ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

# SURVEY OF ECONOMIC AND SOCIAL DEVELOPMENTS IN THE ARAB REGION 2014-2015

## SUMMARY

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**ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)**

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**Summary**

The average growth rate of the gross domestic product (GDP) of the Arab region in real terms for 2014 has been estimated at 1.5 per cent, barely changed from 2013. Negative growth estimations for Iraq, Libya and the Syrian Arab Republic, because of intensified armed conflict, have contributed to this stagnation. In addition to conflicts and related security disruptions in the region, a significant fall in oil prices and their uncertain prospects have become another predominant economic concern. From their yearly peak in June, oil prices plunged by more than 50 per cent in the second half of 2014.

Despite this significant shift in oil prices, member countries of the Gulf Cooperation Council (GCC) have continued to lead growth in the Arab region. While lower oil prices have affected nominal national income, their impact is less obvious in price-adjusted real GDP figures given that the level of crude oil production has hardly changed. Moreover, the continued expansion of the non-oil sector has maintained GCC economic growth; lower oil prices have not yet negatively affected GCC economic sentiment, although business confidence has started to wane with weakening stock markets and real estate transactions. Furthermore, lower oil prices have benefited oil-importing Arab countries by easing their balance-of-payment and fiscal constraints.

However, this gain is at risk of being offset by declining capital and remittance flows from GCC countries to other Arab countries. Against a backdrop of protracted armed conflict and violence in the region and increasing disruption of intraregional economic activities, one of the main channels for economic stabilization efforts has been intraregional flows of capital and remittances from GCC countries. Although the short-term impact of the fall in oil prices has been moderate, its negative consequences for GCC countries' fiscal positions could change this stabilization mechanism in the region in the medium term. The Arab region is forecasted to grow by an average of 2.4 per cent in 2015, but economic expansion in GCC countries is projected to decelerate. Other Arab subregions, with the exception of conflict-affected countries, are expected to mark moderate growth, owing to an estimated rise in domestic demand for lower import bills for fuel products and food items.

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# I. GLOBAL CONTEXT

1. In 2014, the world economy witnessed several significant shifts. Monetary policy stances have revealed a split between the United States of America and other developed economies. Reflecting its robust economic recovery, United States monetary policy is scheduled to be normalized with a hike in interest rates by the end of 2015, but other developed economies' interest rates are expected to stay at their historic lows. This difference in interest rate prospects has caused a significant appreciation of the United States dollar against other major currencies, including the euro and the Japanese yen. A rapid fall in oil prices in the second half of 2014 rebalanced income distributions among oil-exporting countries and oil-importing countries. However, the role of some developing economies as leading growth centres has declined with decelerating economic expansion, including in Brazil and China. The consequences of these shifts are yet to be ascertained, but concerns are mounting over possible long-term stagnation of the world economy as evidenced by a severe deflationary trend in Europe and Japan.

2. Robust economic expansion in the United States has continued despite a decrease in the Federal Government's spending.[1] An active private sector recovering from the 2008 global financial crisis has led this growth. The resilience of the financial sector, backed by recovering asset prices, has supported the expansion of the private sector. In contrast, the stagnation of the European economy has continued owing to slow private investment. In 2015, the European Central Bank entered into a quantitative easing phase to stimulate credit growth in the Euro area and the European Commission strategized an investment plan to boost private investment.[2] The debt crisis in Greece has deepened, posing a systemic risk to the financial system in the Euro area. Moreover, Japan has failed to achieve an export-led recovery as domestic demand growth stagnated after a hike in general sales tax in April 2014. Economic expansion in developing economies further decelerated in 2014. Declining international commodity prices have weakened growth impetus for commodity-exporting countries to varying degrees, but they have benefited commodity-importing countries by alleviating balance-of-payment constraints, albeit not sufficiently to spur high economic growth. Among major developing economies, Brazil, the Russian Federation and South Africa have suffered most from declining commodity prices; China and India have sustained sizeable economic growth, albeit with a drop in 2014.

3. Although a moderate but noticeable decline in unemployment rates has been observed in several developed economies, including Germany, Japan, the United Kingdom of Great britain and Northern Ireland and the United States, employment creation stagnated in 2014. The global employment gap has continued to grow, reflecting deteriorating employment situations in developing economies.[3] Consistently weak employment prospects in developed economies have elicited sociopolitical tensions against immigrants, and demand for foreign labour in resource-rich economies, such as countries of the Gulf Cooperation Council (GCC), is projected to decline. While several developed economies are likely to see slight improvements in employment situations, further deteriorations are expected in developing economies in 2015. Both developed and developing economies are not likely to take substantial fiscal stimulus measures, setting fiscal consolidation as the most important priority. Policy-led recoveries for employment creation are unlikely in the near future, particularly in developing economies.

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[1] United States Department of Commerce, Bureau of Economic Analysis, "Gross domestic product: fourth quarter and annual 2014 (third estimate) - Corporate profits: fourth quarter and annual 2014", News Release, 27 March 2015. Available from www.bea.gov/newsreleases/national/gdp/2015/pdf/gdp4q14_3rd.pdf.

[2] European Commission, *An Investment Plan for Europe* (Brussels, 26 November 2014). Available from http://eur-lex.europa. eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014DC0903&from=EN.

[3] International Labour Organization, *World Employment Social Outlook: Trends 2015* (Geneva, January 2015), p. 16. Available from www.ilo.org/global/research/global-reports/weso/2015/WCMS_337069/lang--en/index.htm.

4. In this global context, several adverse factors have noticeably influenced Arab economies in the period covered by the present report.[4] Mounting geopolitical tensions, armed violence and mass displacement remain a prevailing concern. Declining oil prices have not only impacted the fiscal positions of Arab oil-exporting countries, particularly GCC countries, but also those of other Arab countries by changing patterns of intraregional capital and remittance flows. Weak economic prospects in European economies continue to hamper non-oil exports from the region, particularly from Arab Maghreb countries. The anticipated rise in United States interest rates is likely to impact the funding costs of Arab countries. Nevertheless, the following positive factors have had a bearing on regional economic prospects: low oil prices have alleviated balance-of-payment and fiscal constraints in Arab oil-importing countries; the continued decline in other commodity prices, particularly food items, has eased inflationary pressures in the region; a consistent economic expansion of East and South Asian economies has sustained the non-oil sector, particularly in GCC countries; and a robust economic recovery in the United States has prevented regional economic sentiments from becoming overly pessimistic.

## II. DEVELOPMENTS IN THE NATURAL RESOURCES SECTOR

### A. OIL SECTOR

5. The global oil sector has entered a phase of structural change, triggered by a significant plunge in oil prices. By the second half of 2014, oil market participants shifted their attention to the issue of supply glut more than geopolitical tensions and supply disruptions. Over the last few years, the world crude oil supply capacity has been increasing rapidly, particularly in North America. Supply glut has become gradually more noticeable as demand growth for crude oil has decelerated because of stagnating global economic recovery; however, unlike in 2008-2009, oil markets have not seen a collapse in demand. According to the Organization of the Petroleum Exporting Countries (OPEC), the total world demand for oil in 2014 was an estimated 91.21 million barrels per day on average, increasing by 0.97 million barrels per day compared to 2013.[5] OPEC projects that demand will grow at the same moderate pace in 2015, by 1.16 million barrels per day. It also estimates that the total supply of crude oil was at 92.23 million barrels per day on average in 2014, rising by 1.98 million barrels per day compared to 2013. In 2014, OPEC crude oil production dropped by 0.16 million barrels per day to reach 30.07 million barrels per day, but non-OPEC production increased by 2.04 million barrels per day to hit 56.33 million barrels per day. The estimated level of excess supply in 2014 stood at 1 million barrels per day, which could have been adjusted by the influential swing producers of OPEC.[6] However, in November 2014, OPEC decided to maintain its production level at 30 million barrels per day, and non-OPEC crude oil producers have also not committed to a supply reduction. In 2015, the market is likely to curb supply from costly non-OPEC crude oil producers while OPEC maintains its current production target. The impact of low oil prices on global crude oil supply capacity is likely to become more apparent in the medium term as more oil companies curtail capital expenditures, both in upstream and downstream areas.

6. The OPEC basket price averaged 96.29 United States dollars ($) per barrel in 2014 (table 1). In the first half of 2014, major crude oil prices remained above $100 per barrel, following the trend of previous years. Since their yearly peak in June, oil prices have fallen over 7 months; the OPEC basket price touched

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[4] Following the accession of Morocco, Libya and Tunisia to the Economic and Social Commission for Western Asia in July 2012, it was decided that the territorial coverage of the present series of publications would be expanded to include all countries in the Arab region. The following subregional groupings are used in the present summary report, taking into account a combination of per capita income levels, geographical proximity and similarities in economic and social characteristics and conditions: Gulf Cooperation Council (GCC) countries, namely Bahrain Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; Arab Mashreq countries, namely Egypt, Iraq, Jordan, Lebanon, State of Palestine and the Syrian Arab Republic; Arab Maghreb countries, namely Algeria, Libya, Morocco and Tunisia; and Arab least developed countries, namely the Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen.

[5] Organization of Petroleum Exporting Countries, *OPEC Monthly Oil Market Report* (Vienna, 16 March 2015), p. 92, tables 10.1 and 10.2. Available from www.opec.org/opec_web/en/publications/338.htm.

[6] Ibid.

$41.5 per barrel on 13 January 2015, declining by 62 per cent from the 2014 peak. In addition to a supply glut, an increasing risk of rising funding costs owing to the anticipated United States monetary policy normalization has discouraged speculative buying in oil futures markets; speculative short selling in oil futures markets has contributed to weak oil prices. Demand growth for crude oil has decelerated, but not collapsed. Reflecting an increasing usage of oil tankers, freight rates for crude oil transportation remained unchanged throughout 2014. Crude oil prices are likely to reach new lows in the second quarter of 2015 as inventories are projected to pile up due to seasonal factors, particularly refinery maintenance. This inventory accumulation is likely to be more extensive in North America, which could result in a widening margin between geographical benchmark prices. However, for the third and fourth quarters, the inventory level is projected to come down, and crude oil prices are likely to converge into a long-term trend line by the end of 2015. The OPEC reference basket price is forecasted to average $54.5 per barrel in 2015.

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

| | | | Annual | Forecasted annual average | | |
|---|---|---|---|---|---|---|
| | Minimum | Maximum | average | Lower | Baseline | Higher |
| 2012 | 88.74 | 124.64 | 109.45 | | | |
| 2013 | 96.35 | 114.94 | 105.87 | | | |
| 2014 | 52.00 | 110.48 | 96.29 | | | |
| 2015 | | | | 40.6 | 54.5 | 70.3 |
| 2016 | | | | 45.3 | 64.3 | 86.0 |

*Source*: OPEC for 2012-2014. Figures for 2015 and 2016 are ESCWA forecasts as of March 2015.

7. Total crude oil production in the Arab region has been estimated at an average of 23.0 million barrels per day for 2014, declining by 0.5 million barrels per day from the 2013 level. GCC countries produced an estimated 17.3 million barrels per day in 2014, similar to 2013. Armed conflict substantially reduced production levels in Libya and Yemen in 2014, although Iraq saw a growth because its southern major production facilities remained operational. The Arab region's total gross oil export revenue has been estimated at $695 billion for 2014, a 12.0 per cent decline from 2013. It is forecasted to decline by a 45.4 per cent to reach $379.5 billion in 2015.

## B. NATURAL GAS SECTOR

8. Natural gas constitutes another strategically important hydrocarbon resource in the Arab region, making it a primary source of national wealth in some Arab countries. It provides an economical and efficient source of thermal power and is utilized as a feedstock for the petrochemical industry. Arab countries have witnessed a rapidly growing domestic demand for natural gas, and not all gas-producing countries are export-oriented. However, Qatar remained the largest liquefied natural gas exporter in the world in 2014. Algeria has invested actively in enhancing its gas production capacity with a plan to explore shale gas production. However, exploration plans of Lebanon, Palestine and the Syrian Arab Republic for offshore gas fields under the eastern Mediterranean have stalled.

9. The natural gas market remains more geographically segmented than that of crude oil, owing to the need to invest heavily in transportation facilities from producers to final users, either in the form of pipelines or liquefied natural gas. The extent of this segmentation is reflected in wide margins in spot natural gas prices in Europe, Japan and the United States. As of January 2015, the benchmark price stood at $9.50 per million metric British thermal units in Europe, $16.00 per million metric British thermal units in Japan and $2.97 per million British thermal units in the United States.[7] Natural gas prices plummeted in 2014, but to a lesser extent than those of crude oil. While the price of Dated Brent crude plunged by

[7] International Monetary Fund, IMF Primary Commodity Prices, Monthly database. Available from www.imf.org/external/np/res/commod/index.aspx (accessed April 2015).

55 per cent in the year to January 2015, natural gas spot prices went down by 12.8 per cent in Europe, 9.9 per cent in Japan and 39.2 per cent in the United States. As a result, the decrease in natural gas export revenues of Arab countries is projected to be more moderate than that of crude oil for 2014 and 2015, given that they export to either Europe or Asia. While some transactions are made on prices linked to oil prices, multi-yearly fixed-price contracts are more common in natural gas trade, which is likely to contribute to relative revenue stability in gas-exporting countries.

### C. Phosphate sector

10. There is increasing competition in the phosphate sector in downstream areas of the global fertilizer market. According to estimates from the International Fertilizer Industry Association, world fertilizer demand could reach 183.8 million tonnes over the 2014-2015 cropping season, 41.5 million tonnes of which are phosphorus nutrient.[8] While only moderate world demand growth is expected in the near future, the supply capacity of phosphate rock and phosphate acid is projected to expand in China, Jordan and Morocco. The supply capacity of diammonium phosphate, one of the most widely used phosphorus fertilizers, is also projected to grow faster than demand growth.

11. Since its recent peak in January 2012, the price of phosphate rock had registered a 51 per cent decline over the two years to December 2013. There was a moderate recovery in 2014, from $102.2 per metric tonne in January to $115.0 per metric tonne in December.[9] The price of diammonium phosphate shows a parallel trend, moderately increasing in 2014 from $438.3 per metric tonne in January to $459.6 per metric tonne in December. Similar trends are projected in 2015, with possible downward adjustments because of growing global supply capacity. Moreover, Chinese export tariffs on phosphate products might impact global fertilizer markets because of the improving price competitiveness of Chinese exports.

## III. REGIONAL ECONOMIC AND SOCIAL TRENDS

### A. Overview

12. The average real GDP growth in the Arab region has been estimated at 1.5 per cent for 2014, unchanged from 2013 (table 2). A major fluctuating factor is negative growth estimations for Iraq, Libya and the Syrian Arab Republic. Despite falling oil prices in the second half of 2014, GCC countries remained the growth centre of the Arab region. However, the recent trend of polarized economic performances between GCC countries and other Arab countries has ended owing to lower oil prices, which have benefited oil-importing Arab countries by easing their balance-of-payment and fiscal constraints. Armed conflicts in Iraq, Libya, Palestine, the Syrian Arab Republic and Yemen continue to negatively affect Arab socioeconomic development.

### B. Gulf Cooperation Council countries

13. GDP growth in the subregion of GCC countries has been estimated at 4.0 per cent for 2014, compared to 3.7 per cent for 2013. In real terms, the fall in oil prices has had a mild impact on GDP figures as the level of crude production has remained the same. A stable growth of the non-oil sector has been observed throughout GCC countries. With the exception of Kuwait, GCC countries exhibited a strong growth in domestic demand until the third quarter of 2014, reflected in a stable growth of broad money. However, a deceleration in the growth rate of broad money in the fourth quarter of 2014 in Saudi Arabia and the United Arab Emirates indicates a shift in economic sentiment and business confidence. In parallel with declining oil prices, the value of financial assets and real estate has entered a downward adjustment phase, following

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[8] International Fertilizer Industry Association, *Short-Term Fertilizer Outlook 2014-2015* (Marrakech, November 2014). Available from www.fertilizer.org/en/ItemDetail?iProductCode=9840Pdf&Category=ECO.

[9] World Bank, Global Economic Monitor, Commodities database. Available from http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=Global-Economic-Monitor-%28GEM%29-Commodities (accessed April 2015).

a remarkable growth of asset values over the last three years in the United Arab Emirates, for example. However, the current decline will not impact GCC countries as much as it did during the 2008 global financial crisis. The financial sector in GCC countries has limited exposure to risky assets, and the relatively strong economic performance of East Asia and South Asia supports the non-oil sector of GCC countries.

14. The GDP growth rate is projected to slow in GCC countries in 2015. Lower oil prices are likely to erode economic sentiment and business confidence further in the non-oil sector, particularly the real estate sector. Expected rising funding costs and the anticipated United States interest rate hike by the end of 2015 could also negatively affect credit growth in GCC countries. However, the strong linkage of GCC countries with growing East Asia and South Asia is likely to sustain the growth of the non-oil sector. The GCC Customs Union, which came into effect in January 2015, is expected to enhance intra-GCC trade. The average real GDP growth rate in this subregion is estimated at 3.4 per cent for 2015. Among GCC countries, Qatar and the United Arab Emirates are projected to grow faster than the subregional average. Both countries are expected to continue infrastructure investment in preparation for hosting forthcoming global events. The growth of Saudi Arabia is projected to slow mainly because of a rapid policy response to new oil prices. Public expenditures, mostly extrabudgetary expenditures, are expected to be reduced significantly. Forecasted growth rates for 2015 are 5.2 per cent in Qatar; 4.2 per cent in the United Arab Emirates; 3.2 per cent in Bahrain; 3.0 per cent inOman; 3.0 per cent in Saudi Arabia; and 2.0 per cent in Kuwait.

## C. Arab Mashreq countries

15. The economies of the Mashreq subregion contracted by an estimated average of 0.6 per cent in 2014, after registering a 2.2 per cent contraction in 2013. Armed conflict and violence have greatly affected this subregion, with Iraq, Palestine and the Syrian Arab Republic suffering from economic infrastructure destruction and supply chain disruption. Iraq has experienced negative growth due to a contraction in domestic demand. One of the fastest growing regions in Iraq, Iraqi Kurdistan, has been severely affected by armed conflict. Despite growth in crude oil production in 2014, the fall in oil prices has considerably reduced the revenues of the Iraqi Government. The destruction of economic infrastructure and production facilities continued in the Syrian Arab Republic in 2014. Production continued in safer areas, however, private sector activities were severely constrained because of frequent disruptions in energy supply and logistical chains. The destruction of economic infrastructure in the Gaza Strip in July 2014 negatively impacted the Palestinian economy; continuing restrictions on economic activities have weakened domestic demand and hampered reconstruction efforts. Jordan and Lebanon maintained moderate domestic demand expansion; the improved balance-of-payments condition contributed to an accumulation of foreign reserves to historic highs in both countries in 2014. For Jordan, the rapid growth of quarrying activities also sustained growth levels. However, it should be emphasized that the growth magnitude of Jordan and Lebanon has dropped critically, given the growing number of residents owing to an influx of Syrian refugees. Egypt has regained stability with increasing business confidence, marking consistent growth in 2014. The balance-of-payments condition in Egypt has improved because of constant foreign capital inflows and declining international commodity prices.

16. The Arab Mashreq subregion is projected to grow by an average of 1.2 per cent in 2015, after a two-year contraction. The magnitude of the economic contraction in the Syrian Arab Republic is expected to diminish and domestic demand in Iraq is projected to grow slightly. Growth in Jordan and Lebanon is expected to slow; both countries are likely to benefit from lower oil and commodity prices, but an economic slowdown in GCC countries is likely to weaken positive spillovers to both of these countries. Egypt is likely to be a primary growth driver in the subregion in 2015; further improvement of the balance-of-payment condition in Egypt is likely to open a reasonable space for accelerating domestic demand expansion. Palestine is expected to grow mostly because of a scale effect from a low base in 2014. The forecast assumes moderately accelerated reconstruction activities in the Gaza Strip, but this projection depends on the geopolitical situation. Forecasted growth rates for 2015 are 3.2 per cent for Egypt; 3.0 per cent for Lebanon; 3.0 per cent for Palestine; 2.8 per cent for Jordan; and 0.5 per cent for Iraq. The Syrian Arab Republic is forecasted to contract by 7.0 per cent in 2015.

TABLE 2. REAL GDP GROWTH RATE AND CONSUMER INFLATION RATE, 2012-2016
(*Annual percentage change*)

| | Real GDP growth rate | | | | | Consumer price inflation rate | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country/area | 2012[a/] | 2013[a/] | 2014[b/] | 2015[c/] | 2016[c/] | 2012 | 2013 | 2014[b/] | 2015[c/] | 2016[c/] |
| Bahrain | 3.4 | 5.3 | 4.7 | 3.2 | 4.0 | 2.8 | 3.3 | 2.7 | 2.5 | 2.7 |
| Kuwait | 6.6 | 1.5 | 2.2 | 2.0 | 3.0 | 3.2 | 2.7 | 2.9 | 2.7 | 3.0 |
| Oman | 7.1 | 3.9 | 3.2 | 3.0 | 3.2 | 2.9 | 1.1 | 1.0 | 1.2 | 2.0 |
| Qatar | 6.0 | 6.3 | 6.2 | 5.2 | 5.5 | 1.9 | 3.1 | 3.0 | 2.7 | 3.2 |
| Saudi | 5.4 | 2.7 | 3.6 | 3.0 | 3.5 | 2.9 | 3.5 | 2.7 | 2.5 | 3.0 |
| United Arab Emirates | 4.7 | 5.2 | 4.5 | 4.2 | 4.5 | 0.7 | 1.1 | 2.2 | 2.0 | 2.2 |
| GCC countries | 5.5 | 3.7 | 4.0 | 3.4 | 3.9 | 2.3 | 2.6 | 2.5 | 2.3 | 2.8 |
| Egypt[d/] | 2.2 | 2.1 | 2.2 | 3.2 | 3.8 | 7.4 | 10.3 | 10.1 | 10.0 | 9.5 |
| Iraq | 10.3 | 4.2 | -2.6 | 0.5 | 5.0 | 6.2 | 1.8 | 2.2 | 3.5 | 3.5 |
| Jordan | 2.7 | 2.8 | 3.1 | 2.8 | 3.0 | 4.5 | 4.8 | 2.9 | 2.5 | 3.0 |
| Lebanon | 2.8 | 3.0 | 3.2 | 3.0 | 3.0 | 6.5 | 5.6 | 1.7 | 1.5 | 2.0 |
| Palestine | 6.3 | 2.2 | -2.5 | 3.0 | 3.2 | 2.8 | 1.7 | 1.7 | 2.5 | 3.0 |
| Syrian Arab Republic[e/] | -30.9 | -36.5 | -10.5 | -7.0 | -5.0 | 37.2 | 87.7 | 24.8 | 37.8 | 15.0 |
| Mashreq | 0.1 | -2.2 | -0.6 | 1.2 | 2.8 | 10.6 | 17.3 | 8.8 | 10.7 | 7.6 |
| Algeria | 3.3 | 2.8 | 3.2 | 2.8 | 3.5 | 8.9 | 3.3 | 2.1 | 2.7 | 3.0 |
| Libya | 98.2 | - | - | -7.5 | 12.0 | 6.1 | 2.6 | 1.3 | 4.0 | 4.5 |
| Morocco | 2.7 | 4.4 | 2.4 | 4.2 | 3.5 | 1.3 | 1.9 | 0.4 | 1.0 | 1.2 |
| Tunisia | 3.9 | 2.4 | 2.3 | 2.7 | 3.2 | 5.6 | 6.1 | 5.5 | 4.5 | 4.0 |
| Maghreb | 21.1 | -1.1 | -3.9 | 1.2 | 5.1 | 6.1 | 3.2 | 1.9 | 2.7 | 3.0 |
| Comoros | 3.0 | 3.5 | 3.7 | 3.5 | 3.5 | 6.3 | 1.6 | 2.5 | 2.0 | 2.0 |
| Djibouti | 4.8 | 5.0 | 5.0 | 4.8 | 4.5 | 3.7 | 3.5 | 2.2 | 2.0 | 2.5 |
| Mauritania | 7.0 | 6.7 | 5.9 | 6.1 | 6.2 | 4.9 | 4.1 | 3.6 | 3.2 | 3.5 |
| Somalia | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Sudan | 0.4 | 3.6 | 2.5 | 2.8 | 3.0 | 35.1 | 37.1 | 37.5 | 17.0 | 15.0 |
| Yemen | 2.2 | 3.2 | 1.5 | -2.0 | 3.2 | 10.2 | 11.0 | 8.0 | 11.5 | 12.0 |
| Arab least developed countries | 1.2 | 3.6 | 2.4 | 1.5 | 3.2 | 26.3 | 27.8 | 27.2 | 14.7 | 13.5 |
| Total Arab region[f/] | 6.8 | 1.5 | 1.5 | 2.4 | 3.8 | 6.0 | 7.3 | 5.1 | 4.9 | 4.4 |

*Source:* National sources.

a/ GDP figures for 2012 and 2013 are based on ESCWA, *National Accounts Studies of the Arab Region,* Bulletin No. 34 (E/ESCWA/SD/2015/1) and on the latest available figures from national sources as at March 2015.

b/ March 2015 estimates.

c/ March 2015 forecasts.

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

e/ GDP growth rates in the Syrian Arab Republic for 2012-2014 are estimated figures from the Syrian Center for Policy Research, *Alienation and Violence: Impact of the Syria Crisis in 2014* (Damascus, March 2015). Available from www.unrwa.org/resources/reports/alienation-and-violence-impact-syria-crisis-2014.

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

## D. Arab Maghreb countries

17. The economies of the Arab Maghreb subregion contracted by an estimated average of 3.9 per cent in 2014, after a contraction of 1.1 per cent in 2013. The average growth of this subregion continues to be heavily influenced by the growth estimation of Libya, whose economy is anticipated to record two consecutive annual contractions. In 2014, political instability and armed conflict pushed down Libyan domestic demand substantially, and Libyan oil production and exports dwindled due to sabotage and work stoppages. A fall in agricultural outputs slowed growth in Morocco in 2014, while other sectors maintained stable growth. Constant domestic demand growth was indicated by accelerating broad money growth throughout 2014; however, Moroccan exports were negatively impacted by stagnating European economies. Tunisia has experienced decelerating economic growth given that its domestic demand growth has been hampered by a severe balance-of-payments condition. A weak external position persists, although the depletion of foreign reserves has been contained. Similarly to Morocco, Tunisia has been negatively impacted by stagnating European economies. Active public investments in Algeria drove its growth in 2014, despite declining oil prices in the second half of the year. Estimates show that domestic demand consistently expanded as broad money growth was accelerated in 2014.

18. The Arab Maghreb subregion is projected to grow by 1.2 per cent in 2015. The contraction of the Libyan economy is forecasted to slow; a certain level of crude oil production and exports are projected to continue, but the displacement of foreign workers, including those critical to maintaining the economic infrastructure, will lead to a further decline in economic activities. Morocco is forecast to mark an accelerated growth owing to a projected growth in agricultural harvests. Low oil prices have benefited Morocco and Tunisia, easing their balance-of-payments and fiscal conditions. More space for domestic demand expansion is likely to be created in Tunisia for a mild acceleration of growth; however, security spillovers from armed conflict in Libya pose a risk. Economic expansion in Algeria is projected to slow owing to a drop in its hydrocarbon revenues; however, continuing active public investments are likely to buoy domestic demand. Forecasted growth rates for 2015 are 4.2 per cent for Morocco; 2.8 per cent for Algeria; and 2.7 per cent for Tunisia. The Libyan economy will contract by an estimated 7.5 per cent.

## E. Arab least developed countries

19. The economies of Arab least developed countries grew by an estimated average of 2.4 per cent in 2014, following a 3.6 per cent growth in 2013. The Sudan managed to maintain positive economic expansion amid a severe balance-of-payments condition. Despite a loss in oil export revenues since the creation of South Sudan, the Sudan has managed to diversify its exports to other commodities, including food items and gold. The economic growth of Yemen has decelerated; domestic demand expansion has been weakened by an increasingly unstable political situation. Crude oil production in Yemen has stagnated because of ageing production facilities and continuous sabotage of oil pipelines. External financial support has sustained monetary stability, but foreign reserves continued to decline in 2014. The Comoros maintained stable growth in 2014 in line with its long-term trend. A high level of port activities, partly driven by growing transport to Ethiopia, has led to constant economic expansion in Djibouti. Despite occasional security incidents, Somalia is estimated to make a rapid economic recovery owing to progressing reconstruction work. Mauritania has experienced a deceleration of economic growth; declining metal prices have impacted its export performance, but domestic demand is estimated to mark a constant expansion.

20. In 2015, real GDP growth of Arab least developed countries is projected to average 1.5 per cent. The balance-of-payments condition is expected to improve in the Sudan, which is likely to open a space for domestic demand expansion. Further intensification of armed conflict and political instability are likely to force Yemen into economic contraction. Lower commodity prices would benefit the Comoros and Djibouti, but domestic demand expansion is projected to taper off as broad money growth slows down. Expansion of the mining sector is expected to continue in Mauritania, despite a weak projection for metal prices; an expected growth of foreign direct investment in this sector would positively affect the country’s domestic demand expansion. Despite these positive figures, growth levels remain insufficient to change poverty

profiles in Arab least developed countries; greater international and regional efforts are needed for poverty alleviation in this subregion. Forecasted growth rates for 2015 are 6.1 per cent for Mauritania; 4.8 per cent for Djibouti; 3.5 per cent for the Comoros; and 2.8 per cent for the Sudan. Yemen is projected to mark a 2.0 per cent contraction, but this forecast value is subject to a substantial downward revision if the armed conflict intensifies further.

### F. PRICES AND INFLATION

21. The average annual consumer price inflation of the Arab region has been estimated at 5.1 per cent for 2014, compared to 7.3 per cent for 2013 (table 2). Falling international commodity prices have contributed to this overall decline. While much attention has been focused on oil prices, food prices also declined in 2014. The main driver of inflation in GCC countries remains the rising price of housing-related items, reflecting the recovery of property rent. Amid intensifying armed violence and social unrest, both Iraq and Libya have successfully maintained low inflation levels through subsidies. Inflation has also been contained in Palestine; however, low inflation rates do not necessarily imply a sufficient supply of essential goods. Anecdotal evidence has sometimes suggested otherwise, but policy efforts have been made to maintain supply chains in these countries. A high inflation trend in Egypt, the Sudan, the Syrian Arab Republic and Yemen continued in 2014. Hyperinflation in the Sudan and the Syrian Arab Republic was a direct consequence of their severe foreign exchange constraints related to economic sanctions. Monetary factors have continued to cause high inflation in Egypt and Yemen.

22. The forecasted consumer price inflation rate in the Arab region averages 4.9 per cent for 2015. International commodity prices are projected to decline further, setting the overall trend for the region. The upward shift in the price of housing-related items in GCC countries is expected to taper off, moderately lowering consumer price inflation. Among high-inflation countries, the inflation rate in the Sudan is expected to decline considerably, mainly because of expected lower import prices. The inflation rate in the Syrian Arab Republic will rise owing to continuing severe foreign exchange constraints. The structural high inflation regime is projected to continue in Egypt and Yemen. Moreover, a possibility of hyperinflation cannot be ruled out for Yemen if the armed conflict intensifies further.

### G. EXCHANGE RATES

23. Several Arab countries experienced a significant depreciation of their national currencies against the United States dollar in 2014 to early 2015. To varying degrees, national currencies of Arab Maghreb countries, namely Algeria, Libya, Morocco and Tunisia, have depreciated against the dollar, mainly due to the euro's rapid depreciation against the dollar in the second half of 2014. Arab Maghreb countries have traditionally maintained a stable exchange rate against the euro given that the Euro area is their primary export destination. The national currencies of the Comoros and Mauritania have also depreciated against the dollar for the same reason. The Kuwaiti national currency, which is pegged to a basket of currencies, including the euro, has also depreciated against the dollar. GCC countries, Djibouti, Iraq, Jordan and Lebanon have maintained the foreign exchange regime of pegging their currencies to the dollar. Egypt has managed its orderly depreciation of the Egyptian pound from 7.0 pounds to the dollar to 7.6 pounds to the dollar. The Sudan has also managed to set a gradual depreciation of the value of its national currency to 6.1 Sudanese pounds to the dollar. The value of the Syrian pound continued to drop from 160 pounds to the dollar to 220 pounds to the dollar through 2014. Further devaluations of national currencies are projected in 2015 for Egypt, the Sudan, the Syrian Arab Republic, Tunisia and Yemen because of their weak balance-of-payments situations.

### H. SOCIAL DYNAMICS AND EMPLOYMENT

24. The most characteristic social dynamic in the Arab region is mass displacement, either within national borders or to other countries, because of intensifying armed conflicts. The number of displaced persons has significantly increased in Iraq, Libya, Palestine, the Syrian Arab Republic and Yemen over the past couple of

years, causing humanitarian crises. Moreover, the scale of displacement could hamper future economic reconstruction in these countries and has already eroded human capital and social coherence. Social impacts are being increasingly felt in Jordan and Lebanon, where demographic structures have changed due to the influx of Syrian refugees, straining health and education services. Both countries have absorbed the initial shock of the rapidly increasing number of residents but are struggling to maintain welfare levels with ever-limited resources.

25. Unemployment rates remain high in the Arab region. According to available data for the fourth quarter of 2014, Palestine stands at 26.5 per cent;[10] Saudi Arabia at 11.6 per cent among Saudi nationals;[11] Egypt at 12.9 per cent;[12] Jordan at 12.3 per cent;[13] and Morocco at 9.7 per cent.[14] Owing to the existence of informal sectors, the region's unemployment rates reflect structural employment gaps rather than cyclical gaps. These rates, however, do not indicate a significant structural change in labour markets, with the following exceptions: a significant deterioration of the employment situation in Palestine, particularly in the Gaza Strip where the unemployment rate jumped from 32.6 per cent in 2013 to 43.9 per cent in 2014,[15] the attack on the Gaza Strip in July 2014 and continuing restrictions on economic activities have contributed to the worst employment situation in years. Another exception is that the gender gap in employment has moderately improved in Jordan and Saudi Arabia. The female unemployment rate in Jordan went down from its recent peak of 26.8 per cent in the third quarter of 2013 to 19.1 per cent in the fourth quarter of 2014.[16] The female unemployment rate in Saudi Arabia went down from its recent peak of 35.7 per cent in the fourth quarter of 2012 to 32.5 per cent in the fourth quarter of 2014.[17] A stringent application of the labour nationalization policy in Saudi Arabia was exercised in 2014; it has introduced new measures to restrict foreign workers by enhancing the *Nitaqat* system introduced in 2011, and actively encourages Saudi nationals to seek a career in the private sector. This trend has been followed by other GCC countries. High youth unemployment, resulting from job shortages for a growing cohort of new labour market entrants, remains a critical socioeconomic issue across the Arab region.

## IV. POLICY DEVELOPMENTS

26. The scope of policy dilemmas has widened for policymakers in the Arab region. For major energy exporters in GCC countries, a rapid policy response was needed to cope with the fall in oil revenues and weakened fiscal positions. GCC Governments played a pivotal role in diversifying their economies into the non-oil sector by actively investing in infrastructure, health and education. They are now faced with the policy dilemma of whether they should maintain these levels of public expenditure. Counter-cyclical fiscal measures might be needed to allow economies to achieve targeted economic diversity. However, lower oil revenues are likely to lead to budget cuts to maintain fiscal prudence. While foreign exchange constraints have been moderately eased due to declining international commodity prices, the Governments of other Arab countries need to cope with tight fiscal constraints. Subsidy reforms have been implemented in stages

[10] Palestinian Central Bureau of Statistics, "Labour force survey (October-December,2014) Round (Q4/2014): press report on survey results", 12 February 2015. Available from www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFS-Q4-2014-e.pdf.

[11] Central Department of Statistics and Information, Quarterly unemployment rate data. Available from www.cdsi.gov.sa/english/.

[12] Central Agency for Public Mobilization and Statistics, "Press release", 16 February 2015. Available from www.capmas.gov.eg/pepo/779_e.pdf.

[13] Department of Statistics, "Press release", 22 January 2015. Available from www.dos.gov.jo/dos_home_e/main/archive/Unemp/2014/Emp_2014-q4.pdf.

[14] Haut-Commissariat au Plan, « La Situation du marché du travail au quatrième trimestre de l'année 2014 ». Available from www.hcp.ma/La-Situation-du-marche-du-travail-au-quatrieme-trimestre-de-l-annee-2014_a1504.html.

[15] Palestinian Central Bureau of Statistics, "Labour force survey (October-December,2014) Round (Q4/2014): press report on survey results".

[16] Department of Statistics, "Press release".

[17] Central Department of Statistics and Information, Quarterly unemployment rate data.

in several Arab countries, including Egypt, Jordan, Morocco, the Sudan and Yemen, but the fiscal positions of these countries remain structurally weak.

27. Monetary policies in GCC countries have remained unchanged since 2013, shadowing those of the United States Federal Reserve, including interest rate policies. Reflecting this policy stance, funding cost in terms of three-month interbank money market rates in GCC countries stayed at around 1.0 per cent. Among others, the three-months Emirates Interbank Offered Rate continued to decline to reach 0.67714 per cent by the end of 2014. The three-months Kuwait Interbank Offered Rate gradually went up to 1.3125 per cent in November 2014 from 0.875 per cent in January 2014, before declining to 1.0625 per cent by the end of 2014. Given that United States interest rates are projected to rise by the end of 2015, the monetary stance of GCC countries is expected to change in the same timeline. However, since low inflation is expected and there is a need to maintain economic stimulus amid lower oil revenues, monetary authorities in GCC countries are likely to devise policy measures to lessen the anticipated adverse effects of these policy changes. Falling international commodity prices and increases in foreign capital inflows have created a sizeable policy space for monetary easing in Egypt, Jordan and Morocco. In July 2014, the Central Bank of Egypt took a precautious measure to cope with anticipated inflation by raising interest rates by 1 per cent. However, in January 2015, the Egyptian Central Bank moved back to a monetary easing stance, lowering interest rates by half a percentage point after it became apparent that a decline in commodity prices eases foreign exchange constraints. The Central Bank of Jordan took monetary easing measures in January and June 2014 and in February 2015. The overnight window deposit rate, a key Jordanian interest rate, went down from 3.5 per cent in January 2014 to 1.75 per cent at the end of the first quarter of 2015. Bank Al-Maghrib, the central bank of Morocco, lowered its key policy rate by 0.25 percentage points in September 2014 for the first time since March 2012. Interest rates in Morocco were lowered again in December 2014 by another 0.25 per cent. The Central Bank of Tunisia maintained a tight monetary stance, mainly to cope with a difficult balance-of-payments condition, by raising its key policy interest rates by 0.25 per cent to 4.75 per cent in June 2014. Banque du Liban, the Lebanese central bank, actively utilized monetary stimulus measures. The Central Bank of Syria attempted an orderly gradual depreciation of its national currency while managing demand for foreign currencies. Despite the continuing armed violence in the country and substantial devaluation of the Syrian pound, it is worth noting that the Syrian currency has not lost its credibility.

28. Fiscal balances in GCC countries saw substantial changes in 2014 following a drop in oil prices. Budget deficits in 2014 have been estimated for Bahrain, Oman and Saudi Arabia, and more countries are likely to face budget deficits in 2015. However, in terms of budget planning, GCC countries are projected not to reduce government expenditure to the extent of fiscal austerity. Fiscal stances remain in the range from mildly active to neutral. Most expenditure cuts will be made by reducing extrabudgetary expenditures. Public investment in infrastructure, health, education and social affairs is expected to continue in selected prioritized areas. In a move to improve fiscal management, Qatar has decided to change its fiscal year to a January-December cycle from its April-March cycle. Arab Governments in other subregions continue to aim at fiscal consolidation. Subsidy reforms progressed in several countries in 2014, including Egypt and Jordan, but weak revenue prospects remain. Direct and indirect external assistance has become essential for those countries to maintain their capital spending levels, including in the form of development projects. International capital markets are accessible to Arab Mashreq and Maghreb countries for foreign borrowing. Jordan, Lebanon, Morocco and Tunisia raised funds through bond issuances in international capital markets in 2014.

## V. CONCLUDING REMARKS

29. The dramatic fall in oil prices marked an apparent shift in external economic environments for the Arab region. Oil wealth is vital for oil-exporting Arab countries and is the primary source of positive spillover to oil-importing Arab countries. Oil wealth is distributed over the region in forms of capital, remittances and foreign aid. Lower oil prices are benefiting oil-importing countries in the region by improving their balance-of-payments conditions; however, as a secondary effect, lower oil prices might

reduce capital, remittances and aid flow from GCC countries to other Arab countries. The Arab region has seen a positive economic expansion, on average, over the last few years despite geopolitical tensions, political instability and social unrest. Armed conflicts have been intensifying in Iraq, Libya, Palestine, the Syrian Arab Republic and Yemen, and security has frequently been disrupted in Lebanon and Tunisia. The fundamental pillar sustaining regional growth, despite these prevailing negative factors, has been the growing oil wealth; it has been upholding a certain level of intraregional flows of capital, remittances and aid from the region's major GCC oil producers. However, geopolitical tensions remain and this pillar of regional economic stabilization has started to wane. The overall structural impact of low oil prices remains to be seen, but ongoing economic and non-economic events in the Arab region remain challenging for sustainable regional medium- to long-term growth.

30. In 2003, the Arab region began experiencing an oil boom that lasted over 11 years. The previous price plunge in 2008 due to the global financial crisis was quickly reverted as markets witnessed a speedy recovery in demand from developing economies such as China and India. By the end of 2014, oil market participants realized that the price elasticity of crude oil supply had suddenly increased due to advancing technologies for shale and tight oil extraction. The weak prospect of oil revenues and weakening oil wealth are likely to force Arab countries to rethink their growth strategies.

31. GCC countries were successful in their economic diversification strategy, to a certain extent, during the oil boom that began in 2003. The non-oil sectors, particularly the finance, telecommunications, transport and services sectors, marked a remarkable growth. However, oil remains essential in GCC countries as a source of national wealth, government revenue, business confidence and economic sentiment. Therefore, GCC countries must develop further economic diversification strategies to reduce their dependence on oil, which might require effective labour nationalization policies affecting employment opportunities for job seekers in other Arab countries. Efficient rebalancing of intraregional capital and labour flows would benefit both GCC countries and other Arab countries. Policy coordination efforts through regional cooperation are urgently needed to optimize the use of the region's human capital and financial wealth so as to reach a higher sustainable regional growth path.