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Summary of the survey of economic and social developments in the Arab region, 2013-2014**

Summary

The average growth rate of gross domestic product (GDP) of the Arab region in real terms is estimated to be 3.0 per cent in 2013, compared with 7.7 per cent in 2012. That fluctuation, however, which has been observed over the years 2011 and 2013, is due to the unstable Libyan economic performance; the average regional GDP growth rate without the influence of the Libyan economy stood at 4.1 per cent in 2012 and 3.2 per cent in 2013. Overall, the Arab economies are decelerating as energy prices, and associated energy export revenues, continued to come down at a modest rate from the recent peak in 2012. The subregion of Gulf Cooperation Council (GCC) countries remains the growth centre of the region. The polarized state of the economy between those countries and the rest of the countries in the Arab region continued. Political instability, social unrest, armed conflicts and the general sentiment of uncertainty continued to dominate in hampering economic activities. Only a few signs of improvement have been observed. While the uncertainty over global economic recovery was partially lifted as the recovery of the developed countries gained ground, non-oil exports saw a moderate recovery. The region's stock market capitalization marked a positive growth. Moreover, Egypt, Jordan, the Sudan, Tunisia and Yemen could halt the depletion of foreign reserves and were

* E/2014/1/Rev.1, annex II.

** After Libya, Morocco and Tunisia became States members of the Commission in July 2012, it was decided that the territorial coverage of the survey of economic and social developments in the Economic and Social Commission for Western Asia 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 countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates); Mashreq (Egypt, Iraq, Jordan, Lebanon, Syrian Arab Republic, and State of Palestine); Maghreb (Algeria, Libya, Morocco and Tunisia); and Arab least developed countries (Comoros, Djibouti, Mauritania, Somalia, Sudan and Yemen).

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prevented from falling into a balance-of-payments crisis. Nevertheless, a significant level of financing gap persists in those Arab countries in the process of sociopolitical transition. The market mechanism that produced a significant economic linkage to enable those countries to benefit from positive spillover from GCC countries in the past decade has not recovered. Alternatively, the inflow of external bilateral and multilateral financial supports became ever more crucial in 2013 for the Arab Mashreq and Arab Maghreb countries and the Arab least developed countries to alleviate the foreign exchange constraint and inflationary pressures and to establish a renewed policy platform for sustainable economic and social development. High unemployment continued to be the pressing issue in the Arab region, including in the GCC countries, which need to create job opportunities for their nationals. Employment creation was still the most important policy agenda in the region. In 2014, strong non-oil sector growth in GCC countries is projected. However, energy export revenues of major energy-exporting countries are projected to decline further by a modest level. Further stagnation of net-energy importing countries is projected because there has been no significant improvement in non-economic risk factors. On average, the Arab economies are forecasted to grow by 3.5 per cent in 2014.

I. Global context

1. Defying pessimistic overviews at the start of the year that warned of a possible double-dip recession, the world economy showed that it was on a stable recovery path during 2013. A robust economic recovery was observed in the developed countries. The United States of America continued to see a resilient economic expansion in spite of the decrease in the federal government's spending.[1] The active financial sector, which was recovering from the global financial crisis of 2008, led the growth of the private sector and cushioned the impact of ongoing fiscal tightening. The recovery of the European economy was gaining ground. In the assessment by the European Commission, macroeconomic imbalances, which are deemed to be the major cause of economic risks among the States members of the European Union, were gradually receding.[2] The risk premium of government debts of southern European countries shrank from a crisis level of the previous year as the risk of a systemic financial crisis abated after the financial insolvency crisis in Cyprus was resolved without international repercussions. Japan's renewed quantitative easing monetary policy buoyed its domestic demand, which supported the recovery of economic sentiment that had been significantly weakened by the Tohoku Earthquake in 2011. The improved price competitiveness through a significant devaluation of the Japanese yen led a recovery in corporate earnings. The improvement of economic sentiment in the developed countries contributed more to the expansion of the world economy in 2013, and that trend is projected to continue in 2014.

2. The economic expansion of the developing economies decelerated in 2013. Hovering international commodity prices contributed to the continuing growth of commodity exporting countries, but the magnitude of economic expansion was narrower owing to the stabilized price level of various commodities. Major developing economies, including Brazil, China, India, the Russian Federation, and South Africa, continued to grow, but a few signs of vulnerability to sustain a higher growth level emerged in 2013. Mounting inflationary pressures forced Brazil and India to adopt a tighter monetary policy. China's wage level continued to increase where the price advantage of its exports through labour cost started waning. The announcement in May 2013 of the monetary authority in the United States, the Federal Reserve, of its plan to taper its unconventional monetary policy regime created a shock to the developing countries' external positions. The national currencies of major developing countries have been depreciating since May 2013. Even the value of China's national currency, the renminbi yuan, was marginally weakened in the first quarter of 2014. The devaluation of national currency was one of the major causes of inflationary pressure through import price hikes, which may lead more developing countries to take a tighter policy measure to control demand. The situation is worrying and projected to continue well into 2014. Taking a

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[1] United States Department of Commerce, Bureau of Economic Analysis, "National Income and Product Accounts Gross Domestic Product, 4th quarter and annual 2013 (third estimate); Corporate Profits, 4th quarter and annual 2013", 27 March 2014. Available from http://www.bea.gov/newsreleases/national/gdp/2014/gdp4q13_3rd.htm.

[2] European Commission, "Results of in-depth reviews under Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances", 5 March 2014, Communication from the Commission to the European Parliament, the Council and the Eurogroup (COM(2014) 150 final). Available from http://ec.europa.eu/economy_finance/economic_governance/documents/2014-03-05_in-depth_reviews_communication_en.pdf.

pro-growth policy mix is essential for developing countries to fulfil developmental aspirations, but it would possibly be less affordable for some developing countries because of the weakening external positions with currency devaluations.

3. The present growth path of the world economy is fundamentally fragile owing to its weak employment creation in its recovery phase. Unemployment rates of the United States and the States members of the European Union stayed above the pre-crisis level of 2008. Globally, it was observed that the global jobs gap created by the global financial crisis of 2008 has not narrowed, but has slightly widened, with the present world economic recovery.[3] The weak employment prospects for both developed and developing economies are expected to have more of an impact on the developing economies, given that the stagnating job creation in the developed economies discourages emigration for job-seeking purposes. Both developed and developing economies have become cautious in taking expansionary fiscal measures after implementing a series of stimulus packages on the global financial crisis. That fiscal stance is to limit the latitude of global employment recovery. In sum, the main challenges that the world economy is facing consist of: (a) the extent to which possible negative impacts of the change in the policy stance of the monetary authority in the United States affect international capital markets, the developing countries' external positions and the value of their national currencies; (b) the extent to which the fiscal policy stance can be expansionary both in the developed and developing countries; and (c) innovative employment creation to prevent an even wider global jobs gap.

4. In the above-mentioned global context, the Arab region saw slower economic growth in 2013 compared with 2012. That was mainly due to the moderate oil revenues growth of major oil-exporting countries, represented by the member countries of the Gulf Cooperation Council (GCC). While those countries were on a stable recovery path, the polarization of economic performance among Arab countries continued between GCC countries and others. Moderate recovery has been witnessed only partially in a few Mashreq and Maghreb countries and the Arab least developed countries. Most countries in those subregional groups suffered from the stagnating economic activities owing to the continuing political instability and social unrest. The crisis in the Syrian Arab Republic continued to have negative spillover effects for neighbouring countries, particularly in regard to reduced cross-border economic activities, including trade, investment and tourism. The insufficient speed of economic recovery in Europe affected non-oil exports of the Mashreq and the Maghreb subregions. High unemployment continued to be the pressing issue in the Arab region, including GCC countries, which need to create job opportunities for their nationals. Employment creation continued to be the most important policy agenda throughout the region.

[3] International Labour Organization, *Global Employment Trends 2014* (2014), p. 17.

II. Development in the natural resources sector

A. Oil sector

5. Hydrocarbon products, particularly crude oil, remained the most influential commodity for the region, as it remains the key economic linkage between the Arab region and the global economy. The total world demand for oil in 2013 was estimated at 90 million barrels per day, on average an increase of 1.18 per cent over the previous year, while the total supply of crude oil was 91.6 million barrels per day on average, according to the Organization of the Petroleum Exporting Countries (OPEC).[4] The United States witnessed increased demand for crude oil in the last quarter of 2013 associated with its economic recovery. China's crude oil demand continued to rise in 2013, while Gulf countries and Latin America, led by Brazil, also recorded a substantial increase in crude oil demand. Reduced crude oil consumption in Europe and Japan offset increased oil demand in other regions.

6. The total crude oil production of member countries of OPEC was reduced, particularly in the fourth quarter of 2013, with a significant decline in Libyan crude oil production. While many non-OPEC countries experienced stagnant or slightly decreased crude oil production, the United States and Canada recorded a remarkable increase in crude oil production, enough to cover the global increase in demand. Regional production of crude oil was quite stable during 2013, except for Libya and Saudi Arabia. Libyan crude oil production plummeted in the second half of 2013; Saudi Arabian crude oil production declined in the first quarter to around 9.1 million barrels per day, and then recovered to a level between 9.7 and 10.0 million barrels per day from the third quarter. The total crude oil production of the GCC subregion averaged 17.3 million barrels per day in 2013, a 1.3 per cent increase over the previous year. Iraq maintained its daily crude oil production of close to 3 million barrels.[5]

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

8. Crude oil prices are projected to edge downward in 2014, following the trend of 2013. Crude oil prices are expected to stay stable, as the projected demand increase for crude oil is to be well accommodated by the increasing crude oil production capacity. According to OPEC, the demand is expected to stand at 91.14 million barrels per day in 2014, a 1.27 per cent increase from the previous year, which is expected to be covered by the sufficiently available crude oil production

[4] OPEC, "OPEC Monthly Oil Market Report" (March 2014).
[5] Joint Organisations Data Initiative (JODI).

capacity. OPEC is expected to continue the present production target of 30 million barrels per day and is not likely to reinstall a country-specific production quota in 2014.

9. Moreover, the trend of narrowing refining margins owing to the relatively weak demand for fuel products is likely to have an impact on crude oil prices. The spread between crude oil and gasoline was rapidly narrowed in the third quarter of 2013 until it recovered in the first quarter of 2014. If these factors are taken into consideration, the OPEC reference basket price is forecasted to average $102.3 per barrel in 2014 in the forecasted range of $94.1 to $110.4.

Table 1
Crude oil price estimation and forecast, 2011-2014
(OPEC reference basket, United States dollars per barrel)

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

Source: OPEC for 2011-2013. Figures for 2014 are forecasts as at March 2013.

10. Several risk factors are expected to continue, which may hamper the projected balanced supply-demand balance. Tapering of the United States monetary stance and the economic performance of China may influence the global economic atmosphere, and thus crude oil demand as well as speculations on crude oil prices. Geopolitical risks persist in the Arab region. Lingering conflicts in Libya effectively limited Libyan crude oil production and export. Energy issues are often named as intermediaries of those disputes. The Syrian crisis may have an impact on Iraqi crude oil production, and the growth of the Iranian crude oil export level is still uncertain. Moreover, the influence of geopolitical turbulences such as the unstable political condition in Venezuela (Bolivarian Republic of), as well as the ongoing conflicts between Ukraine and the Russian Federation, cannot be ruled out.

B. Phosphate sector

11. In the light of increasing policy priority in food security, the indispensability of phosphate has been recognized for productive agriculture. As the Arab region has the largest phosphate reserves in the world, policymakers in the region have increasingly been aware of phosphate as a strategic natural resource to form another crucial economic linkage to the global economy. According to estimates from the International Fertilizer Industry Association, global fertilizer consumption was 176 million tons in 2013. Phosphorus pentoxide (P_2Q_5) consumption was 40.4 million tons, slightly decreased from the previous year, while it is expected to increase by 1.8 per cent in 2014.[6] Fertilizer consumption increased in almost all

[6] International Fertilizer Industry Association, "Short-Term Fertilizer Outlook 2013-2014" (A/13/159).

regions for 2013, but South-East Asia witnessed a substantial decrease in fertilizer consumption, particularly in India, the largest importer of phosphate rock, and that resulted in the slight decrease in the global fertilizer consumption.

12. During the past year, the global supply of phosphate was sufficient to support the demand. The OCP Group, a State-owned company of Morocco, was the largest exporter of phosphate in 2012 and produced 6.8 million tons of phosphorus pentoxide equivalent, which was approximately 17 per cent of global consumption.[7] China, followed by the United States and Morocco, is the world's largest producer of phosphate, but its exports were somewhat limited with an export tax that has been imposed since 2008; production from the United States and China was mostly consumed domestically, leaving the Arab region as the largest exporter of phosphate rock. Regional production capacity is likely to increase in the next few years with considerable investment in the industry. Saudi Arabia is investing heavily in building an industrial complex dedicated to the production and processing of phosphate through the Waad Al-Shamal project near the Jordanian border, with total investments of more than US$ 9 billion. The OCP Group is also expanding its production capacity with a US$ 271 million loan agreed with a German bank in the last quarter of 2013.

13. The price of phosphate rock fell substantially during 2013. After the historical price hike and collapse in 2008 and 2009, the price of phosphate rock had been relatively stable from mid-2011 to the end 2012 at around US$ 180 to 200 per ton.[8] During 2013 however, the price plummeted to around US$ 100 per ton. The demand for phosphate is expected to increase slightly during the current year, while that would be sufficiently supported by increasing the production capacity of major phosphate-exporting countries. Thus, a supply shortage is not expected and the price of phosphate rock is not likely to jump significantly, although a certain level of price recovery during 2014 is possible with recovery of demand from China and India.

III. Regional economic trends

A. Overview

14. It is estimated that the real GDP growth on average in the Arab region was 3.0 per cent in 2013, compared to 7.7 per cent in 2012 (see table 2). The fluctuation that has been observed over 2011 and 2013 is a result of the instable Libyan economic performance. The average GDP growth rate without Libya stood at 4.1 per cent in 2012 and 3.2 per cent in 2013. The subregion of GCC countries remains the growth centre of the region. The polarized state of the economy between GCC countries and the other countries in the Arab region continued. Political instability, social unrest, armed conflicts and a general sentiment of social uncertainty continued to hamper economic activities, while a few signs of improvement have been observed. As the uncertainty over global economic recovery was partially lifted, non-oil exports saw a moderate growth. The region's stock market capitalization marked a positive growth. Moreover, Egypt, Jordan, the Sudan, Tunisia and Yemen were able to halt the depletion of foreign reserves and were

[7] OCP Group website.

[8] World Bank, "Global Economic Monitor (GEM) Commodities".

prevented from falling into a balance-of-payments crisis. Intraregional cooperation on a bilateral basis played a major role in that stabilization, which replaced the spillover resource flows from the subregion of GCC countries through financial markets and intraregional foreign direct investment.

B. Gulf Cooperation Council countries

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

16. The GDP growth rate is projected to stay at the same level in the subregion of GCC countries in 2014. The declining oil export revenues are to be counterbalanced by the growth of the non-oil sector, which would result in a stable growth of domestic demand. Other factors to consider are the fiscal stance, the proportion of non-oil sector activities, and the financial sector's robustness associated with monetary expansion. The average real GDP growth rate of this subregion is projected at 4.4 per cent for 2014. Among GCC countries, Qatar and the United Arab Emirates are projected to have a growth rate above the subregional average for their rapid non-oil sector expansion relative to the respective energy sector. Saudi Arabia is also projected to have a consistent domestic demand expansion with a continuing active fiscal policy. However, the shortage of construction workers, which was caused by the deportation of illegal foreign workers, is projected to affect the implementation of planned construction projects. Modest but consistent growth is projected for Bahrain, Kuwait and Oman in line with the level of domestic demand expansion of those countries. In 2014, the forecasted growth rate is 4.0 per cent for Bahrain, 3.8 per cent for Kuwait, 3.8 per cent for Oman, 5.5 per cent for Qatar, 4.0 per cent for Saudi Arabia and 5.2 per cent for the United Arab Emirates.

C. Arab Mashreq

17. The economies in the subregion of the Arab Mashreq are, on average, estimated to have contracted by 0.6 per cent in 2013, after registering 0.1 per cent growth in 2012. The Syrian crisis and its repercussions for its neighbouring countries continued to affect the state of the subregion's economy. That subregion has been most affected by political instability and social unrest, which hampered forward-looking economic activities such as physical investments. A partial recovery in non-oil exports and lower energy prices helped to stabilize the current account deficits. A few signs of improved economic sentiment were observed. A

case in point is that Egypt's stock market index recovered in the first quarter of 2014 to surpass the level at the start of the sociopolitical transition of January 2011. Reduced tourism and foreign direct investment inflows, however, obliged those countries to rely on bilateral financial supports to finance the current account deficits. Because of lessened foreign exchange constraints with the increased level of foreign reserves, Egypt and Jordan were able to change the monetary stance from tightening to easing. As a tight fiscal stance has been in place in both countries, a monetary measure was the only policy option to sustain the level of domestic demand. Both Jordan and Lebanon are estimated to mark positive growth in 2013, but the magnitude is significantly insufficient to improve the standard of living of the resident population in the respective countries owing to the influx of refugees and evacuees from the Syrian Arab Republic. The fiscal shortfall to support the refugees was having an impact on Jordan and Lebanon, which resulted in the deterioration of the standard of living of refugees and in stagnated domestic economic activities that might have been able to support the suddenly increased number of residents by an extraordinary margin. The GDP growth of Iraq continued to be led by crude oil production, oil sector-related activities in the south of the country, and a consistent economic expansion in the region of the Kurdish Regional Government. The regional gap in Iraq has been widened as the activities of the central region stalled owing to the intensified security instabilities. The destruction of the Syrian economy continued to hamper economic activities severely. The rising cost of domestic transports paralysed the economy even in the areas that did not directly suffer from the violence. The real GDP growth of the State of Palestine decelerated. Reduced construction activities, which had been the core of domestic demand expansion for the reconstruction of the Gaza Strip, stalled. Continuing hostilities, physical blockades and security instabilities continued to hamper the Palestinian economy.

18. For 2014, the subregion of the Arab Mashreq is projected to stay stagnated with a growth rate of 2.9 per cent. That forecast does not include, the forecasted value of the Syrian Arab Republic because of insufficiently available data for forecasting. The perceived uncertainty and political and geopolitical risks overwhelmed a few positive factors for economic growth by continuing to hamper investments. The weak domestic demand growth and non-energy export growth is projected in all countries in this subregion. However, those countries are projected to be spared a balance-of-payments crisis owing to the availability of intraregional supports for those countries with current account deficits. As a tight fiscal stance continues, the countries continue to rely on monetary policy as a pro-growth measure. The forecasted growth rate is 2.4 per cent for Egypt, 6.8 per cent for Iraq, 3.0 per cent for Jordan, 2.5 per cent for Lebanon and 2.6 per cent for the State of Palestine.

Table 2
Real GDP growth rate and consumer price inflation rate, 2010-2014
(Annual percentage change)

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

Source: National sources.
[a] With the exception of Algeria, the Comoros, Djibouti, Mauritania, and the Syrian Arab Republic, GDP figures for 2010-2012 are from the Economic and Social Commission for Western Asia (2013) *National Accounts Studies of the Arab Region* (Bulletin No. 33, E/ESCWA/SD/2013/11), which were based on national sources.
[b] March 2014 estimates.
[c] March 2014 forecasts, which do not include the GDP growth projection of the Syrian Arab Republic for lack of sufficient data.
[d] Figures for the GDP growth rate of Egypt are for the country's fiscal year, which ends in June.
[e] Estimated figures for the GDP growth rate of the Syrian Arab Republic are from 2011 to 2013.
[f] Figures for country groups are weighted averages, where weights for each year are based on GDP at 2005 constant prices.

D. Arab Maghreb

19. The Arab Maghreb subregion is estimated to have grown by 2.2 per cent in 2013, after registering a rate of 21.2 per cent in 2012. The average growth of the subregion is influenced by Libya, whose economy experienced another contraction after the recovery in 2012. Libya's oil and gas production and exports collapsed again in the second half of 2013 as political opposition parties occupied the facilities. Several efforts led to temporary resumptions of crude oil production and exports, but the level stood at just above half of the pre-2011 level at best. The recovery in the agricultural sector buoyed the Moroccan economy in 2013. With the relative political stability, Morocco saw constant industrial development. The availability of foreign funds, both for the public and the private sector, supported the expansion of domestic demand. The stable energy export revenues aligned Algeria's economy with the medium-term trend. However, it stayed below its potential because of the lack of economic diversification into the non-energy sector. Tunisia became the first country to have completed its political transition process, but before the completion of the political process, the country's economic activities decelerated in the fourth quarter of 2013. Despite the availability of foreign funds, the low level of foreign direct investment and tourism owing to political uncertainty placed the Tunisian economy under further foreign exchange constraints in 2013.

20. For 2014, the Arab Maghreb subregion is projected to continue to grow by 1.9 per cent. The contraction of the Libyan economy is projected to continue, as its oil-exporting capacity is to be reduced because of political instability. Despite the intensifying destabilized political situation in Libya, the rest of the countries in the Arab Maghreb subregion are expected to stay in a calmer non-economic environment. Political stability in the Arab Maghreb, with the exception of Libya, allows the countries in the subregion to be in a relevant position to attract foreign direct investments, bilateral and multilateral international aid and intraregional cooperation within the Arab region. An increased number of pledges was made among GCC countries to support Morocco and Tunisia. Nevertheless, weak industrial development and hovering unemployment remain structural risk factors in the subregion. In 2014, the forecasted growth rate is 3.6 per cent for Algeria, 3.6 per cent for Morocco and 3.0 per cent for Tunisia. The Libyan economy is projected to be contracted by 5.0 per cent.

E. Arab least developed countries

21. The economies of Arab least developed countries are, on average, estimated to have grown by 3.4 per cent in 2013, following the previous year's growth of 1.6 per cent. The Sudan's struggle in adjusting to stabilization of its domestic economy after the separation of South Sudan continued in 2013. The Sudan remained under severe foreign exchange constraint, but the recovery of both oil and non-oil exports supported the Sudanese economy with a modest acceleration. The agreement with South Sudan, regarding the terms of oil production and transportation, which was reached in 2013, improved the external economic environment despite the deteriorating political situation in South Sudan. In Yemen, despite the fragile security situation, which resulted in frequent attacks on oil pipelines, the recovery in oil export revenues buoyed its economy in terms of GDP growth. Financial supports for Yemen's transition were actively pledged at both the regional and international

levels. The modest growth of domestic demand, however, could only be reached with a rapidly growing level of public debt. Other Arab least developed countries, the Comoros, Djibouti and Mauritania had higher GDP growth in 2013. The political stabilization in Somalia brought more economic activities with a functioning public sector. Anecdotal evidence suggests that the Somali economy was experiencing a rapid expansion with reconstruction activities, though no official data are available to show the exact magnitude.

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

F. Price and inflation

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

24. The forecasted consumer price inflation rate of the Arab region averages 6.1 per cent in 2014. The impact of international commodity prices is expected to be limited, though a moderate increase in food prices is projected. GCC countries will be under more inflationary pressure from housing-related items. The exceptionally high inflation rates in the Sudan and the Syrian Arab Republic in 2013 are expected to taper off in 2014. However, the seriously binding foreign exchange constraint is anticipated to remain for non-economic reasons, the level of inflation is not projected to decline rapidly in both countries in 2014. Egypt and Yemen are

projected to experience a higher rate of inflation owing to the rapid monetary expansion under a severely binding structural supply constraint. The planned fiscal reforms, if implemented, will influence the price level, particularly in Egypt and Tunisia.

G. Exchange rates

25. The exchange rates of the Arab region showed more stability in 2013, compared to the previous year, with the exception of Egypt, the Sudan, the Syrian Arab Republic and Tunisia. GCC countries, with the exception of Kuwait, have kept the foreign exchange rate regime of the United States dollar peg. 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. Central banks of Algeria, the Comoros, Iraq, Libya, Mauritania, Morocco, Tunisia and Yemen maintained the managed float regime of the foreign exchange rate. The rapid depreciation of the Egyptian pound was halted in June as the value of the currency was stabilized at around EGP 7.0 per United States dollar. The Tunisian dinar gradually depreciated throughout 2013, from TND 1.55 per United States dollar to TND 1.67 per United States dollar. The weakening trend was reversed, however, after the completion of the political transition in the first quarter of 2014, during which the rate recovered to the level of TND 1.58 per United States dollar. For the Sudan and the Syrian Arab Republic, the value of their national currencies continued to slide against the United States dollar until it was stabilized in the fourth quarter of 2013. The official rate of the Sudanese pound was changed to SDG 5.7 per United States dollar from SDG 4.42 per United States dollar in September and the value was further cut to SDG 5.71 per United States dollar in November 2013. The value of the Syrian pound rapidly weakened from SYP 95 per United States dollar in January to SYP 280 per United States dollar in August 2013 in the parallel market. The value of the Syrian national currency recovered, however, and has been stabilized at around SYP 155 per United States dollar in the parallel market from November 2013 to the first quarter of 2014. The fragile balance-of-payments situation is expected to continue in Egypt, the Sudan, the Syrian Arab Republic and Yemen in 2014. The weak external position is expected to remain in other Arab Mashreq and Arab Maghreb countries and in the Arab least developed countries.

IV. Policy developments

26. The region's policymakers needed to balance various policy priorities in 2013. For major energy exporters of GCC countries, the contents of growing fiscal outlays — which continued to emphasize capital spending, education and health sector development — contained the items to be balanced. A growth-supporting monetary policy regime with a historically low interest rate level continued throughout 2013, mirroring the monetary stance of the United States. The Governments of other subregions remained under tighter fiscal and foreign exchange constraints where an expansionary economic policy mix was difficult to be implemented without external financial supports. The fiscal austerity stance has continued in Morocco, Tunisia, the Sudan and Yemen. The improving foreign exchange constraints allowed Egypt and Jordan to take a limited expansionary

policy stance. Lebanon relied on monetary measures intended to stimulate domestic demand.

27. As to monetary policy, GCC countries did not change their easing stance in parallel to United States monetary policy. A series of implicit and explicit announcements of the United States Federal Reserve on the planned normalization of monetary policy during 2013 did not affect the cost of funding in GCC countries significantly. The funding cost in terms of the three-month interbank money market rate in GCC countries remained around 1.0 per cent at a level about 75 basis points higher than the equivalent maturity of the United States dollar London Interbank Offered Rate (LIBOR). The three-month Emirates Interbank Offered Rate (EIBOR) of the United Arab Emirates edged down to 0.77857 per cent at the end of the first quarter of 2014, while the three-month Kuwait Interbank Offered Rate (KIBOR) of Kuwait edged up to 1.1875 per cent. Monetary authorities in GCC countries focus on routine liquidity management as well as on the guidance of commercial banks in their lending portfolios. Monetary policy was further tightened in Tunisia to fight inflationary pressure. The Central Bank of Tunisia raised its main policy interest rate in March and December 2013 to 4.5 per cent. Meanwhile, the improved level of foreign reserves allowed the Central Bank of Egypt and the Central Bank of Jordan to cut their respective policy interest rates. After raising policy interest rates in March 2013, the Egyptian monetary authority cut those rates three times in August, September and December. The Egyptian overnight lending rate came down from 10.75 per cent to 9.25 per cent. The Central Bank of Jordan lowered its policy rates in August and October 2013 and January 2014, by which the rediscount rate came down to 4.25 per cent from the peak of 5.0 per cent. The proportion of foreign assets in the central banks' balance sheet remained low in Egypt, the Sudan and Yemen, which indicated intensifying difficulties that those countries were facing to manage price levels and domestic demands.

28. For the fiscal year 2013/2014, the fiscal stance of GCC countries remained expansionary at various levels. The priority given to infrastructure investments, health, education and social affairs continued to have been emphasized. However, as the stagnation of revenue growth is anticipated in line with the declining oil export revenues, some GCC countries started to take a more conservative fiscal stance in planning to maintain prudence. A contrasting fiscal policy environment remained for the energy-importing countries of the Mashreq and the Maghreb and the Arab least developed countries where the rising government debt level has already resulted in higher interest payments in budget expenditures. A fiscal austerity stance was principally kept in place in the energy-importing countries of those subregions. The main policy item of austerity measures was subsidy reforms. Morocco and the Sudan cut fuel subsidies in 2013. Egypt, Jordan and Tunisia were also in the process of subsidy reforms for the coming fiscal years. Nevertheless, Egypt and Jordan could take additional fiscal measures in 2013 through funding from GCC countries. Jordan increased capital spending in 2013 and Egypt launched two fiscal stimulus packages during its 2013/2014 fiscal year, which also emphasized capital spending. External financial supports became even more crucial for energy-importing countries in the region to fill external and fiscal financing gaps to keep the respective economies afloat.

29. Employment creation continued to be the most important policy agenda in the region. The unemployment rate remained high in the region. For the countries where data are available for the fourth quarter of 2013, Egypt stands at 13.4 per cent,

Jordan at 11.0 per cent, Morocco at 9.5 per cent, Saudi Arabia at 11.5 per cent among Saudi nationals and Tunisia at 15.3 per cent. The labour nationalization policy of GCC countries has long been in operation to create employment opportunities for respective nationals in the private sector. However, the dependency on foreign workers in the private sector had deepened in most GCC countries. The idea of more stringent operation of a labour nationalization policy had been discussed but rarely implemented in the past. In 2013, however, Saudi Arabia shifted to a stricter policy regime in order to promote employment of Saudi nationals. The Government of Saudi Arabia granted an amnesty period for foreign expatriates to rectify their sponsorship status or voluntarily leave the country. During the period until November 2013, a significant number of foreign workers left Saudi Arabia voluntarily. The economic impacts of the new labour policy of Saudi Arabia have yet to be assessed, but this policy change shed light on female employment. In parallel with the exit of illegally-staying foreign workers, Saudi female employment was rigorously promoted. In effect, the foreign workforce was partially replaced by female Saudi workers in the areas of administration, education and retail. The Government's role in employment creation, skill-matching and information-sharing to tackle the unemployment issue remains crucial in the Arab region.

V. Concluding remarks

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

31. Financing gap issues had been masked under the surface for many years in the Arab region. Even at the time of the global financial crisis of 2008, Arab economies showed their resilience. The Governments and monetary authorities in the Arab region could successfully manage their policies to weather the significant international liquidity squeeze at that time. Financing gap questions have only recently surfaced. Egypt, Jordan, the Syrian Arab Republic, Tunisia and Yemen suddenly experienced the depletion of foreign reserves as well as mounting fiscal deficits since 2011. The existence of financing gaps was increasingly recognized, as only large financial supports from GCC countries could stabilize the macroeconomic situation of Egypt, Jordan, Tunisia and Yemen by filling growing financing gaps. The market mechanism of channelling spillover flows from GCC countries to other subregions has stalled for those countries in the process of sociopolitical transition. The failing market mechanism and the emergence of a

financing gap could be attributed to economic risks associated with political instability and social unrest, which are often part of sociopolitical transition processes. However, considering economic, social and political events that led to the Arab transition, the past financing strategy for development may be one of the factors that gave rise to the sociopolitical transition. Designing a new financing strategy in the context of the ongoing Arab transition is crucial to resolve financing gap issues and to plan sustainable socioeconomic development of the post-transition era.