



The Economic Transformation of the MENA Region: The Path Ahead

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Executive Summary

Key Takeaways

- The economic transformation of the Middle East and North Africa (MENA) region **continues at different speeds** with Gulf Cooperation Council (GCC) countries (notably Qatar) as the locomotive of growth and provider of investment and financing to the rest of the MENA region
- In the short run, **political uncertainty** is delaying much-needed structural reforms in Arab Countries in Transition, leaving them vulnerable to higher unemployment
- In the long run, **greater integration in the global economy** through reforms to liberalize trade and improve competitiveness as well as a more effective banking sector can lead to higher growth in the MENA region

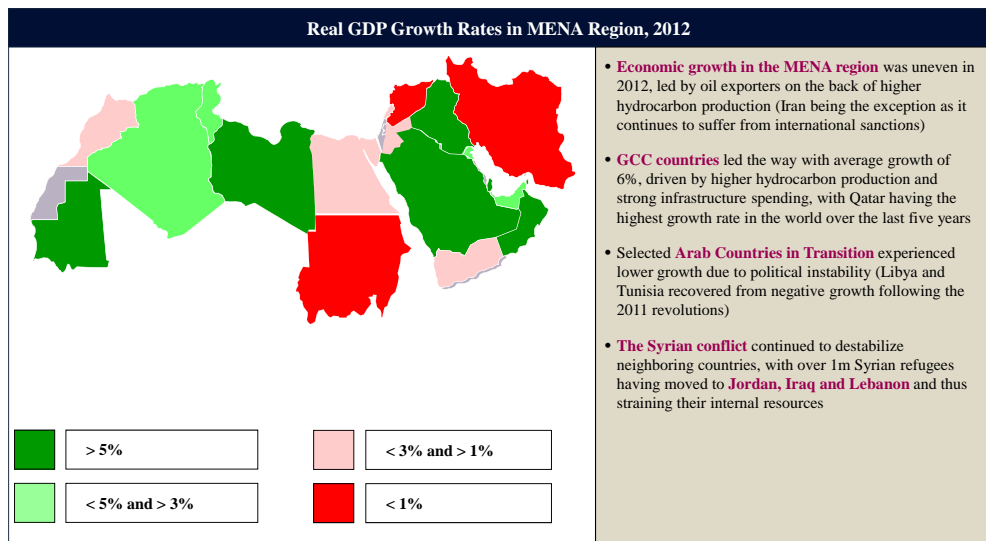


Source: QNB Group analysis

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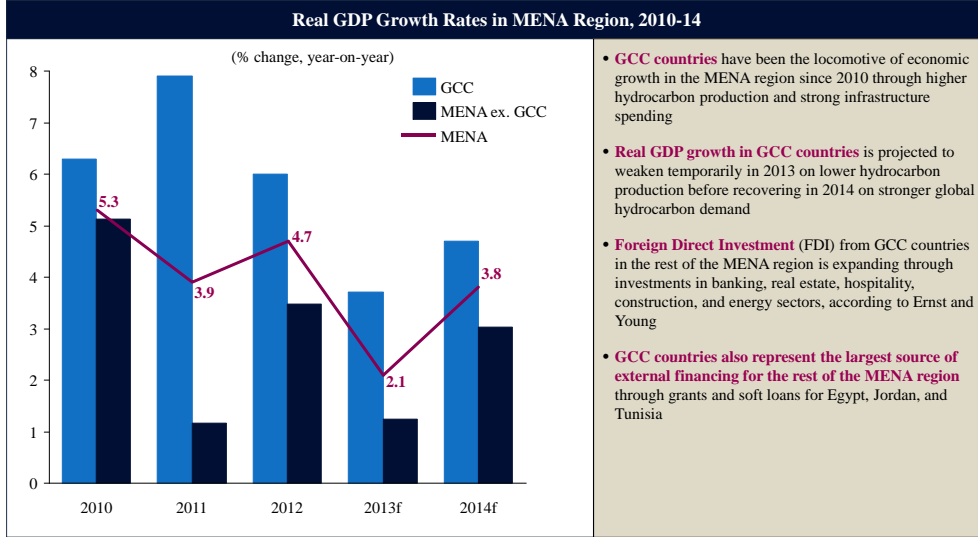
1. MENA Economic Transformation

The MENA region continues to grow at different speeds with oil exporting countries leading the pack...



Source: International Monetary Fund (IMF) and QNB Group analysis

...and GCC countries as the locomotive of growth and provider of investment and financing to the rest of the MENA region

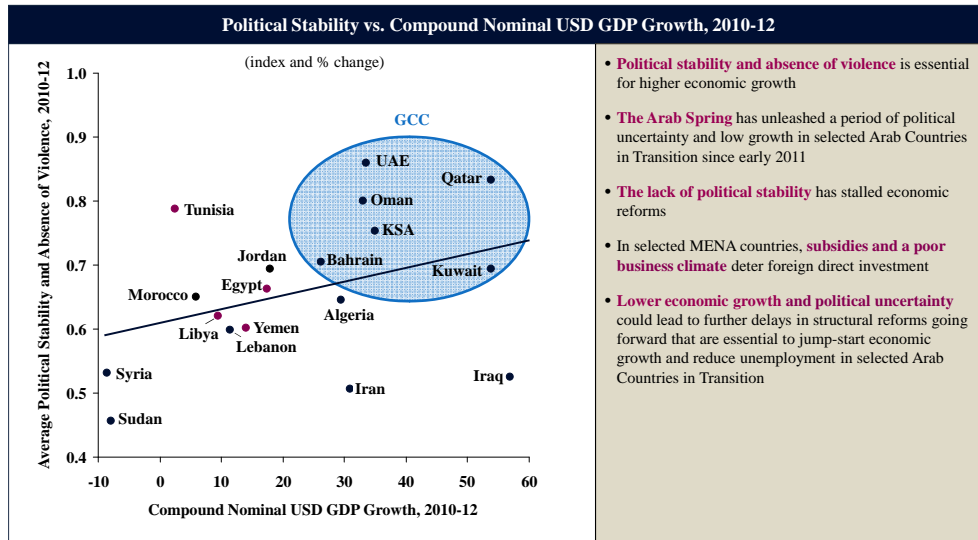


Sources: IMF data, Ernst & Young Middle East Attractiveness Survey 2012, and QNB Group analysis and forecasts

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2. Arab Countries in Transition

Political instability in selected Arab Countries in Transition has led to lower growth in 2010-12...



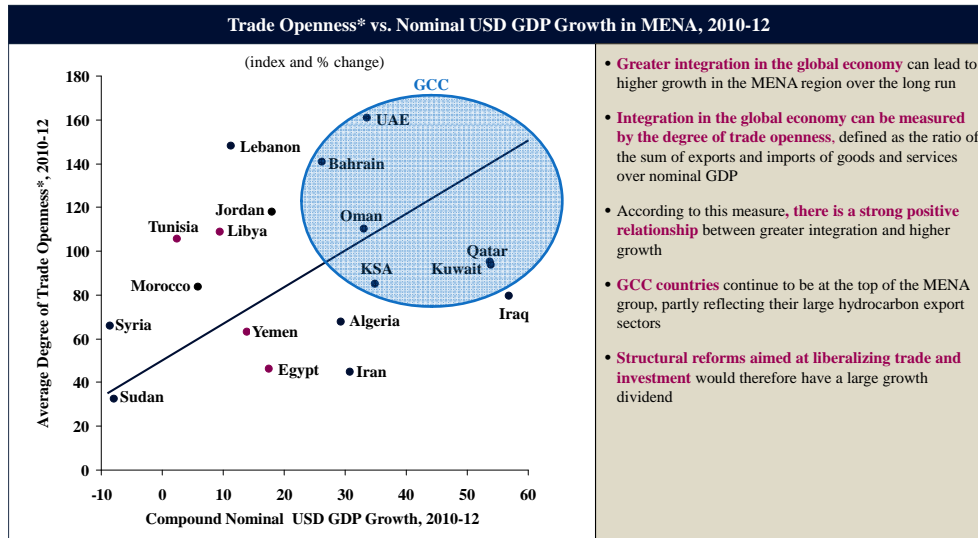
- **Political stability and absence of violence** is essential for higher economic growth
- **The Arab Spring** has unleashed a period of political uncertainty and low growth in selected Arab Countries in Transition since early 2011
- **The lack of political stability** has stalled economic reforms
- In selected MENA countries, **subsidies and a poor business climate** deter foreign direct investment
- **Lower economic growth and political uncertainty** could lead to further delays in structural reforms going forward that are essential to jump-start economic growth and reduce unemployment in selected Arab Countries in Transition



Sources: IMF data, Political Risk Services (PRS) and QNB Group analysis

3. MENA Economic Transformation

Greater integration in the global economy can lead to higher growth in the MENA region over the long run...

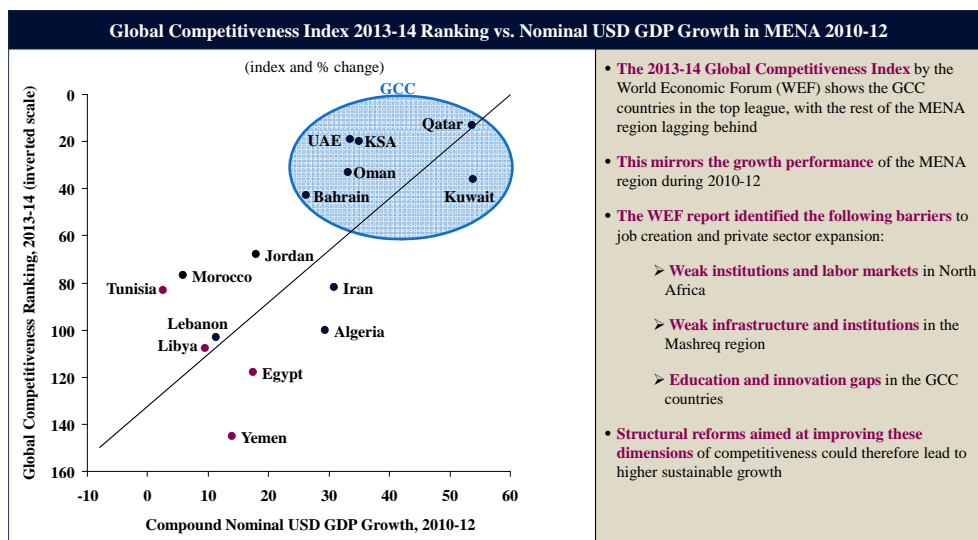


- **Greater integration in the global economy** can lead to higher growth in the MENA region over the long run
- **Integration in the global economy can be measured by the degree of trade openness**, defined as the ratio of the sum of exports and imports of goods and services over nominal GDP
- According to this measure, **there is a strong positive relationship** between greater integration and higher growth
- **GCC countries** continue to be at the top of the MENA group, partly reflecting their large hydrocarbon export sectors
- **Structural reforms aimed at liberalizing trade and investment** would therefore have a large growth dividend



* The degree of trade openness is calculated as the ratio of the sum of exports and imports of goods and services over nominal GDP
Sources: IMF and QNB Group analysis.

...together with significant improvements in global competitiveness...

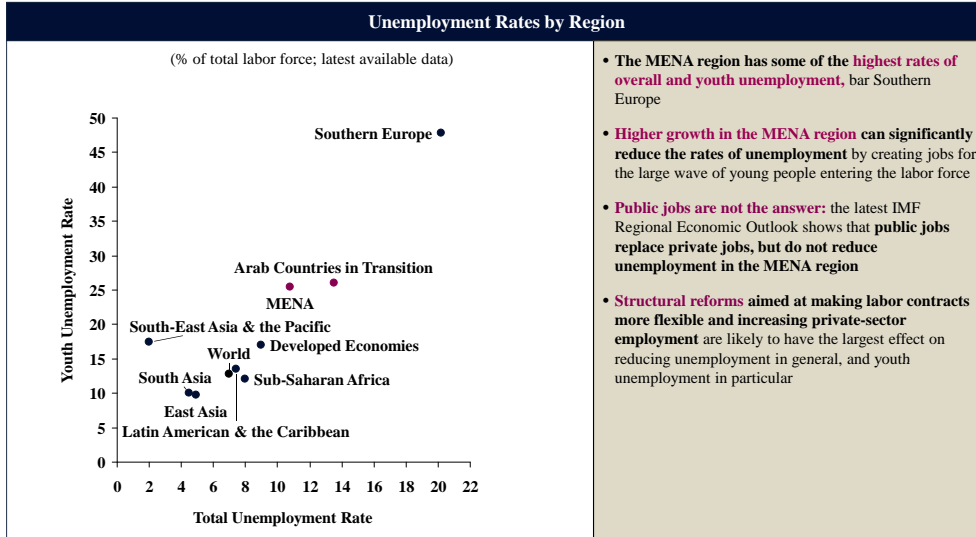


- **The 2013-14 Global Competitiveness Index** by the World Economic Forum (WEF) shows the GCC countries in the top league, with the rest of the MENA region lagging behind
- **This mirrors the growth performance** of the MENA region during 2010-12
- **The WEF report identified the following barriers** to job creation and private sector expansion:
 - **Weak institutions and labor markets** in North Africa
 - **Weak infrastructure and institutions** in the Mashreq region
 - **Education and innovation gaps** in the GCC countries
- **Structural reforms aimed at improving these dimensions** of competitiveness could therefore lead to higher sustainable growth



Sources: World Economic Forum and QNB Group analysis

...that can reduce overall and youth unemployment



- **The MENA region has some of the highest rates of overall and youth unemployment**, bar Southern Europe
- **Higher growth in the MENA region can significantly reduce the rates of unemployment** by creating jobs for the large wave of young people entering the labor force
- **Public jobs are not the answer:** the latest IMF Regional Economic Outlook shows that **public jobs replace private jobs, but do not reduce unemployment in the MENA region**
- **Structural reforms** aimed at making labor contracts more flexible and increasing private-sector employment are likely to have the largest effect on reducing unemployment in general, and youth unemployment in particular



Sources: International Labor Organization (ILO), IMF Regional Economic Outlook, Middle East and Central Asia (November 2013) and QNB Group analysis