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## Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 2012-2013*

*Summary*

The average growth rate of gross domestic product (GDP) of the Arab region in real terms is estimated to be 4.8 per cent in 2012, compared with 2.2 per cent in 2011. The recovery in the Maghreb subregion, in particular Libya, contributed to the region's growth, as well as to the consistent growth in Gulf Cooperation Council (GCC) countries. For 2013, the average real GDP growth rate of the region is projected at 4.4 per cent. The GDP growth rate, on average, is likely to taper off owing to the decline in energy export revenues, which marked a historical high in 2012. However, the region's economic and social developments became further polarized in 2012. Major energy exporters in the region, namely the GCC member countries, have been on a stable recovery path as a result of the expansionary fiscal and monetary policy mix. At the same time, net energy-importing countries in the region struggled to stabilize their economies amid worsening foreign exchange constraints. The polarization was partly due to political instability and social unrest, as well as to the severed intraregional flow of funds in trade, tourism and investments. The lack of confidence in intraregional business transactions resulted in the segmentation of the regional economies. The loss of regional leverage caused by the segmentation, in turn, amplified the seriousness of the unemployment issue

* After Libya, Morocco and Tunisia became member countries of the Commission in July 2012, it was decided that the territorial coverage of the survey of economic and social developments in the region would be expanded to include all of the countries that constitute the Arab region. The following subregional grouping is used in the present document, 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 (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates); Mashreq (Egypt, Iraq, Jordan, Lebanon, Syrian Arab Republic, State of Palestine); Maghreb (Algeria, Libya, Morocco, Tunisia); and Arab least developed countries (Comoros, Djibouti, Mauritania, Somalia, Sudan, Yemen).

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throughout the region, even in GCC countries. Amid these economic and employment difficulties, social development in the region has continued gradually through a series of policy reforms and institutional development. Most notably, in 2012 Saudi Arabia adopted a series of active labour policies for Saudi nationals, emphasizing the importance of female employment. However, much of the social dynamics in the region was characterized by social unrest in parallel with political instability. The structural weakness of the economies in the Arab region, represented by high unemployment rates and income inequalities, is the chronic undercurrent of motivation for social unrest and political instability. Reviving effective regional leverage through further regional cooperation and integration efforts is crucial to compensate for the failing market-based intraregional resource transfers.

# I. Global context

1. The world economy continued to struggle to recover throughout 2012. The global financial crisis of 2008-2009 led central banks in the developed economies to take a monetary easing stance to its maximum. A series of monetary policy coordination efforts in line with this has successfully contained the contagion of a liquidity crisis. Moreover, fiscal stimulus policies adopted at the global level in 2008 and 2009 successfully buoyed global demand growth from the risk of serious implosion. The possibility of the world economy being trapped in a deflationary spiral was clearly averted. However, despite those short-term successes, the struggle for stable economic recovery became more apparent in 2012 as economic policy options for many Governments were exhausted further. The quickly shrinking fiscal space forced many Governments to maintain a fiscal austerity stance. Meanwhile, the speed of balance sheet adjustment of the financial sector, which was hit by the global financial crisis of 2008-2009, varied: while a smooth adjustment has been observed in the United States of America, the process has been slow in the euro area. The remaining uncertainty over financial risks, which could still be contagious, precluded a strong investment-led growth recovery of the world economy at this stage. The developed economies, particularly in Europe, are still prone to a double-dip recession.

2. The developing economies, including member countries of the Economic and Social Commission for Western Asia (ESCWA) in the Arab region, increased their presence in the world economy in 2012 by sustaining the world economy's demand growth. However, it appeared that the economic performance of developing economies was diverging according to their resource endowments. This was mainly due to the stagnating global investment flows as the investors stayed cautious in taking risks. Therefore, those developing economies with natural and financial resources could weather the uncertain world economic situation. Such resilience on the part of developing economies has sustained the world's demand for natural resources, compensating for the moderately decreasing demand from the developed economies. However, the developing economies without natural resource endowments have suffered increasingly from the rising foreign exchange constraint, as the capital inflow to those economies became insufficient to finance the current account deficits. The international price of food and energy stayed relatively stable in 2012, but some developing economies experienced high inflation rates due to country-specific factors which are mainly related to foreign exchange constraints.

3. With regard to the immediate prospects for 2013, the sustainability of sovereign debts, in both developed and developing countries, casts a shadow of vulnerability on the world economy. This vulnerability points to two issues of concern. First, the balance sheet adjustments of the financial sector have not been completed in many economies. The financial sector's asset side of the balance sheets suffered from the global financial crisis of 2008-2009. The recovery of asset prices has been slow and mostly still below pre-crisis levels. The Governments' fiscal intervention was intended to support the financial sector's balance sheet adjustments directly and indirectly, but such intervention turned out to be unsustainable in several countries, particularly in Southern Europe. The most recent case in point was the financial insolvency crisis in Cyprus, for which the national Government could not sustain its fiscal support. As long as asset prices are stagnant, the world economic situation maintains this fundamental fragility from the ongoing

slow balance sheet adjustment of the financial sector. Second, with the exception of those countries with natural resources, more Governments maintained their fiscal austerity stance during the 2012-2013 fiscal years. Moreover, it is expected that more central banks are shifting to a tighter monetary stance in 2013. This general trend towards a tightening policy mix is being justified as fiscal prudence and a measure against an expected rise in inflation. However, the policy tightening may negatively affect still-progressing balance sheet adjustments in the financial sector in most of the developed economies.

4. The fragility of the world economic recovery was also reflected in its extremely weak employment creation. The situation did not improve in the developed economies in 2012, which resulted in multiple negative effects on the developing economies' employment opportunities as job seekers in the developing economies suffered from the loss of opportunities to obtain jobs by migration, in addition to chronic high unemployment in their home countries. The employment situation has crucial financial implications for the developing economies as workers' remittances became an even more vital source to finance current account deficits. In sum, the main challenges that the world economy is facing consist of: (a) smooth balance sheet adjustment in parallel with the recovery of asset prices at the global level; (b) appropriate growth-leaning macroeconomic policy mix to revive the financial sector; and (c) sufficient employment creation, as the issue of rising unemployment, in both the developed and developing economies, will be the most crucial for solid economic recovery.

5. In this global context, ESCWA member countries of the Arab region exhibited further polarization in their development paths in 2012. Major energy exporters in the region, namely the member countries of the Gulf Cooperation Council (GCC), have been on a stable recovery path as a result of the expansionary fiscal and monetary policy mix. At the same time, net energy-importing countries in the region struggled to stabilize their economies amid the worsening foreign exchange constraint. The polarization was partly due to political instability and social unrest, as well as the severed intraregional flow of funds from the region's major energy exporters. The lack of confidence in intraregional business transactions resulted in the segmentation of the regional economies. The loss of regional leverage caused by the segmentation, in turn, amplified the seriousness of the unemployment issue throughout the region, including in GCC countries. Amid these economic and employment difficulties, social development in the region has continued gradually through a series of policy reforms and institutional development. However, much of the social dynamics in the region was characterized by social unrest in parallel with political instability.

# II. Oil sector development

6. According to estimates from the Organization of the Petroleum Exporting Countries (OPEC),[1] the total world oil demand in 2012 averaged 88.8 million barrels per day, while the total supply of crude oil averaged 89.8 million barrels per day. The demand for crude oil is estimated to have increased in 2012 by 0.8 million barrels per day over the previous year. The declining trend in the demand from the developed economies continued, while the demand from

[1] OPEC monthly oil market report, February 2013.

developing economies has consistently grown, with China remaining the main contributor of oil demand growth. From the near-maximum level of crude oil production, OPEC member countries have been reducing production gradually since August 2012. Meanwhile, the crude production of the United States and Canada has shown a notable increase through the development of shale/tight oils and tar sands extractions. Geopolitical risks associated with crude oil supply are expected to remain, but the world crude oil supply is expected to have a sufficient level of spare capacity for 2013. With a view to relaxing the supply/demand balance, OPEC may moderately reduce the production quota in 2013.

7. Crude oil prices experienced a rapid decline in the first half of 2012 owing mainly to the concern over the world demand growth. However, prices recovered throughout the second half of the year to mark the historically high annual average. The OPEC reference basket price averaged $109.45 per barrel in 2012, which marked the year's highest at $124.64 per barrel on 8 March and the lowest at $88.74 per barrel on 22 June (see table 1). Speculations in commodity futures markets remained influential in both selling and buying. Financing for speculators remained available with the prolonged monetary easing policies in the developed economies, where nominal interbank interest rates stayed at a historical low. For 2013, the prospects of crude oil prices, as well as the price of fuel products, are increasingly dependent on the extent of a potential supply glut in the global market of fuel products. The weak recovery of the world economy continues to be the main concern. Moreover, North American refiners have been gaining competitiveness owing to the increasing production of shale oil, which pressured the refining margins in Asia and Europe. Overcapacity in the oil tanker market is another factor that lowered the price of crude oil and fuel products. As several other asset classes showed signs of recovery, speculations are expected to be relatively less influential. Having taken these factors into consideration, the average OPEC reference basket price for 2013 is projected to average between $85.00 and $120.00 per barrel.

Table 1
**Crude oil price estimation and forecast, 2010-2013**
(OPEC reference basket, United States dollars per barrel)

| | | | | *Forecasted annual average for 2013* | | |
|---|---|---|---|---|---|---|
| *Year* | *Minimum* | *Maximum* | *Annual average* | *Lower* | *Median* | *Higher* |
| 2010 | 66.84 | 90.73 | 77.45 | | | |
| 2011 | 89.81 | 120.91 | 107.46 | | | |
| 2012 | 88.74 | 124.64 | 109.45 | | | |
| 2013 | | | | 85.00 | 102.50 | 120.00 |

*Source*: OPEC for 2010-2012. Figures for 2013 are forecasts as at March 2013.

8. The total crude oil production of the region's major energy exporters, namely the GCC countries, is estimated to have averaged 16.8 million barrels per day in 2012, increasing by 4.2 per cent from the previous year. Total production reached a record high, surpassing the level of 2008. Iraq continued to expand its production capacity; its crude oil production grew by 11 per cent to an average of 2.9 million barrels per day in 2012. The crude oil production of Libya saw a rapid recovery from a drastic production plunge in 2011. Its crude oil production has grown to an

average of 1.3 million barrels per day, which is at 89 per cent of the 2010 level. Transport difficulties related to the worsening security situations in the Sudan and the Syrian Arab Republic seriously reduced crude oil production and exports from those countries. Yemen managed to maintain the export level of the previous year despite occasional disruptions to crude oil transport through pipelines.

# III. Regional economic trends

9. The real growth in gross domestic product (GDP), on average, in the Arab region is estimated at 4.8 per cent in 2012, compared with 2.2 per cent in 2011 (see table 2). The recovery in Maghreb economies, in particular Libya, contributed to the improvement in the average growth rate, as well as to consistent growth in GCC economies. However, the region's economies became further polarized in 2012. The polarization was partly due to political instability, social unrest and armed conflicts, as well as the severed intraregional flow of funds from the region's major energy exporters. While major energy-exporting countries in the region recorded another year of high energy export revenues, energy importers in the region struggled to finance their current account deficits. The weak demand of European economies for non-energy exports from the region and hovering energy prices also contributed to the widening current account deficits of energy-importing countries in the region. The high oil prices, combined with near-maximum output levels, resulted in another historical high in energy export revenues for major energy exporters in the region. However, the positive cross-border spillover of energy export revenues was observed to be limited within GCC countries; other subregions in the Arab region have not benefited from the present "oil boom". The failing intraregional markets led to a segmentation of the region's economies.

Table 2
**Real GDP growth rate and consumer price inflation rate, 2009-2013**
(Percentage)

| | *Real GDP growth rate* | | | | | *Consumer inflation rate* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Country/area* | *2009* | *2010* | *2011*[a] | *2012*[b] | *2013*[c] | *2009* | *2010* | *2011* | *2012*[b] | *2013*[c] |
| Bahrain | 2.5 | 4.3 | 1.9 | 3.4 | 3.0 | 2.8 | 2.0 | -0.4 | 2.8 | 3.2 |
| Kuwait | -7.1 | -2.4 | 6.3 | 4.7 | 3.2 | 4.0 | 4.0 | 4.8 | 2.9 | 3.2 |
| Oman | 3.3 | 5.6 | 0.3 | 6.5 | 4.0 | 3.2 | 3.2 | 4.1 | 2.9 | 3.2 |
| Qatar | 12.0 | 16.6 | 13.5 | 6.2 | 5.2 | -4.9 | -2.4 | 1.9 | 1.9 | 2.5 |
| Saudi Arabia | 0.1 | 5.1 | 7.1 | 6.8 | 5.5 | 4.1 | 3.8 | 3.7 | 2.9 | 3.0 |
| United Arab Emirates | -4.8 | 1.3 | 4.2 | 4.0 | 3.8 | 1.6 | 0.9 | 0.9 | 0.7 | 2.0 |
| **GCC countries**[d] | **-0.7** | **4.6** | **6.6** | **5.7** | **4.7** | **2.7** | **2.6** | **2.9** | **2.2** | **3.7** |
| Egypt[e] | 4.7 | 5.1 | 1.9 | 2.2 | 3.2 | 11.8 | 11.3 | 10.1 | 7.2 | 11.0 |
| Iraq | 5.8 | 5.9 | 8.6 | 11.3 | 7.8 | -2.8 | 2.4 | 5.6 | 6.1 | 6.0 |
| Jordan | 5.5 | 2.3 | 2.6 | 2.7 | 2.9 | -0.7 | 5.0 | 4.4 | 4.8 | 5.0 |
| Lebanon | 8.5 | 7.0 | 1.5[b] | 1.2 | 1.8 | 1.2 | 4.0 | 4.9 | 6.6 | 5.2 |
| Syrian Arab Republic | 5.9 | 3.4 | -2.0[b] | -31.4 | -7.1 | 2.8 | 4.4 | 4.7 | 36.5 | 12.0 |

| Country/area | Real GDP growth rate 2009 | 2010 | 2011[a] | 2012[b] | 2013[c] | Consumer inflation rate 2009 | 2010 | 2011 | 2012[b] | 2013[c] |
|---|---|---|---|---|---|---|---|---|---|---|
| State of Palestine | 7.4 | 9.3 | 12.2 | 5.3 | 4.0 | 2.8 | 3.7 | 2.9 | 2.7 | 3.0 |
| **Mashreq[d]** | **5.6** | **5.1** | **2.2** | **-1.7** | **2.6** | **6.5** | **7.7** | **7.6** | **11.4** | **9.3** |
| Algeria | 2.4 | 3.3 | 2.9 | 2.8 | 2.9 | 5.7 | 3.9 | 4.5 | 8.6 | 4.8 |
| Libya | -0.7 | 4.2 | -61.3 | 100.7 | 15.0 | 2.5 | 2.5 | 15.0 | 5.0 | 3.5 |
| Morocco | 4.8 | 3.7 | 5.0 | 2.8 | 4.9 | 1.0 | 1.0 | 0.9 | 1.3 | 1.8 |
| Tunisia | 3.1 | 3.2 | -1.9 | 2.6 | 3.6 | 3.5 | 4.4 | 3.6 | 5.6 | 5.2 |
| **Maghreb[d]** | **2.5** | **3.6** | **-9.3** | **10.6** | **5.3** | **3.6** | **3.0** | **5.5** | **5.7** | **3.9** |
| Comoros | 1.8 | 2.1 | 2.2 | 2.5 | 3.5 | 4.8 | 4.2 | 6.8 | 5.0 | 3.2 |
| Djibouti | 5.0 | 3.5 | 4.8 | 4.7 | 4.8 | 1.7 | 4.0 | 6.8 | 5.0 | 3.2 |
| Mauritania | 0.1 | 5.6 | 5.1 | 4.8 | 6.3 | 2.2 | 6.3 | 5.7 | 6.2 | 6.0 |
| Somalia | – | – | – | – | – | – | – | – | – | – |
| Sudan | 5.9 | 5.2 | 2.7[b] | -7.0 | 2.5 | 11.2 | 13.0 | 18.1 | 35.1 | 22.0 |
| Yemen | 4.3 | 6.8 | -15.3[b] | -1.0 | 4.5 | 5.4 | 11.1 | 19.4 | 10.2 | 9.5 |
| **Arab least developed countries[d]** | **5.1** | **5.5** | **-2.3** | **-4.6** | **3.2** | **9.5** | **11.6** | **17.2** | **24.6** | **16.5** |
| **Total, Arab region[d]** | **1.3** | **4.5** | **2.2** | **4.8** | **4.4** | **3.9** | **3.9** | **4.9** | **5.5** | **4.8** |

*Source*: National sources, unless otherwise stated.
[a] Preliminary figures (subject to revision).
[b] March 2013 estimates.
[c] March 2013 forecasts.
[d] Figures for country groups are weighted averages, based on GDP at 2005 constant prices.
[e] Figures for Egypt are for the fiscal year, which ends in June.

10. GCC countries, on average, are estimated to have experienced a 5.7 per cent GDP growth rate in 2012, after registering 6.6 per cent in 2011. Despite the deceleration in the growth rate, GCC economies showed more robustness, with consistent domestic demand growth. With the exception of Saudi Arabia, the consequence of the global financial crisis of 2008-2009 of most concern was an implosion of domestic demand and debt deflation. Favourable external economic conditions, such as the recovery of energy prices and international coordination in monetary easing, favourably influenced the economic sentiment and confidence in GCC countries. The financial sector's balance sheet adjustment in the subregion progressed smoothly despite the fact that the price level of both financial and property assets has not yet recovered to pre-crisis levels. Saudi Arabia led the economic recovery in the subregion, its economy continuing to experience stable domestic demand-led growth supported by an expansionary fiscal and monetary policy mix.

11. For 2013, GCC countries are expected to continue to experience stable economic growth, although the GDP growth rate on average is likely to taper off. The deceleration of the growth rate is mostly caused by an expected decrease in energy export revenues, as both crude oil production and prices are expected to

decline moderately. However, strong domestic demand growth is expected throughout GCC countries, as is the recovery of the financial sector's balance sheet. The continuing efforts to diversify the energy production-based economies with institutional reforms, targeting foreign direct investments, further create growth potential in the subregion. The average real GDP growth rate of the subregion is projected at 4.7 per cent for 2013. The economic growth rates of GCC countries are projected to show a converging trend, with the exception of Kuwait, where domestic demand growth remains relatively weak as a result of slower non-energy sector growth. In other GCC countries, however, the structural fragility in domestic demand is likely to be offset by active fiscal policy and project implementation in the non-energy sector. In 2013, the forecasted growth rate is 3.0 per cent for Bahrain, 3.2 per cent for Kuwait, 4.0 per cent for Oman, 5.2 per cent for Qatar, 5.5 per cent for Saudi Arabia and 3.8 per cent for the United Arab Emirates.

12. The economies in the Arab Mashreq subregion are, on average, estimated to have contracted by 1.7 per cent in 2012, after registering 2.2 per cent growth in 2011. The devastation of the Syrian economy was the largest factor to influence the subregion's economic contraction. The subregion was most affected by political instability and social unrest and the economic repercussion of the Syrian crisis. The slump in non-energy exports and the higher cost of energy imports widened the current account deficits. Moreover, the weakened capital inflows into the subregion from GCC countries and Europe made it difficult to finance such external deficits. Tourism, which has been one of the main economic activities driving domestic demand growth in Arab Mashreq economies, was substantially affected by security warnings of various extents, which deterred tourists from visiting the subregion. Construction activities, another pivotal source of domestic demand expansion, have also slowed down. Meanwhile, industrial development in the subregion marked a significant setback, particularly in the Syrian Arab Republic. The production factories and facilities in the Syrian industrial zones were severely damaged by the armed conflicts. The real GDP growth of Iraq was mainly due to a special factor of crude oil production expansion, which did not correspond to the slow domestic income growth. The real GDP growth of the State of Palestine was also based on a scaling effect in the ongoing reconstruction of the economy in the Gaza Strip. The physical blockades and continuing security instabilities and hostilities continued to be a severe constraint on the Palestinian economy.

13. For 2013, the Arab Mashreq subregion is projected to experience moderate recovery, at 2.6 per cent on average. This figure is highly influenced by the increasing crude oil production of Iraq and other energy-related activities in the subregion. As no resolution of the deteriorating security situation, particularly in the Syrian Arab Republic, is in sight, business confidence and consumer sentiment are expected to remain weak in 2013 in the subregion. Moreover, the capital account position is expected to remain weak, and the risk of further balance of payments difficulties remains. The space for domestic demand growth remains limited on both the supply and demand side factors. Fiscal austerity is expected to continue in Egypt, Jordan and Lebanon, and a tighter monetary policy stance is likely in Egypt and Jordan in order to defend their respective national currencies. Resource flows in the form of official development aid are expected to be crucial for the subregion to release fiscal and foreign exchange constraints. In 2013, the forecasted growth rate is 3.2 per cent for Egypt, 7.8 per cent for Iraq, 2.9 per cent for Jordan, 1.8 per cent

for Lebanon and 4.0 per cent for the State of Palestine. The economy of the Syrian Arab Republic is projected to contract further by 7.1 per cent.

14. The economies in the Maghreb subregion are, on average, estimated to have grown by 10.6 per cent in 2012, after registering a 9.3 per cent contraction in 2011. The major contributor to the subregion's economic expansion was the resumption of energy production in Libya after it collapsed in the previous year. Even with this phenomenal rate of growth, the Libyan economy has not reached its 2010 pre-crisis levels. Meanwhile, the economy of Morocco was affected by an underperforming agricultural sector owing to poor weather conditions. Despite the increasing number of social unrest and security incidents, the subregion exhibited resilience to mark moderate growth. With regard to Algeria, stable energy export revenues were sufficient to cushion the negative economic and non-economic impacts. The availability of international finance for Morocco and Tunisia to fill the gap of external deficits kept foreign exchange constraints from becoming binding. The moderate domestic demand expansion was commonly observed in the subregion. However, growth was considerably insufficient to create decent employment opportunities, particularly for young job seekers.

15. For 2013, the Arab Maghreb subregion is projected to continue to grow by 5.3 per cent. With this rate of growth, the subregion is expected to surpass the pre-transition levels of 2010. In spite of social unrest in several cities and the neighbouring countries, the Arab Maghreb countries are well situated to receive foreign direct investments and international aid, and the subregion's business environment is increasingly perceived to be less risky than that of the Arab Mashreq. The uncertainty concerning the investment environment is gradually lifted. This is particularly the case in the energy-exporting countries of Algeria and Libya, and the potential of Morocco and Tunisia may be re-evaluated by foreign investors if the sovereign debt crisis situation in the euro area continues. However, the structural fragility of the subregion's economy remains, owing to its weak export-oriented non-energy production base. More decent employment opportunities are urgently needed to resolve the fundamental cause of social unrest in the subregion. In 2013, the forecasted growth rate is 2.9 per cent for Algeria, 15.0 per cent for Libya, 4.9 per cent for Morocco and 3.6 per cent for Tunisia.

16. The economies of Arab least developed countries are, on average, estimated to have contracted by 4.6 per cent in 2012, following the previous year's contraction of 2.3 per cent. The average contraction was mainly contributed by that of the Sudan and Yemen. The struggle of the Sudan for economic stability continued after the separation of South Sudan. A number of armed conflicts over the border area early in 2012 made it difficult for the Sudan to adjust smoothly to the new economic environment. However, as South Sudan and the Sudan finally reached an agreement over the terms of oil production and transportation in March 2013, external economic and non-economic environments are expected to stabilize. Owing to the loss of crude oil export revenues, the Sudan suffered from a serious foreign exchange constraint, which negatively affected the country's domestic demand and income level. The economy of Yemen was more stable towards the end of 2012. Despite the worsening security situation, the country maintained a stable crude oil export level. Energy export revenues, both in crude oil and in liquefied natural gas, sustained the domestic demand in Yemen from falling further. Furthermore, financial support for the transition of Yemen was actively pledged at both the regional and international levels. Other Arab least developed countries, namely the

Comoros, Djibouti and Mauritania, marked moderate GDP growth in 2012, which has made only a weak contribution to those countries' national income levels. The economic outcome of political stabilization in Somalia was still uncertain in 2012.

17. For 2013, the real GDP growth of the Arab least developed countries is projected to average 3.2 per cent. The stable growth in energy and natural resource exports is expected to buoy the growth of Mauritania and Yemen. The economic prospects of the Comoros and Djibouti depend largely on those of their neighbouring countries, which are expected to be stable. The Sudan is expected to mark positive growth after a two-year economic decline. The severe foreign exchange constraint is expected to remain, but its extent is expected to be relaxed owing to consistent growth in non-energy exports. The growth prospects of Arab least developed countries, however, are too weak to reduce the prevailing poverty level. In 2013, the forecasted growth rate is 3.5 per cent for the Comoros, 4.8 per cent for Djibouti, 6.3 per cent for Mauritania, 2.5 per cent for the Sudan and 4.5 per cent for Yemen.

18. The average consumer price inflation in the Arab region is estimated to be 5.5 per cent in 2012, compared with 4.9 per cent in 2011 (see table 2). Although the international commodity prices of energy, metal and food items hovered at a higher level, no extreme price spikes were observed throughout 2012. While the pass-through from international commodity markets had less impact, each country's consumer inflation level was determined more by country-specific factors. Deflationary pressure remained on housing-related items in Bahrain, Qatar and the United Arab Emirates. The weak property rent contributed to this trend, owing to the oversupply of rental properties, which became apparent after the global financial crisis of 2008-2009. In contrast, Oman and Saudi Arabia were under constant inflationary pressure, including on housing-related items, due to their sustained growth of the real estate sector. Nevertheless, GCC countries averaged a lower consumer inflation rate compared with other subregions, averaging 2.2 per cent in 2012. Other countries in the Arab region, with the exception of Morocco, experienced a higher consumer inflation rate than GCC countries in 2012. The structural supply bottlenecks resulted in hovering consumer prices in the Mashreq, the Maghreb and Arab least developed countries, and inflation was notably accelerated in the countries under foreign exchange constraints, namely Egypt, the Sudan and the Syrian Arab Republic. The upward shift of the private sector wage level in parallel with recent wage hikes in the public sector was observed in GCC countries, but the shift is not expected to influence the inflation rate of those countries.

19. The forecasted consumer price inflation rate of the Arab region averages 4.8 per cent in 2013. The low-inflation regime of GCC countries is expected to continue. Food prices have been observed to increase since 2012, but the price increase is expected to be moderate. Moreover, the price of housing-related items, such as property rents, is projected to be depressed in Bahrain, Kuwait, Qatar and the United Arab Emirates. Although the exceptionally high inflation rates in the Sudan, the Syrian Arab Republic and Yemen in 2012 are expected to taper off in 2013, the seriously binding foreign exchange constraint is anticipated to push up the price level of those countries. Egypt is also expected to experience accelerating inflation due to the foreign exchange constraint with the devaluation of its national currency. GCC countries may implement another round of wage hikes in the public sector in 2013, but its influence on the general price level is expected to be limited. With the exception of limited professional occupation categories in GCC countries,

the region's private sector wage level is expected to stay depressed, and wage-push inflation is not likely to take place in the region in 2013. GCC countries are in surplus with regard to their fiscal and external accounts and are in a position to maintain sufficient supply capacity for domestic demand growth. In other subregions, as the private sector wage level is expected to be depressed throughout the year, the only channel of wage-push inflation can be the public sector. A public sector wage hike has been proposed in a few countries, most notably Lebanon, since 2012, but its impact on inflation projection remains uncertain.

20. The exchange rates of the ESCWA/Arab region remained stable from 2012 to early 2013, with the exception of Egypt, the Sudan and the Syrian Arab Republic. GCC countries, with the exception of Kuwait, have kept their foreign exchange rate regime, pegging their currencies to the United States dollar. Djibouti, Jordan and Lebanon have also maintained their national currencies' pegging to the United States dollar. Kuwait has maintained the pegging of the national currency to the basket of foreign currencies. The central banks of Algeria, Comoros, Iraq, Libya, Mauritania, Morocco, Tunisia and Yemen have maintained a managed float regime. In the Sudan and the Syrian Arab Republic, the rapid decline in the value of the national currency widened the spread between the official exchange rate and the exchange rate of parallel markets; foreign currencies were practically rationed in those countries. Economic sanctions and other non-economic events largely contributed to the national currency depreciation in the Sudan and the Syrian Arab Republic, whereas the depreciation of the Egyptian pound (LE) was caused more by economic environments. In the space of three months since December 2012, the Egyptian pound depreciated by 8 per cent, to LE 6.8 per United States dollar in March 2013. Before this abrupt devaluation, the Egyptian pound had been effectively pegged to the United States dollar from April 2011 to December 2012 as a nominal anchor for the Egyptian economy to weather the unstable political and social situation in the country. Before that period, throughout 2010, the Egyptian pound gradually depreciated by 7 per cent, from LE 5.4 per dollar to LE 5.8 per dollar, but this gradual depreciation policy was replaced by the currency peg in effect. The currency peg regime was effective in maintaining the level of domestic demand during the highly turbulent period. However, it resulted in the rapid dwindling of the foreign reserves, from $28 billion in April 2011 to about $15 billion in February 2012. The resumption of a gradual depreciation policy was not taken promptly owing to the view that a currency devaluation could cause an immediate fiscal crisis by increasing food and energy subsidies and could have only a modest impact on the competitiveness of Egyptian exports. A gradual depreciation of the Egyptian pound is expected to continue in 2013, but the key to an orderly resolution of the present balance of payment crisis in Egypt would critically rest on the prospects of fiscal reform.

21. The armed violence in the Syrian Arab Republic and the destruction of commercial and residential properties, infrastructure and production facilities have already caused significant economic damage. It was estimated that GDP in real terms contracted by 31.4 per cent in 2012. The contraction of GDP was not due to the suspension of economic activities and the idle production capacity. Rather, it was due to the damage to physical capital stock and the loss of human capital. Even with the most optimistic scenario, it would take at least a few years for the Syrian economy to return to its 2010 levels. Economic sanctions imposed by the United States, the European Union and the League of Arab States caused a severe foreign

exchange constraint. Since the financial sanctions and oil embargo were imposed in 2011, the Syrian economy lost a substantial amount of export revenues and its trade facilitation capacity was hampered by difficulties in trade financing. The national currency, the Syrian pound (SP), gradually depreciated from the official exchange rate of SP 47.1 per United States dollar in January 2011 to SP 87.09 per United States dollar in March 2013, with a widening spread between the official rate and the parallel market rate. The loss of value of the national currency and the destruction of domestic transport networks caused hyperinflation. The year-on-year consumer inflation rate surged from 5.8 per cent in November 2011 to 49.7 per cent in November 2012.

22. Despite the magnitude of the violence and destruction, the Syrian economy exhibited its resilience as it avoided coming to a complete halt. Financial institutions are still in operation, and international trade with neighbouring countries continued, albeit with a reduced amount. For example, according to Lebanese customs data, Syrian exports to Lebanon in January 2013 stood at $16.0 million, or 56 per cent of the pre-crisis monthly average in 2010. The neighbouring countries felt the impact of the crisis not only in the reduced amount of trade through Syria but also in the spillover of geopolitical tensions. The crisis adversely affected risk perception in the Mashreq subregion. The inflow of capital and tourists, which had been the main driver of recent economic expansion in Jordan and Lebanon, was stagnant. Moreover, the rapidly increasing number of Syrian refugees to Jordan and Lebanon has put an additional fiscal burden on both countries. At the end of March 2013, the Office of the United Nations High Commissioner for Refugees (UNHCR) estimated the number of Syrian refugees at 1.23 million, of which 396,000 refugees stayed in Lebanon and 394,000 stayed in Jordan.[2] As at 15 March 2013, only 31 per cent of the required level for the UNHCR regional response plan was funded.[3]

## IV. Policy developments

23. The economic environment that policymakers faced in 2012 grew remarkably different between major energy exporters, namely GCC countries, and other subregions in the Arab region. At the risk of domestic demand stagnation and continuing deflationary pressures, the Governments in GCC countries could adopt a mix of expansionary fiscal and monetary policies. This expansionary policy path was sufficiently sustainable for the ample fiscal space due to the growing energy export revenues and the continuing monetary easing of the United States. GCC countries' monetary policy mirrors that of the United States through the currency peg. By contrast, the Governments of other subregions were under pressure to implement further fiscal consolidation through austerity measures. Monetary policy has also tightened in energy-importing countries in the Mashreq and the Maghreb. To combat the rising inflationary pressure from worsening foreign exchange constraints, central banks in Egypt, Jordan and Tunisia tightened their monetary stances early in 2013. A clear policy dilemma arose in energy-importing countries in

[2] UNHCR, data available from the Syria regional refugee response inter-agency information-sharing portal (http://data.unhcr.org/syrianrefugees/regional.php). The number pertains to "persons of concern", which is the total number of refugees, both registered and awaiting registration.

[3] UNHCR, "Revised Syria regional response plan: funding status as of 15 March 2013". Available from http://data.unhcr.org/syrianrefugees/regional.php.

the Mashreq and the Maghreb as a much-needed pro-growth mix of fiscal and monetary policy became unaffordable.

24. Despite the limited latitude of monetary policy in GCC countries with regard to their currencies' link to the United States dollar, the relatively stable general price level allowed central banks in GCC countries to maintain an easing stance comfortably in parallel with the policy stance of the United States monetary authority. The funding cost in terms of the three-month interbank money market has converged around 1.0 per cent among GCC countries, 70 basis points higher than the three-month United States dollar London Interbank Offered Rate. The policy shift towards monetary easing was seen in Yemen, where the Central Bank of Yemen lowered policy interest rates in October 2012 and February 2013 to 15 per cent. A neutral monetary stance was maintained in Algeria, Lebanon and Morocco. Monetary policy was tightened in Egypt, Jordan, the Sudan and Tunisia in order to cope with inflationary pressures from binding foreign exchange constraints. In March 2013, the Central Bank of Egypt raised policy interest rates for the first time since November 2011, which resulted in an overnight deposit rate of 9.75 per cent. The Central Bank of Jordan raised its policy rates in February, June and December 2012, as a result of which the overnight deposit rate reached 4.0 per cent. The Central Bank of Tunisia raised its policy interest rate in August 2012 and March 2013 to 4.0 per cent.

25. For the fiscal year covering 2012 and 2013, the fiscal stance of GCC countries remained expansionary. The emphasis on infrastructure investment, health and education and social provision continued. The main challenge for GCC countries in the fiscal policy area was not the size but the scope. It became increasingly important to implement budgeted projects effectively in order to attain such long-term policy goals as improvement in productivity. The boom in fiscal revenue could easily result in an increase in an income transfer type of fiscal outlay rather than public investment for physical or human capital formation. With the chronic high unemployment of their nationals, GCC countries are keen on strategizing fiscal policy with a comprehensive development plan in both the economic and social spheres. By contrast, the energy-importing countries in the Mashreq and the Maghreb and among the Arab least developed countries struggled to form and implement fiscal austerity measures in the fiscal year covering 2012 and 2013. With the need for fiscal consolidation, food and energy subsidy reform has become the main policy focus of the Governments. Attaining consensus on the reform while assuring a basic living standard for the low-income populations will be a challenging priority in forming fiscal policy measures for the forthcoming fiscal years.

26. The employment situation worsened in the Arab region in 2012. In addition to the existing chronically high unemployment among their nationals, the prolonged economic slump in North America and Europe discouraged immigration on the part of the region's job seekers. A sizeable number of return migration cases from Europe were observed in the Maghreb. The employment situation in GCC countries remained unbalanced, as foreign workers constitute the majority of the workforce in the private sector. In spite of their consistently expanding domestic economy, GCC countries' labour markets remained a combination of high unemployment for the nationals and low unemployment for the foreign workers. A policy to increase the share of nationals in the private sector workforce has been in place for more than a decade in GCC countries. In 2012, more stringent application of this policy became

a trend in GCC countries. A case in point is Saudi Arabia, where, since November 2012, firms that do not employ a legally set proportion of Saudi nationals in the workforce are fined. Saudi Arabia also campaigned for the promotion of female employment. More occupational classes in the private sector were opened for female job seekers, and several government ministries initiated the employment of female workers. Moreover, 30 prominent female figures were appointed to the Shura (Consultative) Council for the first time in the country's history. The gradual shift of labour policy in Saudi Arabia is expected to have an impact not only in GCC countries but also in other subregions.

# V. Concluding remarks

27. On average, the GDP growth rate of the Arab region is likely to taper off in 2013 owing to the decline in energy export revenues, which marked a historical high in 2012. However, it should be noted that it is increasingly difficult to provide a simple projection on economic and social developments in the region for 2013. Economic and social developments in the region are anticipated to become further polarized, and several signs of further segmentation have already been observed. Moreover, it has been observed that the region is exposed to the downside risk of dependence on energy exports. In spite of the active policy efforts towards economic diversification, major energy-exporting countries are still far from the diversification targets. As the region's non-energy sector in the Mashreq and the Maghreb has weakened, the Arab region's economy has become more vulnerable to an abrupt energy price plunge, although it is projected that an oil price plunge to the extent of 2008 levels is unlikely. A strong recovery in terms of confidence in intraregional business transactions is not foreseen, considering the unstable political situation in the Mashreq. However, it is the structural weakness of the economies in the Arab region, represented by high unemployment rates and income inequalities, that has been argued as the chronic undercurrent of motivation for social unrest and political instability. Thus, social unrest and political instability are not necessarily the cause of economic underperformance but can be the result of it. In order to keep the Arab region from falling into this vicious circle, effective regional leverage for economic activities through further regional cooperation frameworks and regional integration efforts needs to be augmented.