ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

SURVEY OF ECONOMIC AND SOCIAL DEVELOPMENTS IN THE ARAB REGION 2013-2014

SUMMARY

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In the Arab region, the average growth rate in gross domestic product (GDP) in real terms was estimated to be 3.0 per cent in 2013, compared to 7.7 per cent in 2012. This fluctuation, also observed in 2011, is the result of unstable Libyan economic performance. The average regional GDP growth rate without the influence of the Libyan economy stood at 4.1 per cent in 2012 and 3.2 per cent in 2013. Overall, the growth of Arab economies is decelerating as energy prices and associated energy export revenues continue to decrease at a modest rate from their recent peak in 2012. The subregion of Gulf Cooperation Council (GCC) countries remains the growth centre of the region, thus polarizing between the national economies of GCC countries and those of the rest of the Arab region, where political instability, social unrest, armed conflict and a general sentiment of uncertainty continue to hamper economic activities. Only a few signs of improvement have been observed. For example, non-oil exports saw a moderate increase as the uncertainty over global economic recovery was partially lifted following a slow recovery in developed countries. The region's stock market capitalization also marked a positive growth. Moreover, Egypt, Jordan, the Sudan, Tunisia and Yemen halted the depletion of foreign reserves and avoided a balance of payments crisis. Nevertheless, a significant financing gap persists in Arab countries that are undergoing sociopolitical transitions. The market mechanism that produced significant economic linkages, which enabled those countries to benefit from the positive spillover from GCC countries in the past decade, has not yet recovered. The inflow of external bilateral and multilateral financial support became ever more crucial in 2013 for the countries of the Mashreq and Maghreb and the Arab least developed countries, to alleviate foreign exchange constraints and inflationary pressures and to establish a renewed policy platform for sustainable economic and social development. High unemployment continues to be a pressing issue in Arab countries, including GCC countries, which need to create job opportunities for their nationals. Employment creation remains the most important item on the policy agenda of the region. A strong non-oil sector growth in GCC countries is projected in 2014; however, the energy export revenues of major energy-exporting countries are projected to decline at a modest rate. Further stagnation of net energy-importing countries is projected because of a lack of significant improvement in non-economic risk factors. On average, Arab economies are forecasted to grow by 3.5 per cent in 2014.

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I. GLOBAL CONTEXT

1. Defying pessimistic overviews at the start of 2013 that warned of a possible double-dip recession, the world economy showed that it was on a stable recovery path during 2013 and robust economic recovery was observed in developed countries. The United States of America saw a resilient economic expansion despite a decrease in federal government spending.[1] The active financial sector, recovering from the 2008 global financial crisis, led the growth of the private sector and cushioned the impact of ongoing fiscal tightening. The recovery of the European economy was also gaining ground. According to a European Commission assessment, macroeconomic imbalances, which posed major economic risks to European Union member countries, were gradually receding.[2] The risk premium of the government debts of southern European countries decreased, as the risk of a systemic financial crisis abated after the financial insolvency crisis in Cyprus was resolved without international repercussions. Japan renewed its quantitative easing monetary policy, which buoyed its domestic demand and supported the recovery of economic sentiment that had been significantly weakened by the 2011 Tohoku earthquake. Improved price competitiveness, resulting from a significant devaluation of the Japanese yen, led a recovery in corporate earnings. Moreover, the improvement of economic sentiment in developed countries contributed to the expansion of the world economy in 2013, and this trend is projected to continue in 2014.

2. The economic expansion of developing economies decelerated in 2013. Hovering international commodity prices contributed to the continuing growth of commodity-exporting countries, but the magnitude of economic expansion was narrower because of the stabilized price level of various commodities. Major developing economies, including those of Brazil, the Russian Federation, India, China and South Africa, continued to grow but a few signs of vulnerability in sustaining a higher growth level emerged in 2013. Mounting inflationary pressures forced Brazil and India to implement tighter monetary policies. Chinese wage levels continued to increase and the price advantage of the exports of China through labour costs started waning. The announcement by the United States Federal Reserve to taper its unconventional monetary policy regime in May 2013 shocked the external positions of developing countries, causing their national currencies to depreciate since then. The devaluation of national currencies was one of the major causes of inflationary pressure through import price hikes, which may lead more developing countries to implement tighter policy measures to control demand. The situation is worrying and projected to continue well into 2014. Implementing a pro-growth policy mix is essential for developing countries to achieve developmental goals, but it could possibly be less affordable for some developing countries because of their weakened external positions resulting from currency devaluation.

3. The current growth path of the world economy is fundamentally fragile because of weak employment creation in the recovery phase. Unemployment rates in the United States and European Union member countries stayed above the pre-crisis level of 2008. It was observed that the global employment gap created by the 2008 global financial crisis was slightly widened despite the current world economic recovery.[3] Weak employment prospects for both developed and developing economies are expected to impact developing economies more, as stagnating job markets in developed economies discourage emigration for job seeking purposes. Both developed and developing economies have become cautious in applying expansionary fiscal measures after implementing a series of stimulus packages during the global financial crisis. The present fiscal stance limits the latitude of global employment recovery. In summary, the main challenges that the world economy is currently facing are the following:

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[1] Bureau of Economic Analysis, "National Income and Product Accounts – Gross Domestic Product, fourth quarter and annual 2013 (third estimate); Corporate Profits, fourth quarter and annual 2013, United States", 27 March 2014. Available from www.bea.gov/newsreleases/national/gdp/2014/gdp4q13_3rd.htm.

[2] European Commission, "Results of in-depth reviews under Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances", 5 March 2014. Available from http://ec.europa.eu/economy_finance/economic_governance/documents/2014-03-05_in-depth_reviews_communication_en.pdf.

[3] International Labour Organization (ILO), *Global Employment Trends 2014: Risk of a jobless recovery?* (Geneva, ILO, 2014), p. 17.

(a) The extent to which possible negative impacts of the change in the Federal Reserve policy stance will affect international capital markets, developing countries' external positions and the value of their national currencies;

(b) The extent to which fiscal policy stances can be expansionary in both developed and developing countries;

(c) Innovative employment creation to prevent an even wider global employment gap.

4. In this global context, the Arab region[4] saw a slower economic growth in 2013 compared to 2012, mainly because of the moderate oil revenue growth of major oil-exporting countries, represented by the member countries of the Gulf Cooperation Council (GCC). While GCC countries are on a stable recovery path, the polarization of economic performance continues between GCC countries and other Arab countries. Moderate, partial recovery was witnessed in a few countries in the Mashreq and Maghreb subregions, as well as in some Arab least developed countries, but most countries in these subregional groups suffer from stagnating economic activities resulting from continued political instability and social unrest. The crisis in the Syrian Arab Republic continues to have negative spillover effects on neighbouring countries, particularly with regard to subdued cross-border economic activities, including trade, investment and tourism. The insufficient speed of economic recovery in Europe is affecting the non-oil exports of the Mashreq and Maghreb subregions. High unemployment continues to be a pressing issue in Arab countries, including GCC countries, which need to create job opportunities for their nationals. Employment creation continues to be the most important item on the policy agenda throughout the region.

II. DEVELOPMENTS IN THE NATURAL RESOURCES SECTOR

A. OIL SECTOR

5. Hydrocarbon products, especially crude oil, remain the most influential commodity for the region, given that they are the key economic linkage between the Arab region and the global economy. The total world demand for oil in 2013 was estimated at 90 million barrels per day on average, up by 1.18 per cent from the previous year, while the total supply of crude oil was 91.6 million barrels per day on average according to the Organization of the Petroleum Exporting Countries (OPEC).[5] The United States witnessed increased demand for crude oil in the last quarter of 2013, associated with its economic recovery. Chinese crude oil demand continued to rise in 2013, while Latin American countries, led by Brazil, also recorded substantial increases in crude oil demand. Shrinking crude oil consumption in Europe and Japan subdued increased oil demand from other regions.

6. The total crude oil production of OPEC member countries dropped, particularly in the fourth quarter of 2013, following a significant decline in Libyan crude oil production. While many non-OPEC countries experienced stagnant or slightly decreased crude oil production, Canada and the United States recorded remarkable increases in crude oil production, sufficient to cover global demand increases. Regional production of crude oil was fairly stable during 2013, except in Libya and Saudi Arabia. Libyan crude oil production plummeted in the second half of 2013. Saudi Arabian crude oil production decreased in the first

[4] Following the accession of Libya, Morocco and Tunisia to the Economic and Social Commission for Western Asia in July 2012, it was decided that the territorial coverage of the Survey of Economic and Social Developments would be expanded to include all countries of the Arab region. The following subregional grouping is used in this summary, based on a combination of parameters, namely per capita income levels, geographical proximity and similarities in economic and social characteristics and conditions: GCC countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; Mashreq countries: Egypt, Iraq, Jordan, Lebanon, Palestine and the Syrian Arab Republic; Maghreb countries: Algeria, Libya, Morocco and Tunisia; Arab least developed countries: the Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen.

[5] OPEC, "OPEC Monthly Oil Market Report", 12 March 2014. Available from www.opec.org/opec_web/en/publications/338.htm.

quarter of 2013 to around 9.1 million barrels per day and then recovered to between 9.7 and 10 million barrels per day in the third quarter. Total crude oil production of the GCC subregion averaged 17.3 million barrels per day in 2013, up by 1.3 per cent from the previous year. Iraq maintained its daily crude oil production of approximately 3 million barrels per day.[6]

7. In the energy markets, the volatility of crude oil prices decreased in 2013. OPEC basket prices were maintained between 96.35 United States dollars ($) per barrel and $114.94 per barrel in 2013, with a yearly average of $105.87 per barrel (table 1). The first quarter of 2014 witnessed very stable crude oil prices despite ongoing geopolitical instability in several major oil-exporting countries. The price floor was firm owing to the constant demand growth in the context of stable global economic recovery, but weakened speculative buying in oil futures markets prevented significant price spikes of crude oil. Commodity investors in oil futures markets are expected to be cautious when taking long-term positions because of an expected increase in funding costs. On the supply side, increased crude oil production capacity, especially in North America, accommodated supply stoppages in several oil-exporting countries.

8. Crude oil prices are projected to edge down in 2014, following the trend of 2013. Indeed, the projected demand increase for crude oil will be accommodated by an increased crude oil production capacity. According to OPEC, total global demand is expected to stand at 91.14 million barrels per day in 2014 (a 1.27 per cent increase from the previous year), which is expected to be covered by sufficient production capacity. OPEC is expected to continue aiming for the current production target of 30 million barrels per day and is not likely to reinstall country-specific production quotas in 2014.

9. The trend of narrowing refining margins because of the relatively weak demand for fuel products is likely to impact crude oil prices. The gap between crude oil and gasoline rapidly narrowed in the third quarter of 2013 and has widened again in the first quarter of 2014. Having taken these factors into consideration, the OPEC Reference Basket price is forecasted to average $102.3 per barrel in 2014, within the forecasted range of $94.1 to $110.4.

TABLE 1. CRUDE OIL PRICE ESTIMATION AND FORECAST
(*OPEC Reference Basket, $ per barrel*)

	Minimum	*Maximum*	*Annual Average*	*Forecasted annual average for 2014*		
				Lower	*Baseline*	*Higher*
2011	89.81	120.91	107.46			
2012	88.74	124.64	109.45			
2013	96.35	114.94	105.87			
2014				94.1	102.3	110.4

Source: OPEC data for 2011-2013. Figures for 2014 are forecast as of March 2013.

10. Several risk factors remain, which may hamper the projected supply-demand balance. The tapering of the United States monetary stance and the economic performance of China may influence the global economic atmosphere, thus affecting crude oil demand and speculation on crude oil prices. Geopolitical risks persist in the Arab region. Lingering conflicts in Libya have effectively limited Libyan crude oil production and export. The Syrian crisis may impact Iraqi crude oil production and the growth of Iranian crude oil export levels is still uncertain. Moreover, the influence of geopolitical turbulences, such as unstable political conditions in Venezuela and the ongoing conflict between the Russian Federation and Ukraine, cannot be ruled out.

B. PHOSPHATE SECTOR

11. In the light of the increasing priority of food security, the indispensability of phosphate for agricultural productivity has been recognized. Given that the Arab region has the largest phosphate reserves in the world,

[6] Joint Organizations Data Initiative database.

policymakers have become increasingly aware of the value of phosphate as a strategic natural resource and therefore as another crucial economic linkage to the global economy. According to estimates from the International Fertilizer Industry Association (FIA), phosphate consumption for fertilizer equalled 40.4 million tons of phosphorus nutrients (phosphorus pentoxide, P_2O_5), slightly lower than in the previous year, while it is expected to increase by 1.8 per cent in 2014.[7] Fertilizer consumption increased in almost all regions in 2013, but South Asia witnessed substantial decreases, especially in India which is the largest importer of phosphate, resulting in a slight decrease in global phosphate consumption.

12. The Office Cherifien des Phosphates (OCP), a state-owned company of Morocco, was the largest exporter of phosphate in 2012 and produced 6.8 million tons of P_2O_5 equivalent, which equalled approximately 17 per cent of global consumption.[8] China, followed by Morocco and the United States, is the world's largest producer of phosphate, but its exports were somewhat limited because of an export tax imposed in 2008. Production from China and the United States was mostly consumed domestically, leaving the Arab region as the largest exporter of phosphate. The regional production capacity is likely to increase in the coming few years with considerable investment in the industry. Saudi Arabia is investing heavily in building an industrial complex dedicated to the production and processing of phosphate through the Waad al-Shamal project near the Jordanian border, with total investments of more than $9 billion. OCP is also expanding its production capacity using a $271 million loan agreed with a German bank in the last quarter of 2013.

13. The price of phosphate rock fell substantially in 2013. After the historical price hike and collapse in 2008 and 2009, it was relatively stable from mid-2011 until the end of 2012, at around $180-$200 per ton.[9] However, in 2013, the price plummeted to around $100 per ton. The demand for phosphate is expected to increase slightly in 2014, supported by the increasing production capacity of major phosphate-exporting countries. Thus, supply shortages are not expected and the price of phosphate rock is not likely to jump significantly, although a certain level of price recovery during 2014 is possible with the recovery of demand from China and India.

III. REGIONAL ECONOMIC TRENDS

A. OVERVIEW

14. The average real GDP growth in the Arab region was estimated at 3 per cent in 2013, compared to 7.7 per cent in 2012 (table 2). The fluctuation that was observed in 2011 and 2013 was the result of unstable Libyan economic performance. The average GDP growth rate without Libya stood at 4.1 per cent in 2012 and 3.2 per cent in 2013. The subregion of GCC countries remains the growth centre of the region and polarization among the economies of GCC countries and those of other Arab countries continues. Political instability, social unrest, armed conflict and a general sentiment of social uncertainty continues to hamper economic activities, although a few signs of improvement have been observed. As the uncertainty over global economic recovery partially lifted, non-oil exports saw a moderate growth. The Arab region's stock market capitalization also marked a positive growth. Moreover, Egypt, Jordan, the Sudan, Tunisia and Yemen halted the depletion of foreign reserves and avoided a balance of payments crisis. Intraregional cooperation on a bilateral basis played a major role in this stabilization, which replaced the spillover resource flows from GCC countries through financial markets and intraregional foreign direct investment.

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[7] Heffer, P. and Prud'homme, M., "Short-term Fertilizer Outlook 2013 – 2014", December 2013. Available from www.fertilizer.org/imis20/images/Library_Downloads/2013_ifa_paris_summary.pdf?WebsiteKey=411e9724-4bda-422f-abfc-8152ed74f306&=404%3bhttp%3a%2f%2fwww.fertilizer.org%3a80%2fen%2fimages%2fLibrary_Downloads%2f2013_ifa_paris_summary.pdf.

[8] OCP website, www.ocpgroup.ma.

[9] World Bank, Global Economic Monitor (GEM) Commodities database. Available from http://databank. worldbank.org/data/views/variableselection/selectvariables.aspx?source=global-economic-monitor-%28gem%29-commodities.

B. GULF COOPERATION COUNCIL COUNTRIES

15. The GDP growth of the GCC subregion was estimated at 4.3 per cent in 2013, after registering 5.7 per cent in 2012. The proportional contribution of the oil sector to that growth decreased as oil export revenues dropped from their historical high in 2012. Activities in the non-oil sector became an engine of growth, which was most notably represented by the recovery of Dubai in the United Arab Emirates. Robust economic sentiment and confidence were observed in GCC countries, which continued to push up the value of financial and property assets. By the first quarter of 2014, share price indices surpassed the pre-crisis level of 2008 in stock markets in Qatar and Saudi Arabia. The subregion's financial institutions have completed balance sheet adjustments. In addition to the active fiscal stance, the observed monetary expansion indicated an increasing financial leverage in economic activities that has been supporting the growth of domestic demand.

16. The GDP growth rate is projected to stay at the same level in GCC countries in 2014. Declining oil export revenues are to be counterbalanced by the growth of the non-oil sector, which would result in a stable growth of domestic demand. Other factors to consider are fiscal stances, the proportion of non-oil sector activities and the financial sector's robustness associated with monetary expansion. The average real GDP growth rate of the subregion is projected at 4.4 per cent for 2014. Among GCC countries, Qatar and the United Arab Emirates are projected to witness a growth above the subregional average in the context of their rapid non-oil sector expansion. Saudi Arabia is also projected to see a consistent domestic demand expansion with continuing active fiscal policy. However, the shortage of construction workers caused by the deportation of illegal foreign workers is expected to affect the implementation of planned construction projects. Modest but consistent growth is projected for Bahrain, Kuwait and Oman in line with the level of the domestic demand expansion of these countries. The forecasted growth rate for 2014 is 4 per cent for Bahrain, 3.8 per cent for Kuwait, 3.8 per cent for Oman, 5.5 per cent for Qatar, 4 per cent for Saudi Arabia and 5.2 per cent for the United Arab Emirates.

C. MASHREQ COUNTRIES

17. The economies in the Mashreq subregion are, on average, estimated to have contracted by 0.6 per cent in 2013, after registering a 0.1 per cent growth in 2012. The Syrian crisis and its repercussion on neighbouring countries have continued to affect the economy. This subregion has been affected the most by political instability and social unrest, which are hampering forward-looking economic activities, such as physical investments. Partial recovery in non-oil exports and lower energy prices helped stabilize current account deficits, and a few signs of improved economic sentiment have been observed. For example, the Egyptian stock market index recovered in the first quarter of 2014 to surpass its level at the start of the sociopolitical transition of January 2011. However, subdued tourism and the lack of foreign direct investment inflows have forced countries to rely on bilateral financial support to finance current account deficits. With the increased level of foreign reserves, Egypt and Jordan could change their monetary stance from tightening to easing. Jordan and Lebanon were estimated to mark a positive growth in 2013, but the magnitude was significantly insufficient to improve the standard of living of their citizens because of the influx of refugees and evacuees from the Syrian Arab Republic. The fiscal shortfall to support the refugees impacted Jordan and Lebanon, resulting in the deterioration of the living standard of refugees and in an insufficient level of domestic economic activities to sustain the suddenly increased number of residents. Iraqi GDP growth continued to be led by crude oil production, oil sector related activities in the south of the country and consistent economic expansion in the region controlled by the Kurdish Regional Government. The regional gap in Iraq has widened as activities in the western region stalled because of intensified security risks. The destruction of the Syrian economy continues to severally hamper economic activities. The rising cost of domestic transport has paralyzed the economy, even in areas not directly affected by the violence. The real GDP growth of Palestine decelerated. Subdued construction activities, which were the core of domestic demand expansion for the reconstruction of the Gaza Strip, stalled. Hostilities, physical blockades and security risks continue to hamper the Palestinian economy.

18. In 2014, the Mashreq subregion is projected to stay stagnant with a growth of 2.9 per cent. The forecasted value of the Syrian Arab Republic is not included because of insufficient data. The perceived uncertainty and political and geopolitical risks have overwhelmed a few positive factors for economic growth by continuing to hamper investment. Weak growth in domestic demand and non-energy exports are projected in all countries of the subregion. However, Mashreq countries are expected to be spared from a balance of payments crisis because of the availability of intraregional support for countries with current account deficits. As the tight fiscal stance continues, countries continue to rely on monetary policy for pro-growth measures. The forecasted growth rate for 2014 is 2.4 per cent for Egypt, 6.8 per cent for Iraq, 3 per cent for Jordan, 2.5 per cent for Lebanon and 2.6 per cent for Palestine.

TABLE 2. REAL GDP GROWTH RATE AND CONSUMER PRICE INFLATION RATE, 2010-2014
(*Annual percentage change*)

	Real GDP growth rate					*Consumer price inflation rate*				
Country/area	2010[a/]	2011[a/]	2012[a/]	2013[b/]	2014[c/]	2010	2011	2012	2013[b/]	2014[c/]
Bahrain	4.3	1.9	3.4	5.3	4.0	2.0	-0.4	2.8	3.5	3.1
Kuwait	-2.4	10.2	8.3	4.0	3.8	4.0	4.8	2.9	2.6	3.2
Oman	4.8	0.9	5.8	3.0	3.8	3.2	4.1	2.9	1.3	2.1
Qatar	16.7	13.0	6.2	6.5	5.5	-2.4	1.9	1.9	3.1	4.2
Saudi Arabia	7.5	8.6	5.8	3.8	4.0	3.8	3.7	2.9	3.5	3.3
United Arab Emirates	1.7	3.9	4.4	5.0	5.2	0.9	0.9	0.7	1.1	2.4
GCC countries	5.2	7.3	5.7	4.3	4.4	2.6	2.9	2.2	2.6	3.0
Egypt[d/]	5.2	1.8	2.2	2.1	2.4	11.1	10.5	7.3	9.5	13.5
Iraq	6.9	9.5	9.0	6.1	6.8	2.5	5.6	6.1	1.9	5.1
Jordan	2.3	2.6	2.7	2.8	3.0	5.0	4.4	4.8	5.6	5.0
Lebanon	8.0	2.0	1.2	1.7	2.5	3.6	5.1	6.4	5.7	3.0
Palestine	9.3	12.2	5.9	1.8	2.6	3.8	2.9	2.7	1.8	2.6
Syrian Arab Republic[e/]	3.4	-3.4	-21.8	-22.5	--	4.4	4.8	37.4	87.3	42.7
Mashreq	5.5	2.7	0.1	-0.6	2.9	7.3	7.5	10.9	18.1	14.2
Algeria	3.6	2.8	3.3	3.0	3.6	3.9	4.5	8.9	3.3	4.0
Libya	4.3	-61.3	98.2	-3.0	-5.0	2.8	15.5	6.1	2.6	3.5
Morocco	3.6	5.0	2.7	4.6	3.6	1.0	0.9	1.3	1.9	2.4
Tunisia	3.6	-0.2	4.1	2.8	3.0	4.4	3.6	5.6	6.1	5.2
Maghreb	3.7	-9.2	21.2	2.2	1.9	3.0	5.6	6.0	3.2	3.7
Comoros	2.2	2.6	3.0	3.4	3.8	3.8	1.8	6.3	1.6	2.0
Djibouti	3.5	4.8	4.7	5.3	5.8	4.0	5.1	3.7	3.5	2.2
Mauritania	5.1	4.0	4.6	6.1	5.9	6.3	5.6	4.9	4.6	5.0
Somalia	--	--	--	--	--	--	--	--	--	--
Sudan	5.8	1.9	1.1	3.2	2.5	13.0	18.1	35.6	37.1	32.0
Yemen	5.7	-12.8	2.0	3.5	2.6	11.1	19.3	10.1	11.0	11.7
Arab least developed countries	5.7	-2.8	1.6	3.4	2.7	11.9	17.8	25.4	26.6	23.7
Total Arab region[f/]	5.0	2.7	7.7	3.0	3.5	3.9	5.0	5.6	6.6	6.1

Source: National sources.

a/ With the exception of Algeria, the Comoros, Djibouti, Mauritania, the Syrian Arab Republic, GDP figures for 2010-2012 are from ESCWA, E/ESCWA/SD/2013/11, based on national sources;

b/ March 2014 estimates;

c/ March 2014 forecasts which do not include the GDP growth projection of the Syrian Arab Republic because of the lack of sufficient data;

d/ For the GDP growth rate of Egypt, the figures are for the country's fiscal year which ends in June;

e/ For the GDP growth rate of the Syrian Arab Republic, figures from 2011 to 2013 are estimates;

f/ Figures for country groups are weighted averages, where weights for each year are based on GDP in 2005 constant prices.

D. MAGHREB COUNTRIES

19. The Maghreb subregion is estimated to have grown by 2.2 per cent in 2013, after registering 21.2 per cent in 2012. The average growth of this subregion was affected by that of Libya, whose economy experienced another contraction after the recovery in 2012. Libyan oil and gas production and exports collapsed again in the second half of 2013 as opposition groups occupied facilities. Several efforts led to temporary resumptions of crude oil production and exports, but the level stood at just above half of pre-2011 levels at best. Recovery in the agricultural sector buoyed the Moroccan economy in 2013 and, given its relative political stability, Morocco enjoyed constant industrial development. The availability of foreign funds, both for the public and private sectors, supported domestic demand expansion. Stable energy export revenues maintained the Algerian economy at a good growth level; however, it stayed below potential because of the lack of economic diversification in the non-energy sector. Tunisia was the first country to complete its political transition process. However, before its completion, the country's economic activities decelerated in the fourth quarter of 2013. Despite the availability of foreign funds, low levels of foreign direct investment and tourism put the Tunisian economy under further foreign exchange constraints in 2013.

20. In 2014, the Maghreb subregion is projected to continue to grow by 1.9 per cent. The contraction of the Libyan economy is also projected to continue as its oil exporting capacity will be reduced due to political instability. Other Maghreb countries are expected to witness a calmer non-economic environment, allowing them to attract foreign direct investments, and enhance bilateral and multilateral international aid and intraregional cooperation. An increased number of pledges were made among GCC countries to support Morocco and Tunisia. Nevertheless, weak industrial development and hovering unemployment remain structural risk factors for the subregion. The forecasted growth rate for 2014 is 3.6 per cent for Algeria, 3.6 per cent for Morocco and 3 per cent for Tunisia. The Libyan economy is projected to contract by 5 per cent.

E. ARAB LEAST DEVELOPED COUNTRIES

21. The economies of the Arab least developed countries are, on average, estimated to have grown by 3.4 per cent in 2013, following a growth of 1.6 per cent in 2012. In 2013, the struggle to stabilize the domestic economy of the Sudan after the secession of South Sudan continued. The Sudan remained under severe foreign exchange constraints, but the recovery of both oil and non-oil exports led to a modest acceleration in the Sudanese economy. The 2013 agreement with South Sudan on the terms of oil production and transportation improved the external economic environment, in spite of the deteriorating political situation in South Sudan. Despite frequent attacks on oil pipelines, the recovery in oil export revenues buoyed the Yemeni economy in terms of GDP growth. Financial support for the Yemeni transition was actively pledged at both the regional and international levels. However, modest growth of domestic demand could only be achieved, with a rapidly growing level of public debt. Other Arab least developed countries, namely the Comoros, Djibouti and Mauritania, marked a higher GDP growth in 2013. Political stabilization in Somalia brought more economic activities to the functioning public sector in 2013. Anecdotal evidence suggests that the economy of Somalia was experiencing a rapid expansion owing to reconstruction activities, although no official data are available to show the exact magnitude.

22. In 2014, real GDP growth in the Arab least developed countries is projected to average 2.7 per cent. As the growth in energy and natural resource exports slows, growth in Mauritania and Yemen is expected to taper off. The economic prospects of the Comoros and Djibouti remain influenced by those of their neighbouring countries, which are expected to be stable. The expansion of port activities in Djibouti is projected to accelerate the Djiboutian economy. The Sudan is expected to mark a stable growth with a stable level of oil export revenues. However, severe foreign exchange constraints will prevent the country from achieving a higher level of growth. In general, the growth prospects of the Arab least developed countries remain insufficient for poverty alleviation. The forecasted growth rate for 2014 is 3.8 per cent for the Comoros, 5.8 per cent for Djibouti, 5.9 per cent for Mauritania, 2.5 per cent for the Sudan and 2.6 per cent for Yemen.

F. Price and inflation

23. The average consumer price inflation in the Arab region was estimated at 6.6 per cent in 2013, compared to 5.6 per cent in 2012 (table 2). International commodity prices of energy, metal and food items remained high and increased towards the end of 2013. International commodity prices did not noticeably impact domestic price levels of the region's economies. Following the 2012 trend, each country's consumer inflation level was determined by country-specific factors. The deflationary pressure on housing-related items in Bahrain, Qatar and the United Arab Emirates, since the global financial crisis of 2008-2009, has completely lifted. In turn, housing-related items in GCC countries, particularly property rent, became the main contributor of inflationary pressures. Nevertheless, GCC countries' consumer inflation rate edged up to 2.6 per cent in 2013 and remained the lowest compared to that of other subregions. A low inflation level was also observed in the Comoros, Iraq, Palestine, Libya and Morocco in 2013. However, the structural supply bottleneck raised price levels in the rest of the region's countries. Foreign exchange constraints continued to affect the Sudan and the Syrian Arab Republic, causing a state of hyperinflation. The level of inflation in Egypt and Yemen remained high, in parallel with growing government debt.

24. The forecasted consumer price inflation rate of the Arab region averaged 6.1 per cent in 2014. The impact of international commodity prices is expected to be limited, although a moderate increase in food prices is projected. GCC countries will be under more inflationary pressure from housing-related items. Exceptionally high inflation rates seen in the Sudan and the Syrian Arab Republic in 2013 are expected to taper off. However, seriously binding foreign exchange constraints are anticipated to remain for non-economic reasons, and the level of inflation was not projected to drop rapidly in both countries in 2014. Egypt and Yemen are projected to experience a higher inflation in 2014, owing to rapid monetary expansion under severely binding structural supply constraints. The planned fiscal reforms, if implemented, will influence price levels, especially in Egypt and Tunisia.

G. Exchange rates

25. The exchange rates in the Arab region showed more stability in 2013, compared to the previous year, with the exception of Egypt, the Sudan, the Syrian Arab Republic and Tunisia. GCC countries, except Kuwait, have kept their foreign exchange rates pegged to the dollar. Djibouti, Jordan and Lebanon have also kept their national currencies pegged to the dollar. Kuwait pegged its currency to a basket of foreign currencies. The central banks of Algeria, the Comoros, Iraq, Libya, Mauritania, Morocco, Tunisia and Yemen maintained the managed float regime for foreign exchange rates. The rapid depreciation of the Egyptian pound (EGP) was halted in June 2013, as the value of the currency was stabilized at around EGP7.0/US$. The Tunisian dinar (TND) gradually depreciated throughout 2013 from TND1.55/US$ to TND1.67/US$. However, this trend was reversed after the political transition was completed in the first quarter of 2014, when the rate recovered to TND1.58/US$. Regarding the Sudan and the Syrian Arab Republic, the value of their national currencies continued to slide against the dollar until they were stabilized in the fourth quarter of 2013. The official rate of the Sudanese pound (SDG) was changed to SDG5.7/US$ from SDG4.42/US$ in September 2013. It was then cut further to SDG5.71/US$. The value of the Syrian pound (SYP) rapidly dropped from SYP95/US$ in January 2013 to SYP280/US$ in August 2013 in parallel markets. However, the value of the Syrian national currency recovered and stabilized at around SYP155/US$ in parallel markets since November 2013 until the first quarter of 2014. The fragile balance of payments situation is expected to continue in Egypt, the Sudan, the Syrian Arab Republic and Yemen in 2014. Weak external positions are expected to remain in other countries in the Mashreq and Maghreb subregions, and in the Arab least developed countries.

IV. POLICY DEVELOPMENTS

26. In 2013, policymakers of the region had to balance various policy priorities. For major energy exporters of GCC countries, the growing fiscal outlays related to capital spending, and education and health sector development had to be balanced. A growth-supporting monetary policy regime, with a historically low

interest rate level, continued throughout 2013, mirroring the monetary stance of the United States. The Governments of other subregions remained under tighter fiscal and foreign exchange constraints, and an expansionary economic policy mix was difficult to implement without external financial support. The fiscal austerity stance has continued in Morocco, Tunisia, the Sudan and Yemen. Improving foreign exchange constraints have allowed Egypt and Jordan to take a limited expansionary policy stance. Lebanon relied on monetary measures to stimulate domestic demand.

27. Regarding monetary policy, GCC countries did not change their easing stance in parallel with United States monetary policy. A series of implicit and explicit announcements from the Federal Reserve on the planned normalization of monetary policy during 2013 did not significantly affect the cost of funding in GCC countries. The funding cost in terms of the three month interbank money market rate in GCC countries remained at around 1 per cent in 2013, about 75 basis points higher than the equivalent maturity of United States dollar London Interbank Offered Rate (LIBOR). The three-month Emirates Interbank Offered Rate (EIBOR) of the United Arab Emirates edged down to 0.77857 per cent at the end of the first quarter of 2014, while the three-month Kuwait Interbank Offered Rate (KIBOR) of Kuwait edged up to 1.1875 per cent. Monetary authorities in GCC countries focused on routine liquidity management and on guiding commercial banks in their lending portfolios. Monetary policy was further tightened in Tunisia to fight inflationary pressure. The Central Bank of Tunisia raised its main policy interest rate in March and December 2013 to 4.5 per cent. Meanwhile, the improved level of foreign reserves allowed the Central Bank of Egypt and the Central Bank of Jordan to cut respective policy interest rates. After raising policy interest rates in March 2013, the Egyptian monetary authority cut policy interest rates three times in August, September and December 2013. Egyptian overnight lending rates dropped from 10.75 per cent to 9.25 per cent. The Central Bank of Jordan lowered its policy rates in August and October 2013, and in January 2014, by which the rediscount rate dropped to 4.25 per cent from a peak of 5 per cent. The proportion of foreign assets in balance sheets remained low in the central banks of Egypt, the Sudan and Yemen, which indicated the intense difficulties that those countries were facing in managing price levels and domestic demand.

28. In the 2013/2014 fiscal year, the fiscal stance of GCC countries remained expansionary at various levels. The priority of infrastructure investments, health, education and social affairs continued to be emphasized. However, given the stagnation of revenue growth because of declining oil export revenues, some GCC countries started to take a more conservative precautionary fiscal stance in planning. A contrasting fiscal policy environment remained in the energy-importing countries of the Mashreq and Maghreb and the Arab least developed countries, where rising government debt had already resulted in higher interest payments in budget expenditures. A fiscal austerity stance was principally kept in place in the energy-importing countries of these subregions. The main policy item of austerity measures was subsidy reform. Morocco and the Sudan cut fuel subsidies in 2013. Egypt, Jordan and Tunisia are also undergoing subsidy reform. Nevertheless, Egypt and Jordan took additional fiscal measures in 2013 through funding from GCC countries. Jordan increased capital spending in 2013 and Egypt launched two fiscal stimulus packages during its 2013/2014 fiscal year, which also emphasized capital spending. External financial support became even more crucial for energy-importing countries in the region to fill external and fiscal financing gaps and keep economies afloat.

29. Employment creation continues to be the most important item on the policy agenda of the region. Unemployment rates remained high in 2013: Egypt stood at 13.4 per cent, Jordan at 11 per cent, Morocco at 10 per cent, Saudi Arabia at 11.5 per cent among Saudi nationals and Tunisia at 15.3 per cent.[10] The labour nationalization policy of GCC countries has long been in operation to create employment opportunities for prospective nationals in the private sector. Dependency on foreign workers in the private sector had increased in most GCC countries, and the idea of a more stringent labour nationalization policy had been discussed but rarely implemented in the past. In 2013, however, Saudi Arabia shifted to a more strict policy regime to promote the employment of Saudi nationals. The Saudi Government granted an amnesty period for foreign expatriates to rectify their sponsorship status or voluntarily leave the country. During that period,

[10] Countries for which data for the fourth quarter of 2013 are available.

until November 2013, a significant number of foreign workers left Saudi Arabia voluntarily. The economic impacts of the new labour policy of Saudi Arabia are yet to be assessed, but this policy change enhanced female employment. Indeed, in parallel with the exit of illegal foreign workers, Saudi female employment was rigorously promoted, and the foreign workforce was partially replaced by Saudi female workers in the area of administration, education and retail. Government role in employment creation, skill-matching and knowledge-sharing to tackle unemployment issues remains crucial in the Arab region.

V. CONCLUDING REMARKS

30. On average, the GDP growth rate of the Arab region is likely to increase marginally in 2014, as a result of the projected marginal decline in energy export revenues and the counterbalancing expansion of the non-oil sector in GCC countries, in addition to continuing economic stagnation in the other subregions. Energy-importing countries of the Mashreq and Maghreb and the Arab least developed countries remain vulnerable because of their weak external positions. The level of fund inflows remains insufficient to finance trade deficits in most countries in these subregions. Private investment flows, both portfolio investment and foreign direct investment, have already been weakened because of geopolitical factors. The expected weak economic recovery in Europe and the hike in the United States dollar funding cost, because of the normalization of monetary policy in the United States, are not encouraging. The ongoing polarization between Arab economies has become more apparent in terms of funding capability to fill the financing gaps.

31. Financing gap issues had been masked for many years in the Arab region. Even during the 2008 global financial crisis, Arab economies showed resilience. Governments and monetary authorities in the Arab region could successfully manage their policies to weather the significant international liquidity squeeze at that time. Financing gap questions have only surfaced recently. In 2011, Egypt, Jordan, the Syrian Arab Republic, Tunisia and Yemen suddenly began experiencing the depletion of foreign reserves and mounting fiscal deficits. It was recognized that only significant financial support from GCC countries could stabilize the macroeconomic situation in Egypt, Jordan, Tunisia and Yemen, by filling the growing financing gaps. The market mechanism of channelling spillover flows from GCC countries to other subregions has stalled in countries that are currently experiencing sociopolitical transition. The failing market mechanism and the emergence of a financing gap could contribute to economic risks associated with political instability and social unrest, which are often part of sociopolitical transition processes. However, the past financing strategy for development might have facilitated the economic, social and political events that led to those transitions. Designing a new financing strategy in this context is thus crucial to resolve financing gap issues and to plan sustainable socioeconomic development in the post-transition era.