. In fiscal year 2025, Suez Canal receipts are expected to total US$3.7 billion, US$5.1 billion below the revenue before the onset of the conflict centered in Gaza.[36] As of February 2025, transportation through the Canal was still 54 percent lower than the pre-October 2023 average (Figure I.14).

Figure I.14 Number of ships traversing select chokepoints



Source: International Monetary Fund, Portwatch https://portwatch.imf.org/, accessed on March 4, 2024.
Note: The figure shows the weekly count of cargo and tanker ships passing through selected chokepoints.

Despite varying economic trajectories, other countries in fragile and conflict-affected situations (FCS) in MENA remain highly vulnerable to internal and external pressures, with the Republic of Yemen facing continued contraction due to domestic fragmentation and external restrictions, while Iraq and Libya anticipate some growth rebound. In the Republic of Yemen, real GDP is projected to contract by 1.5 percent in 2025 due to a multitude of persistent domestic challenges such as the ongoing blockade on oil exports, economic fragmentation, inflation driven by currency depreciation, and acute liquidity shortages. These challenges could be compounded by potential reductions in financial flows, including remittances and official development assistance, and increased fragility. Libya's growth is forecast to pick up to 12.3 percent in 2025 as oil production resumed after the resolution of the Central Bank of Libya crisis in October 2024. In Iraq, real GDP growth is expected to recover from a two-year contraction driven by voluntary oil production cuts stemming from OPEC+ agreements. Growth is expected to reach 1.3 percent in 2025 sustained by non-oil growth.

33 Source: https://news.un.org/en/story/2025/03/1160731.
34 Source: UNHCR (2025c).
35 Source: Hoogeveen and Obi (2024).
36 Fiscal years in the Arab Republic of Egypt run from July 1 to June 30 of the following year.

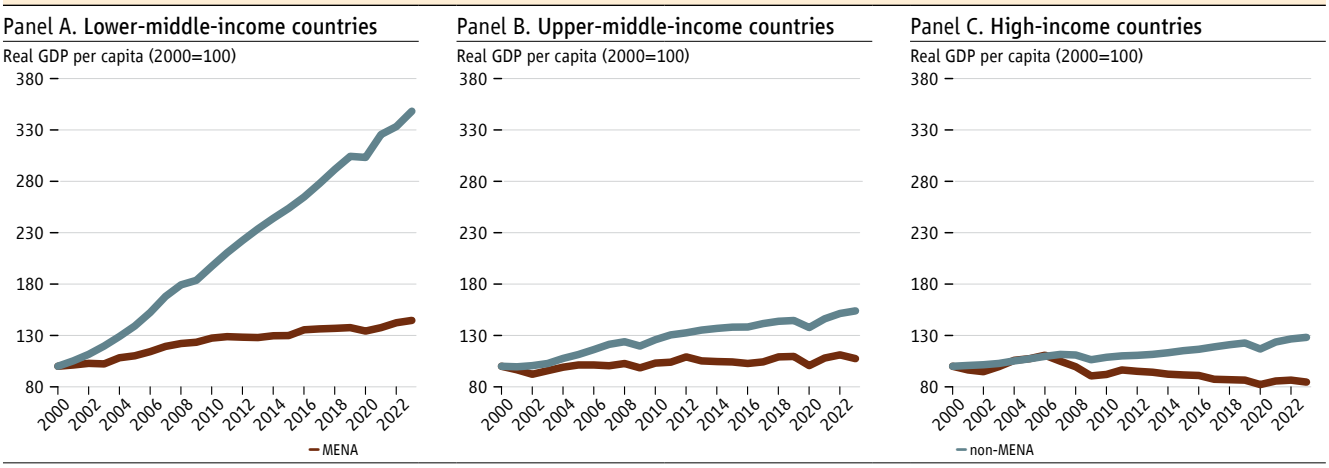
I.5 Subdued growth in standards of living

Recent conflicts and elevated uncertainty overlay a history of disappointing economic growth in MENA for decades. Per capita income growth in EMDEs, arguably a better measure of living standards, has been slowing, impeding any catch-up with advanced economy levels (World Bank, 2025a). The MENA region has been underperforming even compared to this already disappointing global trend; per-capita GDP growth in the average MENA country has been lower than in its median income peer, since 2000.

Figure I.15 compares the average cumulative growth rates in per capita GDP for each MENA income subgroup—lower-middle-income, upper-middle income and high-income—with the median growth rates of their corresponding income groups over the period 2000–2023. On average, both subsets of middle-income MENA countries have grown over this period, albeit more slowly than income peers. High-income economies have not only underperformed their income peers, but their per capita growth rates also appear to have decelerated over the past two decades. This pattern among high income MENA economies is partly due to the large migration inflows which resulted in population growing at a faster pace compared to aggregate GDP. Gatti et al. (2024a) document that between 1970 and 2019, population increased by a factor of 3.4 in the region, a factor of 2.9 in middle-income countries and a factor of 7.3 in the GCC.[37]

Given its repercussions on living standards, it is important to understand what factors underlie the region's long-term, low-growth syndrome. This report argues that the answer may lie with the lackluster performance of the private sector. The next chapter analyzes key features of the MENA private sector.

Figure I.15 Comparison of GDP per capita in MENA by income group



Source: The World Bank, *World Development Indicators*.
Note: MENA = Middle East and North Africa. GDP per capita in constant 2021 international PPP$ (population weighted). 2000 income classification is used to group countries into Lower Middle Income, Upper Middle Income, and High Income groups. Lower Middle Income Countries include Algeria, Arab Republic of Egypt, Islamic Republic of Iran, Iraq, Jordan, Morocco, Tunisia, West Bank and Gaza, and 41 non-MENA economies. Upper Middle Income Countries include Bahrain, Libya, Oman, Saudi Arabia, and 29 non-MENA countries. High Income Countries include Kuwait, Qatar, United Arab Emirates, and 36 non-MENA countries.

37 The sizable increase in population in the GCC in this 50-year period is due to migration. The number of migrants in the GCC surged from 241,000 in 1960 to over 30 million by 2020 (World Bank 2023a). Migration greatly accelerated from the 1970s onwards largely due to the oil boom. Governments established contractual agreements with various countries of origin to attract large numbers of temporary migrant workers. By 2020, migrants made up over 80 percent in Qatar and 90 percent in the United Arab Emirates.

PART II SHEDDING LIGHT ON THE PRIVATE SECTOR IN THE MIDDLE EAST AND NORTH AFRICA

Key messages

- The Middle East and North Africa (MENA) region is far from the frontier of standards of living. Low productivity accounts for between a third and a half of this shortfall. The private sector is a potential engine of productivity growth that could help bridge this gap.
- The MENA formal private sector is not dynamic. It is less productive than private sectors in income peers. Few firms in MENA invest in physical capital or in their workers and innovate less than businesses in MENA income peers.
- The private sector is segmented—and informality is significant. Few women participate in the private sector. On average only 5.7 percent of firms have a female top manager, and firms with female managers hire more women than those with male managers.
- Structural issues increase the vulnerability of the private sector to extreme weather and conflict shocks. Surviving firms adapt to conflict by reducing expenditures, although this is harder to achieve in countries with poor governance.
- Rethinking the role of the state can result in improved productivity in the private sector, especially if it increases market contestability—a market where there is costless entry and exit of firms, and the pressure of potential competition always exists. Changing the state's role can take different forms—including data transparency, reconsidering the footprint of the state and intervention through state-owned enterprises, improving the business environment, and being cautious about industrial policy.
- Firms in MENA can build capacity by harnessing talent. This can be through improving management practices of existing firms (intensive margin) and attracting more women entrepreneurs (extensive margin).

The MENA region is far from the frontier in standards of living. The previous edition of this MENA Economic Update (Fall 2024) documented that when measured by consumption per capita, the region's standard of living averages only 19 percent of that in the United States. Within MENA, the corresponding figure is 12 percent among developing oil exporters, 19 percent among developing oil importers, and 45 percent among Gulf Cooperation Council countries. A development accounting exercise showed that low total factor productivity (TFP, the increase in output not explained by labor and capital inputs) accounts for between a third and a half of this gap in standard of living (Gatti et al., 2024a). This chapter examines a critical potential engine of productivity growth: the private sector.

Businesses create jobs, improve livelihoods, and serve as a bastion of innovation in the economy. The MENA private sector, however, is not dynamic. Labor productivity growth is limited. Few firms invest and innovate. There is little entry into and exit from markets. Furthermore, the private sector is segmented into formal and often large informal sectors. The region does not fully harness talent—women are largely left out of the labor market. One way to include more women in the job market would be to increase the number of firms with female top managers. Firms run by women tend to hire more women.

The MENA private sector is struggling with low growth and productivity and is ill prepared to absorb shocks that are becoming more frequent and intense. Conflict is occurring in many MENA countries and hurts economies. Conflict forces firms to close or stop doing some business and causes surviving firms to lose revenues. However, recent research shows that there is a degree of private sector resilience under adverse circumstances, especially in economies that are well governed. The increasing prevalence of extreme weather events in the region is also a concern. Firm performance is hurt by droughts (proxied by negative precipitation shocks), but there is some indication that affected firms are adapting.

Governments in the region may need to rethink the role they play in the private sector. To do so, they must improve the availability of data and accessibility of firm census data to provide a more complete picture of the private sector. Much of the analysis of the private sector comes from a limited sample of firms or a handful of countries in which good data are available. This study hopes to articulate clearly what is known and not known about the MENA private sector to galvanize efforts for capacity building and other steps towards data openness and use.

Governments intervene in markets as a significant employer in its own right and through state-owned enterprises (SOEs) that reduce market contestability (the ease of firm entry and exit and resulting competitive pressure), and hence productivity and innovation. In many MENA economies, the large share of public sector employment suggests that talent is misallocated away from the private sector. SOEs prevail in sectors that are typically served by the private sector. To improve market contestability, governments should provide a clear rationale for state ownership and separate their roles as shareholder, as policymaker, and as regulator. Competitive neutrality should be adopted to ensure that SOEs and private sector firms are treated equally.

A poor business environment hurts firms. Enterprises in the region cite political instability, corruption, and cumbersome processes for business licensing and permits as major or severe obstacles to operations relative to their income peers. In many economies, rampant cronyism reduces market contestability. Governments can evaluate three key dimensions of the business environment: i) the rules and regulations firms must follow (regulatory framework), ii) government support to firms through digitization, interoperability of government services and transparency (public services), and iii) the time and cost of processes to comply with regulations (operational efficiency). Improvement in all three dimensions will enhance the business environment.

Governments in the MENA region also intervene in the private sector through industrial policy. Although there is as yet no consensus on how to define industrial policy, a key characteristic is government use of instruments such as subsidies, exemptions, and export or import restrictions to correct a market failure and further a specific policy goal. The intention of industrial policy is structural improvement in the performance of the business sector. Industrial policy is risky because of the large number of distortions in the region's economies. Getting industrial policy right is not easy. First, it requires identifying the market failure to be addressed, assessing its magnitude and determining whether it is a market failure of high priority. Second, the government must have the capacity to implement industrial policy credibly. Finally, governments must constantly evaluate interventions and make course corrections as needed. This entails understanding the stakeholders and how businesses and households are affected. Data collection is critical for this phase.

Beyond government intervention, businesses can build capacity by harnessing talent. Improving management practices allows firms to make a better use of existing talent (the intensive margin) and can lead to innovation. Management practices account for about a third of the TFP gap between the United States and other economies (Bloom et al., 2016). However, much of any improvements in management can be derailed by poor governance and an interventionist state.

The region can further harness talent that currently exist outside of existing firms (the extensive margin) especially female talent, by attracting more women entrepreneurs. Few firms are led by a female top manager. However, as in the rest of the world, firms in MENA that are managed by women are more likely to hire more women as workers. Embarking on policies that expand women leadership may yield a double dividend: increasing the number of female managers and the different perspective they can bring as well as boosting female labor force participation, which can lead to higher economic growth. Raising female labor force participation to the same level as male labor force participation in the typical MENA economy could result in about a 50 percent increase in GDP per capita (Fiuratti et al., 2024).

This chapter consists of six sections. The first highlights poor firm dynamics and productivity growth in the MENA region. The second section examines segmentation because of high informality and limited participation of women in the private sector. The third section explores the effects of shocks—mainly conflict and extreme weather. The fourth section looks at the various forms of government intervention, including the importance of data transparency in assessing the private sector. The fifth section highlights the need to improve firm productivity by building capacity through improving management practices and increasing the number of women managers to trigger a broad increase in female labor force participation. The final section provides concluding remarks.

II.1 Lack of dynamism and productivity growth in the MENA private sector

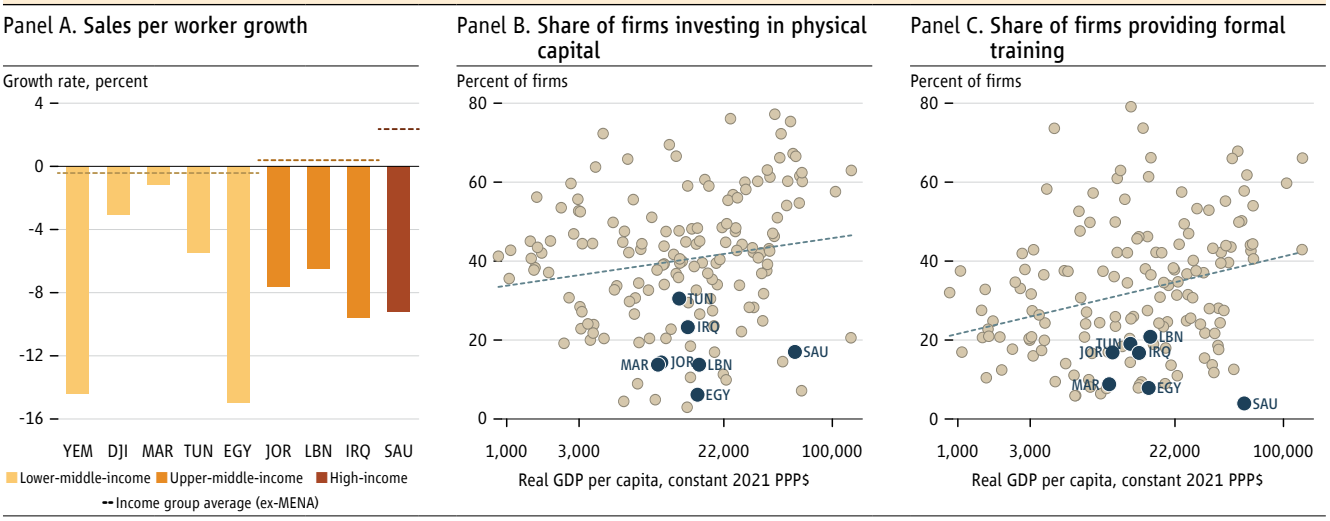
An underperforming MENA private sector

Labor productivity growth, which is essential to raising living standards, is lower in MENA than in its income peers. The World Bank Enterprise Surveys (WBES) provide data for formal private firms with five or more employees. Post-pandemic data are available only for Iraq, Morocco, and Saudi Arabia. Data for the rest of the region are largely from around 2019—except for Djibouti and the Republic of Yemen, which are from 2013.[38] The latest WBES data show that labor productivity in the MENA region—proxied by sales per worker—is declining (Figure II.1, Panel A).[39] Labor productivity growth in the region, based on the latest surveys available, was -15 percent in the Arab Republic of Egypt, -14.4 percent in the Republic of Yemen, -9.6 percent in Iraq and -9.2 percent in Saudi Arabia. It was -1.2 percent in Morocco. The MENA average is about -8 percent, which is lower than the -0.4 percent in lower-middle-income economies, the 0.4 percent in upper-middle economies and the 2.4 percent in high-income economies. The low productivity growth shown in the WBES surveys is consistent with older studies that found that labor productivity growth was weaker for firms in the Arab Republic of Egypt (2007–2011) and Tunisia (2005–2010) than in comparable countries—such as Turkey and Mexico (Schiffbauer et al., 2015).

38 Given the data is more than a decade old for the two economies, caution must be applied when interpreting the findings. However, this also highlights the challenge of scarce firm-level data in the region.

39 Note that for the Enterprise Surveys, sales per worker growth is estimated between the last fiscal year of the survey, and the two years prior to the survey. The two years prior is based on recall variables, and thus vulnerable to measurement error. The exact years covered are indicated in the note below Figure II.1.

Figure II.1 Productivity, investment, formal training



Source: World Bank staff calculations based on data from the World Bank *Enterprise Surveys*.
Note: YEM = Republic of Yemen. DJI = Djibouti. MAR = Morocco. TUN = Tunisia. EGY = Arab Republic of Egypt. JOR = Jordan. LBN = Lebanon. IRQ = Iraq. SAU = Saudi Arabia. Data represent latest survey year for each country. For Panel A, the figure shows the average of firms' sales growth per full-time worker between the last fiscal year when the survey was implemented and two years prior using sample weights. The following surveys are included for MENA (survey year in brackets): Republic of Yemen (2013), Djibouti (2013), Jordan (2019), Lebanon (2019), Tunisia (2020), Arab Republic of Egypt (2020), Iraq (2022), Saudi Arabia (2022), and Morocco (2023). Countries are ordered within income groups in ascending 2023 GDP per capita (2021 PPP$). Income group averages (ex-MENA) are the averages across non-MENA countries in the corresponding income groups. Income group averages include the latest data point for countries in each group—which range from 2009 to 2023. The income group categorization is based on historical World Bank income group classification for the year of the survey. Panel B and C show results for the fiscal year preceding the latest survey year (using sample weights) available per country. The sample includes (survey year in brackets): Jordan (2019), Lebanon (2019), Tunisia (2020), Arab Republic of Egypt (2020), Iraq (2022), Saudi Arabia (2022), and Morocco (2023). For Panel B, the y-axis is the weighted average share of firms investing in physical capital. The x-axis is the log of real GDP per capita (in constant 2021 PPP$) of the corresponding survey year. For Panel C, the y-axis depicts the weighted average share of firms that provide formal training (using sample weights). The x-axis is the log of real GDP per capita (in constant 2021 PPP$) of the corresponding survey year. For both Panels B and C, the sample includes 153 countries, including 7 MENA countries.

Investments in various inputs are typically required to achieve productivity growth.[40] However, firms in MENA largely fail to invest adequately in either physical capital or in human capital—that is, their workers. Only 6 percent of firms in the Arab Republic of Egypt invested in physical capital during 2021–2022, while 13.8 percent did in Morocco (during 2022–2023), 16.3 percent in Saudi Arabia (2021–2022), and 30.5 percent in Tunisia (2019–2022). These investment levels are lower than in income peers (Figure II.1, Panel B). The MENA average is 21.7 percent, compared with 37 percent for lower-middle-income economies, 41 percent for upper-middle-income economies, and 51 percent for high-income economies. Formal training of workers in MENA is also lower than in their income peers. Only 4 percent of firms in Saudi Arabia provide formal training to their workers. In the Arab Republic of Egypt, 7.9 percent of firms formally train their workers, and 8.8 percent do so in Morocco. The MENA average is 14.5 percent—compared with 30 percent in lower-middle-income economies, 34 percent in upper-middle-income economies and 41 percent in high-income economies (Figure II.1, Panel C). Although the WBES does not capture job creation, it does provide information on annual employment growth during the two years prior to the survey. On average, the annual employment growth for MENA was 2.5 percent during those two years—far lower than 5.8 percent annual employment growth in lower-middle-income economies and the 4.3 percent growth in upper-middle-income economies.

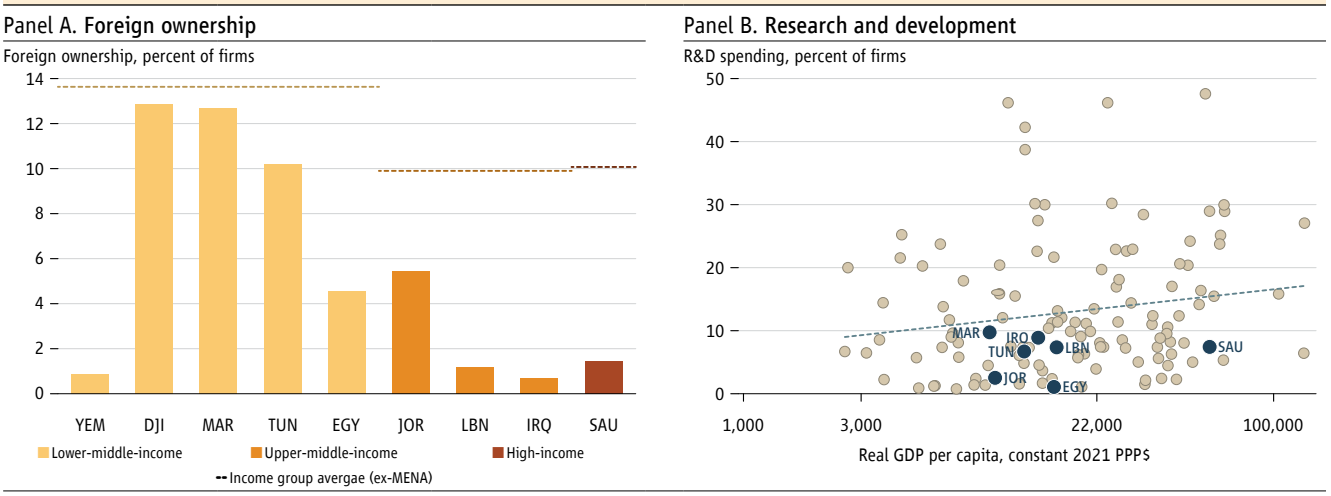
In addition to low investment in physical capital and workers, other preconditions for innovation are lagging in the MENA region. Foreign ownership—which can be a conduit for productivity growth by providing new ideas and advanced technologies from abroad—is much lower for middle-income economies in MENA than in their income peers (Figure

40 Innovation is fundamental to technological progress, which in turn is a key to long-term growth. There are opportunities for middle-income MENA economies to become innovators. The 2024 *World Development Report* on the middle-income trap lays out the pathway to fostering innovation (World Bank, 2024a). The process requires two transitions. In the first phase the goal is imitating and diffusing modern technologies through increased investment coupled with infusion—when new ideas are taken from abroad and spread through the economy. Governments must strengthen institutions throughout this phase. This first transition largely requires investment in physical and financial capital. Once economies have exhausted the infusion potential, then they can move toward the second phase: becoming innovators. Building domestic capabilities to add value to global technologies is essential as economies become innovators. This phase is challenging because it requires vigorous exchanges of human capital, which entails investments in all various forms of human capital—such as higher education, skills, management quality.

II.2, Panel A). Moreover, as shown in Panel B of Figure II.2, the share of firms that spend on research and development (R&D), also essential to innovation, is much lower in MENA than in income peers.

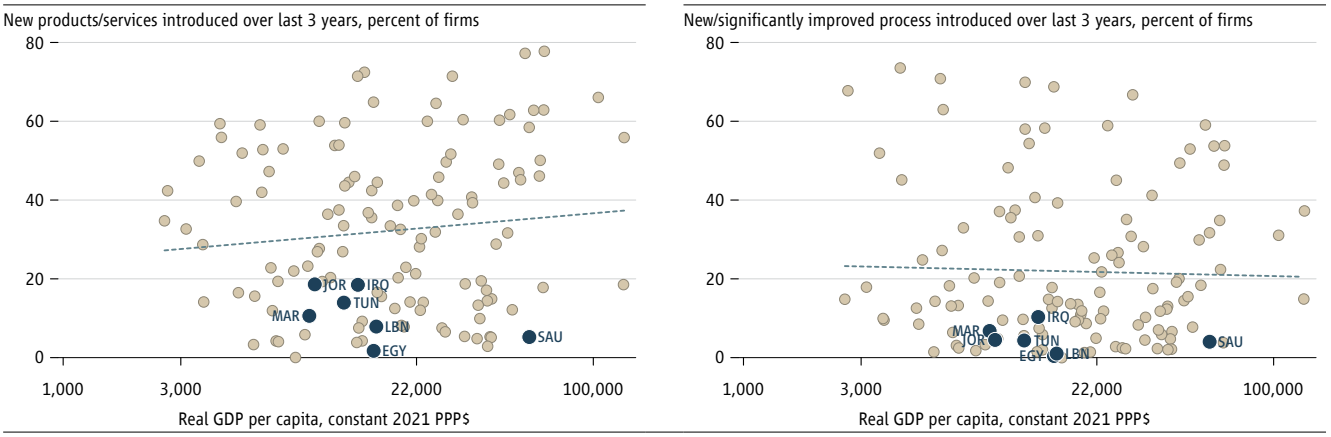
R&D spending is an input of innovation, but not innovation per se. Measuring innovation in the private sector can be challenging. Two indicators from the WBES provide information on the state of innovation in middle- and high-income economies. The first indicator is a proxy for product innovation. It measures the share of firms that indicate they have introduced a new product or service over the past three years. The second indicator is "process innovation," which is

Figure II.2 Foreign ownership and research and development spending



Source: World Bank staff calculations based on data from World Bank *Enterprise Surveys*.
Note: YEM = Republic of Yemen. DJI = Djibouti. MAR = Morocco. TUN = Tunisia. EGY = Arab Republic of Egypt. JOR = Jordan. LBN = Lebanon. IRQ = Iraq. SAU = Saudi Arabia. In Panel A, a firm is considered to have foreign ownership if private foreign individuals, companies or organizations own 10 percent or more of the firm. Countries are ordered in ascending 2023 GDP per capita (in 2021 PPP$) within income groups. Panel A shows foreign ownership for the latest survey year. The following surveys are included (survey year in brackets): Republic of Yemen (2013), Djibouti (2013), Jordan (2019), Lebanon (2019), Tunisia (2020), Arab Republic of Egypt (2020), Iraq (2022), Saudi Arabia (2022), and Morocco (2023). Income group averages (ex-MENA) are the averages across non-MENA countries in the corresponding income groups. Income averages use latest survey year available for countries in each category—ranging from 2009 to 2023. Income classification for each country is based on World Bank historical income classification for the year of the survey. Income group averages exclude MENA countries. In Panel B, the figure represents weighted average share of firms that invested in research and development in the fiscal year preceding the latest survey year, using sample weights. The following surveys are included for MENA (survey year in brackets): Jordan (2019), Lebanon (2019), Tunisia (2020), Arab Republic of Egypt (2020), Iraq (2022), Saudi Arabia (2022), and Morocco (2023). The sample includes 122 countries, including 7 MENA countries. Log real GDP per capita corresponds to the year of the survey. Only middle-income and high-income economies (as categorized at the year of the survey) are included in the graph.

Figure II.3 Measures of firm-level innovation



Source: World Bank staff calculations based on data from the World Bank *Enterprise Surveys*.
Note: MAR = Morocco. TUN = Tunisia. EGY = Arab Republic of Egypt. JOR = Jordan. LBN = Lebanon. IRQ = Iraq. SAU = Saudi Arabia. In Panel A, the figure represents weighted average share of firms that introduced new products/services in the three years preceding the survey. In Panel B, the figure represents weighted average share of firms that introduced a new or significantly improved process over the past three years prior to the latest survey year. Both figures use sample weights. For both panels, the following surveys are included for MENA (survey year in brackets): Jordan (2019), Lebanon (2019), Tunisia (2020), Arab Republic of Egypt (2020), Iraq (2022), Saudi Arabia (2022), and Morocco (2023). Log real GDP per capita corresponds to the year of the survey, using sample weights. Both panels exclude Low Income Countries (as categorized at the year of the survey), and include 122 countries, of which 7 from the MENA region.

captured by the share of firms that said they have introduced new or significantly improved processes over the past three years. Figure II.3 shows that MENA economies significantly underperform their income peers in terms of both product and process innovation.

The private sector in MENA, which should be an engine of productivity growth, is unproductive. Firms do not make the investments necessary for productivity growth, whether in physical capital, people, or R&D. The existing data show the resulting low level of product and process innovation and productivity growth.

Productivity decomposition and dynamics: Insights from Tunisia and Morocco

Much of the analysis of the private sector is based on snapshots captured in high quality firm surveys. It is possible to go further in the analysis using firm-level administrative data of good quality with at least information on revenues and employment. Administrative data have the advantage of covering almost the entire private sector and of following firms over time and with high frequency. An empirical exercise called "productivity decomposition" is useful as a starting point for understanding which firms drive productivity growth in an economy. There are three broad possibilities: i) firms that are already in the market are, on average, becoming more productive (the "within" effect), ii) more productive firms are gaining greater market share, and therefore are more represented in the aggregate productivity number (the "between" effect), or iii) unproductive firms are going out of business and productive firms are starting businesses, resulting in an average gain in productivity (the "entry/exit" effect).

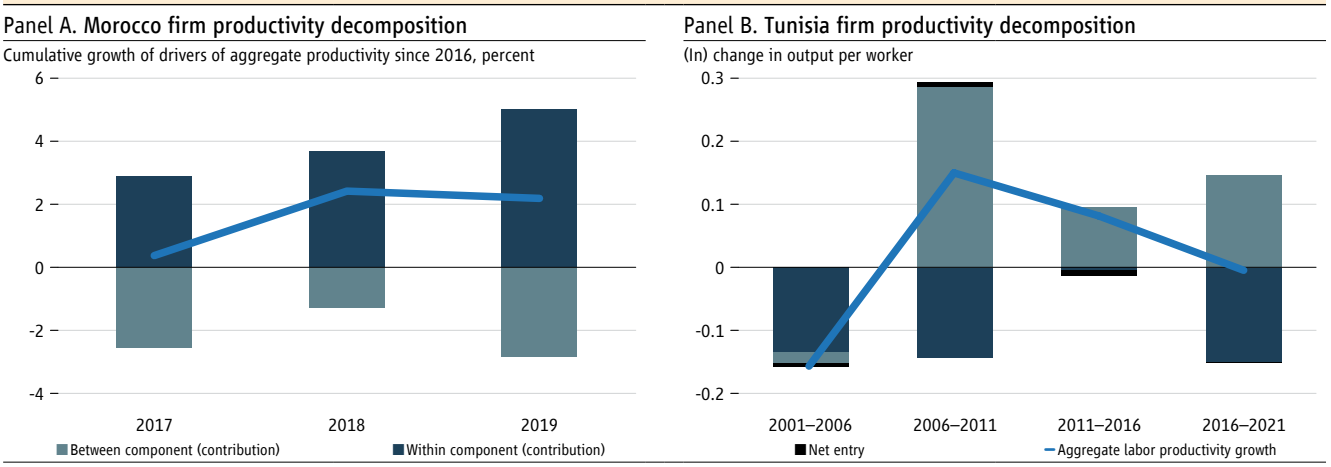
There is limited firm-level productivity decomposition in the MENA region because high-quality micro-level firm data are lacking. Productivity decomposition is feasible for only two countries—Morocco and Tunisia—which have available and accessible firm registration data with sales and employment information.

Labor productivity, as measured by sales per worker, at Moroccan private firms grew at a lackluster 2 percent between 2016 and 2019 (World Bank, 2024b). The "within" component was largely positive, indicating that the average firm was improving its technical efficiency (Figure II.4, Panel A). The "between" component was negative, indicating that the most productive firms were not growing to attain a larger share of the market. Details are provided in Box II.1. A detailed productivity decomposition for 1996 to 2006 (Schiffbauer et al., 2015) similarly found negative "between" effects and limited "within" effects. That analysis further found some positive indication that net entry was positively contributing to productivity—implying either more productive firms were entering, less productive firms were exiting or both.

Data from the registry of formal firms in Tunisia—*Repertoire National des Entreprises* (RNE)—include employment and sales records, which permit an analysis of different dimensions of the dynamics of firms. The productivity decomposition exercise shows an opposite pattern of aggregate labor productivity drivers from Morocco. Figure II.4, Panel B decomposes changes in output per worker (a proxy for labor productivity) into "within," "between," and "entry/exit" components for each five-year period between 2001 and 2021: The "between" component was largely positive, which suggests that firms with high levels of output-per-worker gained market share. But a negative "within" component points to potential challenges in the capabilities of the average firm. Net entry made minimal contribution to changes in output per worker over time.[41] Although more analysis is needed to understand the drivers of these patterns, the results are consistent with what is known about the Tunisian private sector. Cronyism was rampant (Rijkers et al., 2017b). Politically connected firms tend to be more productive and also capture large shares of the market. This potentially explains the positive

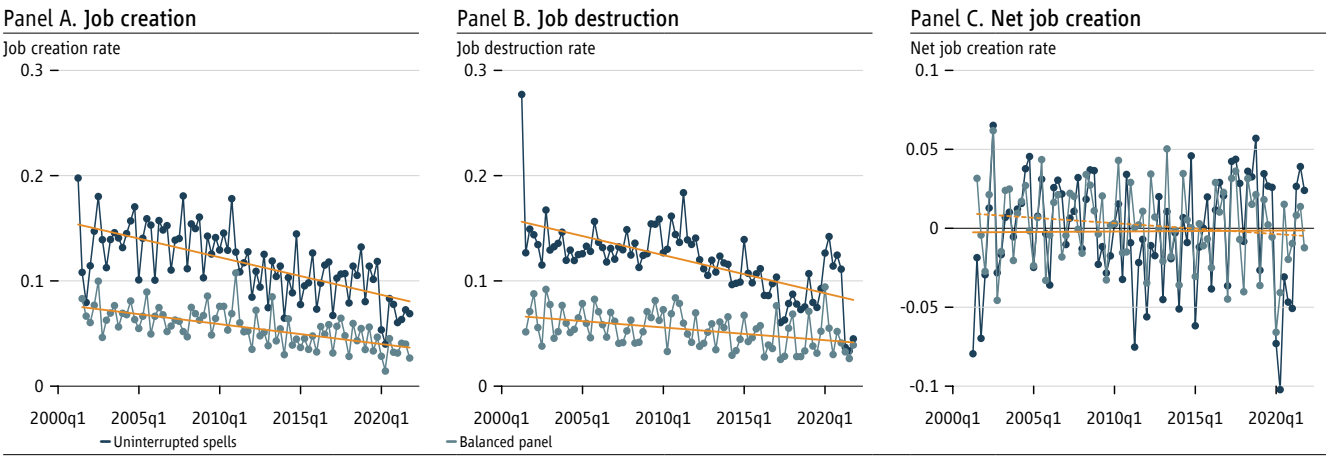
41 There are different ways of capturing entry and exit in the RNE. In this chapter, the analysis includes only firms with no gaps in their time series of output per worker. This corresponds to firms that enter in one year (their value for output per worker is observed), remain in the data for any number of years, and then exit (output per worker is no longer observed).

Figure II.4 Illustration of firm productivity decomposition across two economies



Sources: Panel A - World Bank, 2024b. Panel B - World Bank staff calculations using data from the *Repertoire National des Entreprises* in Tunisia.
Note: The "within" firm component measures the shift in the distribution of surviving firm productivity; formally, it is the unweighted mean change in the productivity of surviving firms. The "between" firm component measures employment share reallocations between surviving firms in the same sector (the covariance change between employment share and productivity). For Panel B, the contribution of entry (exit) is the change in the aggregate productivity generated by adding (removing) the group on entrant (exiting) firms. Net entry is the net effect of these two forces.

Figure II.5 Net job creation in Tunisia



Source: World Bank staff calculations using data from the *Repertoire National des Entreprises* in Tunisia.
Note: Job creation (destruction) is defined as the sum of employment in entering (exiting) firms plus the change in employment in incumbent firms when that change is positive (negative), divided by the average employment between t and t+1. Net job creation is the difference between job creation and job destruction. Uninterrupted spells refer to firms without gaps in their appearance in the sample—that is, they enter the sample once and if they exit, they only do so once. Balanced panel firms appear through all periods in the sample.

contribution of the "between" effect. However, the presence of politically connected firms hurts market contestability, which then reduces technical efficiency of firms across the board. This could explain the negative contribution of the "within" effect.

Information on jobs from Tunisia's RNE data further hint at declining dynamism in the private sector. Figure II.5 shows rates of job creation, job destruction, and net job creation (the difference between the two) across quarters between 2001 and 2021. Computations include only active employers (both sales and employment are recorded). The results in Panels A and B suggest a slowdown in dynamism, because rates of both job creation and job destruction decreased over the 20-year period. Panel C shows that on average, in this segment of the private sector in Tunisia, jobs are created and destroyed at the same rate, which leaves the rate of net job creation relatively constant. Other analyses also indicate low firm entry and exit rates in the MENA region. For example, using older administrative firm-level data, Schiffbauer et

al. (2015) find that entry and exit rates for Colombia are 11 and 12 percent respectively, which is almost twice that of Morocco. The study reported entry and exit rates for two other MENA economies—Lebanon and Tunisia—which were low as well. In the updated analysis for Tunisia, firm entry and exit rates are about 5 and 8 percent, respectively. Declining job creation and destruction and firm entry and exit all suggest a low degree of dynamism in the private sector.

Box II.1 Productivity decomposition in Morocco

Data for Morocco allow productivity researchers to differentiate between the contributions of the "within" effect—in which firms are becoming more productive—and the "between" effect—in which more productive firms are gaining market share. Aggregate sales per worker (a proxy for labor productivity) growth in Morocco was driven by the "within" component (Figure II.4, Panel A). This points to possible improvement in the average productive efficiency of operating firms in Morocco. However, this gain was partly undone by a negative contribution of the "between" component (Figure II.4, Panel A), which indicates that the market share of the productive firms is shrinking while less productive firms are gaining share. If the market shares had not changed, aggregate labor productivity would have increased by 5 percent—more than twice as fast as the 2.2 percent that productivity grew in this period. Measurement challenges make it difficult to analyze the "entry/exit" component. For instance, firm exit is hard to determine because since 2018, Morocco has permitted firms that no longer compete in a market to be classified as "inactive" for up to two years if they have no revenues to declare in a given fiscal year. This was designed to provide relief to firms going through hardship, exempting them from the minimal tax duty they would have had to pay while they transition to a healthier financial situation. But it muddies the analysis of whether a firm has exited a market.

The analysis demonstrates that labor productivity increased at the average Moroccan firm. The increase was driven by growth in the services sector, where labor productivity rose by 8 percent. It declined by around 6 percent in the industrial sector. The analysis also identified a weak spot in the market: productive firms are unable to grow, which obviates any positive impact from increasing efficiency in some firms and results in overall lackluster growth. Existing analyses hint at the potential causes of this allocative problem. First, Morocco's high-growth firms are concentrated in low-skilled sectors, which puts a ceiling on potential overall productivity growth. Second, access to productive inputs such as capital and labor is limited—more productive firms are not more likely to obtain credit than less productive ones, and firms cite difficulty finding skilled employees as a significant constraint on their operations. Finally, it is possible that after reaching a certain size, incumbents rely more on market power than efficiency gains to survive and grow. Firms in Morocco tend to enjoy larger markups (price-cost margin) than do their regional peers which suggests that firms face lower competition intensity. There are relatively few high-growth firms in Morocco, which means that incumbents are largely unchallenged by new entrants. Lack of competitive pressure not only discourages productivity improvements in incumbents, but also entry and growth of more productive enterprises.

Comprehensive firm-level data available for Morocco provide additional insights. Most firms in Morocco are small and grow slowly as they age. Firms with 10 or fewer employees account for nearly 86 percent of employment in Morocco, compared to 35 percent on average in OECD countries. Older Moroccan firms are on average larger than newer firms, even though their productivity is lower. Similarly, larger firms are less productive than their smaller counterparts. Furthermore, despite the comparatively large size of the Moroccan financial market, credit is concentrated among larger and older firms.

The cases of Morocco and Tunisia highlight the value of productivity decomposition at the firm level. Such data from Tunisia's RNE have also been used to inform policy, such as evaluating the effect of political connections (Rijkers et al., 2017b), the effect of reducing tax exemptions (Calì et al., 2025), and the effect of firms being labeled as "startups" through Tunisia's "Start-up Act" (Ali et al., 2024).

The productivity analysis in this chapter is limited to two economies in MENA. A comprehensive accounting of firm dynamics across the MENA region cannot be done because of inadequate data. The benchmark data for high quality firm dynamics diagnostics would be a census of formal and informal establishments with information on productivity that could be tracked over time. A second option would be firm registration data that cover the whole formal private sector—which would enable some analysis of firm dynamics even if informal firms were omitted. Detailed data on revenues and costs would allow for productivity estimates. The longitudinal data (which cover a fair amount of time) would provide information on firm entry and exit. It is important to have data at the establishment level where production takes place. A limitation of firm registration data is that they are not at the establishment-level, which may make it more difficult to analyze data from multi-establishment firms. The data challenges in the region and the role of governments in improving data availability are further discussed in a subsequent section.

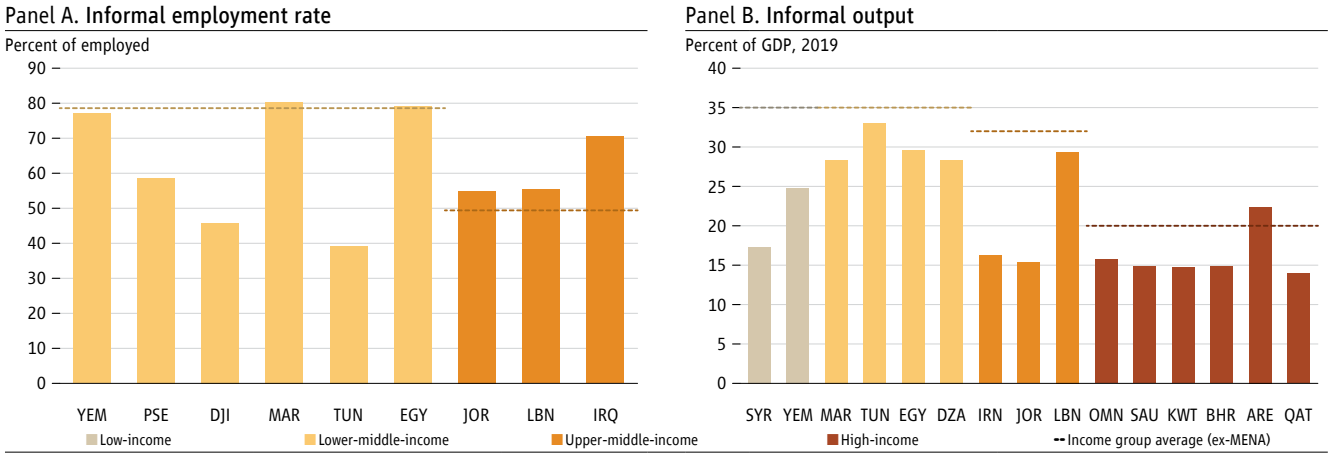
II.2 Structural segmentation and exclusion in the private sector

Formal-informal segmentation

The analysis has been limited so far to the formal private sector because WBES cover only formal enterprises. Administrative firm-level data cover only registered firms, by definition the formal sector. But the high rate of informality is an important feature of the MENA private sector. Informal employment in MENA accounts for about 40 to 80 percent of total employment (Figure II.6, Panel A) and informal output accounts for between 10 and 30 percent of GDP (Figure II.6, Panel B). Data on informal firms are scarce. The share of informal firms in the private sector depends on the definition. Older data show that, in Morocco, 55 percent of micro and small firms are unregistered and around 89 percent of micro and small firms are not affiliated with social security. In Lebanon, 50 percent of micro and small firms are unregistered and 78 percent of micro and small firms are not affiliated with the social insurance scheme (Gatti et al., 2014). In the Arab Republic of Egypt, 69 percent of small enterprises were informal (unregistered) in 2018 (Krafft et al., 2024). Evidence suggests that informal and formal sectors in MENA are segmented—with limited worker mobility between them and informal firms operating without formal registration for the greatest number of years of any region (Gatti et al., 2014). Understanding the status of the informal enterprises is critical to a comprehensive understanding of the state of the private sector.

One of the consequences of unfavorable business conditions, stemming from the lack of contestability, is a high level of informality among enterprises. The large state footprint in the economy and the almost unfettered ability of public officials to decide whether to exclude or aid specific players create barriers to entry that allow a few protected firms to thrive while small firms strive to survive (Gatti et al., 2014), often as informal enterprises. Limited competition combined with distortionary regulations—such as price controls and restrictions on foreign entry, weak contract enforcement, and uneven tax systems—discourage firms from growing, becoming productive, and formalizing (Lopez-Acevedo et al., 2023).

Figure II.6 Informal employment and output

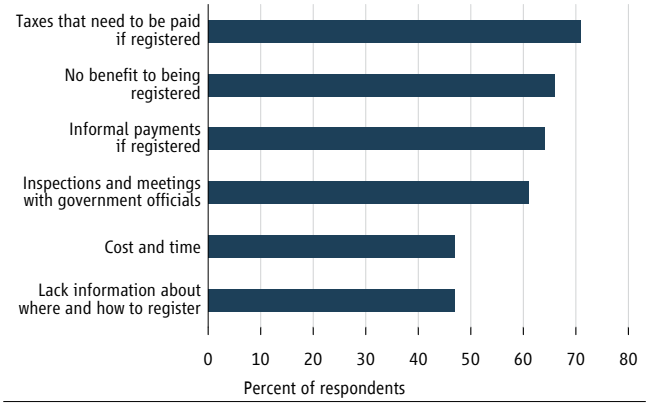


Sources: Panel A - International Labour Organization, ILOStat. Labor force surveys from national statistical offices. Panel B - World Bank Informal Economy database https://www.worldbank.org/en/research/brief/informal-economy-database.
Note: SYR = Syrian Arab Republic. YEM = Republic of Yemen. PSE = West Bank and Gaza. MAR = Morocco. TUN = Tunisia. EGY = Arab Republic of Egypt. JOR = Jordan. LBN = Lebanon. DZA = Algeria. IRN = Islamic Republic of Iran. IRQ = Iraq. OMN = Oman. SAU = Saudi Arabia. KWT = Kuwait. BHR = Bahrain. ARE = United Arab Emirates. QAT = Qatar. Panel A shows the informality rate (as a percent of total employment) for each country for the latest year available, as follows: Republic of Yemen (2014); Djibouti (2017); Morocco (2018); Lebanon and Tunisia (2019); Jordan, Iraq and West Bank and Gaza (2021), Arab Republic of Egypt (2022). Panel B shows informal output as a percent of GDP for 2019, as estimated by the dynamic general equilibrium model. Income group categories correspond to the income group of the country at the survey year in Panel A, while in Panel B the income classification is based on 2019 that is the year corresponding to the data. Hence, YEM is classified as lower-middle-income in Panel A and low-income in Panel B. Income group averages (ex-MENA) are the averages across non-MENA countries in the corresponding income groups. In Panel A lower-middle-income countries comprise 42 countries from 2009 to 2022. Upper-middle-income countries comprise 34 countries from 2016 to 2021. High-income countries comprise 38 countries from 2016 to 2021. In Panel B low-income countries comprise 66 countries. Lower-middle-income countries comprise 89 countries. Upper-middle-income countries comprise 63 countries; High-income countries comprise 50 countries. Countries are ordered in ascending 2023 real GDP per capita (2021 PPP$), within income groups.

Data on informal enterprises in the region are scarce, but valuable insights into the role of informal firms in the overall private sector could be drawn from two countries: Iraq and the Arab Republic of Egypt.

Moosa et al. (2023) report findings from the *Informal Enterprise Survey* in Iraq, one of the first countries to implement such a survey. Informal firms are on average smaller than formal ones. The average number of workers employed by informal businesses is 2.2, slightly less than their formal peers, and average sales in the month preceding the survey for informal firms were only a quarter as large as the sales of formal firms of comparable size. Informal businesses are started as a last resort—75 percent of them were launched because the owner had no other source of income. Owners of informal businesses have limited education and experience and less than half of them keep written business records. Lack of confidence in governments and regulatory burden were cited as key reasons for remaining unregistered, and almost two-thirds did not formalize to avoid paying the bribes (dubbed informal payments) associated with formalization (Figure II.7). These findings reinforce the idea that an unfavorable business environment discourages formalization and growth.

Figure II.7 Reasons firms cite for not registering with Iraqi authorities



Source: Moosa et al. (2023).

Informal businesses in Iraq are on average less productive than comparable formal enterprises, perhaps because of limited human capital and lack of productivity-enhancing business practices. However, there is a group of informal firms that are at a par in terms of productivity with their formal peers—which suggests differences among informal firms—as a mix of small, unproductive firms and more productive informal firms that compete with their formal peers. These groups could have differential contributions to overall private sector productivity.

Although the Arab Republic of Egypt's informal enterprises underperform formal ones in terms of productivity, they narrowed the productivity gap and drove job growth during the past two decades. The Arab Republic of Egypt's survey (called Economic Census) data for 2012/2013 and 2017/2018 show that value-added per worker—a measure of labor productivity—at informal firms increased from 41.4 percent of the value added per worker at formal firms to 65.7 percent (based on additional analyses from Krafft and Assaad (2018) and subsequent updates using 2017/2018 firm-level survey data). The productivity gap between informal and formal firms in the Arab Republic of Egypt is much smaller than the gap La Porta and Shleifer (2014) found for 27 country-year surveys, where informal firms' median productivity was 15 percent that of formal firms. Furthermore, Krafft and Assaad (2018) finds that the informal economy has been the main driver of job growth in the Arab Republic of Egypt over the 1996–2017 period, absorbing workers who could not afford to remain unemployed. Overall, labor demand is not driven by productive firms—if anything, job growth has shifted to lower-productivity activities.

It is commonly perceived that informal firms are a drag on aggregate productivity growth. The data available for Iraq and the Arab Republic of Egypt support that perception. However, the data also suggest a need for a more nuanced understanding of markets and policy actions that take heterogeneity of informal firms into account.

Low engagement of women in the private sector

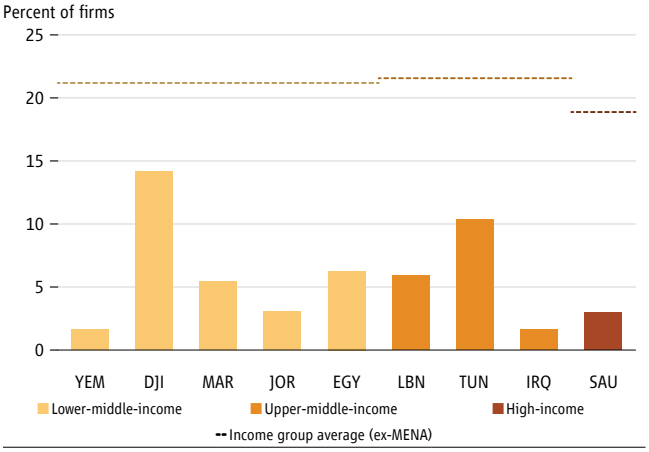
Women in MENA are largely not in the labor market. Female labor force participation, which averages 18 percent in MENA, is the lowest among all regions and well below the world average of 49 percent in 2023.[42] Low participation is a longstanding issue. With the notable exception of countries in the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates), the female labor force participation rate has changed little over the past two decades. An extremely low female labor force participation (FLFP) may constrain private sector growth, because private employers are not leveraging a highly educated and skilled swath of potential workers.

Low FLFP is a complex issue in MENA. Both supply-side factors (such as gender norms around work and family, lack of childcare, safety and workplace concerns, household-level economic incentives) and demand-side factors (such as gender norms at the workplace, perceptions of managers, cost of gender integration at the workplace, substitutability with foreign workers) play a role. Demand and supply factors play out within a legal and regulatory framework that is biased against women. There has been some notable progress, especially in Saudi Arabia, in bringing more women into the workforce in recent years. However, overall progress in the region has been slow. Raising FLFP will require a holistic and concerted effort to change social and legal norms. This report will highlight one novel and promising approach to increasing the number of women in the labor force: bringing in more female managers.

Women are largely left out of decision-making positions in the MENA private sector. MENA economies consistently underperform their income peers with regard to the share of firms with female top managers (Figure II.8). About 21 to 22 percent of businesses in middle-income economies have female top managers. According to the latest surveys, the share of firms with female top managers for middle-income MENA economies is much lower. Sometimes it is in the single digits—in the Arab Republic of Egypt, 6.3 percent of firms have a top female manager. In Lebanon it is 5.9 percent; in Morocco, 5.4 percent; and Jordan, 3 percent. Only Djibouti (14.2 percent) and Tunisia (10 .4 percent) are in double digits. In high-income Saudi Arabia, only 2.95 percent of firms have a female top manager—compared with the high-income average of 18.7 percent.

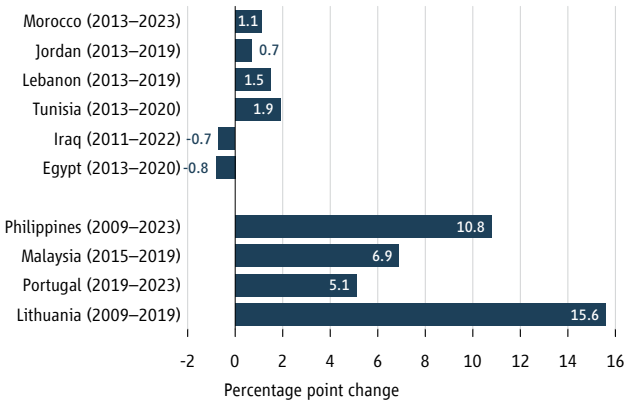
42 Male labor force participation rate for 2023 is 73 percent globally, and 70 percent for MENA (ILO National estimates).

Figure II.8 Share of firms with female top manager



Source: World Bank staff calculations based on data from the World Bank *Enterprise Surveys*.
Note: YEM = Republic of Yemen, DJI = Djibouti. MAR = Morocco, TUN = Tunisia. EGY = Arab Republic of Egypt. JOR = Jordan. LBN = Lebanon. IRQ = Iraq. SAU = Saudi Arabia. The figure shows the weighted average of firms with female top managers, using sample weights, for the latest survey year available. The following surveys are included for MENA (survey year in brackets): Republic of Yemen (2013), Djibouti (2013), Jordan (2019), Lebanon (2019), Tunisia (2020), Arab Republic of Egypt (2020), Iraq (2022), Saudi Arabia (2022), and Morocco (2023). Countries are ordered in ascending 2023 GDP per capita (2021 PPP$) within income groups. Income group averages (ex-MENA) are the averages across non-MENA countries in the corresponding income groups. Income group averages use the latest date available for countries in that group, ranging from 2009 to 2023. Countries are categorized into income groups based on historical World Bank income classifications for the year of the survey. Income group averages exclude countries from the Middle East and North Africa.

Figure II.9 Change in the share of firms with a female top manager



Source: World Bank staff calculations based on data from the World Bank *Enterprise Surveys*.
Notes: The figure represents, for each country, the increase in the percentage of firms with a female top manager during the period indicated in brackets—which are the first and latest *Enterprise Survey* dates available for each country. Survey weights were applied. Countries are ordered in ascending 2023 GDP per capita (2021 PPP$).

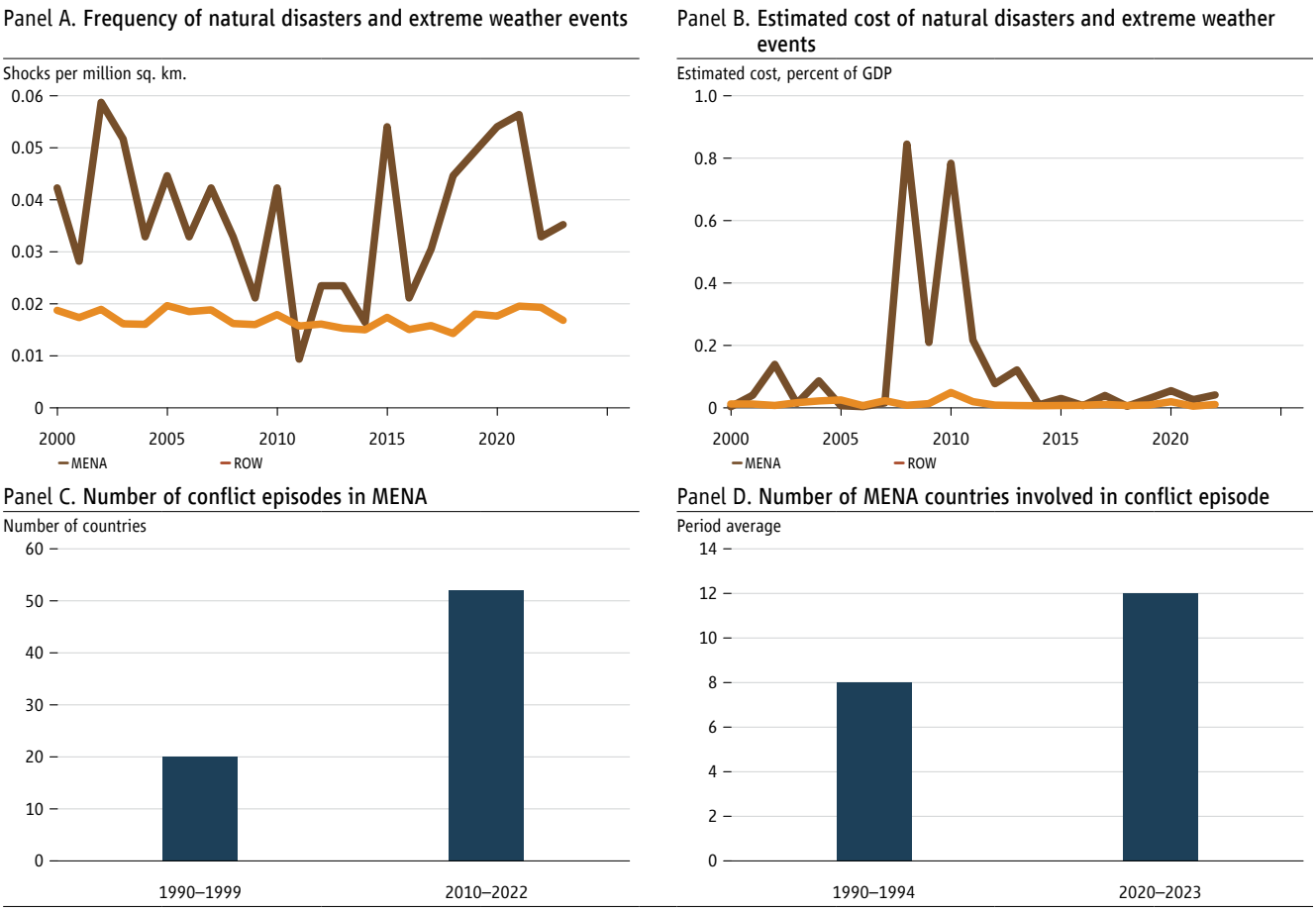
There have been some positive developments—even if at a glacial pace. Of the six MENA economies for which there are multiple rounds of surveys, four have had an increase in the share of firms with female top managers. Figure II.9 shows the percentage point difference in the share of firms with female managers between the two rounds of surveys. The increases range from 0.7 percentage points in Jordan to 1.9 percentage points in Tunisia. In Iraq the number of firms with female top managers declined 0.7 percentage points and the Arab Republic of Egypt showed a decline of 0.8 percentage points. In absolute terms, the increases were far smaller than in such peer economies as Malaysia, Philippines and Lithuania, but the relative increases are considerable. The share of top female managers increased by 30 percent in Jordan and by 33 percent in Lebanon—faster than in Malaysia (26 percent) and close to the Philippines (36 percent).

II.3 External shocks: Conflict and extreme weather shocks

The structural challenges documented thus far increase the vulnerability of the MENA private sector to external shocks. This section highlights two important unpredictable events that could damage the MENA private sector—conflict and extreme weather. These emerging and intensifying external shocks pose significant challenges for private sector firms that are already struggling with low growth and productivity. First, episodes of conflict in MENA involving casualties more than doubled from 20 in the 1990s to 52 since 2010. Conflict affects a growing share of MENA countries in the region—12 of 19 economies had episodes of armed conflict in the past four years compared with eight economies during 1990–1994. Second, the MENA region is vulnerable to more frequent natural disasters and extreme weather events than the rest of the world (Figure II.10, Panel A). The economic costs of these shocks are high—a typical shock caused damages of about 0.13 percent of GDP in MENA compared with 0.014 percent in the rest of the world (Figure

II.10, Panel B). Recent literature and analysis of firm-level surveys provide some evidence on how firms have fared under these conditions. However, surveys have inherent data challenges such as limited coverage in terms of firm size, sector, and time period, which result in an incomplete overall picture.

Figure II.10 Natural disasters and extreme weather events in the Middle East and North Africa



Sources: Centre for Research on the Epidemiology of Disasters, Emergency Events database. Gatti et al. (2024a). World Bank, *World Development Indicators*.
Note: MENA = Middle East and North Africa. ROW = Rest of the World. In Panel A and B, natural disasters and extreme weather events include droughts, earthquakes, extreme temperatures, floods, glacial lake outburst floods, storms, mass movements (wet and dry), volcanic activity, and wildfires. Panel C and D show per year averages for each time period. Following the Uppsala Conflict Data Program (UCDP) data, a country is in conflict if it experiences at least 25 conflict-related deaths in a year. There are 19 countries in the MENA region.

Conflict and the MENA private sector

Conflicts have plagued the MENA region in recent decades and seriously hurt the private sector. Firms in areas affected by conflict are likely to lose revenues (Brancati et al., 2024) and exit the market (Camacho and Rodriguez, 2013; Del Prete et al., 2023). Revenue losses are the result of the disruption of access to inputs, especially for firms dependent on foreign inputs, and/or a decline in consumer demand. Access to capital is also likely to be difficult because uncertainty makes lenders hesitant. Deterioration in human capital or worker absences due to conflict may also hurt firm performance (Collier and Duponchel, 2013; Ksoll et al., 2023).

However, firms do try to adapt—a key point of this section. Global analyses of the microeconomic effect of conflict show that as surviving firms lose access to inputs, they also lose revenues. They do try and adapt by reducing expenditures on labor, which offsets the revenue losses and keeps profits steady. However, this does not occur in economies with poor

governance, or in countries that were not perennially in conflict but faced it for the first time, where businesses suffer larger negative effect on economic outcomes, including sales and profits (Brancati et al., 2024). In both cases, surviving businesses are unable to adapt through labor expenditures, and thus profits fall. There are conflicting trends in MENA. On one hand, conflict is frequent in some MENA economies, which can limit the effects of an additional conflict event on the profits of surviving firms. However, the quality of the bureaucracy across MENA economies is wanting, which suggests that profits of surviving firms could be affected by conflict. This warrants a closer look at specific country contexts within the MENA region to understand how conflict affects the MENA private sector. There are two studies in the literature that do so—one for Libya and the other for the West Bank and Gaza.

The Libyan private sector consists mainly of small firms, is import-dependent, and relies on a foreign workforce. Using micro survey data combined with geocoded conflict data, Del Prete et al. (2023) find that the Second Civil War in Libya (2014–2020) resulted in a reduction in revenues at private sector firms, with many of them—especially those dependent on foreign inputs—exiting the market. These firms may be the most productive ones in the economy. An increase of about 10 incidents of conflict resulted in a 1.4 percent reduction in firm revenues. However, the effect of the conflict declines as conflicts intensify. Surviving firms face fewer competitors and gain larger market share, which enables them to adapt and limits the bad effects of the conflict.

Amodio and Di Maio (2018) studied the West Bank and Gaza during the Second Intifada between 2000 and 2006. Their key finding is that conflict results in substitution away from foreign inputs towards domestic inputs. Conflict increases uncertainty, which reduces the bargaining power firms have with foreign suppliers. For example, foreign suppliers may demand payments in advance which reduces firm liquidity. Similarly, foreign suppliers may reduce credit lines. The study finds that the value of output of firms in high conflict districts would be 6.4 percent higher in the absence of conflict, and impaired access to foreign inputs explains about 70 percent of the drop in value.

There is still much to learn about how specific conflicts affect the private sector in MENA. Moreover, much of the data are based on surveys of formal firms, which largely omits the informal sector that is so important to MENA employment. Furthermore, longitudinal survey data (which follow firms over a long period) in MENA are rare, making it difficult to assess how conflict affects entry and exit. These data deficiencies make it difficult to formulate policy recommendations.

But there are some insights to be gained from the available evidence. Governance matters. Improving governance can build the resilience of the private sector during periods of conflict. Building government capacity can help protect the private sector. The challenge, of course, is that poor governance may have invited conflict in the first place. Preserving access to imported inputs as well as access to credit lines is essential for the private sector to survive conflict situations. Preserving input markets is not an easy task under conflict situations. Finally, the finding that countries that have never experienced conflict before are more affected by conflict situations has two implications. For MENA economies perennially under conflict, the private sector has shown resilience and adaptability under challenging circumstances. Second is that it is vital to ensure that conflict does not spread to parts of the region that are relatively unaffected to limit the potential costs.

Extreme weather shocks and firm performance

The MENA region is susceptible to extreme weather events. Recent research has highlighted the myriad ways that variations in temperature and extreme weather shocks, especially droughts, can damage the private sector (Gatti et al., 2024b; Kassa and Woldemichael, 2024; Behrer et al., 2024). A recent study by Zaveri et al. (2024) explores some of

these effects using WBES data available for 9,500 formal firms in seven countries in MENA—the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza, and the Republic of Yemen.

The geocoded location of firms is matched with satellite data to measure precipitation shocks—the proxy for extreme weather events. Information on precipitation is based on data from the European Copernicus program, the Earth Observation component of the European Union's space program. Annual shocks are defined as instances when the annual precipitation within a sub-national administrative level 2 unit is at least one standard deviation above or below that unit's long-run average (1990–2021).[43]

The results show that droughts (proxied by negative precipitation shocks) lead to a 40 percent reduction in sales for firms in MENA (Figure II.11, Panel A). The fall in labor productivity due to droughts is about 42 percent. The findings indicate that part of the fall in labor productivity is the result of firms shifting from permanent to temporary workers (Zaveri et al., 2024). The effects on labor productivity may also be the result of deteriorating health and absenteeism of workers. Somanathan et al. (2021) found such an effect in India, but WBES data for MENA do not include such information.

Furthermore, droughts reduce the share of firms that are likely to invest by 9 percentage points. This can be explained by disruptions in access to finance. Frequent weather shocks hurt the capability of banks to predict firm performance, which induces lenders to raise interest rates and increases the cost of capital (Kling et al., 2021; Javadi and Masum, 2021; Brown et al., 2021). Extreme weather events may also erode balance sheets because firms become more leveraged as they deal with the shocks (Benincasa et al., 2024). Weather shocks can also create liquidity shortages, increase loan defaults, hurt credit scores and thus impair access to future credit (Aguilar-Gomez et al., 2024). For MENA economies, droughts are associated with not having a loan or line of credit, and lower use of bank financing for working capital (Figure II.12, Panel A).

Droughts lead to greater water shortages and power outages for MENA economies (Figure II.12, Panel B). This is consistent with the literature (Islam and Hyland, 2019; Desbureaux and Rodella, 2019). The effect of droughts on water supply is more obvious than the effects on power supply. Most power generating activities require water, even if hydropower is not used. Moreover, extreme heat can increase demand for electricity, which can result in power service interruptions. Disruptions in infrastructure hurt the performance of firms in the region.

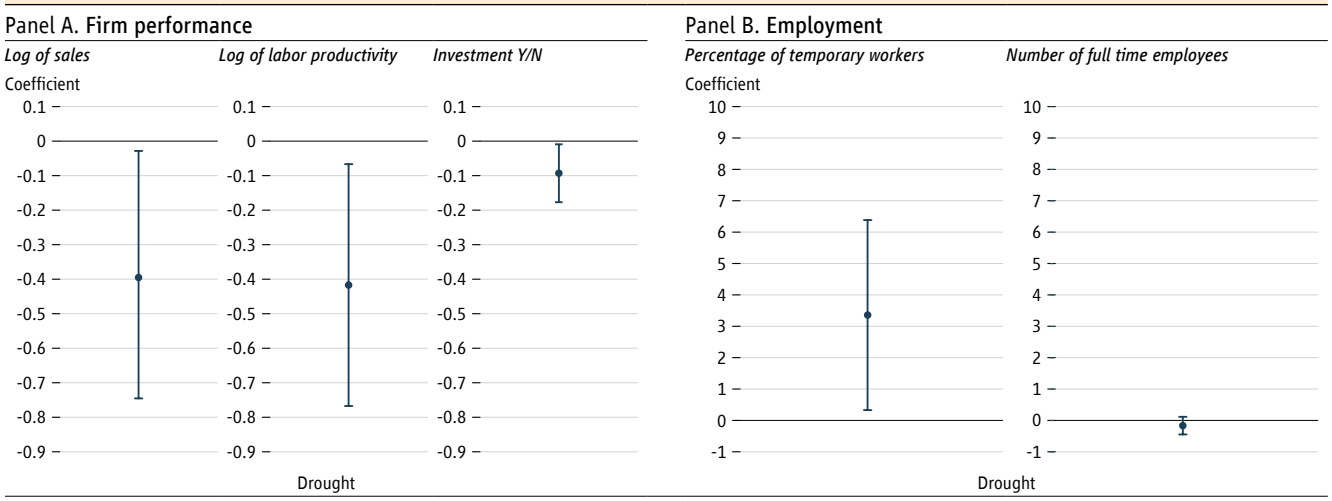
Droughts also seem to increase the amount of time senior management must spend dealing with the requirements of government regulations and the expectations of bribes (Figure II.13). These findings suggest that weakening economic conditions might lead to more rent-seeking behavior. Governments may burden firms with more regulations or extract more rents due to the budget effects of dealing with extreme weather events.

There is a bright spot from an extreme negative precipitation episode. Droughts increase the likelihood that water management practices are adopted by 19.1 percentage points; that more climate-friendly energy generation occurs on site by 15.6 percentage points; and that machinery and equipment are upgraded by 39.2 percentage points (Figure II.14). This suggests that firms in MENA's private sector exhibit some resilience and ability to adapt.

Although firm surveys provide a breadth of information, they have limitations. Much of the analysis may be looking only at survivor firms and omit firms that may have closed after the drought because entry and exit rates are unknown. Furthermore, micro firms and the informal sector are largely omitted from the analysis. Finally, the effects on total factor productivity (TFP) are not detectable because of the difficulty of calculating TFP from firm surveys.

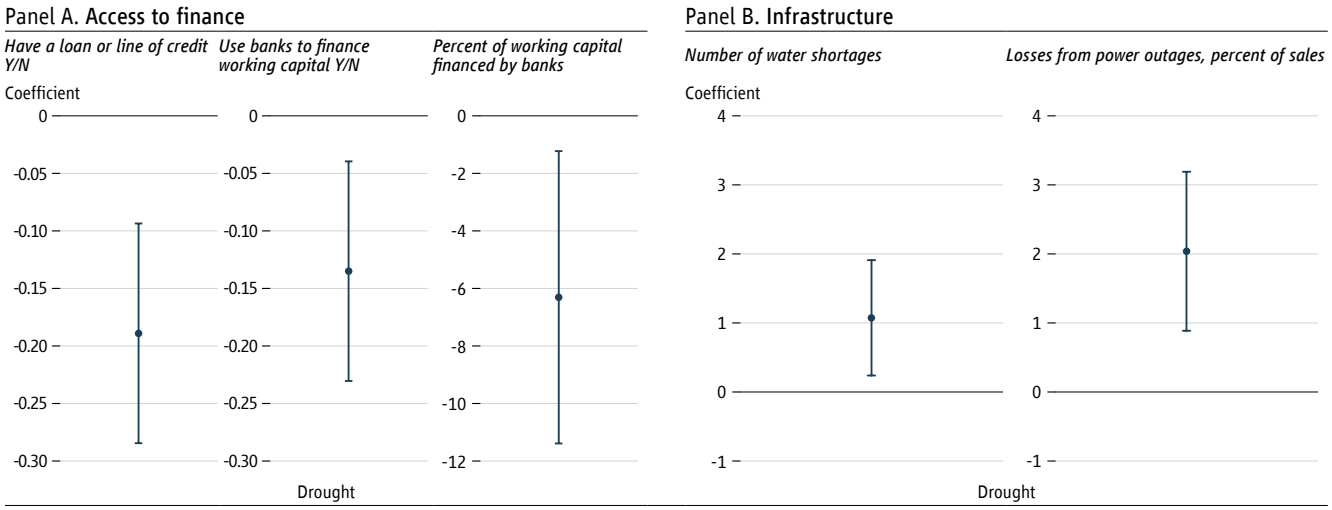
43 Through the ERA5-Land data platform data on precipitation available at the hourly level on a 0.1 × 0.1 grid for the planet from 1979–2022. The daily data are available from 1990–2021. The data are processed to measure annual precipitation totals within each sub-national administrative level 2 (ADM2) unit that contains at least one firm in the WBES data.

Figure II.11 Effects of droughts (negative precipitation shocks) on firms and employment



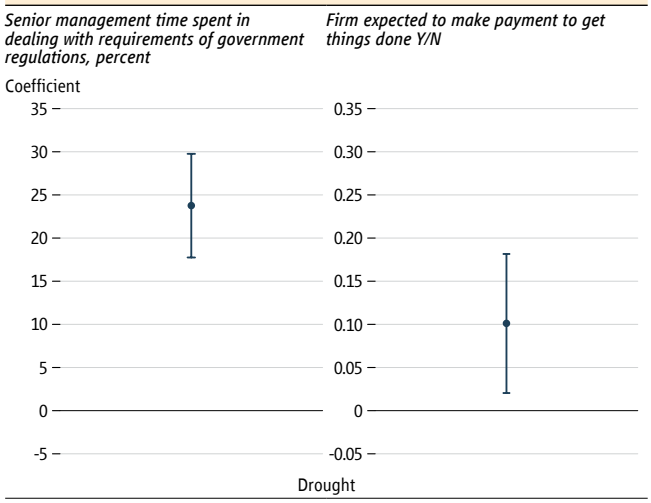
Source: Zaveri et al., (2024).
Notes: The figure presents the results of separate firm-level regressions where firm-level outcomes are regressed on droughts (negative precipitation shocks). Y/N = binary yes or no question. The firm performance outcome variables are: (i) log of sales (in US$, deflated) (ii) log of sales per worker (US$, deflated) and (iii) whether or not a firm invested in physical capital over the last fiscal year (Panel A). The employment outcomes include (i) percentage of temporary workers and (ii) number of full time employees (Panel B). All figures display the coefficient plot point estimates of the drought variable with 90 percent confidence intervals. Droughts are proxied by a negative precipitation shock that is a binary variable that takes the value of 1 if annual precipitation totals—within each sub-national administrative level 2 (admin 2)—are at least one standard deviation below that unit's long-run average (1990–2021). Control variables include the following: Firm is part of a larger firm Y/N, Log of age of firm, Direct exports Y/N (10 percent or more of sales) Y/N, Foreign ownership Y/N, Establishment has checking or savings account Y/N. The estimations include admin 1 fixed effects, sector (ISIC 2 Digit) fixed effects and year fixed effects. The economies in the sample comprise of the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza, and the Republic of Yemen. Except for the Arab Republic of Egypt and the Republic of Yemen, the countries have two rounds of data—in 2013 and in 2019/2020. The Arab Republic of Egypt has three rounds of data (2013, 2016 and 2019/2020). The Republic of Yemen has two waves in 2010 and 2013. Standard errors are clustered at the strata level. Survey weights are used.

Figure II.12 Droughts (negative precipitation shocks) and access to finance and infrastructure services



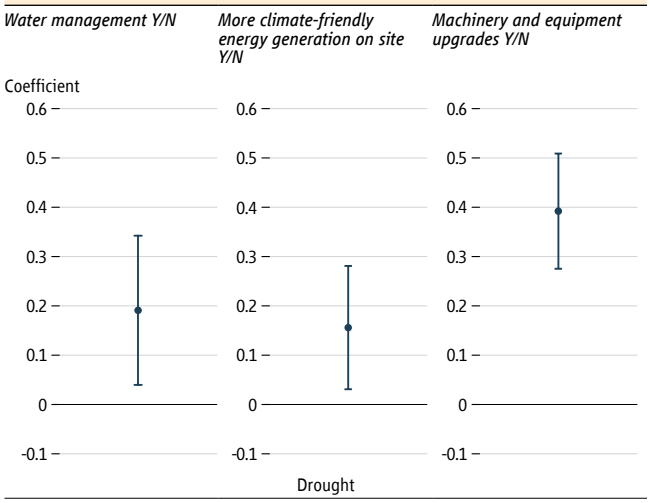
Source: Zaveri et al. (2024).
Note: The figure presents the results of separate firm-level regressions where firm-level outcomes are regressed on droughts (negative precipitation shocks). Y/N = binary yes or no question. The access to finance outcome variables are: (i) firm has a loan or line of credit Y/N (ii) firm uses banks to finance working capital Y/N and (iii) share of working capital financed by banks (Panel A). The infrastructure outcome variables include: (i) number of water shortages and (ii) losses from power outages as a percent of sales (Panel B). All figures display the coefficient plot point estimates of the drought variable with 90 percent confidence intervals. Droughts are proxied by a negative precipitation shock that is a binary variable that takes the value of 1 if annual precipitation totals—within each sub-national administrative level 2 (admin 2)—are at least one standard deviation below that unit's long-run average (1990–2021). Control variables include the following: Firm is part of a larger firm Y/N, Log of age of firm, Direct exports Y/N (10 percent or more of sales) Y/N, Foreign ownership Y/N, Establishment has checking or savings account Y/N. The estimations include admin 1 fixed effects, sector (ISIC 2 Digit) fixed effects and year fixed effects. The economies in the sample comprise of the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza, and the Republic of Yemen. Except for the Arab Republic of Egypt and the Republic of Yemen, the countries have two rounds of data—in 2013 and in 2019/2020. The Arab Republic of Egypt has three rounds of data (2013, 2016 and 2019/2020). The Republic of Yemen has two waves in 2010 and 2013. Standard errors are clustered at the strata level. Survey weights are used.

Figure II.13 Droughts (negative precipitation shocks) and governance



Source: Zaveri et al., (2024)
Note: The figure shows the results from separate regressions where firm-level outcomes are regressed on droughts (negative precipitation shocks). Y/N= binary yes or no question. The outcome variables are: (i) senior management time spent in dealing with requirements of government regulations (Panel A) and (ii) firms expected to make payments to get things done (Panel B). All figures display the coefficient plot point estimates of the drought variable with 90 percent confidence intervals. Droughts are proxied by a negative precipitation shock that is a binary variable that takes the value of 1 if annual precipitation totals—within each sub-national administrative level 2 (admin 2)—are at least one standard deviation below that unit's long-run average (1990–2021). Control variables include the following: Firm is part of a larger firm Y/N, Log of age of firm, Direct exports Y/N (10 percent or more of sales) Y/N, Foreign ownership Y/N, Establishment has checking or savings account Y/N. The estimations include admin 1 fixed effects, sector (ISIC 2 Digit) fixed effects and year fixed effects. The economies in the sample comprise of the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza, and the Republic of Yemen. Except for the Arab Republic of Egypt and the Republic of Yemen, the countries have two rounds of data—in 2013 and in 2019/2020. The Arab Republic of Egypt has three rounds of data (2013, 2016 and 2019/2020). The Republic of Yemen has two waves in 2010 and 2013. Standard errors are clustered at the strata level. Survey weights are used.

Figure II.14 Droughts (negative precipitation shocks) and adaptation



Source: Zaveri et al., (2024).
Note: The figure shows the results from separate regressions where firm-level outcomes are regressed on droughts (negative precipitation shocks). Y/N = binary yes or no question. The outcome variables are: (i) adopted water management practices over the last 3 years Y/N, (ii) adopted more climate-friendly energy generation on site Y/N, and (iii) firm updated machinery and equipment Y/N. All figures display the coefficient plot point estimates of the drought variable with 90 percent confidence intervals. Droughts are proxied by a negative precipitation shock that is a binary variable that takes the value of 1 if annual precipitation totals—within each sub-national administrative level 2 (admin 2)—are at least one standard deviation below that unit's long-run average (1990–2021). Control variables include the following: Firm is part of a larger firm Y/N, Log of age of firm, Direct exports Y/N (10 percent or more of sales) Y/N, Foreign ownership Y/N, Establishment has checking or savings account Y/N. The estimations include country and sector (ISIC 2 Digit) fixed effects. The economies in the sample comprise of the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, and West Bank and Gaza, for one round of data (2019/2020). Standard errors are clustered at the strata level. Survey weights are used.

II.4 Rethinking the role of government - constraints and policies

Changing the role of the state is one way to improve productivity in the private sector—especially by increasing market contestability. Among other things, the state can increase data transparency, reconsider its footprint in terms of employment and SOEs, improve the business environment, and be cautious about industrial policy.

Data transparency

Lack of data is a significant challenge in the region. A good understanding of the state and the evolution of private sector productivity and dynamism are essential to informed policymaking to stimulate private sector growth. Whether such analysis is possible depends on the availability of high-quality firm-level data. Unfortunately, the availability of such data in MENA is inadequate, which limits any analysis to partial snapshots of the private sector. The lack of firm-level administrative data has long hampered analysis of firm dynamics in the region. As noted above, such analysis is feasible only for two MENA economies—Morocco and Tunisia. Having more frequent and accessible firm census data would enable the analysis of both formal and informal firms. More broadly, the challenge of data is not simply about monitoring and analytics. Estimates by Islam and Lederman (2024) show that the decline in data transparency in the

developing MENA region between 2005 and 2018 amounted to a loss of around 5.9 to 7.5 percent of GDP per capita. This is because credible and timely data that are accessible to the broader civil society can generate better policies and reforms.

Table II.1 Availability of establishment/firm census and registration micro firm-level data

	Published Firm Dynamics	Economic Census Data	Compiled Firm Registration Data with Sales and Employment	Data verified
Algeria				
Bahrain				
Djibouti				
Arab Republic of Egypt				
Islamic Republic of Iran				
Iraq				
Jordan				
Kuwait				
Lebanon				
Libya				
Morocco				
Oman				
Qatar				
Saudi Arabia				
Syrian Arab Republic				
Tunisia				
United Arab Emirates				
West Bank and Gaza				
Republic of Yemen				
	Five of 19	Seven of 19 within the past 10 years	Six of 19	Six of 19

Note: For column "Published Firms Dynamics": This column evaluates whether there is published productivity decomposition or employment transition matrix analysis based on firm-level administrative data. Full analysis (green) means "between" and "within" components are analyzed based on firm-level administrative data. Partial (yellow) means employment transitions by firm size are analyzed based on firm-level administrative data. Red means no analysis.
For column "Economic Census Data": This column evaluates whether firm or establishment census covering both formal and informal firms exists, but it does not evaluate accessibility. A red-colored cell indicates that no census is mentioned in a national statistical office website; yellow means the latest census is older than 10 years; green means the latest census is from 2015 or later.
For column "Compiled Firm Registration Data with Sales and Employment": Data covering all formal firms, with sales and employment data, compiled in one place, exists. These are data that combine information from different databases— tax administration, social security, customs.
For column "Data verified": Either census or registration microdata exists and coverage and variables are verified through direct access to microdata, World Bank staff , or existing analyses. Census data are verified for the Arab Republic of Egypt, Jordan, and West Bank and Gaza. Registration data are verified for Lebanon, Morocco, and Tunisia. Censuses in the Arab Republic of Egypt and West Bank and Gaza do not include revenue information. Although the Arab Republic of Egypt has census data, lack of data on revenue and the inability to trace firms over time means firm dynamics is not feasible. Assaad et al. (2020) only capture employment dynamics. Firm dynamics for the Islamic Republic of Iran are presented in Rahmati and Pilehavari (2019) but is based on firm survey data and thus not included in the table. Similarly, although important work has been done using the Saudi Arabia Nitaqat administrative data (Peck, 2017), the dataset itself lacks information on revenues and thus firm dynamics is not feasible.

Table II.1 documents the limited availability and accessibility of administrative firm-level microdata (establishment census and registration lists) in the region. As the initial test of data availability at an adequate quality level, the first column documents the publication of firm dynamics analysis across the region. Both complete and partial firm dynamics are considered. Complete firm dynamics is the decomposition of productivity into "within," and "between" components—the analysis done in this report for Tunisia and Morocco—using administrative firm-level data. Partial firm dynamics refers to the analysis of firms' transitions through different size categories based on administrative firm-level data. By looking into whether small firms can grow and transition into larger size categories, this type of analysis

provides a sense of business dynamism. The table documents published complete or partial firm dynamics through a number of sources. First, it examines World Bank reports and other well-known publications. Second, it conducts searches through Google Scholar. Third, it leverages the work by Stacy et al. (2024) that tracks academic data use by country of interest by applying natural language processing to open-access research papers. About 11 million papers are available from the Semantic Scholar Open Research Corpus for the years 2000–2020. Of these, about 380,000 articles with abstracts were classified as papers in the fields of economics, political science and business. Around 66,000 articles were on establishments and/or firms, but only about 17,000 articles were on specific countries. Of those, about 835 articles were about the MENA region. Machine learning techniques were then deployed to determine how many of these articles were based on data. Each of these articles was then manually evaluated for verification. This approach yielded the findings in column 1 of Table II.1 that show that published firm dynamics (both partial and complete) were found for five of MENA's 19 economies, and only two of these economies had complete firm dynamics. There is much need and scope for improving access to administrative firm-level data in MENA.

A second question is whether the type of data needed for firm-level productivity decomposition (labelled as complete firm dynamics in column of 1 of Table II.1), such as establishment census or registration lists, is unavailable or inaccessible. In the second step, the team directly searched for the availability of two types of data that can potentially enable rigorous productivity analysis: economic census and firm registration. Column 2 of Table II.1 tracks the availability of economic (firm/establishment) census data covering both formal and informal firms through national statistics offices. Seven of 19 economies in the MENA region appear to have had an economic census since 2014. Column 3 of Table II.1 tracks the availability of compiled firm registration data. These are data that combine information from different databases—tax administration, social security, customs—to cover all formal private sector firms. These data may not be maintained within national statistics offices and therefore may be hard to find. Even though almost every country may have a registration list, to be suitable for firm dynamics, such a list would have to cover the entire formal private sector and at least have information on sales and employment. Such data enabled the analysis for Morocco and Tunisia highlighted in this report. Six economies in the MENA region have been identified as having compiled registration data.

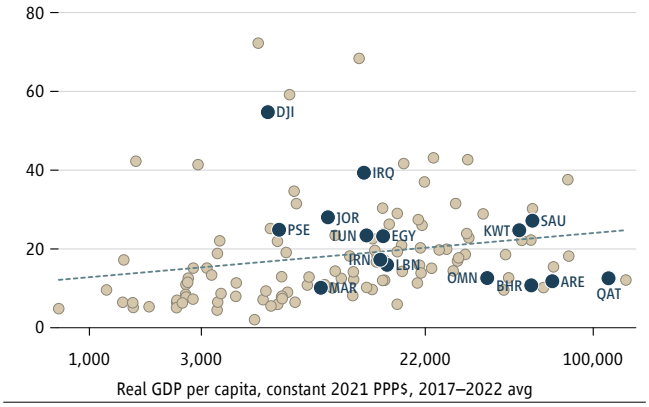
The availability documented in the Columns 2 and 3 was based on information from national statistics offices, publications, World Bank resources, and direct communication with World Bank country economists. However, not all data that are known to exist are accessible. As a result, whether the data are of adequate scope and quality for rigorous firm level analysis could not always be verified. For example, some census data may have size or sector restrictions, or include only a set of surviving firms available for a short space of time. The data may be missing information on firm output, such as revenues or value added, which is critical for calculating productivity. The last column on Table II.1 documents whether the census and/or registration data for each country are verified to meet these criteria. Data in only six of 19 countries were verified, based on the team's direct access to the database or existence of analysis using the data. Another noteworthy data challenge is the availability of data across time. Following firms across multiple years is necessary to identify entry and exit, a key dimension of business dynamism. Only five economies in the region have multiple rounds of economic censuses—the Arab Republic of Egypt, Jordan, Qatar, Saudi Arabia, and West Bank and Gaza. Note that a key advantage of registration data, provided it exists, is that it spans multiple years.

To overcome data challenges, it is important to build the capacity of national statistical offices to implement firm censuses. Improving the capacity of these offices and facilitating coordination across ministries to compile administrative data with information on sales and employment—at a minimum, from various sources covering the formal sector—would permit high quality analysis of firm dynamics. Such capacity-building activities could ensure that firms are anonymized and tracked over time. Availability and access to firm-level administrative data would be a boon for research in the region and may serve as a sample frame for high quality surveys.

State intervention and market contestability

Governments intervene or influence markets in MENA in many ways. One way is through the large employment in the public sector. The public sector may take talent away from the private sector, potentially resulting in a misallocation of resources. Figure II.15 shows the share of public sector employment (defined as the employment in the general government plus public corporations) of total employment is larger than in income peers for many middle-income economies in MENA. Among the countries with available data, Djibouti has the highest percentage of public sector employment at 52.8 percent, followed by Iraq at 37.4 percent. The share of public employment in Morocco is below that of income peers, at 8.25 percent. For the GCC economies the pattern is different. The share of public sector employment is mostly in line with or lower than that of income peers: Saudi Arabia's public employment is the highest at 25.3 percent of total employment; Kuwait is at 22.8 percent; Qatar at 10.7 percent; Oman at 10.7 percent; and Bahrain at 8.9 percent (Hertog, 2025). However, foreign workers make up a large portion of the private sector workforce in the GCC while few nationals work in the private sector. Saudi nationals account for only 21 percent of total private sector employment.[44] The number is 18 percent in Bahrain[45], 22 percent in Oman[46], 4 percent in Kuwait[47], and 1 percent in Qatar.[48] IMF estimates also show that the MENA region has the highest central government wage bill—about 10 percent of GDP compared with 5 percent globally.

Figure II.15 Share of workers in the public sector



Sources: World Bank staff calculations based on International Labour Organization estimates and national statistical offices, Hertog (2025) for GCC countries.
Note: DZA = Algeria. BHR = Bahrain. DJI = Djibouti. EGY = Arab Republic of Egypt. IRQ = Iraq. IRN = Islamic Republic of Iran. JOR = Jordan. KWT= Kuwait. LBN = Lebanon. MAR = Morocco. OMN = Oman. QAT = Qatar. SAU = Saudi Arabia. SYR = Syrian Arab Republic. TUN = Tunisia. YEM = Republic of Yemen. PSE = West Bank and Gaza. ARE = United Arab Emirates. The scatterplot shows the average public sector employment share for the years 2017–2022. The share is the average of all available datapoints that fall in that time frame.

The issue of state dominance is not simply the size of the public sector, which varies across the region, but also how governments intervene in markets—especially through SOEs. SOEs tend to have a larger footprint in MENA economies than in other middle- and high-income economies (Islam et al., 2022). According to an OECD assessment in 2012, SOEs account for 30 percent of total employment in the MENA region, compared to the global average of 5 percent of total employment. SOEs in MENA account for at least 20 percent of GDP (Rigo et al., 2021), significantly more than the 15 percent they account for in the OECD and some African economies, and 8 percent in Latin America.[49]

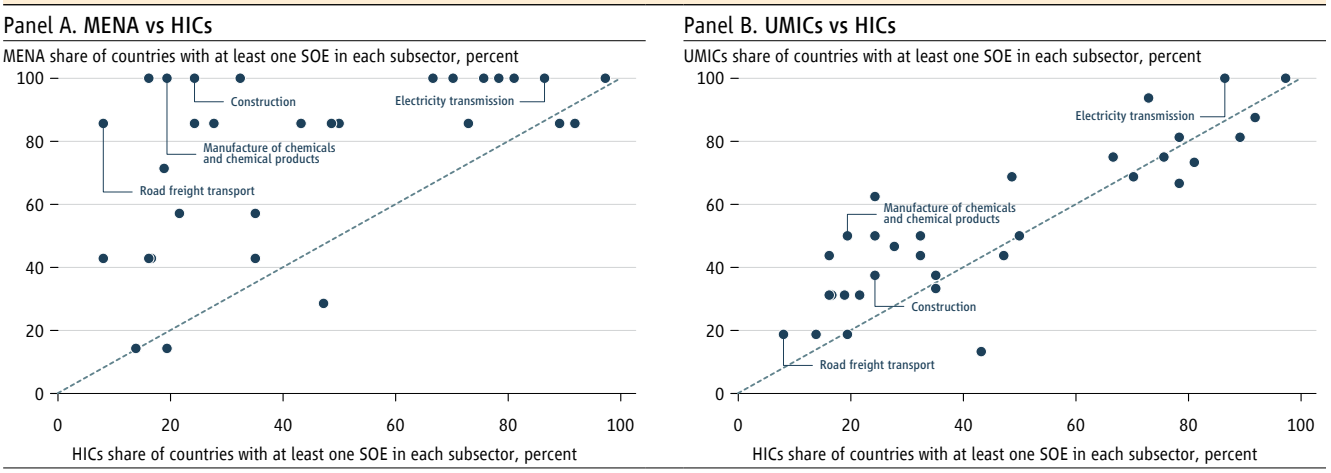
SOEs in MENA tend to be large (Rigo et al., 2021). According to the World Bank's Businesses of the State (BOS) database, the revenues of firms with state participation[50] amount to 47.3 percent of GDP in the Arab Republic of Egypt, 39 percent in Jordan, and 36 percent in Tunisia, compared to the world average of 17 percent of GDP. By the end of June 2019, SOEs in the Arab Republic of Egypt had assets valued at 135 percent of GDP (Colvin and Ladegaard, 2024). In Morocco,

44 General Authority for Statistics, Register-based Labour Market Statistics - Q3 2024 https://www.stats.gov.sa/en/statistics-tabs/-/categories/124074?tab=436312&category=124074 (accessed March 19, 2025).
45 Ministry of Finance and National Economy, Bahrain Economic Quarterly, Third Quarter 2024 https://www.mofne.gov.bh/media/hxqflqoc/beq_en.pdf (accessed March 19, 2025).
46 National Centre for Statistics & Information, Monthly Statistical Bulletin, February 2025 https://www.ncsi.gov.om/Elibrary/Pages/LibraryContentDetails.aspx?ItemID=TZ9fJmPUz6apntA1KqGtaA%3d%3d (accessed March 19, 2025).
47 Integrated Database – LMIS, Labor market data as of 09/30/2024 https://lmis.csb.gov.kw/IntegratedDataView?QID=43 (accessed March 19, 2025).
48 Gulf Labour Markets, Migration, and Population (GLMM) Programme of the Gulf Research Center https://gulfmigration.grc.net/gcc-employed-population-and-percentage-of-non-nationals-in-employed-population-in-gcc-countries-2015-2023-private-sector/ (accessed March 19, 2025).
49 This information is dated, based on a 2008 survey cited in OECD (2012).
50 As defined in World Bank (2023b), the BOSs include firms with direct state ownership over 10 percent, as well as firms indirectly owned by the state through another firm with state participation.

the portfolio of public enterprises was reported to have annual revenues equivalent to 22 percent of GDP (Colvin and Ladegaard, 2024), with some estimates showing that the total assets of the SOE sector exceed 100 percent of GDP (Rigo et al., 2021). The total unconsolidated assets of SOEs in Jordan represented around 20 percent of GDP as of 2019. In Tunisia, 110 SOEs accounted for around 20 percent of GDP as of 2021 (Lopez-Acevedo et al., 2023), up from 9.5 percent in 2014. Many of these SOEs are not profitable. Colvin and Ladegaard (2024) estimate that more than 50 percent of firms with state participation in Tunisia, 30 percent in the Arab Republic of Egypt and Jordan, and 20 percent in Morocco were unprofitable.

The large presence of SOEs diminishes market contestability. This has been highlighted for the Arab Republic of Egypt, Jordan and Morocco through country-specific diagnostics (IFC 2019, IFC 2020, IFC 2021). Figure II.16 shows the share of countries with at least one state-owned enterprise (SOE) operating in each sector in MENA compared with high income countries. In most sectors, the share is larger in MENA than in high-income countries—testifying to the high prevalence of SOEs across a range of sectors in MENA. More importantly, SOEs in MENA operate in sectors that are typically served by the private sectors in other economies. In both high-income and upper-middle-income countries, SOEs tend to be less common in such sectors. Less than 50 percent of the countries have any SOE in most of the sectors typically served by the private sector (Figure II.16, Panel B). In contrast, Figure II.16, Panel A, shows that MENA countries are much more likely to have at least one SOE operating in these sectors—for example, all seven MENA countries in the analysis have an SOE operating in construction, whereas less than 30 percent of high-income countries do.[51]

Figure II.16 Share of countries with at least one state-owned enterprises operating in various sectors



Source: World Bank staff calculations based on World Bank Finance, Competitiveness and Investment (FCI) team estimates.
Note: MENA = Middle East and North Africa. HICs = High Income Countries. UMICs = Upper Middle Income Countries. MENA-7 = Arab Republic of Egypt, Jordan, Kuwait, Morocco, Saudi Arabia, Tunisia, United Arab Emirates. SOEs = State Owned Enterprises. The FCI team collected data for MENA countries using the latest 2024 data applying three-tiered methodology. The first tier employed the World Bank's Businesses of the State methodology, leveraging 2024 Orbis data to identify SOEs. In the second tier desk research was used to identify firms with at least 10 percent state ownership in sectors in which no SOE presence was detected using Orbis data. The third tier integrated data from the 2020 Product Market Regulation (PMR) assessment. The results of the analysis were compared with the latest PMR 2024 data for HICs and upper-middle-income countries to ensure consistency in the findings for the MENA-7 countries. The sample comprises MENA-7 countries, 37 HICs, and 16 UMICs.

Competition between the private sector and SOEs is not always fair. MENA SOEs typically benefit from exemptions from competition, with government agencies acting as both regulators and operators. In many economies, line ministries are owners, policymakers, and regulators—which creates many potential conflicts of interest. Line ministries may appoint the Chief Executive Officer (CEO) of the SOE, draw up and approve SOE budgets and strategies, and set tariffs and regulations. Furthermore, SOEs benefit from easier access to finance. Implicit or explicit government guarantees lower borrowing costs. State-owned banks may also largely serve SOEs—for strategic rather than commercial reasons—which

51 Colvin and Ladegaard (2024) estimate that more than 65 percent of the SOEs in MENA operate fully in sectors that could be served by the private sector. The estimate is 66 percent in Morocco, 67 percent in Jordan, 72 percent in the Arab Republic of Egypt, and 41 percent in Tunisia.

results in higher levels of non-performing loans while credit to the private sector is restricted (Cardarelli et al., 2022). The advantages enjoyed by SOEs could be related to the limited contestability in the MENA private sector. Based on Bureau van Dijk's Orbis database, Cardarelli et al. (2022) empirically explore how SOEs affect competition in eight MENA economies (Algeria, the Arab Republic of Egypt, the Islamic Republic of Iran, Jordan, Kuwait, Morocco, Oman, and Saudi Arabia) and 66 economies from other regions between 2006 and 2018. The authors found that each percentage-point increase in the SOE asset share in a sector is associated with the Herfindahl-Hirschman Index (HHI, a measure of market concentration) increasing by 0.26 in the MENA region compared to only 0.1 in other regions. Furthermore, a 1 percentage point increase in SOE asset share in a sector is associated with a 0.2 percentage point decrease in entry rates and a 0.1 percentage point decrease in exit rates.

This report has highlighted the lack of market contestability in the region due to government interventions through SOEs. A level playing field between SOEs and the private sector based on the principles of competitive neutrality could boost market contestability across the region. The MENA Compact for SOE Reform provides guiding principles and commitments for this work. For example, a clear rationale and clear objectives for state ownership must be established and applied as criteria for deciding what activities should and should not remain in state hands. Separating the state's roles as shareholder, policymaker, and regulator is critical for establishing good governance and avoiding conflicts of interest. The compact underlines the importance of ensuring that SOEs and private sector firms are treated equally, both in practice and under law.

Challenging business environment under governance deficits

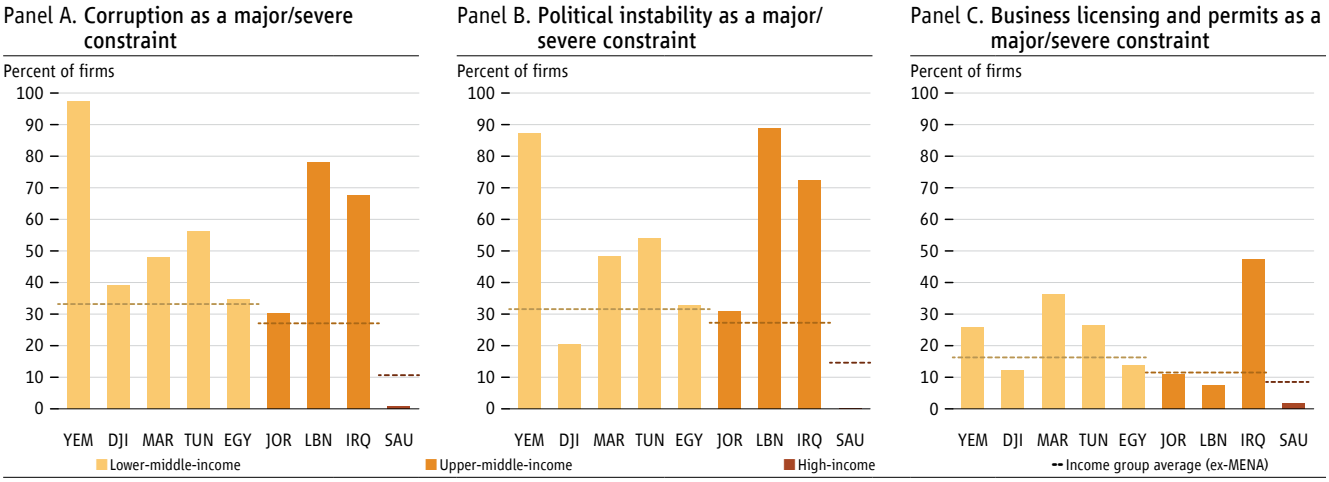
In addition to re-examining the interventionist state that is prevalent in MENA, governments may also need to reevaluate their role in facilitating a good business environment. Creating a conducive business environment can encourage creation of new firms, attract foreign investment, promote market competition and innovation, facilitate operation and expansion of businesses, and support growth and job creation. The region suffers from governance deficits, which create a challenging business environment for private sector firms. The WBES collects information on what firms cite as a major or a severe obstacle to their operations. As shown in Figure II.17, firms in MENA economies are much more likely to perceive corruption, political instability, and business licensing and permits as a major or a severe obstacle to their operations compared to income peers. For example, 97 percent of firms in the Republic of Yemen perceive corruption as a major constraint, 89 percent of firms in Lebanon highlight political instability, and 56 percent of firms in Iraq cite business permits and licensing as key obstacles.

That the business environment is further weakened by the high degree of political connections and cronyism is well documented across the region—including in the Arab Republic of Egypt (Diwan et al., 2020), Lebanon (Diwan and Haider, 2020), Tunisia (Rijkers et al., 2017a, 2017b), and Morocco (Ruckteschler et al., 2019). Cronyism reduces market contestability and can hurt firm performance and innovation.

Governments in the region can adopt a framework to improve and monitor the business environment based on the World Bank's B-READY project, which assesses the business and investment environment according to three criteria: regulatory framework, public services, and operational efficiency (World Bank, 2024c). The regulatory framework consists of the measures mandated by law and regulations that firms must follow as they open, operate, and close a business. Public services are institutions, infrastructure, and facilities that enable business activities, provided either directly by governments or through private firms. Operational efficiency reflects the ease with which businesses can comply with the regulatory framework and the effective use of public services. Improvement in any of the three dimensions would

enhance the business environment. Assessments available for two MENA countries, Iraq and Morocco, show considerable room for improvement, especially for Iraq, which scored in the bottom quintile for all three criteria. Morocco performed better overall (World Bank, 2024c).

Figure II.17 Corruption, political instability, and business licensing and permits perceived as a major or severe constraint to operations

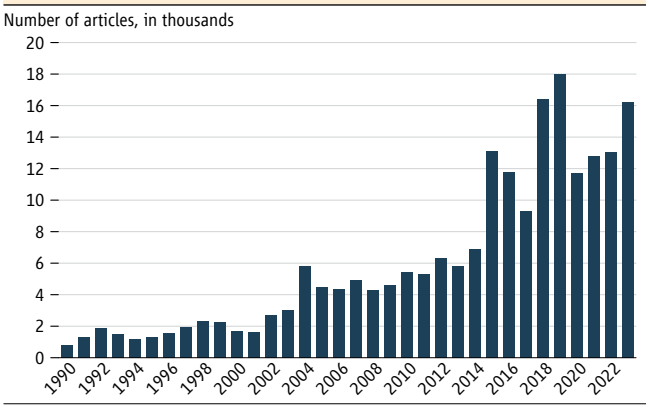


Source: World Bank staff calculations based on *World Enterprise Surveys*.
Note: YEM = Republic of Yemen. DJI =Djibouti. MAR = Morocco. TUN = Tunisia. EGY = Arab Republic of Egypt. JOR = Jordan. LBN = Lebanon. IRQ = Iraq. SAU = Saudi Arabia. All three panels are based on the latest survey available per country. The surveys included are (survey year in brackets): Republic of Yemen (2013), Djibouti (2013), Jordan (2019), Lebanon (2019), Tunisia (2020), Arab Republic of Egypt (2020), Iraq (2022), Saudi Arabia (2022), and Morocco (2023). Panel A shows the share of firms that consider corruption a major/severe constraint. Panel B shows the share of firms that consider political instability a major/severe constraint. Panel C shows the share of firms that consider business licensing and permits a major/severe constraint. Income group averages (ex-MENA) are the averages across non-MENA countries in the corresponding income groups. The income group averages are based on historical World Bank income group classification for the year of the survey and excludes MENA countries.

State intervention with industrial policy

Another way the state intervenes in the economy is through industrial policy. Over the past decade there has been considerable increase of interest in industrial policy. In 1990, there were about 780 mentions of industrial policy in major international business press. In 2023, there were 16,230 mentions (Figure II.18). Other estimates show that the use of industrial policy increased ninefold between 2017 and 2023.[52] In line with the increasing importance of industrial policy in public and policy discourse, an academic literature has developed that seeks to rigorously examine how industrial policy works (Juhász et al., 2023b). The key elements that frame the discussion of industrial policy in the region include the definition of industrial policy, its prevalence in MENA, and what to consider when conducting industrial policy.

Figure II.18 Mentions of industrial policy in the business press

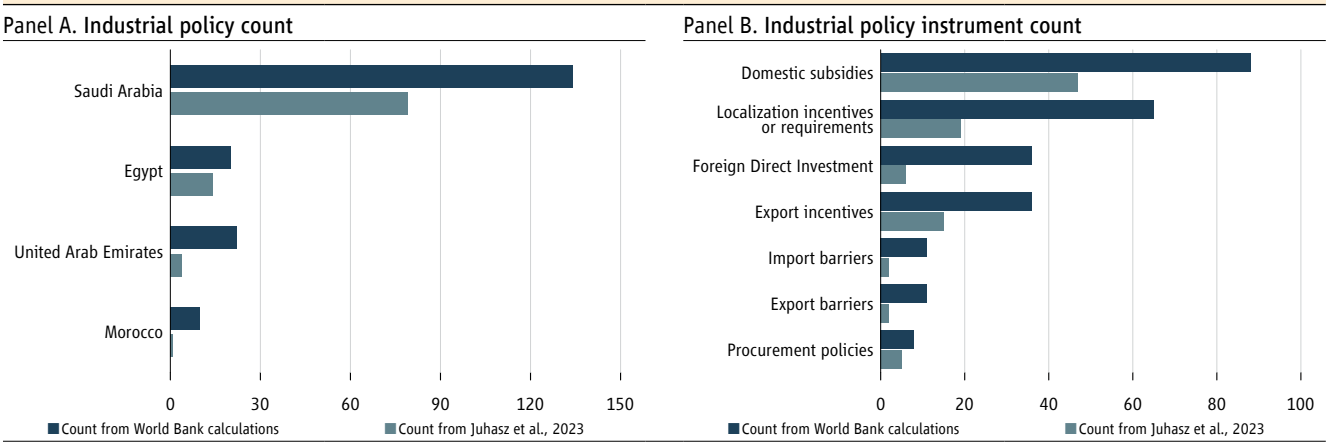


Source: Evenett et al., (2024).

52 https://blogs.worldbank.org/en/developmenttalk/the-renaissance-of-industrial-policy--known-knowns--known-unknow.

Although the popularity of industrial policy may be rising, there is a lack of consensus on precisely what it entails. The OECD defines industrial policy as "interventions intended to improve structurally the performance of the domestic private business sector" (Criscuolo et al., 2022a, 2022b). The IMF says industrial policy is "targeted government interventions aimed at supporting specific domestic firms, industries, or narrowly defined economic activities to achieve certain national (economic or non-economic) objectives" (IMF, 2024). Recent academic literature defines industrial policy as "government policies that explicitly target the transformation of the structure of economic activity in pursuit of some public goal" (Juhász et al., 2023b).[53] However it is defined, a characteristic of industrial policy is that governments intervene directly—using such instruments as subsidies, exemptions, and export or import restrictions—with the intention of addressing a market failure or structurally improving the performance of the business sector.

Figure II.19 Comparison of industrial policy instruments count



Sources Juhász et al. (2023a) and World Bank staff calculations.
Note: The number of industrial policies was computed for different periods based on their announcement dates. These periods are: the Arab Republic of Egypt (2019–2022), Morocco (2023), Saudi Arabia (2019–2022), and the United Arab Emirates (2020–2022). Panel A shows the count of unique industrial policies by World Bank staff and the count of unique industrial policies from Juhász et al. (2023a). Panel B shows the count of industrial policies by types of policy instruments, for Saudi Arabia, the Arab Republic of Egypt, the United Arab Emirates, and Morocco. A single industrial policy can include multiple policy instruments. In this case, each policy instrument within under an industrial policy is counted separately, with a weight of 1 in the aggregation.

Recent efforts have been made to assess the prevalence of industrial policy using text analysis of policy announcements. According to these data, industrial policy in MENA is much less common than in all other regions except Sub-Saharan Africa (Juhász et al., 2023b). However, assessments of industrial policy may vary along multiple dimensions such as definition, scope, and data sources. An independent evaluation conducted for this report in the Arab Republic of Egypt, Morocco, Saudi Arabia, and the United Arab Emirates suggests that industrial policy may be more prevalent than some data suggest at face value (Figure II.19).[54] This finding is consistent with earlier literature (Schiffbauer et al., 2015), which documents a high prevalence of industrial policy in the MENA region. This discrepancy between different assessments of the prevalence of industrial policy may be due to several reasons. Differences in how industrial policy is defined can lead to some policies being counted in one case and not another. For example, broad infrastructure projects such as road construction may be considered industrial policy if the government prioritizes connecting a favored industry to its suppliers or clients (Reed, 2024); but some definitions may not consider this industrial policy because the project ultimately benefits all industries—even if not equally or concurrently. Differences in how industrial policy is conducted may also contribute to measured differences in its prevalence. For example, regions with many SOEs or large sovereign wealth funds, such as MENA, may find that industrial policy is not "announced" in the same manner as in, say, the European Union. Instead of operating through government interventions to affect the structure of the private

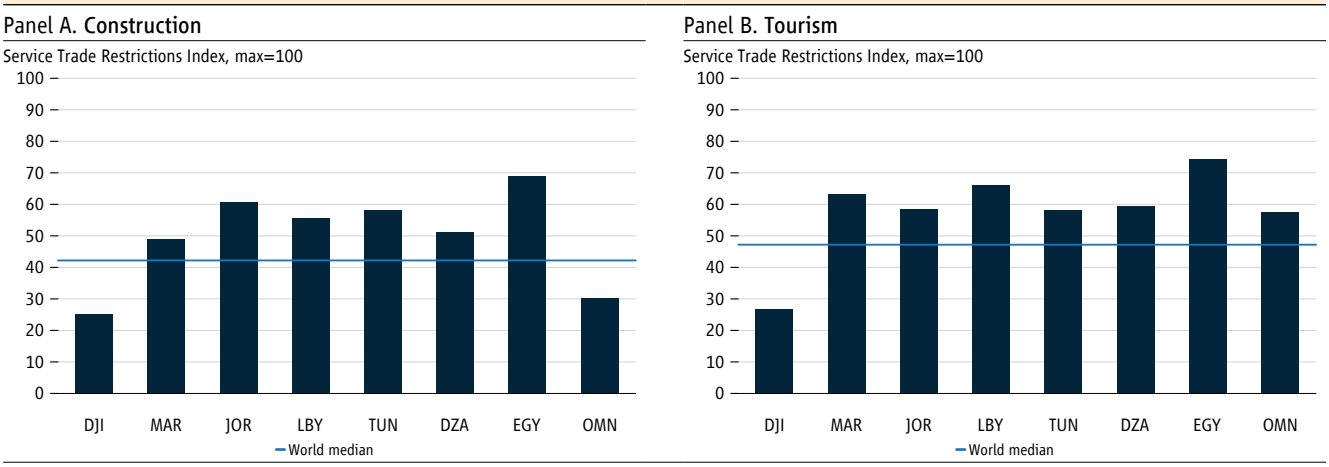
53 For further discussion on the many meanings of 'industrial policy' and a collection of definitions used in the academic literature refer to Warwick (2013).
54 Juhász et al. (2023a) note that the methodology employed in identifying industrial policies leans towards a more conservative estimate. The authors also acknowledge that "cross-country comparisons using a count-based measure cannot tell the entire story, nor is the GTA's [Global Trade Alert] sample complete."

sector, industrial policy, may operate indirectly through the activities of SOEs or sovereign wealth funds and may not be detected by assessments of official announcements.

However, there is much evidence that industrial policy is prevalent in the MENA region. The Arab Republic of Egypt and Tunisia have extensively deployed tax incentives and subsidies (Schiffbauer et al., 2015 and Calì et al., 2025). Through its Vision 2030 program, Saudi Arabia has made significant bets in various sectors. In Iraq there are infrastructure investments to enhance trade corridors (Iraq Development Road initiative). Product market regulations show that retail price controls and regulations are higher in the MENA region than in their income peers (Islam et al. 2022).

Despite the widespread use of industrial policy, controversy persists regarding its effectiveness and the conditions for its success. Getting industrial policy right requires significant government capacity. Following the framework set forth by Maloney and Nayyar (2018), the first task is identifying the market failure—both its magnitude and location—then designing an industrial policy that would address the failure. A critical consideration is determining whether the particular market failure is a critical one that needs to be addressed. The second task is to assess whether governments have the capacity to implement the chosen industrial policy credibly. Lastly, it is important that an approach of constant evaluation and course-correction is adopted. The context in which industrial policies are typically implemented tends to make them harder to evaluate than other policies (Lane 2020). However, it is important that governments collect and provide access to granular data on how beneficiaries—such as people and businesses—are affected. Course correction through evaluation can enhance policy effectiveness. Government capacity is critical for the successful implementation of this process—that is how well a government can make policy choices, implement them and evaluate them. A central goal of industrial policymaking should be building such capacity—by, among other things, improving the quality of governance, strengthening information collection capacity, and safeguarding against problems arising from political economy concerns.

Figure II.20 Service trade restrictiveness index for construction and tourism sectors in MENA



Source: Authors' calculations based on data from the Services Trade Policy Database (STPD) and Services Trade Restrictions Index (STRI).
Note: MAR = Morocco. DJI = Djibouti., DZA = Algeria. EGY = Arab Republic of Egypt. JOR = Jordan. LBY = Libya. OMN = Oman. TUN = Tunisia. The World Bank-World Trade Organization STRI is a measure of the restrictiveness of an economy's regulatory and policy framework with respect to trade in services. It is based on the information contained in the STPD. For details on the methodology, see https://itip-services-worldbank.wto.org/docs/WB-WTO%20STRI%20Methodology.pdf. The STRI indexes are available for Morocco, 2020; for Djibouti, 2021; for Algeria, 2020; for the Arab Republic of Egypt, 2021; for Jordan, 2022; for Libya, 2021; for Oman, 2022; for Tunisia, 2021. The world median is the 50th percentile of the STRI Construction and STRI Tourism indexes across all available economies for 2022. Countries are ordered in ascending 2022 GDP per capita (2021 PPP$).

Conducting industrial policy in a highly distorted environment with governance issues may result in unintended consequences. As illustrated earlier, the involvement of the state, governance deficits, and product market policies create many distortions in MENA economies. For instance, input-price distortions introduced by energy subsidies in the Arab Republic of Egypt, which make physical capital effectively cheaper, could undermine efforts to promote job growth

in labor-intensive sectors. Large and old firms benefitted disproportionately from energy subsidies that raised the cost of labor relative to capital and thwarted job growth (Gatti et al., 2013; Schiffbauer et al., 2015). SOEs may also generate distortions that hamper industrial policy. An example is Tunisair, the airline that is largely state-owned. The regulatory framework that protected Tunisair resulted in higher air travel prices and lower quality services for Tunisian customers (World Bank, 2014)—which undermined any industrial policy aimed at improving the tourism sector in Tunisia. The Services Trade Restrictiveness Index (STRI) shows that most MENA economies are more restrictive in the tourism and construction sectors than the world median (Figure II.20). Furthermore, the prevalence of cronyism in MENA implies that industrial policy is vulnerable to capture. Rijkers et al. (2017b) find that politically connected firms in Tunisia accounted for a disproportionate share of output in sectors facing restrictions on foreign direct investment. Preventing capture is especially difficult when existing markets are not contestable and many dominant firms are either politically connected or state-owned. Because data are lacking and evidence-based decision making is emerging only slowly, policymakers are ill equipped to monitor the effects of specific industrial policies.

Given the extensive list of difficulties in industrial policy, the ideal approach may be to first handle existing distortions that affect the general economy, particularly in the current context of heightened trade policy uncertainty. Importantly, industrial policies are no substitute for policies and reforms aimed at strengthening macroeconomic fundamentals and improving the business environment. For example, in Tunisia, as in many MENA economies, the currency is managed through strict control of capital accounts. This hampers Tunisian firms from investing abroad and foreign firms from investing in Tunisia. Addressing the macro-fundamentals in this case may be necessary to encourage foreign direct investment. More importantly, when industrial policy is not clearly linked to a market failure, there is a risk that resources may be misallocated, with significant fiscal cost. Policies that target improvements in the general business environment may be less risky and more effective.

II.5 Building firm capacity by harnessing talent

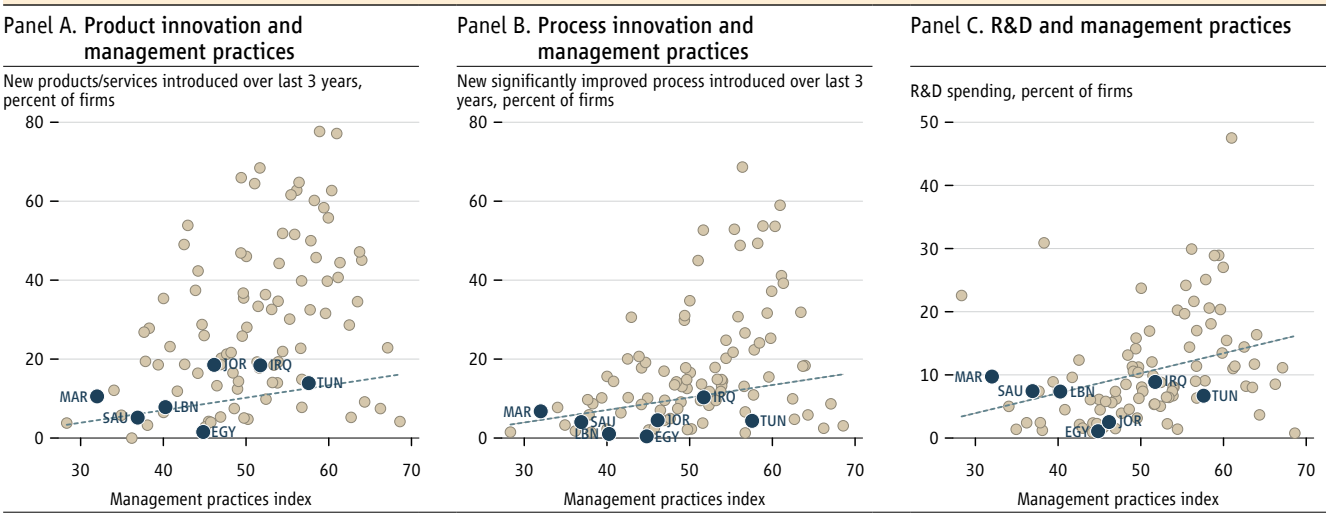
Thus far, this report has examined the role of the state in constraining and stimulating private sector growth. As important as top-down state activities are bottom-up improvements in productivity at the firm level. This section presents two novel and promising avenues for harnessing the power of talent. The first is making better use of existing talent and resources within firms by improving management practices, and the second is making a better use of talent outside of firms by fostering greater participation of women entrepreneurs in the private sector.

Improving management practices

Upgrading management practices is one way for firms in MENA to stimulate innovation. The effects of improving management practices are substantial. Management practices may account for about a third of the gap in total factor productivity between the United States and other economies (Bloom et al. 2016). A body of literature has built on the seminal work of Bloom and Van Reenen (2007), showing that better-managed firms are more productive, have higher operating profits, are more outward oriented and invest more on R&D (Bloom et al., 2019; also see Scur et al., 2021). Better management practices also improve the preconditions for developing an innovative economy—investment in human capital. The productivity of skilled labor may also increase (Gosnell et al., 2020). Better managed firms are also more likely to train their workers (EBRD-EIB-WB, 2022). This is only the case in MENA for firms that keep good financial records or do not face a business environment in which bribery is rampant (Islam and Gatti, 2023). Figure II.21 shows a

positive correlation between management practices and product innovation (Panel A), process innovation (Panel B), and the portion of firms that spend on R&D (Panel C) for middle- and high-income economies.

Figure II.21 Management practices and innovation



Source: World Bank staff calculations based on data from the World Bank, *Enterprise Surveys*.
Note: MAR = Morocco. SAU = Saudi Arabia. LBN = Lebanon. EGY = Arab Republic of Egypt. JOR = Jordan. IRQ = Iraq. TUN = Tunisia. A firm's Management Practice Index is a composite index that combines eight management practices indicators (action after a problem arose; number of performance indicators monitored; time taken to focus on production/service targets; achievability of production/service targets; knowledge of production/services targets; manager performance bonuses; extent to which non-managers are promoted based on performance; extent to which underperforming managers are reassigned or dismissed). For all panels, the sample includes Middle Income and advanced Low Income countries as categorized at the year of the survey. The final sample includes 86 countries, of which 7 from the MENA region. Research and Development as well as the Management Practices Index is based on the fiscal year (using sample weights) preceding the latest survey year available per country. The following surveys are included for MENA (survey year in brackets): Jordan (2019), Lebanon (2019), Tunisia (2020), Arab Republic of Egypt and Lebanon (2020), Iraq (2022), Morocco (2023), and Saudi Arabia (2023). Introduction of new products and processes is based on 3 years preceding the latest survey year available.

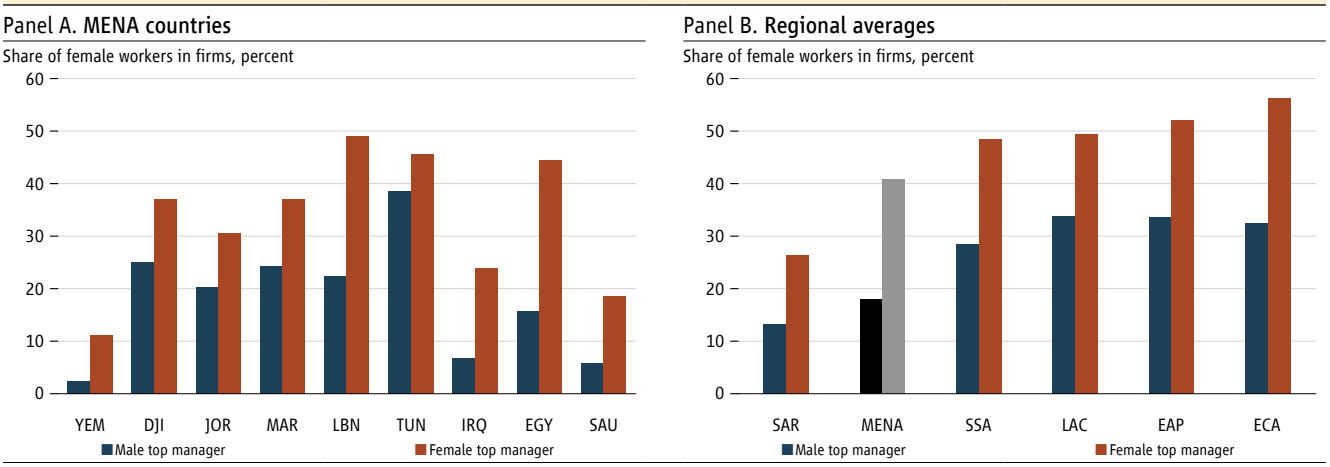
Although firms themselves can improve their management quality to create conditions conducive to innovation—successfully managing innovation projects as well as better identifying and managing risks—there is also much that governments can do to encourage innovation. Corruption is found in general to weaken the quality of management practices across firms (Athanasouli and Goujard, 2015). Therefore, reducing governance deficits by inhibiting rent-seeking behavior would improve the business environment and foster innovation. Islam and Gatti (2024) show that partial government ownership lowers the quality of management practices in MENA. This suggests that the less the state intervenes in the private sector, the greater the chance of better management practices and innovation. In general, innovation is unlikely to occur under poor business environments and cronyism (EBRD-EIB-WB, 2022).

More women managers

Improving management practices operates at the intensive margin—existing managers improve with more structured practices. At the extensive margin, the region can harness talent by attracting more women entrepreneurs. Providing leadership opportunities for women may be effective in increasing female participation in labor markets, which is lower in MENA than anywhere in the world. Not only does increasing the share of women managers increase women's representation in decision-making positions, but female managers also tend to hire women workers, who are a largely untapped source of economic growth. Chiplunkar and Goldberg (2024) find that female managers tend to hire more women in many economies. It is also true in the MENA region. Figure II.22 shows that firms run by women have a higher share of permanent female workers than do firms run by men. In the Arab Republic of Egypt, 44.4 percent of workers are female in firms run by women, compared with 15.7 percent in firms run by men. In Lebanon, almost half of the workers in firms run by women are women, while 22.4 percent of workers are women in firms run by men. In Saudi

Arabia, 18 percent of workers are women in firms run by women, almost three times the share of female workers in firms run by men. Taking the average for all the countries in Figure II.22, the share of women workers in firms run by women is almost twice that in firms run by men. These findings hold even after accounting for the sector of activity of the firm, indicating that this may not be due to greater presence of female executives in industries more conducive to female employment, consistent with Chiplunkar and Goldberg (2024). Increasing women managers may increase female labor force participation in MENA. This may help economic growth. In the long run, GDP per capita would be around 50 percent higher in the typical MENA economy if gender employment gaps were closed (Fiuratti et al., 2024).

Figure II.22 Share of female workers by male and female top managers

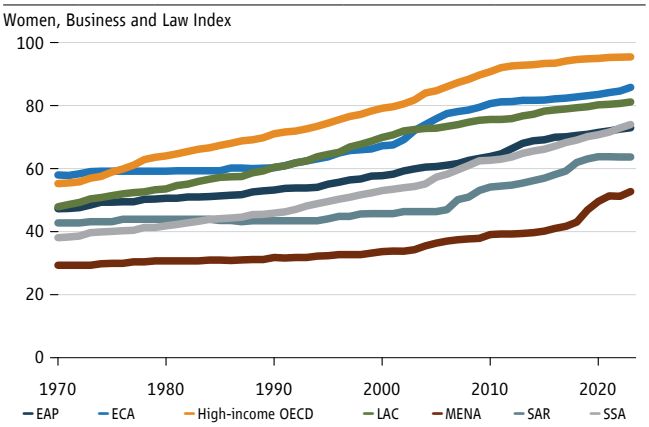


Source: World Bank staff calculations based on data from the World Bank *Enterprise Surveys*.
Note: YEM = Republic of Yemen. DJI = Djibouti. JOR = Jordan. MAR = Morocco. LBN = Lebanon. TUN = Tunisia. IRQ = Iraq. EGY = Arab Republic of Egypt. SAU = Saudi Arabia. SAR = South Asia. MENA = Middle East and North Africa. SSA = Sub-Saharan Africa. LAC = Latin America and the Caribbean. EAP= East Asia and the Pacific. ECA = Europe and Central Asia. The figure represents a weighted average of the number of female permanent full-time total (production and non-production) workers as a percentage of all (female and male production and non-production workers) employed at the firms during the fiscal year prior to the latest survey year available, using sample weights. Top manager = the highest-ranking management individual. This person may be the owner if he/she works as the Manager of the firm. These findings stand after accounting for sector of activity. The following surveys are included for MENA (survey year in brackets): Republic of Yemen (2013), Djibouti (2013), Jordan (2019), Lebanon (2019), Tunisia (2020), Arab Republic of Egypt (2020), Iraq (2022), Saudi Arabia (2022), and Morocco (2023). Countries are ordered in ascending 2023 GDP per capita (2021 PPP$). In Panel B, regional averages are simple averages of countries for the latest survey year available per country within each region between 2009 and 2023. Note that the country averages are based on sample weights. Regions are ordered in ascending average share of female workers in female-run companies.

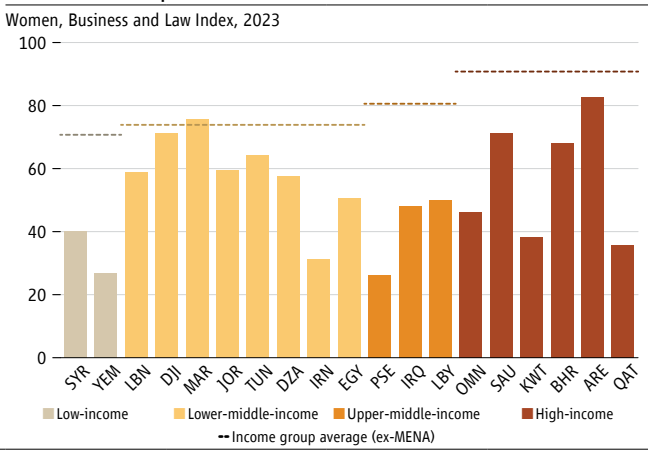
But it will take government actions to increase the number of female managers in economies where men are unlikely to work with women, let alone be supervised by them. Policymakers could use micro and structural policies, to increase women managers. First, policies to directly promote women to leadership positions at firms could be pursued, combined with measures to create employer-level incentives to hire and accommodate women in the workplace. There is evidence that the costs of integrating women into the workplace resulted in a high incidence of all-male firms in Saudi Arabia and across the MENA region (Miller et al. 2022a, 2022b). Such costs include, for example, expectation of firms to establish gender-segregated facilities, including restrooms, entrances, and workspaces. Recognizing and addressing the employer-side costs could help bring in more female managers and workers. Second, policies could further address some of the structural challenges women face. Reforming laws that discriminate against women can increase the number of firms with women managers (Islam et al., 2019). The MENA region has consistently scored the lowest in the Women Business and Law (WBL) Index over the past five decades, indicating that despite changes there are still many laws that favor men over women (Figure II.23, Panel A). In 2023, almost all MENA economies scored lower on the WBL index than did their income peers—with Morocco being the exception (Figure II.23, Panel B). The countries with the highest scores in the region in 2023 were the United Arab Emirates (82.5), Morocco (75.64), Saudi Arabia (71.25) and Djibouti (71.25).

Figure II.23 Women, business and the law index

Panel A. Women, business and the law index by region over time



Panel B. Women, business and the law index - MENA countries vs. income peers in 2023



Source: World Bank, *Women, Business and Law* dataset.
Note: Panel A legend abbreviations as follows: EAP = East Asia and Pacific. ECA = Europe and Central Asia. LAC = Latin America and the Caribbean. MENA = Middle East and North Africa. SAR = South Asia. SSA = Sub-Saharan Africa. Panel B abbreviations as follows: DZA = Algeria. BHR = Bahrain. DJI = Djibouti. EGY = Arab Republic of Egypt. IRQ = Iraq. IRN = Islamic Republic of Iran. JOR = Jordan. KWT= Kuwait. LBN = Lebanon. MAR = Morocco. OMN = Oman. QAT = Qatar. SAU = Saudi Arabia. SYR = Syrian Arab Republic. TUN = Tunisia. YEM = Republic of Yemen. PSE = West Bank and Gaza. ARE = United Arab Emirates. Panel A shows data from 1970 to 2023, while Panel B shows data specifically for 2023. Income group averages for 2023 are simple averages of the countries in each category and exclude MENA countries. Income group classifications are based on the year 2023. Low Income Countries include 13 countries, Lower Middle Income Countries include 46 countries, Upper Middle Income Countries include 48 countries, High Income Countries include 53 countries.

Improving education outcomes for women can also increase their chances of becoming managers, especially if firms offer formal training (Islam and Amin, 2016). Countries across MENA have done well in educating women but not in offering training. Increasing market contestability could both increase job opportunities for women and serve as a countervailing force against discrimination (Elson, 1999; Hellerstein et al., 2002; Cooke et al., 2019). Box II.2 provides an example of how a nationalization policy in Saudi Arabia contributed to greater employment of women.

The prevalence of gender-segregating norms is a significant challenge to increasing the number of women in leadership positions as well as in the overall workforce. These norms weigh negatively on women's employment from both the demand and the supply side. On the demand side, Eger et al. (2022) found that in Saudi Arabia, the perceptions of a woman's personal qualities and the cultural appropriateness of a woman to perform certain professional tasks were key factors managers considered in deciding whether to hire women. On the supply side, the MENA Gender Innovation Lab, through high quality causal research, found that in rural Tunisia, an asset transfers and training program was unsuccessful when male partners were involved, possibly because of gender norms around control of expenditures (Gazeaud et al., 2023). In another study, women's uptake of a job- matching service in Cairo, Egypt, was low in part due to male partners' refusal to allow their spouses to work (Caria et al., 2023).

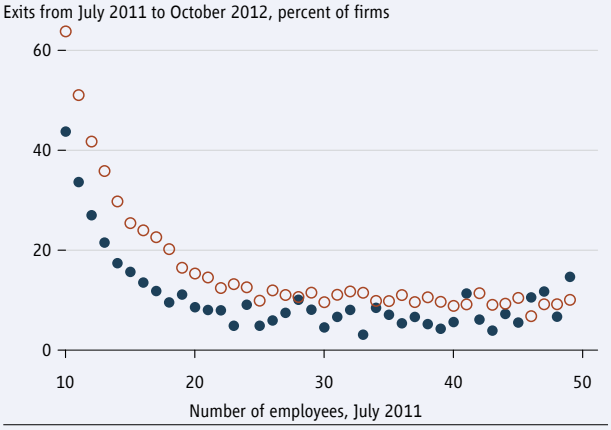
Box II.2 Effects of the Nitaqat program on firm performance and female employment in Saudi Arabia[55]

The Nitaqat program in Saudi Arabia enforces strict Saudi employment quotas on private sector firms. Nitaqat is unusual in its scope and enforcement: quotas apply to nearly all private sector establishments, and compliance is continuously monitored through the visa and social security systems. Penalties are automatically triggered for firms that do not comply with quotas, and non-compliant firms are unable to renew visas for expatriate workers and access to some types of government assistance.

Quotas were effective but costly for firms

The Nitaqat program has succeeded at increasing Saudi employment, though this increase appears to have come at significant initial cost to firms. Quota compliance was very high in the years following the policy change in 2011, and both existing firms and new entrants mostly adapted their workforces to increase the percentage of Saudi employees. Peck (2017) estimated that quota compliance drove 40 percent of the increase in Saudi employment at private sector firms over the first 15 months of the program. Firms that did not meet the quotas faced restrictions on visa approvals for new and existing expatriate workers, and compliant firms were allowed to hire expatriate workers away from noncompliant firms. This stringent quota enforcement was very costly for firms, and firm exit rates (that is firms leaving the market) increased by nearly 50 percent over the period. These effects were most pronounced for the smallest firms, where exit rates for noncompliers were 20 percentage points higher than for compliant firms. These exit rates varied by sector, with excess exit relatively high for firms in construction, retail and manufacturing and lower in agriculture and transportation.

Figure B.II.2.1 Exit rates by firm size



Source Peck (2017).
Note: Figure shows the share of firms that exited the sample between July 2011 and October 2012 by initial number of employees and quota compliance. Red circles show rates for firms that were initially not in compliance with quotas; blue dots indicate firms that began the period already in compliance.

Quotas also reduced productivity and output in the exporting sector in the first year of the program: firms most affected by the quotas were 1.5 percentage points more likely to exit the market and 7 percentage points less likely to export. Those that remained reduced their exports by 10 to 20 percent, reduced the size of their workforce, and increased their wage bills (Cortés et al., 2023).

Women's employment has surged in the Nitaqat era

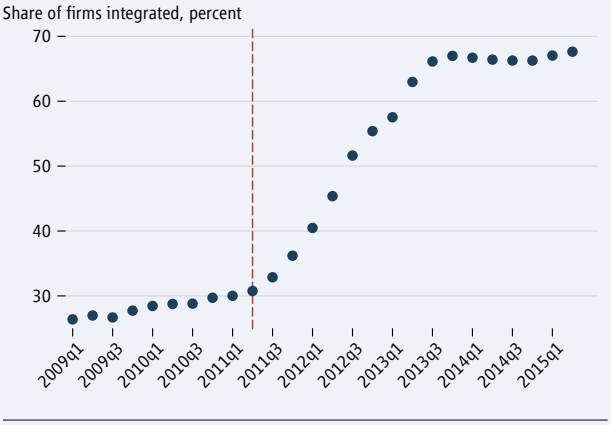
One of the most striking employment effects of Nitaqat quotas has been a large increase of Saudi women into the private sector. Saudi Arabia has experienced a transformative increase in female employment over the past 15 years, with women increasingly joining firms that previously only employed men.

55 Based on Peck (2025).

Historically, female employment in Saudi Arabia was extremely low, both by international standards and even within the MENA region. Female employment accounted for only 16 percent of total employment at the start of Nitaqat in 2011. About two-thirds of the women who were employed worked in the public sector—the vast majority at all-girls schools. Decades of sustained investment in women's education meant that Saudi women were extremely well educated, but their opportunities were very limited. Only about 14 percent of private sector firms had ever had even a single female employee.

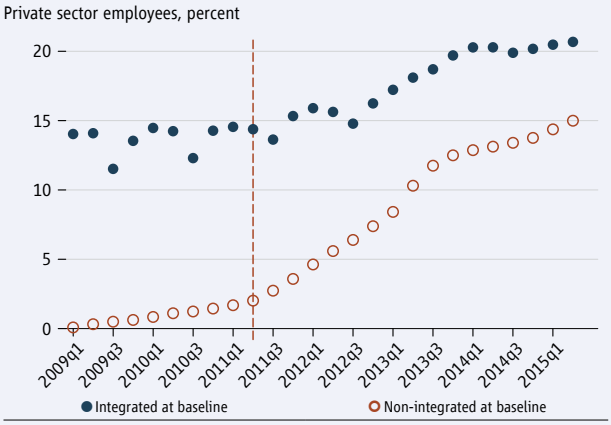
The launch of Nitaqat quotas corresponded with several other employment programs—including the flagship program, Hafiz, which offered monthly unemployment assistance payments to jobseekers. Many women signed up to receive Hafiz payments, which brought them into the labor force and linked them to government job search assistance.

Figure B.II.2.2 Share of firms that ever list female employees since 2009



Sources: Miller et al. (2022a). Saudi Arabia General Organization for Social Insurance.
Note: Firms are restricted to only those with at least five Saudi employees. Vertical line indicates Nitaqat start date (June 2011). Figure adapted from Miller et al. (2022a).

Figure B.II.2.3 Female share of Saudi employees at private sector firms



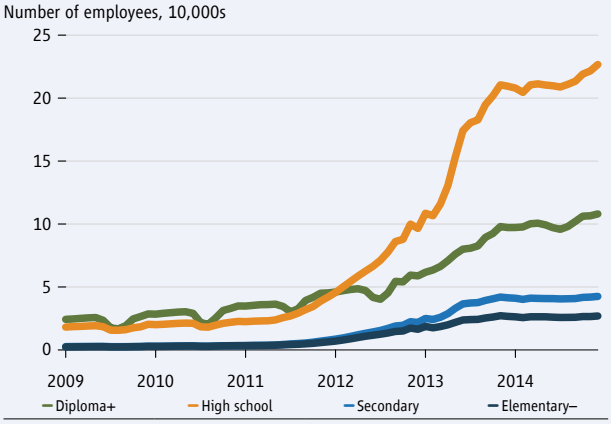
Sources: Miller et al. (2022a). Saudi Arabia General Organization for Social Insurance.
Note: Firms are classified as "integrated" or "non-integrated" based on whether they employed both men and women at the start of the data in 2009. Vertical line indicates Nitaqat start date (June 2011). Figure adapted from figure H.3 of Miller et al. (2022a).

Many firms hired women to comply with quotas

As firms searched for Saudi employees to meet their Nitaqat quotas, many opened up to hiring women for the first time (Miller et al., 2022a). Nearly two thirds of firms had hired women just a few years later, which meant there was a tremendous increase in the number and types of jobs available to women.

Nitaqat seems to have pushed firms to invest in their capacity to employ women. The integration of women into these previously all-male firms was responsible for a large share of the increase in female employment (Miller et al., 2022a). Firms that needed to hire many Saudis to meet their Nitaqat quotas were the most likely to begin

Figure B.II.2.4 Saudi female employment by education



Source: Saudi Arabia General Organization for Social Insurance.
Note: Figure reproduced from Gonzalez et al. (2022).

hiring women, and firms that needed to hire more than five Saudis were approximately 10 percentage points more likely to begin hiring women. These new employers rapidly increased the female share of their workforce in the years following the start of Nitaqat.

This transformation of firm hiring behavior has revolutionized women's employment: the number of women in the private sector has increased more than 15-fold since 2011, and the female share of Saudis in private sector quadrupled to over 40 percent. The change has been particularly dramatic for Saudi women with high school diplomas, a group that has experienced the largest growth in private sector employment of any demographic group in Saudi Arabia since 2011. Continuing support from policymakers, including signals of high-level support for women's employment, will be essential if the private sector is to continue to employ more Saudis.

II.6 Concluding considerations

Worldwide, the private sector is an important source of productivity growth, innovation, and jobs. This report has documented that in the MENA region, the private sector is not dynamic—with limited productivity growth and segmentation into formal and informal sectors. This is unfortunate because the private sector could be a key source of productivity growth that would help the MENA region narrow the standard of living gap with the frontier economies (mainly the United States). Furthermore, because of its structural issues, the MENA private sector is ill prepared to absorb such shocks as conflict and extreme weather events.

What can governments in the MENA region do? First, they can develop high quality and transparent data. High quality administrative and census data can help shed light on the private sector and allow governments and analysts to explore the effects of various policies. Second, governments can improve market contestability by rethinking and changing the state's role in the economy. Governments can reconsider their role as a significant employer in some economies. They can also reconsider the rationale behind maintaining SOEs that have entrenched themselves in sectors that are typically served by the private sector in other economies. Here, competitive neutrality is crucial to ensure that private firms and SOEs are on an equal footing. Third, governments can also facilitate better business environments by examining whether their rules and regulations are costly to comply with, and if they are, providing adequate support to businesses to follow them. Finally, governments should be cautious about industrial policy. Getting industrial policy right entails understanding and identifying the market failure to be addressed, assessing the magnitude of the failure and whether it is a market failure of high priority. A successful industrial policy also requires governments to check whether they have sufficient capacity to credibly use the tools to correct the market failure and, after they embark on a policy, to constantly evaluate and course correct as needed. The final phase depends on collection of high-quality data.

Besides benefiting from governments reconsidering their engagement with the private sector, businesses can help themselves by building their capacity to harness talent. At the intensive margin, improvements in management practices can lead to innovation and productivity. At the extensive margin, the region can increase talent by attracting more women to the workforce. That means encouraging female entrepreneurs and top managers. As in the rest of the world, firms in MENA managed by women are more likely to hire more women workers, which can lead to significant economic gains.

A brighter future for the MENA private sector is possible if governments rethink their role and businesses better harness the talent they already have in their economies.

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Appendix

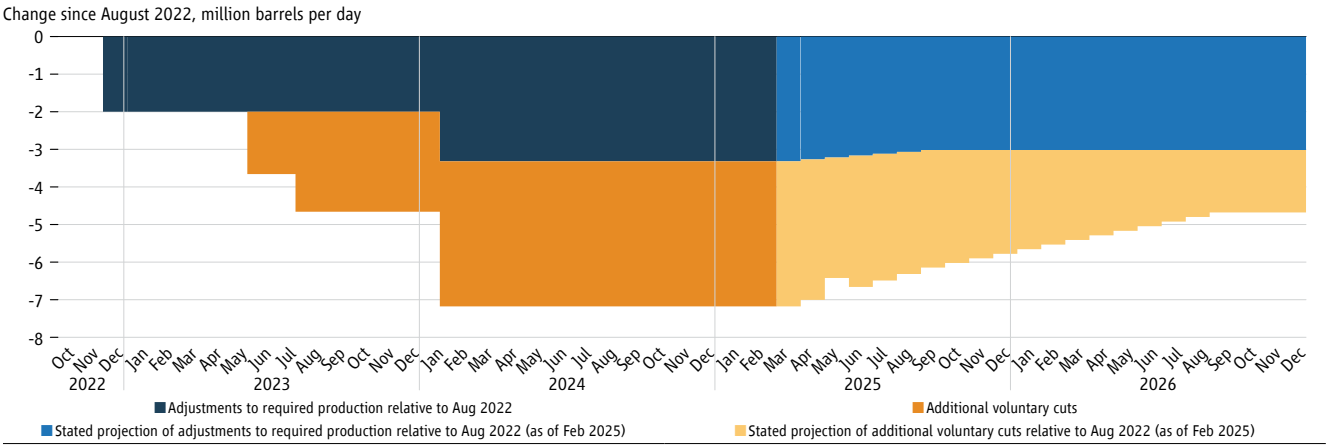
Timeline of OPEC+ production cuts

Over the past two years, members of the Organization of the Petroleum Exporting Countries (OPEC—Algeria, Congo, Equatorial Guinea, Gabon, Iraq, the Islamic Republic of Iran, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, and Venezuela) and other oil-producing countries (OPEC+) have adjusted their oil production levels to stabilize oil prices. In addition to common changes in production levels, some OPEC+ members announced additional voluntary cuts at different points in time (OPEC+ comprises OPEC members plus Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan, and South Sudan).

Commitments to slow oil production were a contributing factor—paired with relatively low oil price levels—to the recent lackluster economic performance of oil exporters in the Middle East and North Africa (MENA). Real GDP growth of members of the Gulf Cooperation Council (GCC—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates) was 0.5 percent in 2023 and 1.9 percent in 2024. How long these production cuts are in place and how they eventually unwind could affect the economic future of the whole region. Table I.A.1 presents a detailed timeline of the changes in required production levels as well as the additional voluntary cuts made by OPEC+ members since October 2022.

As of this writing, the voluntary oil production cuts announced in November 2023 are to begin rolling back in April 2025. If carried out as planned, the phase-out of oil production cuts would be the first since October 2022 (Figure I.A.1). However, the latest announcement states that the production increase occasioned by rolling back the cuts "can be paused or reversed subject to market conditions." Initially these cuts were to end in March 2024 and have been extended multiple times since.

Figure A.1 OPEC+ oil production adjustments and cuts over time

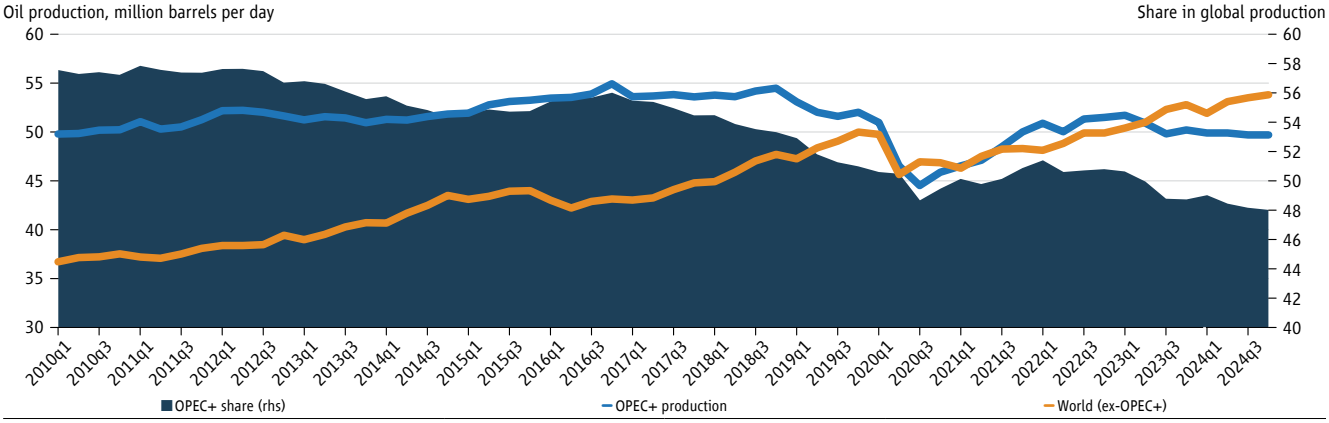


Sources: OPEC press releases (opec.org), Saudi Press Agency (spa.gov.sa) and World Bank staff calculations.
Notes: OPEC = Organization of the Petroleum Exporting Countries (Algeria, Congo, Equatorial Guinea, Gabon, Iraq, the Islamic Republic of Iran, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, Venezuela). OPEC+ = OPEC members plus Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan, South Sudan.

Announcements of OPEC+ oil production cuts have had a generally limited effect on the spot price of oil. For example, the price of benchmark Brent crude oil jumped 6 percent following the announcement of additional voluntary cuts in April 2023 but fell back a one month later. The November 2023 announcement of additional voluntary cuts had barely

any effect on the spot price of Brent crude oil. The lack of response in oil markets may be due to increased supply from producers outside OPEC+. The share of OPEC+ in global oil production has been declining over the past decade-and-a-half (Figure I.A.2). A similar pattern of initial reaction and later indifference to OPEC+ announcements can be seen in the revisions of growth forecasts for MENA. Although forecasts were revised substantially after additional voluntary oil production cuts were announced in October 2022 and April 2023, the announcement in November 2023 triggered much smaller revisions, as if these had already been incorporated into the projections (Figure I.16). In 2024, there were little to no forecast revisions following the five extension announcements.

Figure A.2 OPEC and US share in global oil production



Source: International Energy Agency, Oil Market Reports.
Notes: OPEC = Organization of the Petroleum Exporting Countries (Algeria, Congo, Equatorial Guinea, Gabon, Iraq, the Islamic Republic of Iran, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, Venezuela). OPEC+ = OPEC members plus Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan, South Sudan.

Delays in the roll-back of oil production cuts have also had a limited effect on oil prices, which might indicate that these announcements were anticipated by the market. However, the March 3, 2025 OPEC press release that reaffirmed the intent to begin phasing out oil production cuts in April 2025 did elicit a response from oil markets—the price of Brent crude fell by 6 percent. The press release might have persuaded markets that the rollback, first announced in December 2024, would be carried out to plan. On April 3, 2025, eight OPEC+ countries—Saudi Arabia, Iraq, UAE, Kuwait, Kazakhstan, Algeria, and Oman—announced the implementation of a production adjustment, equivalent to three monthly increments, for the month of May 2025. This effectively accelerated the rollback of oil production cuts for that month. Guidance on whether or how production levels would be adjusted in subsequent months was not provided, indicating that "the eight countries will meet on the 5th day of May to decide on June production levels."

Table A.1 Timeline of OPEC+ Production cuts

Date	Event	Announcement Type	Description
5-Oct-22	33rd ONOMM	Adjustment to required production	Downward adjustment to overall production by 2 mb/d for Nov 2022 to Dec 2023.
2-Apr-23	48th JMMC	Additional voluntary cuts	Additional voluntary production reduced by 1.66 mb/d for May 2023 to December 2023.
4-Jun-23	35th ONOMM	Adjustment to required production	Downward adjustment to overall production by 1.39 mb/d for Jan 2024 to Dec 2024.
4-Jun-23	35th ONOMM	Extension of additional voluntary cuts	Extension of additional voluntary cuts announced on Apr 3 2023 untill the end of 2024.
4-Jun-23	KSA Ministry of Energy Announcement	Additional voluntary cuts	KSA announced an additional production cut of 1.00 mb/d for Jul 2023.
13-Jun-23	OPEC Press Release	Production Revision	Russia's required production has been revised upwaard by 0.12 mb/d for January 2024 to December 2024.
3-Jul-23	KSA Ministry of Energy Announcement	Extension of additional voluntary cuts	KSA extended the additional voluntary cut of 1.00 mb/d for Aug 2023.
3-Aug-23	KSA Ministry of Energy Announcement	Extension of additional voluntary cuts	KSA extended the additional voluntary cut of 1.00 mb/d for Sep 2023.
5-Sep-23	KSA Ministry of Energy Announcement	Extension of additional voluntary cuts	KSA extended the additional voluntary cut of 1.00 mb/d untill the end of Dec 2023.
3-Nov-23	36th ONOMM	Adjustment to required production	2024 required production levels for Angola, Congo, and Nigeria were adjusted down by 0.17 mb/d, up by 0.001 mb/d, and up by 0.12 mb/d respectively.
3-Nov-23	36th ONOMM	Additional voluntary cuts	Additional voluntary production reduced by 2.20 mb/d for Jan 2024 to end of Mar 2024. After which they would be returned gradually.
3-Mar-24	OPEC Press Release	Extension of additional voluntary cuts	Extension of additional voluntary cuts announced on Nov 30 2023 to end Jun 2024. After which they would be returned gradually.
2-Jun-24	37th ONOMM	Extension and adjustment of required production	Required production levels are extended until the end of 2025 without changes with respect to Jun 13 2023 levels in most cases. UAE required production was increased by 0.3 m/d which will be phased in gradually.
2-Jun-24	37th ONOMM	Extension of additional voluntary cuts	Extension of additional voluntary cuts announced on Apr 3 2023 untill the end of 2025.
2-Jun-24	37th ONOMM	Extension of additional voluntary cuts	Extension of additional voluntary cuts announced on Nov 30 2023 to end Sep 2024, after which they would be phased out on a monthly basis until the end of Sep 2025.
5-Sep-24	OPEC Press Release	Extension of additional voluntary cuts	Extension of additional voluntary cuts announced on Nov 30 2023 to end Nov 2024, after which they would be phased out on a monthly basis until the end of Dec 2025.
3-Nov-24	OPEC Press Release	Extension of additional voluntary cuts	Extension of additional voluntary cuts announced on Nov 30 2023 to end Dec 2024.
5-Dec-24	38th ONOMM	Extension and adjustment of required production	Required production levels are extended until the end of 2026 without changes with respect to Jun 2 2024 levels. The 0.3 mb/d increase in required production for UAE announced on Jun 2 2024 will be phased in gradually starting April 2025 until the end of september 2026.
5-Dec-24	38th ONOMM	Extension of additional voluntary cuts	Extension of additional voluntary cuts announced on Apr 3 2023 untill the end of 2026.
5-Dec-24	38th ONOMM	Extension of additional voluntary cuts	Extension of additional voluntary cuts announced on Nov 30 2023 to end Mar 2025, after which they would be phased out on a monthly basis until the end of Sep 2026.
3-Apr-25	OPEC Press Release	Adjustment of required production	Upward adjustment of the planned production rollback for the month of May 2025 by 411 thousand barrels per day.

Sources: OPEC press releases (opec.org), Saudi Press Agency (spa.gov.sa).
Notes: Colors group related announcements. OPEC = Organization of the Petroleum Exporting Countries (Algeria, Congo, Equatorial Guinea, Gabon, Iraq, the Islamic Republic of Iran, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, Venezuela). OPEC+ = OPEC members plus Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan, South Sudan. ONOMM = OPEC and non-OPEC Ministerial Meeting. JMMC = Joint Ministerial Monitoring Committee. KSA = Kingdom of Saudi Arabia; UAE = United Arab Emirates; mb/d = million barrels per day.

Table A.2 Actual and projected real GDP growth, real GDP per capita growth, current account balance, and fiscal account balance in the Middle East and North Africa, by economy, 2024–26

	Real GDP Growth			Real GDP per capita Growth			Current Account Balance			Fiscal Account Balance		
	percent			percent			percent of GDP			percent of GDP		
	2024e	2025f	2026f	2024e	2025f	2026f	2024e	2025f	2026f	2024e	2025f	2026f
MENA	**1.9**	**2.6**	**3.7**	**0.5**	**1.1**	**2.3**	**3.4**	**1.6**	**2.8**	**-2.6**	**-3.5**	**-3.1**
Middle-Income MENA	**1.9**	**1.9**	**3.0**	**0.6**	**0.6**	**1.6**	**-1.2**	**-4.3**	**-2.9**	**-5.4**	**-7.6**	**-6.7**
Oil Exporters	**1.9**	**2.3**	**3.7**	**0.4**	**0.8**	**2.3**	**5.1**	**2.9**	**4.2**	**-2.2**	**-3.0**	**-2.6**
GCC	**1.9**	**3.2**	**4.5**	**-0.4**	**1.2**	**2.7**	**6.9**	**6.0**	**7.4**	**-0.4**	**-0.4**	**-0.1**
Qatar	2.6	2.4	5.4	1.8	1.6	4.3	17.4	13.1	15.5	0.7	1.5	4.2
United Arab Emirates	3.9	4.6	4.9	0.3	2.2	3.1	8.2	6.2	6.4	4.6	4.2	4.5
Bahrain	3.0	3.5	3.0	0.6	1.4	1.1	4.8	4.4	3.9	-7.9	-7.7	-7.9
Saudi Arabia	1.3	2.8	4.5	-0.5	1.0	2.8	2.5	3.9	5.7	-2.8	-2.3	-2.9
Kuwait	-2.9	2.2	2.7	-4.9	0.5	1.2	23.8	15.0	17.6	-5.0	-7.2	-5.4
Oman	1.7	3.0	3.7	-2.7	-1.0	0.4	2.4	0.9	1.2	5.4	2.0	2.4
Developing Oil Exporters	**1.9**	**0.8**	**2.4**	**0.6**	**-0.5**	**1.1**	**1.0**	**-3.9**	**-2.1**	**-6.2**	**-8.5**	**-7.5**
Libya	-2.9	12.3	6.4	-4.0	11.1	5.3	4.5	3.2	15.6	0.3	-4.5	-1.8
Islamic Republic of Iran	3.0	-1.6	0.6	2.2	-2.5	-0.2	1.7	-1.6	-0.8	-3.1	-4.6	-4.7
Algeria	3.3	3.2	3.1	1.8	1.8	1.8	-1.4	-7.1	-6.3	-13.5	-14.3	-13.4
Iraq	-1.5	1.3	5.3	-3.5	-0.8	3.1	1.6	-6.7	-3.8	-4.7	-11.3	-8.5
Developing Oil Importers	**1.9**	**3.4**	**3.7**	**0.7**	**2.0**	**2.3**	**-4.4**	**-4.8**	**-4.0**	**-4.2**	**-6.0**	**-5.5**
Arab Republic of Egypt	2.4	3.8	4.2	1.1	2.0	2.3	-5.3	-6.3	-4.7	-3.6	-7.2	-6.5
Tunisia	1.4	1.9	1.6	0.7	1.3	1.1	-1.7	-1.8	-2.0	-6.2	-5.8	-5.6
Jordan	2.4	2.4	2.5	1.4	2.7	1.9	-5.5	-5.1	-4.9	-5.6	-5.4	-5.2
Morocco	3.2	3.4	3.3	2.2	2.4	2.5	-1.2	-2.0	-2.3	-4.1	-3.9	-3.4
Djibouti	6.0	5.2	5.1	4.5	3.8	3.7	11.5	14.1	12.9	0.2	3.3	3.4
West Bank and Gaza	-26.6	-1.6	4.0	-28.3	-3.9	1.7	-21.6	-18.5	-16.2	-9.5	-9.5	-6.2
Economies Not Included in Aggregates												
Lebanon	-7.1	4.7	N/A	-7.6	N/A	N/A	-22.2	-15.3	N/A	0.5	0.0	N/A
Republic of Yemen	-1.5	-1.5	0.5	-4.4	-4.3	N/A	-18.0	-11.7	-11.4	-2.5	-3.8	-4.6
Syrian Arab Republic	-1.5	-1.0	N/A	-5.8	-4.7	N/A	0.4	-10.1	N/A	-3.1	-2.2	N/A

Source: World Bank staff calculations based on data from the World Bank's *Macro Poverty Outlook*, April 2025.
Note: e = estimate, f = forecast and N/A = not available. Countries are listed in descending order based on 2023 GDP per Capita (constant 2021 PPPs) within each category. Data are rounded up to a single digit. Data for the Arab Republic of Egypt are for fiscal years (beginning on July 1 and ending June 30), and for the Islamic Republic of Iran (beginning March 21/22 and ending March 20/21). Other countries = Lebanon, the Syrian Arab Republic, and the Republic of Yemen, which are excluded from MENA regional and sub-regional averages due to uncertain values. Middle Income MENA includes Libya, the Islamic Republic of Iran, Algeria, Iraq, the Arab Republic of Egypt, Tunisia, Jordan, Morocco, the West Bank and Gaza and Djibouti. The macroeconomic forecasts for Iraq presented in this table are based on the World Bank estimations of real GDP at constant market prices. For the years between 2024 and 2026, real GDP growth rates and real GDP per capita growth rates for Iraq at constant market prices are identical to those at constant factor prices. Iraq's current account balance and the fiscal account balance (as percent of GDP) at constant market prices may differ marginally from those at constant factor prices. Real GDP growth regional and sub-regional weighted averages are calculated using previous year real GDP as weights. Real GDP per capita growth regional and sub-regional weighted averages are calculated by finding real GDP per capita for each category, then calculating yearly growth rates. Current account balance and fiscal balance regional and sub-regional averages are calculated using current year nominal GDP levels as weights. Numbers are updated as of April 8, 2025. Entries for countries under Economies Not Included in Aggregates are subject to high degree of uncertainty. These economies are excluded from subgroup aggregates.

MIDDLE EAST AND NORTH AFRICA REGION ECONOMIC UPDATE APRIL 2025

SHIFTING GEARS

The private sector as an engine of growth in the Middle East and North Africa

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