Reforming Energy Subsidies Could Boost Growth and Create Jobs in the Middle East and North Africa Countries

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The World Bank Groups latest Middle East and North Africa Economic Monitor projects regional growth to average 4.2 percent in 2015, slightly more favorable than the 2013-2014 figures. Economic growth could reach 5.2 percent depending on domestic consumption, easing political tensions which could improve investors confidence in Egypt and Tunisia, and full resumption of oil production in Libya.
"The violent conflicts in Syria, Iraq, Gaza, Yemen and Libya with their spillovers to Lebanon and Jordan could make MENAs economic prospects bleak, says Inger Andersen, World Bank Regional Vice President for the Middle East and North Africa. "But the region's huge potential--its young, educated population, strategic location and natural resources--makes it imperative that the world come together and support a turnaround, much as it did in 1944 when Europe was mired in conflict.
Regional conflicts including the civil war in Syria now in its fourth year, the Islamic States (ISIS) control of large swathes of Syria and Iraq, a devastating war in Gaza in July-August 2014, and ongoing insurgencies in Yemen will slow growth in these countries in 2015. In the transition countries, growth is projected to pick up to 3.1 percent in Egypt, 2.7 percent in Tunisia and 4.6 percent in Morocco, but macroeconomic imbalances and a huge and unfinished reform agenda-including subsidy reform-stand in the way of attracting domestic and foreign investment to trigger sustainable growth. As for the other countries, Algeria and Iran, growth rates will stay in the range of 2-3 percent and average 5 percentin high-income countries (all hydrocarbon exporters in the Persian Gulf), but a combination of structural problems and potential weaknesses in the world oil market could limit their ability to register high growth rates going forward.
The   MENA Economic Monitor   has a special focus on the corrosive nature of the large energy subsidies in the region. MENA is currently experiencing growth below potential, high unemployment, urban air pollution and congestion, and severe water scarcity that is undermining agriculture. The report shows how energy subsidies have contributed to these development challenges and, therefore, reforms should be one of the highest priorities of policymakers.
"Energy subsidies and restricted competition encourage capital-intensive production, thus discouraging labor and employment, and contributing to the high unemployment in the region, says Shanta Devarajan, World Bank Chief Economist for the Middle East and North Africa Region. "With higher energy prices, resources would shift towards light manufacturing, construction and other labor-intensive sectors, as well as towards younger, more dynamic firms"
Emerging evidence supports a positive relationship between fuel prices and per capita GDP growth, job creation and performance of the transport and water sectors. The report exhorts MENA governments to reduce energy subsidies to create dynamic, employment-intensive economies supported by managed urbanization and a productive agricultural sector.

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