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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 2014-2015*

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith a summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region for the period 2014-2015.

* 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 the countries constituting the Arab region. The following subregional grouping is used herein, 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, State of Palestine and Syrian Arab Republic); Maghreb (Algeria, Libya, Morocco and Tunisia); and Arab least developed countries (Comoros, Djibouti, Mauritania, Somalia, Sudan and Yemen).

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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 2014-2015

Summary

The average growth rate of the gross domestic product (GDP) of the Arab region in real terms is estimated to be 1.5 per cent in 2014, barely changed from 2013. Negative growth estimates for Iraq, Libya and the Syrian Arab Republic, attributed to intensifying armed conflicts, contributed to the deceleration. In addition to conflicts and related security disruptions in the region, a significant fall in oil prices and the uncertain prospects in that regard became another predominant economic concern. From its peak in June 2014, oil prices plunged by more than 50 per cent in the second half of the year. That significant shift notwithstanding, the member countries of the Gulf Cooperation Council (GCC) continued to lead the growth of the Arab region. While lower oil prices affect nominal national income, their impact is less obvious in price-adjusted real GDP figures because the level of crude oil production has barely changed. Moreover, the continuing expansion of the non-oil sector bolstered economic growth in the GCC countries. Lower oil prices have not yet affected economic sentiment in those countries, although business confidence has begun to wane, with weakening stock and real estate markets. Lower oil prices benefited oil-importing Arab countries, easing their balance-of-payment and fiscal constraints. The gain is, however, at risk of being offset by declining capital and remittances flows from GCC countries to other Arab countries. Against a backdrop of spreading armed conflicts and violence in the region and increasing disruptions of intraregional economic activities, one of the main channels for economic stabilization efforts was intraregional flows of capital and remittances from GCC countries. Although their short-term impact has been moderate, the fall in oil prices and its negative consequence on the fiscal position of GCC countries are still likely to have an impact on this stabilization mechanism in the region in the medium term. The Arab region is forecasted to grow on average by 2.4 per cent in 2015. The economic expansion of GCC countries is projected to decelerate, while other Arab subregions, with the exception of conflict-affected countries, are projected to register moderate growth, owing to the expected rise in domestic demand in view of the lower prices of imported fuel products and food items.

I. Global context

1. The world economy witnessed shifts in several important features in 2014. There was a split between the United States of America and the rest of the developed economies on monetary policy. Reflecting the robust economic recovery of the United States, its monetary policy has been on course to be normalized, with a rise in interest rates expected by the end of 2015. While interest rates in other developed economies are expected to remain at historic lows, the difference in projected interest rates caused a significant appreciation of the dollar against other major currencies, including the euro and the yen. A rapid fall in oil prices in the second half of 2014 rebalanced income distributions between oil-exporting countries and oil-importing countries. Meanwhile, the role of developing economies as leading centres of growth continued to abate, with the deceleration of the economic expansion of major developing economies, including Brazil and China. The consequence of these shifts in the world economy is not yet certain, but concerns are mounting about possible "secular stagnation", i.e., long-term stagnation and deflation of the world economy owing to debt.

2. The robust economic expansion of the United States continued in spite of the decrease in spending by the federal Government.[1] The active private sector, which has been recovering from the global financial crisis of 2008, led the growth. The resilience of the financial sector, backed by recovering asset prices, supported the expansion of the private sector. The stagnation of the European economy continued owing to slow private investment. The European Central Bank entered into a quantitative easing phase in 2015 to stimulate credit growth in the euro area, while the European Commission strategized an investment plan to boost private investment.[2] The debt crisis in Greece has deepened, posing a systemic risk to the financial system in the entire euro area. Japan failed to achieve an export-led recovery because domestic demand growth stagnated after the increase in the sales tax in April 2014. The economic expansion of developing economies decelerated further in 2014. Declining international commodity prices have weakened the impetus for growth in commodity-exporting countries to varying extents. Low commodity prices benefited commodity-importing countries by alleviating balance-of-payment constraints, but not enough to spur high economic growth. Among the major developing economies, Brazil, the Russian Federation and South Africa suffered from declining commodity prices, while China and India saw sizeable, albeit decelerating, economic growth rates in 2014.

3. While a moderate but noticeable decline in unemployment rates has been observed in several developed economies, including Germany, Japan, the United Kingdom of Great Britain and Northern Ireland and the United States, employment creation continued to stagnate in 2014. The global employment gap created by the global financial crisis of 2008 continued to widen, reflecting deteriorating

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

[2] European Commission, "An investment plan for Europe", document COM(2014)903, 26 November 2014. Available from http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014DC0903&from=EN.

employment situations in developing economies.[3] Persistent, weak employment prospects in developed economies have resulted in growing political pressure to restrict immigration. In addition, the demand for foreign labour in resource-rich economies in the Arab region such as the States members of the Gulf Cooperation Council (GCC) is projected to decline. While several developed economies are likely to see slight improvements in their employment situation, further deterioration is expected in developing economies in 2015. Neither developed nor developing economies are likely to take substantial fiscal stimulus measures, instead adopting fiscal consolidation as the most important priority. Policy-led recoveries in employment creation are not likely in the near future, in particular in developing economies.

4. In this global context, several negative factors are noticeably influencing Arab economies in the period 2014-2015. Mounting geopolitical tensions, armed violence and mass displacement of populations in the region continue to be of concern. Declining oil prices have an impact not only on the fiscal positions of Arab oil-exporting countries, in particular GCC countries, but also on other Arab countries, by changing patterns of intraregional capital and remittance flows. The weak economic prospects of European economies continue to hamper non-oil exports from the region, especially the Maghreb countries. The anticipated rise of United States dollar interest rates is likely to have an impact on the funding costs of Arab countries. Meanwhile, a few positive factors have a bearing on the economic prospects of the region. As mentioned, low oil prices alleviate balance-of-payment and fiscal constraints of oil-importing countries. The continuing decline of other commodity prices, in particular food items, eases inflationary pressures. The consistent economic expansion of East and South Asian economies sustain the non-oil sector of the region, in particular in GCC countries. In addition, the robust economic recovery of the United States prevents regional economic sentiment from becoming overly pessimistic.

II. Developments in the natural resources sector

A. Oil sector

5. The global oil sector has entered a phase of structural change, triggered by a significant plunge in oil prices. By the second half of 2014, oil market participants had shifted their attention away from geopolitical tensions and supply disruptions to the issue of a supply glut. For the past few years, the global supply capacity of crude oil has been increasing rapidly, in particular in North America. A supply glut gradually became noticeable when demand for crude oil began to decelerate because of the stagnating world economy. Unlike the period 2008-2009, however, oil markets have not seen demand collapse. According to the Organization of the Petroleum Exporting Countries (OPEC),[4] the estimated total world demand for oil in 2014 was 91.2 million barrels per day on average, an increase of 970,000 barrels per day over the previous year. OPEC projects that that demand will continue to

[3] International Labour Office, *World Employment Social Outlook: Trends 2015* (Geneva, 2015), p. 16. Available from www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_337069.pdf.

[4] “OPEC Monthly Oil Market Report”, 16 March 2015, p. 92, tables 10.1 and 10.2. Available from www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_March_2015.pdf.

grow at the same moderate pace in 2015 (about 1.2 million barrels per day).[4] OPEC also estimates that the total supply of crude oil, which averaged 92.2 million barrels per day in 2014, increased by just under 2 million barrels per day over the previous year.[4] While OPEC crude oil production edged down by 160,000 barrels per day to 30.1 million barrels per day in 2014, non-OPEC production increased by more than 2 million barrels per day to 56.3 million barrels per day. The estimated level of excess supply in 2014 stood at 1 million barrels per day. The level of supply could have been adjusted had the most influential OPEC producers decided to do so. OPEC decided, however, to maintain the production level of 30 million barrels per day in November 2014, while at the same time no non-OPEC crude oil producers committed themselves to reducing supply either. In 2015, market conditions are likely to curb the supply of costly crude oil from non-OPEC producers while OPEC maintains its current production level. The impact of low oil prices on global crude oil supply capacity is likely to become more apparent in the medium term, given that more oil companies have curtailed capital expenditure in both upstream and downstream areas.

6. The OPEC basket price averaged $96.3 per barrel in 2014 (see table 1). In the first half of 2014, major crude oil prices continued to remain above $100 per barrel, following the trend of the previous years. Oil prices reached their peak for the year in June, then fell over the subsequent seven months. The OPEC basket price reached $41.5 per barrel on 13 January 2015, a decline of 62 per cent from the peak in 2014. In addition to a supply glut, an increasing risk of rising funding costs resulting from the anticipated normalization of United States monetary policy has discouraged speculative buying in oil futures markets; rather, speculative short selling has contributed to weak oil prices. Demand growth for crude oil has decelerated, but not collapsed. Reflecting the increasing use of oil tankers, freight rates for the transport of crude oil remained firm throughout 2014. Crude oil prices are projected to approach their long-term trend, with increasing volatility through 2015 as market participants remain sensitive to any news of a supply glut. Crude oil prices are likely to test recent new lows in the second quarter in 2015 as inventories are projected to pile up owing to seasonal factors, in particular refinery maintenance. The inventory accumulation is likely to be more extensive in North America, which would result in a widening margin between geographical benchmark prices. The inventory level, however, is projected to come down in the third and fourth quarters and crude oil prices are likely to converge to a long-term trend line by the end of 2015. The OPEC reference basket price is forecasted to average $54.5 per barrel in 2015 in the forecasted range of $40.6 to $70.3.

Table 1
Crude oil price estimation and forecast, 2012-2016
(OPEC reference basket: United States dollar per barrel)

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

Source: OPEC for 2012-2014. Figures for 2015 and 2016 are forecasts by the Economic and Social Commission for Western Asia as at March 2015.

7. The total crude oil production of the Arab region in 2014 is estimated at 23 million barrels per day on average, a decrease of 500,000 barrels per day from the level in 2013. GCC countries are estimated to have produced 17.3 million barrels per day in 2014, the same level as the previous year. Libya and Yemen substantially reduced their production levels owing to intensifying armed conflicts in 2014, while Iraq saw growth because its major production facilities in the south of the country were not affected by the conflict. The Arab region's total gross revenues from oil exports are estimated to be $695 billion in 2014, a decline of 12 per cent from the previous year, and are forecasted to decline by a further 45.4 per cent in 2015, to $379.5 billion.

B. Natural gas sector

8. Natural gas constitutes another strategically important hydrocarbon resource in the Arab region and has become a major source of national wealth in those Arab countries that export it successfully. It provides an economical and environmentally efficient source for thermal power generation and is also used as a feedstock for the petrochemical industry. Arab countries have been witnessing rapidly growing domestic demand for natural gas, and not all gas-producing countries are yet export oriented. In 2014, Qatar remained the world's largest exporter of liquefied natural gas. Algeria has invested actively in enhancing its gas production capacity with a plan to explore shale gas production. Meanwhile, plans by Lebanon, the State of Palestine and the Syrian Arab Republic to explore offshore gas fields under the eastern Mediterranean have stalled.

9. Because of the need to invest heavily in transportation facilities to carry gas from producers to final users, whether through a pipeline or in the form of liquefied natural gas, the natural gas market remains more geographically segmented than that of crude oil. The extent of that segmentation was reflected in the wide margins in spot natural gas prices in Europe, Japan and the United States. As at January 2015, the benchmark price for Europe stood at $9.50 per million Btu, for Japan at $16 per million Btu and for the United States at $2.97 per million Btu.[5] Natural gas prices plummeted in 2014 as they did for crude oil, but to a lesser extent: while Dated Brent crude prices plunged by 55 per cent in the year to January 2015, the natural gas spot price fell by 12.8 per cent in Europe, 9.9 per cent in Japan and 39.2 per cent in the United States. Owing to the difference in the price dynamics of natural gas, the decrease in revenues from exports of natural gas by Arab countries is projected to be more moderate than that from crude oil exports over 2014 and 2015, in view of the fact that the destinations of the exports are either Europe or Asia. While some gas price transactions are linked to oil prices, multi-year fixed-price contracts are more common in the natural gas trade, which is likely to contribute to relative stability in the revenues of gas-exporting countries.

C. Phosphate sector

10. Increasing competition in downstream areas of the global fertilizer market continues to be a challenge in the phosphate sector. According to estimates from the

[5] International Monetary Fund, IMF Primary Commodity Prices, Monthly Database. Available from www.imf.org/external/np/res/commod/index.aspx.

International Fertilizer Industry Association, world fertilizer demand was expected reach 183.8 million tons during the 2014/15 planting season, of which 41.5 million tons were demand for phosphorus nutrient.[6] While global demand is expected to grow only moderately in the short and medium terms, the supply capacity of phosphate rock and phosphate acid is projected to expand in China, Jordan and Morocco. The supply capacity of diammonium phosphate, one of the most widely used phosphorus fertilizers, is also projected to grow more swiftly than demand.

11. From its peak in January 2012 to December 2013, the price of phosphate rock had registered a decline of 51 per cent over the two years. The year 2014 saw a moderate recovery, from $102.20 per ton in January to $115.00 per ton in December.[7] The price of diammonium phosphate followed a parallel trend, showing a moderate increase throughout 2014 from $438.30 per ton in January to $459.60 per ton in December. Stable price movements of phosphate rock and diammonium phosphate are projected during 2015, with possible downward adjustments owing to the growing global supply capacity. Moreover, the reform of export tariffs on phosphate products in China may have an impact on the global fertilizer market by improving the price competitiveness of Chinese exports.

III. Regional economic and social trends

A. Overview

12. Average real gross domestic product (GDP) growth in the Arab region is estimated to be 1.5 per cent in 2014, a slight change from the level registered in 2013 (see table 2). A major factor in the fluctuation is negative growth estimates for Iraq, Libya and the Syrian Arab Republic. The falling oil prices in the second half of the year notwithstanding, GCC countries remained the growth centre of the Arab region in 2014. However, the recent trend of polarized economic performances between GCC countries and the other Arab countries will come to an end with lower oil prices. Lower oil prices benefited oil-importing Arab countries, easing their balance-of-payment and fiscal constraints. Intensifying armed conflict and violence in Iraq, Libya, the State of Palestine, the Syrian Arab Republic and Yemen continued to divert the course of Arab socioeconomic development.

B. Gulf Cooperation Council countries

13. The subregion of GCC countries is estimated to have had GDP growth of 4.0 per cent in 2014, compared with 3.7 per cent in the previous year. In real terms, the fall in oil prices has had a mild impact on GDP figures because the level of crude production remained the same. Stable growth of the non-oil sector has been observed throughout the GCC countries. With the exception of Kuwait, GCC countries exhibited strong growth in domestic demand until the third quarter of

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[6] International Fertilizer Industry Association, "Short-term fertilizer outlook 2014-2015", November 2014. Available from www.fertilizer.org/en/ItemDetail?iProductCode=9840Pdf&Category=ECO.

[7] World Bank, Global Economic Monitor Commodities Database. Available from http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=Global-Economic-Monitor-%28GEM%29-Commodities.

2014, indicated by the stable growth of broad money. A deceleration in the growth rate of broad money in the fourth quarter of 2014 in Saudi Arabia and the United Arab Emirates, however, indicates a shift in economic sentiment and business confidence. In parallel with declining oil prices, the value of financial assets and real estate entered a downward adjustment phase, in particular in the United Arab Emirates where the value had recorded remarkable growth for the past three years. The extent of the current decline should not, however, have as much of an impact on GCC countries as it did during the global financial crisis of 2008. The financial sector of GCC countries was much healthier and had more limited exposure to risky assets. The relatively strong economic performance of East Asia and South Asia supported the non-oil sector of GCC countries.

14. The GDP growth rate is projected to edge downwards in the GCC subregion in 2015. Lower oil prices are likely to erode economic sentiment and business confidence further in non-oil sectors, especially real estate. The expectation of rising funding costs in parallel with the anticipated rise in interest rates in the United States by the end of 2015 would also negatively affect credit growth in GCC countries. The strong linkage of GCC countries with growing East Asia and South Asia is, however, likely to sustain the growth of non-oil sectors. The GCC Customs Union, which came into effect in January 2015, is expected to enhance intra-GCC trade. The average real GDP growth rate of the subregion is estimated at 3.4 per cent for 2015. Among GCC countries, Qatar and the United Arab Emirates are projected to grow above the subregional average. Both countries are expected to continue investments in infrastructure in preparation for hosting upcoming global events. The growth of Saudi Arabia is projected to slow down, owing mainly to a rapid policy response to the new level of oil prices. Public expenditure, mostly extrabudgetary expenditure, is expected to be reduced significantly. Bahrain, Kuwait and Oman are projected to mark consistent growth, with mild decelerations in 2015. The forecasted growth rate for 2015 is 3.2 per cent for Bahrain, 2.0 per cent for Kuwait, 3.0 per cent for Oman, 5.2 per cent for Qatar, 3.0 per cent for Saudi Arabia and 4.2 per cent for the United Arab Emirates.

C. Mashreq

15. The economies in the subregion of the Mashreq are, on average, estimated to have contracted by 0.6 per cent in 2014, after registering a contraction of 2.2 per cent in 2013. Armed conflicts and violence affected this subregion the most among Arab countries, with Iraq, the State of Palestine and the Syrian Arab Republic suffering from destruction of economic infrastructure and disruptions of supply chains. Iraq is estimated to have experienced negative growth owing to a contraction of domestic demand. One of the fastest-growing regions in Iraq, the Kurdistan Region, has been severely affected by armed conflicts. Although growth in crude oil production was recorded in 2014, the fall of oil prices had a considerable impact on Iraqi government revenues. The destruction of economic infrastructure and production facilities continued in the Syrian Arab Republic in 2014, although production activities continued in the area that was relatively safe from armed violence. A limited resumption of production activities was reported, but private sector activities are severely constrained owing to frequent disruptions in energy supply and logistic chains. The destruction of economic infrastructure in the Gaza Strip in July 2014 had a negative impact on the Palestinian economy. Continuing

restrictions on economic activities have weakened domestic demand and hampered reconstruction efforts for the Gaza Strip. Jordan and Lebanon maintained a moderate expansion of domestic demand. The improved balance-of-payment conditions contributed to a historically high accumulation of foreign reserves in both countries during 2014. For Jordan, the rapid growth of quarrying activities also sustained the growth level. It should be emphasized, however, that the rate of growth of Jordan and Lebanon was significantly lower, owing to the rapidly growing influx of refugees and evacuees from the Syrian Arab Republic. Egypt has regained stability with increasing business confidence, registering consistent growth in 2014. The balance-of-payment conditions of Egypt have improved, with constant foreign capital inflows and declining international commodity prices.

16. For 2015, the Mashreq subregion is projected to grow by 1.2 per cent on average, after a contraction over the two previous years. The magnitude of the economic contraction of the Syrian Arab Republic is projected to diminish. Domestic demand in Iraq is projected to grow slightly. The growth of Jordan and Lebanon is expected to slow; both countries are likely to benefit from lower oil and commodity prices, but an economic slowdown in GCC countries is likely to weaken the spillover from those countries to Jordan and Lebanon. Egypt is likely to be a main driver of growth in the subregion in 2015. Further improvement of the balance-of-payment conditions in Egypt is likely to open a reasonable space to accelerate expansion of its domestic demand. The State of Palestine returned to economic expansion, owing mainly to a scale effect from a low base in 2014. The forecast is based on a moderate acceleration of reconstruction activities in the Gaza Strip, but the geopolitical situation makes this possibility elusive. The forecasted growth rate for 2015 is 3.2 per cent for Egypt, 0.5 per cent for Iraq, 2.8 per cent for Jordan, 3.0 per cent for Lebanon and 3.0 per cent for the State of Palestine. The Syrian Arab Republic is forecasted to contract by 7.0 per cent in 2015.

Table 2
Real GDP growth rate and consumer price inflation rate, 2012-2016
(Annual percentage change)

	Real GDP growth rate					*Consumer price inflation rate*				
Country/area	*2012*[a]	*2013*[a]	*2014*[b]	*2015*	*2016*[c]	*2012*	*2013*	*2014*[b]	*2015*[c]	*2016*[c]
Bahrain	3.4	5.3	4.7	3.2	4.0	2.8	3.3	2.7	2.5	2.7
Kuwait	6.6	1.5	2.2	2.0	3.0	3.2	2.7	2.9	2.7	3.0
Oman	7.1	3.9	3.2	3.0	3.2	2.9	1.1	1.0	1.2	2.0
Qatar	6.0	6.3	6.2	5.2	5.5	1.9	3.1	3.0	2.7	3.2
Saudi Arabia	5.4	2.7	3.6	3.0	3.5	2.9	3.5	2.7	2.5	3.0
United Arab Emirates	4.7	5.2	4.5	4.2	4.5	0.7	1.1	2.2	2.0	2.2
GCC countries	**5.5**	**3.7**	**4.0**	**3.4**	**3.9**	**2.3**	**2.6**	**2.5**	**2.3**	**2.8**
Egypt[d]	2.2	2.1	2.2	3.2	3.8	7.4	10.3	10.1	10.0	9.5
Iraq	10.3	4.2	(2.6)	0.5	5.0	6.2	1.8	2.2	3.5	3.5
Jordan	2.7	2.8	3.1	2.8	3.0	4.5	4.8	2.9	2.5	3.0
Lebanon	2.8	3.0	3.2	3.0	3.0	6.5	5.6	1.7	1.5	2.0
State of Palestine	6.3	2.2	(2.5)	3.0	3.2	2.8	1.7	1.7	2.5	3.0

Country/area	Real GDP growth rate 2012[a]	2013[a]	2014[b]	2015	2016[c]	Consumer price inflation rate 2012	2013	2014[b]	2015[c]	2016[c]
Syrian Arab Republic[e]	(30.9)	(36.5)	(10.5)	(7.0)	(5.0)	37.2	87.7	24.8	37.8	15.0
Mashreq	**0.1**	**(2.2)**	**(0.6)**	**1.2**	**2.8**	**10.6**	**17.3**	**8.8**	**10.7**	**7.6**
Algeria	3.3	2.8	3.2	2.8	3.5	8.9	3.3	2.1	2.7	3.0
Libya	98.2	(19.9)	(32.7)	(7.5)	12.0	6.1	2.6	1.3	4.0	4.5
Morocco	2.7	4.4	2.4	4.2	3.5	1.3	1.9	0.4	1.0	1.2
Tunisia	3.9	2.4	2.3	2.7	3.2	5.6	6.1	5.5	4.5	4.0
Maghreb	**21.1**	**(1.1)**	**(3.9)**	**1.2**	**5.1**	**6.1**	**3.2**	**1.9**	**2.7**	**3.0**
Comoros	3.0	3.5	3.7	3.5	3.5	6.3	1.6	2.5	2.0	2.0
Djibouti	4.8	5.0	5.0	4.8	4.5	3.7	3.5	2.2	2.0	2.5
Mauritania	7.0	6.7	5.9	6.1	6.2	4.9	4.1	3.6	3.2	3.5
Somalia	–	–	–	–	–	–	–	–	–	–
Sudan	0.4	3.6	2.5	2.8	3.0	35.1	37.1	37.5	17.0	15.0
Yemen	2.2	3.2	1.5	(2.0)	3.2	10.2	11.0	8.0	11.5	12.0
Arab least developed countries	**1.2**	**3.6**	**2.4**	**1.5**	**3.2**	**26.3**	**27.8**	**27.2**	**14.7**	**13.5**
Total Arab region[f]	**6.8**	**1.5**	**1.5**	**2.4**	**3.8**	**6.0**	**7.3**	**5.1**	**4.9**	**4.4**

Source: National sources.

[a] GDP figures for 2012 and 2013 are from *National Accounts Studies of the Arab Region*, Bulletin No. 34 (United Nations publication, Sales No. B.15.II.L.3), which were based on national sources, and the latest available figures from national sources as at March 2015.

[b] March 2015 estimates.

[c] March 2015 forecasts.

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

[e] The GDP growth rates of the Syrian Arab Republic for 2012-2014 are the estimated figures contained in Syrian Center for Policy Research, "Alienation and violence: impact of Syria crisis report 2014" (Damascus, March 2015), available from www.unrwa.org/resources/reports/alienation-and-violence-impact-syria-crisis-2014.

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

D. Maghreb

17. The economies of the Maghreb subregion are estimated to have contracted on average by 3.9 per cent in 2014, following a contraction of 1.1 per cent in 2013. The average growth of the subregion continued to be heavily influenced by the growth estimation for Libya, whose economy is estimated to have recorded two consecutive annual contractions. While political instability and armed conflicts substantially depressed Libyan domestic demand, Libyan oil production and exports dwindled owing to sabotage and work stoppages during 2014. The fall in agricultural output slowed the growth rate of Morocco in 2014, while other sectors maintained stable growth. Constant growth in domestic demand was indicated by accelerating broad money growth throughout 2014; however, stagnating European economies had a negative impact on exports. Tunisia experienced decelerating economic growth as a result of managed domestic demand in the face of difficult balance-of-payment conditions. Although the depletion of foreign reserves has been contained, the country remained in a weak external position. Stagnating European economies also had a negative impact on the Tunisian economy. Active public investments drove

growth in Algeria in 2014, the declining oil prices in the second half of the year notwithstanding. Domestic demand is estimated to have consistently expanded as broad money growth accelerated during the year.

18. For 2015, the Maghreb subregion is projected to grow by 1.2 per cent. The contraction of the Libyan economy is forecasted to continue, but less dramatically. A certain level of crude oil production and exports is projected to be maintained, but the displacement of foreign workers, some of whom were essential in managing the economic infrastructure, may result in a further decline in the level of economic activity. Morocco is forecasted to register accelerated growth, based upon a forecasted growth in food production. Low oil prices benefit Morocco and Tunisia, easing balance-of-payment and fiscal conditions. More space for domestic demand expansion is likely to be created in Tunisia, leading to a mild acceleration of growth, although spillover from the armed conflict in Libya poses a downside risk to security. The economic expansion of Algeria is projected to decelerate owing to the decline in its revenues from hydrocarbons; however, continuing active public investment is likely to buoy domestic demand. In 2015, the forecasted growth rates are 2.8 per cent for Algeria, 4.2 per cent for Morocco and 2.7 per cent for Tunisia. The Libyan economy is projected to contract by 7.5 per cent.

E. Arab least developed countries

19. The economies of Arab least developed countries are estimated to have grown, on average, by 2.4 per cent in 2014, following growth of 3.6 per cent the previous year. The Sudan managed to maintain positive economic expansion amid severe balance-of-payment conditions. The loss of oil export revenues since the separation of South Sudan notwithstanding, the Sudan managed to diversify its exports to other commodities, including food items and gold. The economic growth of Yemen decelerated. Domestic demand expansion has been weakened by an increasingly unstable political situation. Crude oil production in Yemen stagnated, with aging production facilities and continuous sabotage of oil pipelines. External financial support sustained monetary stability, but foreign reserves continued to decline in 2014. The Comoros maintained stable growth in 2014 in line with its long-term trend. The high level of port activities, driven partly by the growing transport of goods to Ethiopia, resulted in the constant economic expansion of Djibouti. Occasional security incidents notwithstanding, Somalia is estimated to achieve a rapid economic recovery owing to the continuing reconstruction work. Mauritania has experienced a deceleration of economic growth. Declining metal prices had a negative impact on its export performance, but domestic demand is estimated to see constant expansion.

20. For 2015, the real GDP growth of the Arab least developed countries is projected to average 1.5 per cent. The balance-of-payment conditions are projected to improve for the Sudan, which is likely to open space for domestic demand expansion. Further intensification of armed conflict and political instability are likely to force Yemen into an economic contraction. Lower commodity prices would benefit the Comoros and Djibouti, but domestic demand expansion is projected to taper off as broad money growth slows down. The expansion of the mining sector is projected to continue in Mauritania, even in the face of projections of weak metal prices. The expected growth of foreign direct investment in the sector would have a positive impact on the country’s domestic demand expansion. These positive

manifestations of economic expansion notwithstanding, they appear to be insufficient to change the poverty profiles of the Arab least developed countries. More international and regional efforts are needed to alleviate poverty in the subregion. In 2015, the forecasted growth rate is 3.5 per cent for the Comoros, 4.8 per cent for Djibouti, 6.1 per cent for Mauritania and 2.8 per cent for the Sudan. Yemen was projected to register a contraction of 2.0 per cent, but the forecast is subject to a substantial downward revision if the armed conflict intensifies further.

F. Price and inflation

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

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

G. Exchange rates

23. Several Arab countries experienced a significant depreciation of their national currencies against the United States dollar in 2014 and up to early 2015. To varying degrees, the national currencies of the Maghreb countries — Algeria, Libya, Morocco and Tunisia — depreciated against the dollar in parallel with the rapid depreciation of the euro against the dollar in the second half of 2014. The Maghreb countries have traditionally maintained a stable exchange rate against the euro because the euro area constituted their main export destination. The national currencies of the Comoros and Mauritania also depreciated against the dollar for the

same reason. The national currency of Kuwait, which is pegged to a basket of currencies, including the euro, also depreciated against the dollar. The GCC countries, Djibouti, Iraq, Jordan and Lebanon have maintained the foreign exchange regime of a dollar peg. Egypt managed the orderly depreciation of the Egyptian pound from LE 7.0 to the dollar to LE 7.6 to the dollar. The Sudan also managed the value of its national currency, with a gradual depreciation to 6.1 Sudanese pounds to the dollar. The value of the Syrian pound continued to weaken during 2014, dropping from LS 160 to LS 220 to the dollar. For 2015, further devaluations of national currencies are projected for Egypt, the Sudan, the Syrian Arab Republic, Tunisia and Yemen owing to their weak balance-of-payment situations.

H. Social dynamics and employment

24. The most striking event characterizing the social dynamics of the Arab region is the mass displacement of populations, either internally or abroad, owing to intensifying armed conflicts. In 2014 and 2015, the number of displaced persons has shown a significant increase in Iraq, Libya, the State of Palestine, the Syrian Arab Republic and Yemen. The extent of displacement represents a humanitarian crisis in conflict-affected Arab countries. Moreover, the magnitude of the displacement is sufficient to hamper the future economic reconstruction of the countries concerned, given that it has already eroded human capital and social coherence. Social impacts were increasingly felt in Jordan and Lebanon, where demographic structures have been changed by the influx of Syrian refugees and evacuees, which strained health and education services. Both countries have absorbed the initial shock of rapidly increasing numbers of residents within their national borders but are struggling to maintain the level of welfare within ever-limited resources.

25. Unemployment rates remain at a high level in the Arab region. For the countries where data are available for the fourth quarter of 2014, the unemployment rates are as follows: Egypt, 12.9 per cent;[8] Jordan, 12.3 per cent;[9] Morocco, 9.7 per cent;[10] Saudi Arabia, 11.6 per cent among Saudi nationals;[11] and State of Palestine, 26.5 per cent.[12] Owing to the existence of an informal sector, the region's unemployment rate reflects structural employment gaps rather than cyclical gaps. The available rates, however, are not indicative of a significant structural change in the labour markets, with two exceptions. One exception is the significant deterioration of the employment situation in the State of Palestine, in particular in the Gaza Strip where the unemployment rate jumped from 32.6 per cent in 2013 to 43.9 per cent in 2014.[12] The armed violence in the Gaza Strip in July 2014 and the continuing restrictions on economic activities contributed to the worst employment situation in

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

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

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

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

[12] Palestinian Central Bureau of Statistics, "Labour force survey (October-December, 2014) round (Q4/2014)". Available from www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFS-Q4-2014-e.pdf.

years. The other exception is the moderate improvement in the gender gap in employment in Jordan and Saudi Arabia in the recent past. The female unemployment rate in Jordan fell from its peak of 26.8 per cent in the third quarter of 2013 to 19.1 per cent in the fourth quarter of 2014.[9] The rate in Saudi Arabia fell from its recent peak of 35.7 per cent in the fourth quarter of 2012 to 32.5 per cent in the fourth quarter of 2014.[11] The labour nationalization policy in Saudi Arabia was stringently applied during 2014. In introducing new measures to restrict foreign workers by enhancing the Saudization system, introduced in 2011, Saudi Arabia actively promotes Saudi nationals seeking a career in the private sector. This trend was followed by other GCC countries. High youth unemployment, resulting from job shortages for a growing cohort of new labour market entrants, remains a critical socioeconomic issue throughout the Arab region.

IV. Policy developments

26. The scope of policy dilemmas has generally widened for policymakers in the Arab region. For the major energy exporters among the GCC countries, a rapid policy response was needed to cope with the fall in oil revenues and weakened fiscal positions. GCC Governments played a pivotal role in diversifying their economies by actively investing in non-oil-sector infrastructure, health and education. GCC Governments now face the policy dilemma of whether they should maintain the current level of public expenditure. Counter-cyclical fiscal measures may be needed to achieve the targeted economic diversity. In the meantime, however, lower oil revenues are likely to require budget cuts to maintain fiscal prudence. While foreign exchange constraints eased moderately as a result of declining international commodity prices, the Governments of other Arab subregions need to cope with tight fiscal constraints. Subsidy reforms have been implemented in stages in several Arab countries, including Egypt, Jordan, Morocco, the Sudan and Yemen, but fiscal positions remain structurally weak.

27. GCC countries maintained the same stance with regard to monetary policy as in the previous year, shadowing that of the United States Federal Reserve. No change in policy interest rates was seen in GCC countries in 2014. Reflecting this policy stance, funding costs in terms of the three-month interbank money market rate in GCC countries remained at around 1.0 per cent. Among other countries, the three-month Emirates Interbank Offered Rate continued to decline, reaching 0.67714 per cent at the end of 2014. The three-month Kuwait Interbank Offered Rate gradually rose to 1.3125 per cent in November from 0.875 per cent in January, before declining to 1.0625 per cent at the end of 2014. It is projected that the United States policy interest rate will be raised by the end of 2015 and the monetary stance of GCC countries is expected to change accordingly. Given that low inflation is projected, and there is a need to maintain economic stimulus amid lower oil revenues, however, the monetary authorities in GCC countries are likely to devise policy measures to lessen the anticipated negative impacts. Falling international commodity prices and increasing foreign capital inflows have created a sizeable policy space for monetary easing in Egypt, Jordan and Morocco. In Egypt, the central bank took a precautionary measure in July 2014 to cope with anticipated inflation by raising the policy interest rate by one percentage point. However, the Egyptian monetary authority moved back to a monetary easing stance in January 2015 by lowering the policy interest rates by one half of a percentage point when it

became apparent that the decline in commodity prices had eased foreign exchange constraints. In Jordan, the central bank took monetary easing measures in January and June 2014 and February 2015. The overnight window deposit rate, one of the key policy interest rates in Jordan, fell from 3.5 per cent in January 2014 to 1.75 per cent at the end of the first quarter of 2015. In Morocco, the central bank lowered its key policy rate — by 0.25 percentage points — in September 2014 for the first time since March 2012. Morocco lowered its policy interest rate again in December 2014 by another 0.25 percentage points. In Tunisia, the central bank maintained a tight monetary stance, mainly to cope with difficult balance-of-payment conditions, by raising its key policy interest rates by 0.25 percentage points to 4.75 per cent in June 2014. The Lebanese central bank actively utilized monetary stimulus measures, in line with its easing monetary stance. In the Syrian Arab Republic, the central bank attempted an orderly, gradual depreciation of its national currency while managing the demand for foreign currencies. The continuing armed violence in the country and the substantial devaluation of the Syrian pound notwithstanding, it is noteworthy that trust in the Syrian national currency has not been abandoned.

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

V. Conclusion

29. The dramatic fall in oil prices marked a clear shift in the external economic environments of the Arab region. Oil wealth has been vital, not only for oil-exporting Arab countries but also because of the major spillover effect of oil wealth to oil-importing Arab countries. Oil wealth has been distributed over the region in the forms of capital, remittances and foreign aid. Lower oil prices benefit oil-importing countries in the region by improving their balance-of-payment conditions. As a secondary effect, however, lower oil prices may reduce capital, remittances and aid flows from GCC countries to the other Arab countries. The Arab region, on average, saw economic expansion in the past few years, the difficult geopolitical conditions, political instability and social unrest notwithstanding. Armed conflicts have intensified in Iraq, Libya, the State of Palestine, the Syrian Arab Republic and Yemen, while security has been frequently disrupted in Lebanon and Tunisia. The key pillar sustaining regional growth despite these prevailing negative factors had

been the growing oil wealth that allowed a certain level of intraregional flows of capital, remittances and aid to be maintained from the region's major oil producers among the GCC countries. While geopolitical tensions remain, this pillar of regional economic stabilization has begun to weaken. The overall structural impact of low oil prices remains to be seen, but current economic and non-economic events in the Arab region remain challenges to sustainable regional medium-term to long-term growth.

30. The Arab region has experienced a prolonged oil boom, which has lasted more than 11 years. The previous price plunge, caused by the global financial crisis in 2008, was swiftly reversed as markets witnessed a speedy recovery of demand from developing economies such as China and India. The rapid expansion of crude oil production in North America indicates a slow recovery of oil prices. By the end of 2014, oil market participants had realized that the price elasticity of crude oil supply had suddenly increased owing to advancing technologies for shale and tight oil extraction. The weak prospect of oil revenues and weakening oil wealth are likely to cause Arab countries to rethink their growth strategies. GCC countries were successful to a certain extent in their economic diversification strategy during the oil boom that began in 2003. The non-oil sector, especially the finance, telecommunications, transport and services sectors, registered remarkable growth. At the end of the oil boom, however, oil remained essential in GCC countries as a source of national wealth, government revenues, business confidence and economic sentiment. The challenge for GCC countries remains to devise a strategy of further economic diversification to reduce their dependence on oil. New diversification strategies may require effective labour nationalization policies, which affect employment opportunities for job seekers in other Arab countries. Efficient rebalancing in intraregional flows of capital and labour is needed for the benefit of Arab economies in both GCC countries and other Arab countries. Policy coordination efforts through regional cooperation are urgently needed to optimize the use of the region's human capital and financial wealth for a path to more sustainable regional growth.