ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

Survey of Economic and Social Developments in the Arab Region 2015-2016

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The estimated average growth rate of the gross domestic product (GDP) in the Arab region in real terms was 0.9 per cent in 2015, unchanged from the rate registered in 2014. Oil prices, falling since mid-2014, have strained the economies of Arab countries, which were further pressured by armed conflicts and political instability. The economies of Gulf Cooperation Council (GCC) countries, which had previously led growth in the region, slowed down in 2015, affected by factors including loss of oil export revenues, slow domestic demand expansion and weaker business confidence. GCC countries also faced more challenges in economic diversification strategies. Reform measures, including subsidy reforms, were adopted in those countries, in an effort to cope with lower oil prices.

The fall in oil prices did not benefit energy-importing Arab countries as much as expected, because of declines in nominal export revenues due to weak foreign demand. Security incidents in the region dwindled the tourism sector and services exports. Balance-of-payments conditions were tightened, especially in Egypt, the Sudan, the Syrian Arab Republic, Tunisia and Yemen, restricting domestic demand expansion and suppressing living standards.

Armed conflicts in Iraq, Libya, the Syrian Arab Republic and Yemen continued, and employment opportunities in the region were further limited by the stagnating economic situation. As a result, there was a massive increase in refugee and migrant flows to Europe in 2015.

The growth rate of the Arab region is expected to reach 1.5 per cent in 2016. Economic expansion in GCC countries will further decelerate, due to projected additional cuts in public expenditure. Tightening of the United States monetary policy and an increase in debt issuance by GCC Governments are likely to discourage investments because of rising financing costs. Other Arab countries are also projected to register weak growth due to geopolitical factors, weak demand prospects from China and Europe, and tightened balance-of-payments conditions.

CONTENTS

I. GLOBAL CONTEXT

1. The world economy is exhibiting a growing complexity that stems from the paradoxical consequences of extreme monetary easing in Europe and Japan, diverging monetary policy stances in the United States and other developed countries, and savings gluts in developed economies. There were signs of global economic slowdown in 2015. Deflationary pressures have become a major policy concern in many developed countries and some developing ones, including China, which have been facing economic stagnation due to slow domestic demand expansion. Central banks in major developed countries, except for the United States, have pushed their monetary easing stances to the extreme. Low policy interest rates have been set and quantitative easing measures implemented in Europe and Japan. However, due to significant savings gluts, these stances have failed to stimulate domestic demand and investment activities. Deposit rates have reached close to zero and the yield of short-term government bonds in some European countries and Japan fell to the negative area. Even though the world economy is forecast to continue its moderate growth in 2016, deflationary pressures create a climate of uncertainty.

2. In the past year, the United States of America stood out as the only major developed country that successfully tackled deflationary pressures. Robust economic expansion continued, with consistent growth in private consumption and physical investment.[1] In December 2015, the United States Federal Reserve normalized its monetary policy stance and raised its key policy interest rate by 0.25 percentage points. There was turbulence in financial markets as a result, and widened differences in interest rates for the United States dollar and other major currencies are projected. This could cause a further appreciation of the dollar against other major currencies, such as the euro and the Japanese yen. However, as dollar deposit rates remained low, probably due to a savings glut, the currency remained weaker than expected in the first quarter of 2016.

3. The momentum of growth has slowed down in developing economies. Commodity-dependent countries are still struggling with a substantial decline in commodity prices, and the resulting fall in fiscal revenues and tight balance-of-payments conditions have constrained their growth. Terms of trade have not improved for commodity-importing countries, whose growth remained under external constraints. Interest rate prospects in the United States have discouraged the flow of funds to developing economies, a number of which have become prone to balance-of-payments crises. By the first quarter of 2016, several developing economies whose exports were dominated by commodities had requested support from international financial institutions to meet balance-of-payments needs. This is another paradoxical consequence of a global economic situation in which savings gluts in developed economies coexist with a growing lack of funds in developing economies.

4. In 2015, employment creation stagnated except in Germany, Japan, the United Kingdom and the United States. However, improvements in those countries did not offset the deteriorating employment situation in developing economies,[2] and the overall number of unemployed people increased. Weak employment prospects have contributed to heighten sociopolitical tensions in many parts of the world, amid unprecedented flows of refugees and migrants via the Mediterranean to Europe. The difference in the employment situation in developed and developing economies is likely to increase in 2016, and sociopolitical tensions related to migration are likely to persist.

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[1] United States Department of Commerce, Bureau of Economic Analysis, "National income and products accounts - Gross domestic product: fourth quarter and annual 2015 (third estimate) - Corporate profits: fourth quarter and annual 2015", 25 March 2016. Available from http://www.bea.gov/newsreleases/national/gdp/2016/gdp4q15_3rd.htm.

[2] International Labour Organization, *World Employment Social Outlook: Trends 2016* (Geneva, 2016), p. 12.

5. The Arab region[3] faced mounting challenges in 2014-2015. Geopolitical tensions and armed conflicts spread, particularly in Iraq, Libya, Palestine, the Syrian Arab Republic and Yemen, affecting all neighbouring countries. Declines in oil prices had a significant impact on both oil-exporting and oil-importing countries. Domestic demand in oil-exporting countries decreased, in a context of falling business confidence, which reduced intraregional capital and remittance flows. Non-oil exports from the region, particularly from the Maghreb countries, were reduced by low demand in European countries. The rise in United States dollar interest rates increased financing costs in Arab countries. Nevertheless, the consistent economic expansion of India positively influenced the non-oil sector in the region, particularly in GCC countries.

II. DEVELOPMENTS IN THE NATURAL RESOURCES SECTOR

A. OIL

6. According to Organization of the Petroleum Exporting Countries (OPEC) estimates, total world demand for oil stood at 92.98 million barrels per day on average in 2015, up by 1.54 million from the previous year.[4] Demand would grow further in 2016 to an average of 94.23 million barrels per day. Total supply of crude oil was estimated at 95.09 million barrels per day on average in 2015, up by 2.65 million from the previous year.[5] Global demand for crude oil has thus been on a moderate growth path, unlike in 2008 when it collapsed quickly and caused a rapid price plunge. Supply surpassed demand in 2014 and 2015 by about 1.0 million and 2.1 million barrels per day respectively.[6] Supply growth came mostly from non-OPEC countries, particularly in North America where the production level has risen rapidly. In December 2015, the United States lifted its 40-year ban on crude oil exports.

7. In December 2008, when the market witnessed a sharp decline in oil prices, OPEC acted promptly and cut the production quota by 4.2 million barrels per day, which raises expectations for concerted OPEC action with regard to the current supply glut. However, production coordination is difficult in the context of current market conditions and the constant growth of demand. The fear of losing market shares is preventing oil-producing countries from voluntarily cutting production. Even successfully coordinated production reduction might fail to have an effect on oil prices if these are not elastic enough to a supply decrease. Nevertheless, closures of non-profitable wells in North America have already caused a slight decrease in crude oil production. The supply glut is projected to be resolved in the second half of 2017, but developments in the global supply situation in 2016 remain uncertain.

8. Oil prices were also influenced by speculation activities in oil futures markets. Data from the Commodity Futures Trading Commission (CFTC) of the United States indicate that net speculative long positions were correlated with oil prices,[7] which caused high price volatility in 2015. Speculative short selling pushed oil prices to $35-40 per barrel, below the estimated fundamental price floor. Speculation-driven price

[3] The subregional grouping used in this summary, based on a combination of parameters including per capita income levels, geographical proximity, and similarities in economic and social characteristics and conditions, is as follows: Gulf Cooperation Council (GCC) countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates; Mashreq countries: Egypt, Iraq, Jordan, Lebanon, State of Palestine and Syrian Arab Republic; Maghreb countries: Algeria, Libya, Morocco and Tunisia; Arab least developed countries (LDCs): Comoros, Djibouti, Mauritania, Somalia, Sudan and Yemen.

[4] Organization of Petroleum Exporting Countries (OPEC), "OPEC monthly oil market report", March 2016, p. 85, tables 10.1 and 10.2. Available from http://www.opec.org/opec_web/en/publications/338.htm.

[5] Ibid.

[6] Ibid., table 10.3.

[7] Net speculative long positions were calculated from data published by the Commodity Futures Trading Commission, by subtracting all short positions of managed money traders from all long positions of managed money traders. Raw data are presented in the category of "Historical compressed, Futures only reports", available from Commodity Futures Trading Commission, "Commitments of traders", http://www.cftc.gov/MarketReports/CommitmentsofTraders/HistoricalCompressed/index.htm.

fluctuations are expected to intensify throughout 2016, as oil market participants remain sensitive to any changes in the supply condition and their possible consequences. In this context, and with slow but still growing demand for crude oil, the OPEC Reference Basket price is forecast to reach an average of $41.5 per barrel in 2016 and $49.3 per barrel in 2017 (table 1).

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

	Minimum	Maximum	Annual Average	Forecast annual average for 2016-2017		
				Lower	Baseline	Higher
2013	96.35	114.94	105.87			
2014	52.00	110.48	96.29			
2015	30.74	64.96	49.49			
2016				23.7	41.5	59.3
2017				14.8	49.3	72.2

Source: OPEC data for 2013-2015, available from www.opec.org (accessed 30 March 2016). Figures for 2016 and 2017 are ESCWA forecasts as of March 2016

9. Total crude oil production in the Arab region is estimated to have reached an average of 23.5 million barrels per day in 2015, up by 0.5 million barrels per day from 2014. GCC countries are estimated to have produced 17.7 million barrels per day in 2015, a quantity similar to that of 2014. Production continued to grow in Iraq due to facility expansions in the southern part of the country. Libya managed to sustain a level of crude oil production at 400,000 barrels per day in 2015, despite armed conflict. In Yemen, however, production was discontinued in April 2015 due to the conflict and severe infrastructure damages. Total gross oil export revenues in the region are estimated to have reached $382 billion in 2015, marking a 46 per cent decline from the previous year. They are forecast to decline by a further 12 per cent in 2016, to $337 billion, thus falling by 61 per cent from the recent 2012 peak. However, an increase to $421 billion is forecast for 2017.[8]

B. NATURAL GAS

10. Natural gas has become another important export item for Arab countries. To date, Algeria, Egypt, Libya, Qatar and the United Arab Emirates are members of the Gas Exporting Countries Forum (GECF), and Iraq and Oman are observers. Yemen started exporting gas in 2009, but its production was halted in April 2015 due to conflict. Lebanon, the State of Palestine and the Syrian Arab Republic have been planning offshore gas explorations but progress is impeded by geopolitical risks. In spite of the instable security situation, Libya is exporting natural gas through the Greenstream pipeline to Italy. Qatar remains among the most influential gas exporters, with Russia and Australia. In the context of geopolitical tension between Russia and other European countries over Ukraine, Arab countries may become alternative gas suppliers for the European market. Additional infrastructure investments would further increase their capacity of exporting natural gas through pipelines and liquefied natural gas (LNG) facilities.

11. According to the International Association for Natural Gas (Cedigaz), the global gas market was oversupplied in 2015 and the trend is likely to last until 2020, particularly for LNG.[9] Weak demand prospects, overcapacity in LNG facilities and growing competition with alternative energy sources cause the global supply glut. The natural gas market remains geographically segmented, but benchmark prices showed a common decreasing tend towards the end of 2015. As of January 2016, benchmark prices stood at $5.09

[8] ESCWA staff estimates and forecasts.

[9] Geoffroy Hureau, "Oil prices and the gas market", presentation made at Gastech, Singapore, October 2015. Available from http://www.cedigaz.org/documents/2015/Oil%20prices%20and%20the%20gas%20market%20v7%20f169.pdf.

per million metric British thermal units (Btu) for Europe, $9.0 per million metric Btu for Japan and $2.27 per million metric Btu for the United States.[10] Institutional developments may facilitate gas transactions: the recent establishment of an LNG futures market in Singapore is expected to enable flexible spot pricing of LNG, which would benefit both exporting and importing countries. However, the market situation is expected to remain challenging for gas exporters because of the projected long-term supply glut.

C. PHOSPHATE

12. Despite low demand in global fertilizer markets, interregional partnerships involving foreign direct investments in the phosphate sector made progress in 2015 and 2016. The International Fertilizer Industry Association (IFA) has predicted a fall in demand for fertilizer of 0.1 per cent in 2015-2016 over the previous cropping season.[11] In the case of phosphorus nutrients, the decrease will be in the order of 0.9 per cent. Low crop prices are expected to continue dampening global demand for fertilizers. However, supply capacity of diammonium phosphate, one of the most widely used phosphorus fertilizers, has continued to increase. Morocco has become a leading exporter with the expansion of its Jorf Lasfar fertilizer plant.

13. The price of phosphate rock was practically stable, marking only a slight increase from $110.2 per metric ton in 2014 to $117.5 per metric ton in 2015. It is expected to remain at that level in 2016.[12] The price of diammonium phosphate has declined by 26 per cent over a year, from a recent peak of $485.24 per metric ton in February 2015, but it is expected to stabilize in 2016. No substantial rise is forecast in the global context of oversupply in the sector.

III. REGIONAL TRENDS

A. OVERVIEW

14. Low oil prices and associated sharp declines in oil export revenues negatively affected the region's economy in 2015. Nevertheless, GCC countries have remained its growth center. Average real GDP growth stood at 0.9 per cent in 2015, with negative growth estimations for Libya, the Syrian Arab Republic and Yemen (table 2). Armed conflicts and violence in Iraq, Libya, Palestine, the Syrian Arab Republic and Yemen have continued to impede socioeconomic development, not only in those countries but also in neighbouring Egypt, Jordan, Lebanon and Tunisia. The tourism sector has suffered from increased security risks. Balance-of-payments conditions have generally tightened and foreign funds have become less available to countries with current accounts deficits. A slow recovery is expected and the average real GDP growth rate in the region is projected to reach 1.5 per cent in 2016.

B. GULF COOPERATION COUNCIL COUNTRIES

15. GDP growth in the GCC subregion was estimated at 3.0 per cent in 2015, compared with 3.4 per cent in the previous year. Refining activities created more value added in the oil sector in real terms as demand for fuel products persisted. The growth of the non-oil sector has decelerated throughout the subregion. The value of financial assets and real estate has also declined, reflecting weakening business confidence. Broad money

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[10] International Monetary Fund (IMF), IMF primary commodity prices, monthly data. Available from http://www.imf.org/external/np/res/commod/index.aspx (accessed 30 March 2016).

[11] Patrick Heffer and Michel Prud'homme, "Short-term fertilizer outlook 2015 – 2016", paper presented at the International Fertilizer Industry Association (IFA) Strategic Forum, Paris, November 2015. Available from http://www.fertilizer.org/en/ItemDetail?iProductCode=10002Pdf&Category=ECO.

[12] 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 (accessed 30 March 2016).

growth has stagnated with low credit growth. Good balance sheets were maintained in the financial sector but the rising financing costs affect the sector's profitability.

TABLE 2. REAL GDP GROWTH RATE AND CONSUMER PRICE INFLATION RATE, 2013-2017
(*Annual percentage change)*

	Real GDP growth rate					Consumer price inflation rate				
Country/subregion	2013	2014	2015[a]	2016[b]	2017[b]	2013	2014	2015[a]	2016[b]	2017[b]
Bahrain	5.4	4.5	2.9	2.4	2.7	3.3	2.7	1.8	2.6	2.0
Kuwait	1.2	-1.6	0.4	1.4	3.0	2.6	2.9	3.3	3.3	3.6
Oman	3.9	2.9	3.3	2.1	2.7	1.3	1.0	0.1	1.7	2.0
Qatar	4.6	4.0	4.2	3.5	4.1	3.1	3.0	1.8	1.3	1.5
Saudi Arabia	2.7	3.6	3.4	1.7	2.4	3.5	2.7	2.2	2.1	1.7
United Arab Emirates	4.3	4.6	3.0	2.4	2.9	1.1	2.2	4.2	2.3	2.7
GCC countries	3.3	3.4	3.0	2.1	2.8	2.7	2.5	2.6	2.2	2.2
Egypt[c]	2.1	3.5	2.1	2.6	3.1	9.5	10.1	10.4	9.2	10.0
Iraq	7.6	-0.6	-2.8	1.5	5.4	1.9	2.2	1.4	1.8	2.0
Jordan	2.8	3.1	2.4	1.9	2.4	4.8	2.9	-0.9	1.1	1.5
Lebanon	3.0	2.1	1.3	1.4	1.9	5.7	1.7	-3.7	0.5	1.2
State of Palestine	2.2	-0.2	3.5	3.1	3.8	1.7	1.7	1.4	1.2	1.7
Syrian Arab Republic[d]	-16.9	-11.6	-8.1	-6.5	-5.0	87.7	24.3	37.3	44.0	35.7
Mashreq countries	1.5	0.5	-0.3	1.1	2.7	15.9	8.5	9.3	10.1	9.6
Algeria	2.8	3.8	3.2	1.7	2.2	4.1	3.9	4.4	3.9	4.3
Libya	-	-47.7	-22.0	-5.2	-3.3	2.6	2.4	8.6	11.0	10.0
Morocco	4.7	2.4	4.3	2.7	2.9	1.9	0.4	1.6	1.2	1.7
Tunisia	2.4	2.3	0.8	1.6	2.4	5.8	4.9	4.9	4.2	4.0
Maghreb	-3.1	-6.4	-1.6	0.7	1.4	3.5	2.9	4.5	4.6	4.7
Comoros	3.5	3.9	3.6	4.0	4.2	1.6	1.4	2.2	2.0	2.2
Djibouti	5.0	6.0	4.7	5.0	5.0	2.5	3.0	2.7	2.2	2.5
Mauritania	5.7	6.4	3.7	3.4	3.5	4.1	3.5	0.5	1.2	2.0
Somalia[e]	--	3.7	2.7	3.4	4.3	4.5	1.3	4.0	3.2	2.9
Sudan	5.3	2.5	3.2	3.6	4.0	36.5	36.9	16.9	15.1	14.6
Yemen	3.2	1.5	-34.6	-11.1	-7.5	11.0	8.0	30.0	35.0	32.5
Arab LDCs	4.5	2.5	-7.3	-0.5	0.8	26.5	25.7	19.2	19.4	18.4
Total Arab region[f]	1.8	0.9	0.9	1.5	2.4	7.2	5.2	5.4	5.4	5.2

Sources: Data are taken from national sources, unless otherwise indicated in the following notes.

[a] March 2016 estimates.

[b] March 2016 forecasts.

[c] For GDP growth rate in Egypt, figures are for the country's fiscal year which ends in June.

[d] 2013-2015 GDP growth rates in the Syrian Arab Republic are ESCWA estimates (National Agenda for the Future of Syria project).

[e] GDP growth rate and consumer price inflation rate for Somalia are taken from the International Monetary Fund Country Report No. 14/208 (2015 Article IV Consultation, available from https://www.imf.org/external/pubs/ft/scr/2015/cr15208.pdf.)

[f] Figures for country groups are weighted averages, where weights for each year are based on GDP in 2010.

16. The average real GDP growth rate is expected to decline to 2.1 per cent in 2016 in the GCC subregion. Financing costs are likely to rise further, due to policy interest hikes expected in the United States and to the crowding out effects of the expected increase in debt issuances by GCC Governments. Decelerating Chinese growth is expected to have a negative impact on the subregion’s economy, but strong Indian growth is likely to support the non-oil sector. Public spending cuts are likely to affect domestic demand in Bahrain, Oman, Saudi Arabia and the United Arab Emirates. Kuwait and Qatar are expected to maintain their fiscal spending levels in terms of nominal GDP. Bahrain, Oman, Qatar and the United Arab Emirates are expected to register higher growth rates than the regional average. Growth will decelerate in Saudi Arabia due to a significant cut in capital spending and the rise in financing costs. Growth rate in Kuwait, where domestic demand will be expanding, is projected to remain stable. Forecast growth rates for 2016 are 3.5 per cent for Qatar, 2.4 per cent for both Bahrain and the United Arab Emirates, 2.1 per cent for Oman, 1.7 per cent for Saudi Arabia and 1.4 per cent for Kuwait.

C. Mashreq countries

17. The economies of the Mashreq countries are estimated to have contracted by an average of 0.3 per cent in 2015, after having grown by 0.5 per cent in 2014. The major decelerating factor was conflict and violence, which have spread throughout the subregion and hampered economic activities in Iraq, Palestine and the Syrian Arab Republic. The blockade of the Gaza Strip continued, impeding reconstruction of the economic infrastructure and production facilities that were destroyed in 2014. Domestic demand expansion has decelerated in Jordan and Lebanon, partly contributing to deflation. Growth in the two countries, which are hosting a very high number of Syrian refugees, was critically insufficient to maintain the standards of living. The severe balance-of-payment condition hampered economic activity in Egypt.

18. The average real GDP growth rate is expected to increase to 1.1 per cent in 2016 in the Mashreq subregion. Economic contraction in the Syrian Arab Republic is projected to narrow down. Crude oil production is expected to increase in Iraq, compensating the weak domestic demand expansion caused by armed conflict in the country. Rising financing costs, compounded with the geopolitical situation, are expected to further hamper investments and growth in Jordan and Lebanon. Egypt is likely to maintain its 2015 growth level in a context of a difficult balance-of-payment condition. Growth is expected to be moderate in Palestine and will remain at an insufficient level for the reconstruction of the Gaza Strip. Forecast growth rates for 2016 are 3.1 per cent for Palestine, 2.6 per cent for Egypt, 1.9 per cent for Jordan, 1.5 per cent for Iraq and 1.4 per cent for Lebanon. The Syrian Arab Republic is expected to mark a 6.5 per cent contraction.

D. Maghreb countries

19. The economies of the Maghreb subregion are estimated to have contracted by 1.6 per cent in 2015, after a contraction of 6.4 per cent in 2014. The average growth of this subregion continued to be affected by that of Libya, whose economy witnessed three consecutive annual contractions starting 2013. Political instability and armed conflict have drastically weakened domestic demand and the level of oil and gas production was insufficient to prevent contraction. In Morocco, the 2015 growth rate was pushed up by the agricultural sector. Tunisia has experienced deteriorating balance-of-payments conditions, restricted domestic demand expansion and a significant decline in the export of services. Security incidents have dwindled the tourism sector in the country whose growth has decelerated. Public investments have remained the main driver for growth in Algeria, despite declining oil and gas revenues.

20. The real GDP growth rate is expected to reach 0.7 per cent in 2016 in the Maghreb subregion. The Libyan economy is expected to contract further, albeit to a lesser extent. Growth will decelerate in Morocco due to an expected decline in agricultural harvests. Space for domestic demand expansion is likely to remain limited in Tunisia, in the context of difficult balance-of-payments conditions and spillover effects from the Libyan conflict. In Algeria, economic expansion will decelerate due to an expected decline in public spending for fiscal consolidation. Forecast growth rates for 2016 are 2.7 per cent for Morocco, 1.7 per cent for Algeria and 1.6 per cent for Tunisia. The Libyan economy is expected to mark a 5.2 per cent contraction.

E. Arab least developed countries

21. The economies of Arab least developed countries (LDCs) are estimated to have contracted by an average of 7.3 per cent in 2015. The Sudan managed to maintain a consistent economic expansion despite continuingly a difficult balance-of-payments condition. The diversification of exports has progressed and the economy has shown more resilience after three unstable years. Low iron ore prices have affected growth in Mauritania, where investments in minerals decreased and growth in the agricultural and fishery sectors was insufficient to sustain previous levels of domestic demand. The Comoros maintained stable growth in 2015, in line with its long-term trend. A high level of port activities with booming Ethiopia drove economic growth in Djibouti. Armed violence caused a serious contraction in economic activities in Yemen, where oil and gas production were halted in April 2015 as the economic infrastructure was severely damaged.

22. Real GDP is expected to mark an average 0.5 per cent contraction in 2016 in Arab LDCs. More space is likely to become available for domestic demand expansion in the Sudan, where a moderate improvement in the balance-of-payments condition is expected. Economic expansion will decelerate in Mauritania due to a weak domestic demand growth and a decline in foreign capital inflows. Developments in the armed conflict will determine the state of the economy in Yemen; however, negative growth is projected because of a serious decrease in domestic demand and a wide destruction of the economic infrastructure. Forecast GDP growth rates for 2016 are is 5.0 per cent for Djibouti, 4.0 per cent for the Comoros, 3.6 per cent for the Sudan, and 3.4 per cent for both Mauritania and Somalia. Yemen is expected to mark an 11.1 per cent contraction.

F. Prices and inflation

23. The average annual consumer price inflation was estimated to be at 5.4 per cent in 2015 in the Arab region, compared to 5.2 per cent in 2014 (table 2). In GCC countries, low international commodity prices reduced other inflationary pressures, such as the price rise in housing-related items due to subsidy reforms. Low inflation in the euro zone had an effect in several Arab countries: Jordan and Lebanon recorded negative inflation rates in 2015, and Mauritania a rate as low as 0.5 per cent. Inflation was also contained in Iraq and Palestine, but low rates were not an indication of functioning supply chains and both countries are still experiencing conflict-related logistical difficulties. A high inflation trend continued in Egypt, due to monetary-related issues. The Syrian Arab Republic and Yemen suffered from conflict-related hyperinflations. Libya also experienced a rapid consumer price increase towards the end of 2015. Hyperinflation in the Sudan showed a sign of stabilization in 2015.

24. The consumer price inflation rate is expected to remain at an average of 5.4 per cent in 2016 in the region. International commodity prices are likely to remain low, which will yield low inflation rates in Arab countries. A rise in the price of housing-related items, due to further subsidy reforms, is expected to have a moderate impact on overall price levels in GCC countries. The inflation rate is expected to remain stable at the 2015 level in the Sudan. In Libya, the rate is expected to rise further, also following the 2015 trend. In the Syrian Arab Republic, severe foreign exchange constraints will keep the inflation rate high. The monetary factor will pin the inflation rate of Egypt around the 10 per cent mark in 2016. Yemen is expected to suffer from hyperinflation due to the severe balance-of-payments condition and monetary factors.

G. Exchange rates

25. National currencies in Algeria, Libya, Mauritania, Morocco and Tunisia have continued their gradual depreciation against the United States dollar, mainly due to a weakening euro. The national currency of Kuwait, which is pegged to a basket that includes the euro, also remained weak against the dollar. Other GCC countries, Djibouti, Iraq, Jordan and Lebanon have maintained their currency pegged to the dollar. Egypt has managed the orderly depreciation of its pound (EGP), which ranged between EGP 7.60 and EGP 8.8 to the dollar. The Sudan, also gradually depreciating its currency (SDG), set it to SDG 6.45 to the dollar. The value of the Syrian pound (SYP) continued to fall and ranged between SYP 198 to the dollar in January 2015 and SYP 442 to the dollar in March 2016. Armed conflict is also yielding a significant devaluation of the Yemeni rial (YER),

which fell from YER 215 to the dollar in March 2015 to YER 280 to the dollar in March 2016. Further devaluations of national currencies in 2016 are forecast for Egypt, Libya, the Sudan, the Syrian Arab Republic, Tunisia and Yemen.

H. SOCIAL DYNAMICS AND EMPLOYMENT

26. Mass displacement of populations accelerated in the Arab region in 2015, due to the intensifying armed conflicts in Iraq, Libya, the Syrian Arab Republic and Yemen. Flows of migrants and refugees are marking unprecedented increases in the context of a dire humanitarian situation.

27. In 2015, unemployment remained a major problem in the Arab region. According to the latest available figures for that year, unemployment rates stood at 25.8 per cent in Palestine (fourth quarter);[13] 15.4 per cent in Tunisia (fourth quarter); [14] 13.6 per cent in Jordan (fourth quarter);[15] 12.7 per cent in Egypt (second quarter);[16] 11.5 per cent in Saudi Arabia (Saudi nationals only, second half);[17] and 9.2 per cent in Morocco (fourth quarter).[18] Gender gaps in unemployment rates widened in those countries as unemployment rates for women rose. In Palestine, the female unemployment rate stood at an alarming 39.2 per cent in 2015, up from 22.2 per cent a decade ago.[19] Jordan, Tunisia and Saudi Arabia, where the gender gap in unemployment rates had shown improvements up until 2014, witnessed a reversal of this positive trend in 2015. Intensifying armed conflicts had a devastating impact on employment conditions in Iraq, Libya, the Syrian Arab Republic and Yemen. Pressure to emigrate from conflict-affected Arab countries persists as more populations are dependent on humanitarian aid, and have lost their livelihoods and savings.

IV. POLICY DEVELOPMENTS

28. Policymakers in the Arab region faced substantial policy constraints in 2015. A tighter monetary stance coupled with rising financing costs, particularly in GCC countries, and the oil price plunge in 2014 have significantly affected growth. On 16 December 2015, the United States Federal Reserve decided to raise its policy interest rate by 0.25 percentage points and shift the target range from 0.00-0.25 per cent to 0.25-0.50 per cent. This was the first change in the policy interest rate since 2008 and first hike since 2006. This had an impact on the monetary policy stance of the Arab countries whose national currencies are pegged, either officially or unofficially, to the United States dollar, namely Bahrain, Djibouti, Jordan, Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates. It also had an effect on the monetary policy stance of Kuwait, where the national currency is pegged to a basket of currencies in which the dollar has a significant weight.

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Central banks of Bahrain, Kuwait, Saudi Arabia and the United Arab Emirates have raised their respective policy deposit rates by 0.25 percentage points, following the United States Federal Reserve's decision.

29. The impact of these policy changes was however limited in the short term, partly because financial markets in the United States and the Arab region had anticipated them. A slight rise in financing costs was observed in the region. The impact in the medium and long terms should be more important: financing costs are expected to rise further in GCC countries. Monetary measures in Algeria, Egypt, Jordan, Tunisia and Morocco were not effective in stimulating domestic demand. In 2015, key policy interest rates were lowered in Egypt (January), Jordan (January, February and July) and Tunisia (October) as inflationary pressures receded due to lower commodity prices, including for energy and food items. However, the deteriorating balance-of-payments condition forced Egypt to raise its policy interest rates again in December 2015 and March 2016. It is unlikely for Arab central banks to take monetary easing measures in 2016 in the current international financial environment. Egypt and Tunisia may tighten their monetary stances to cope with tight balance-of-payments conditions.

30. Fiscal balances in GCC countries deteriorated quickly in 2015: oil prices fell and expenditures where not sufficiently cut. Further budget cuts are expected, particularly in capital expenditures, with the exception of Kuwait and Qatar. Both countries will continue to adopt neutral fiscal stances in terms of nominal GDP. Arab Governments in other subregions continue to aim at fiscal consolidation amid low revenue prospects. Direct and indirect international assistance has become essential for those countries to maintain their levels of capital spending, including on development projects. The reconstruction of the Gaza Strip after the 2014 Israeli offensive had slowly gained pace, but in February 2016, the disbursement rate stood at only 40 per cent of the aid pledged by international donors.[20]

V. CONCLUDING REMARKS

31. With the savings glut in developed economies on the one hand and the tightening balance-of-payments conditions in developing economies on the other hand, the world economy is showing increased polarization. Market mechanisms have failed to make funds available for development. Heightened geopolitical risks and conflicts have affected economic activities negatively, particularly in the Arab region. Excess savings in developed economies should be invested to alleviate balance-of-payments conditions in developing economies, including in the Arab region. Regional and global support measures should be adopted to tackle macroeconomic constraints and create a solid foundation for sustainable economic and social development in Arab countries.

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