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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 2015-2016*

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 2015-2016.

* After Libya, Morocco and Tunisia became States members of the Commission in 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. Mauritania also became a member in 2015. The following subregional groupings are 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 the United Arab Emirates); the Mashreq (Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic and the State of Palestine); the Maghreb (Algeria, Libya, Morocco and Tunisia); and Arab least developed countries (LDCs) (the Comoros, Djibouti, Mauritania, Somalia, the 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, 2015-2016

Summary

The average growth rate of the gross domestic product (GDP) of the Arab region in real terms is estimated to be have been 0.9 per cent in 2015, unchanged compared with 2014. The economies of the countries of the Gulf Cooperation Council (GCC), which had led the region's growth for the past few years, slowed in 2015, reflecting weak domestic demand expansions. The oil price decline since mid-2014 had a negative influence on Arab economies, combined with other negative factors such as the spreading armed conflicts in the region. In addition to the loss of oil export revenues and weaker business confidence, GCC countries faced challenges concerning the direction of their economic diversification strategies. A series of reform measures, including subsidy reforms, indicated the serious efforts being made in terms of policy to cope with the fall in oil prices. The lower oil prices did not benefit energy-importing Arab countries as much as had been expected. Import bills went down in those countries, but nominal export revenues also declined in most countries owing to declines in export unit prices, reflecting weak demand abroad. Furthermore, several security incidents in the region had a negative impact on the tourism sector and services exports. Balance-of-payments conditions tightened in Arab economies to various extents. While GCC countries sustained domestic demand expansion without balance-of-payments constraints, other Arab countries, in particular Egypt, the Sudan, the Syrian Arab Republic, Tunisia and Yemen, were subjected to more severe balance-of-payments conditions. The tighter balance-of-payments constraints in those countries restricted domestic demand expansion and lowered living standards. Armed conflicts in Iraq, Libya, the Syrian Arab Republic and Yemen forced a significant number of Arab labourers out of the job market, while the stagnating economic situation in the region failed to create sufficient employment opportunities. Consequently, the movements of refugees and migrants across the Mediterranean to Europe reached an unprecedented level in 2015. The average GDP in the Arab region is forecast to grow by 1.5 per cent in 2016. Economic expansion in GCC countries is projected to decelerate further, as further cuts to public expenditure are expected. The expected monetary tightening by the United States of America and an increase in debt issuance by GCC Governments are likely to discourage investment as a result of rising financing costs. It is projected that other Arab subregions will experience weak growth, as a result of geopolitical factors, the prospect of weak demand from China and Europe and tightening balance-of-payments conditions.

I. Global context

1. The world economy reflects growing complexities and uncertainties. The complexities stem from the consequences of extreme monetary easing in Europe and Japan, the diverging monetary policy stances of the United States of America and other developed economies and the growing savings gluts in the developed economies, compared with the shortages of funds in the developing economies. The complexities amplify the uncertainties, as there are increasing signs of a global economic slowdown. In 2015, deflationary pressures became a major policy concern in many developed countries and certain developing countries, including China, as those countries were facing economic stagnation due to weak domestic demand expansion. To cope with the deflationary pressures and the prospect of weak demand, central banks in major developed countries, with the exception of the United States, pushed their monetary easing policies to the extreme. Extremely low interest rates were set and quantitative easing measures taken in Europe and Japan with a view to encouraging economic expansion. However, those extreme monetary easing policies failed to stimulate domestic demand. The immediate results of the quantitative easing failed to achieve the intended effect, as investment activities did not expand in response to historically low financing costs. The continuing weak investment activities indicated a significant savings glut in Europe and Japan. Deposit rates reached levels close to zero in some countries in Europe and in Japan, where negative interest rates became a reality for short-term government bonds. Although the world economy is forecast to continue its moderate growth in 2016 on average, continuing deflationary pressures remain, lending uncertainty to that prospect.

2. The United States stood out as the only major developed country that successfully emerged from the danger zone of deflationary pressures. Robust economic expansion continued in the United States, with consistent growth in private consumption and physical investment.[1] Reflecting its resilient economic recovery over the past few years, the United States Federal Reserve normalized its monetary policy stance by raising its key interest rate by 0.25 percentage points in December 2015. Turbulent reactions in the financial markets followed, but the new United States monetary policy is expected to result in widening differences in interest rates between the United States dollar and other major currencies — the United States rates are expected to rise while other developed countries' rates remain low. At first, a widening difference in interest rate prospects was expected to cause a further appreciation of the United States dollar against other major currencies, including the euro and the Japanese yen. However, as United States dollar deposit rates remained low, the United States currency stayed weaker than expected in the first quarter of 2016. The weaker response of deposit rates to the key interest rate hike indicates that the United States was also influenced by a savings glut, although to a lesser extent than other developed economies.

3. Developing economies faced increased challenges as economic prospects weakened rapidly. A substantial decline in commodity prices hit commodity-dependent economies, including major oil exporters, with declining fiscal revenues

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

and tightening balance-of-payments constraints. Low commodity prices failed to improve balance-of-payment constraints for commodity importers, as the terms of trade for those countries did not improve as expected. As the United States interest rate prospects discouraged the flow of funds to developing economies, more developing economies became prone to balance-of-payments crises. By the first quarter of 2016, several developing economies, mostly those in which exports were dominated by commodities, had requested balance-of-payments support from international financial institutions. This is another paradoxical consequence of the current world economic situation, in which savings gluts in developed economies are in sharp contrast to a growing lack of funds in developing economies.

4. Employment creation remained stagnant during 2015 with the exception of a few developed economies, including Germany, Japan, the United Kingdom of Great Britain and Northern Ireland and the United States. The margin of improvement in those developed economies did not offset the deteriorating employment situation in developing economies,[2] and unemployment rates increased globally in 2015. Weak employment prospects caused sociopolitical tensions in many parts of the world amid unprecedented movements of refugees and migrants across the Mediterranean to Europe. The refugee and migrant crisis gave rise to political debates, often between radically opposing views on the socioeconomic role of refugees and migrants in host countries. The divergence between the employment situations in developed and developing economies is likely to widen in 2016. Sociopolitical tensions related to employment, asylum and migration are projected to continue in both developed and developing economies.

5. Arab economies faced mounting challenges in this global context. Geopolitical tensions spread within the region, particularly in Iraq, Libya, the Syrian Arab Republic, Yemen and the State of Palestine, and negative spillover from the security situations in those countries had an impact on neighbouring countries. Declining oil prices had a significant impact on both oil-exporting and oil-importing countries. Domestic demand in Arab oil-exporting countries began to decrease with a decline in business sentiment, which further reduced intraregional capital and remittance flows. Weak economic prospects in European economies continued to hamper non-oil exports from the Arab region, in particular those from Maghreb countries. The rise in United States interest rates caused higher financing costs in Arab economies. A consistent economic expansion in India had a positive influence on the non-oil sector in the region, particularly in Gulf Cooperation Council (GCC) countries. However, the economic conditions surrounding the Arab region remained arduous throughout 2015.

II. Developments in the natural resources sector

A. The oil sector

6. According to the Organization of the Petroleum Exporting Countries (OPEC), total estimated world demand for oil in 2015 was 92.98 million barrels per day on average, which represented an increase of 1.54 million barrels per day compared

[2] International Labour Organization, "World employment and social outlook: trends 2016", January 2016. Available from http://www.ilo.org/global/research/global-reports/weso/2016/WCMS_443480/lang--en/index.htm.

with 2014.[3] OPEC projects that demand will grow further in 2016, to 94.23 million barrels per day on average. It also estimates the total supply of crude oil at 95.09 million barrels per day on average in 2015, which represents an increase of 2.65 million barrels per day compared with 2014.[4] It is important to note that the global demand for crude oil has not been collapsing, but rather on a path to moderate growth. The current market situation remains different from the previous situation, in which the collapse in demand for crude oil in 2008 caused a rapid price plunge. Meanwhile, supply growth has surpassed demand growth over the past few years. The majority of such growth came from non-OPEC countries, in particular in North America, where the production level has risen rapidly and recently peaked. In December 2015, the United States lifted the export ban on crude oil that had been in place for over 40 years. The market is estimated to have had an oversupply of 1.0 million barrels per day in 2014, with the margin widening to an estimated 2.1 million barrels per day in 2015.[5]

7. In past oil price decline phases, OPEC has acted promptly. For example, it cut its production quota by 4.2 million barrels per day in December 2008, when the market experienced a sharp decline in oil prices. OPEC production behaviour was once determined in relation to its target price band, which might give rise to the expectation that it would act to bring about a concerted reduction in production to address the present supply glut. However, coordinating production among oil-producing countries has proved to be difficult under current market conditions, in which demand continued to grow. Demand continued to do so in 2015, as opposed to the situation in 2008, when a rapid demand collapse caused a decline in prices. Without a bold, enforceable agreement involving all major oil-producing countries, the fear of losing market share prevents any oil-producing country from instituting voluntary production cuts. Even with a successfully coordinated reduction in production, the extent to which it could bring about a recovery in oil prices remains unclear. If oil prices are not elastic enough to respond to the change in supply, any such reduction in production would not maximize oil revenues. Amid those difficulties, North American crude oil production has begun to decline, owing to the closure of non-profitable wells. It is projected that the current supply glut will be eliminated in the second half of 2017, but global supply in 2016 remains uncertain.

8. While chronic excess supply has dominated the markets, oil prices have been significantly influenced by speculation activities in oil futures markets. Data from the United States Commodity Futures Trading Commission indicate that changes in net speculative long positions correlate with changes in oil prices[6] and caused high volatility in oil prices throughout 2015. Oil prices are expected to remain below the long-term trend line in 2016 and 2017. As recently witnessed, speculative short selling has pushed oil prices below the estimated fundamental price floor of between $35 and $40 per barrel. Speculation-driven price fluctuations are expected to intensify throughout 2016, as oil market participants remain sensitive to any news

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[3] Organization of Petroleum Exporting Countries, *OPEC Monthly Oil Market Report* (14 March 2016), p. 85, tables 10.1 and 10.2. Available from http://www.opec.org/opec_web/en/publications/338.htm.

[4] Ibid.

[5] Ibid.

[6] United States of America, Commodity Futures Trading Commission, *Commitments of Traders*. Available from http://www.cftc.gov/MarketReports/CommitmentsofTraders/HistoricalViewable/index.htm.

on the excess supply condition and its prospects. Given those factors and the slow but growing demand for crude oil, the OPEC Reference Basket price is forecast to be $41.5 per barrel on average in 2016 and $49.3 per barrel on average in 2017 (see table 1).

Table 1
Crude oil price estimates and forecast[a]
(United States dollars)

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

Source: OPEC data for 2013-2015. Figures for 2016 and 2017 were forecast by the Economic and Social Commission for Western Asia as of March 2016.
[a] OPEC reference basket price per barrel.

9. The total crude oil production in the Arab region is estimated to have been 23.5 million barrels per day on average in 2015, which represents an increase of 0.5 million barrels per day compared with the rate in 2014. Among Arab crude oil-producing countries, GCC countries are estimated to have produced 17.7 million barrels per day in 2015, with no significant change compared with the previous year. The crude oil production of Iraq continued to grow as a result of further facility expansions in the southern part of the country. Libya managed to sustain its crude oil production at 400,000 barrels per day in 2015, in spite of continuing armed conflict and political instability. The crude oil production of Yemen ceased in April 2015 amid intensifying armed conflict. The Arab region's total gross oil export revenues are estimated to have been $382 billion in 2015, which represents a 46 per cent decline compared with the previous year. It is forecast to decline further, by 12 per cent, to $337 billion in 2016, which represents a 61 per cent decline compared with the recent peak reached in 2012. However, it is forecast that total Arab oil export revenues will bottom out in 2016, with the forecast for 2017 at $421 billion.

B. Natural gas sector

10. The natural gas sector has rapidly developed into another important export area for Arab countries in the past few years. At present, Algeria, Egypt, Libya, Qatar and the United Arab Emirates are the members of the Gas Exporting Countries Forum, and Iraq and Oman are observers. Yemen also became a gas exporter in 2009. Lebanon, the Syrian Arab Republic and the State of Palestine have been planning offshore gas exploration for a number of years. However, in 2015, intensifying armed conflict brought Yemen's gas production to a halt in April and geopolitical risks prevented eastern Mediterranean countries from making progress in their gas exploration plans. Despite an unstable security situation, Libya managed to export natural gas through the Greenstream pipeline to Italy. Qatar remained

among the most influential gas exporters, along with Australia and the Russian Federation. As European countries became aware of their dependency on the gas supply from the Russian Federation amid rising geopolitical risks related to the Russian Federation and Ukraine, Arab gas exporters drew more attention as crucial alternative suppliers for the European market. It has been recognized that the region needs greater infrastructure investment in this sector in order to increase natural gas exports through the pipelines or liquefied natural gas facilities.

11. According to the International Association for Natural Gas (Cedigaz), there was oversupply in the global gas market in 2015 and the trend is likely to last until 2022, particularly in the liquefied natural gas sector.[7] Weak demand prospects, overcapacity in liquefied natural gas facilities and increasingly competitive alternative energy sources caused the global supply glut. The natural gas market remained geographically segmented, but geographical benchmark prices showed a trend of convergence towards a lower level in late 2015. As of January 2016, the benchmark price for Europe stood at $5.09 per million metric British thermal units (Btu), the benchmark price for Japan stood at $9.0 per million Btu, and the benchmark price for the United States stood at $2.27 per million Btu.[8] There has been progress in institutional developments to improve gas transactions and overcome current market segmentation. For example, the recent introduction of futures markets for liquefied natural gas in Singapore is expected to create flexible spot pricing, which would benefit both gas-exporting and gas-importing countries. However, the market situation is expected to remain challenging for gas exporters in terms of increasing spot transactions, given the projected long-term structural supply glut.

C. Phosphate sector

12. The phosphate sector continued to be strategically important in the Arab region. Despite persistent weak demand for global fertilizer markets, developments in the sector progressed by means of interregional partnerships involving foreign direct investment. According to estimates from the International Fertilizer Industry Association, in the 2015/16 crop season, global fertilizer demand will drop by 0.1 per cent, or 183.4 million tons and demand for phosphorus will decline by 0.9 per cent, or 41.1 million tons, compared with the previous crop season.[9] Low crop prices continued to dampen global fertilizer demand, and weak demand growth is projected for the next crop season. Meanwhile, the supply capacity for diammonium phosphate, one of the most widely used phosphorus fertilizers, continued to grow. Most notably, the expansion of a fertilizer plant in Jorf Lasfar contributed to the increasing supply capacity of Morocco and positioned the country as a leading exporter.

[7] Armelle Lecarpentier, International Association for Natural Gas, “Current trends and prospects for natural gas”, 4 December 2015. Available from http://www.cedigaz.org/documents/2015/PresAB2015.pdf.

[8] International Monetary Fund, “IMF primary commodity prices”. Available from http://www.imf.org/external/np/res/commod/index.aspx.

[9] Patrick Heffer and Michel Prud’homme, International Fertilizer Industry Association, “Short-term fertilizer outlook 2015-2016”, November 2015. Available from http://www.fertilizer.org/imis20/images/Library_Downloads/2015_ifa_paris_summary.pdf?WebsiteKey=411e9724-4bda-422f-abfc-8152ed74f306&=404%3bhttp%3a%2f%2fwww.fertilizer.org%3a80%2fen%2fimages%2fLibrary_Downloads%2f2015_ifa_paris_summary.pdf.

13. The price of phosphate rock stabilized after a 51 per cent decline from a recent peak reached in 2011. In terms of yearly average, the price edged up from $110.2 per metric ton in 2014 to $117.5 per metric ton in 2015.[10] Meanwhile, the price of diammonium phosphate declined by 26 per cent from the recent peak of $485.24 per metric ton reached in February 2015. The price of phosphate rock is expected to remain at its current level, and the price of diammonium phosphate is projected to stabilize in 2016, following the price trend of phosphate rock. However, no substantial rise in prices is expected in this sector as the structural excess supply situation continues globally in 2016.

III. Regional trends

A. Overview

14. Low oil prices and the associated sharp declines in oil export revenues had a negative influence on Arab economies in 2015. Real gross domestic product (GDP) growth on average in the Arab region is estimated to have been 0.9 per cent in 2015 (see table 2). The major fluctuating factor is the negative growth estimates for Libya, the Syrian Arab Republic and Yemen. Despite falling oil prices, GCC countries remained the growth centre of the Arab region in 2015. Armed conflicts and violence in Iraq, Libya, the Syrian Arab Republic, Yemen and the State of Palestine continued to have a negative impact on the course of Arab socioeconomic development, with consequences for not only those countries, but also the neighbouring countries of Egypt, Jordan, Lebanon and Tunisia. The tourism sector in the Mashreq and the Maghreb dwindled owing to the increased security risks. Balance-of-payments conditions have generally tightened in the region, reflecting the decreased availability of foreign funds to countries with current account deficits.

B. Gulf Cooperation Council countries

15. The subregion of GCC countries is estimated to have had GDP growth of 3 per cent in 2015, compared with 3.4 per cent in the previous year. The variation in growth rates among GCC countries reflects the performance of the non-oil sector as well as the depth of the oil sector. Refining activities retained more value added in the oil sector in real terms as demand for fuel products persisted. The growth of the non-oil sector has been consistently increasing, albeit at a slower rate, throughout the GCC countries. The value of financial assets and real estate has declined in those countries, reflecting weakening business sentiment and weak oil prices. Broad money growth has stagnated as a result of weak credit growth. The financial sector in GCC countries maintained healthy balance sheets despite the rise in financing costs, which affected the sector’s profitability.

16. GDP growth rates are forecast to decline further in the GCC countries in 2016. Financing costs in those countries are expected to rise, influenced by expected interest hikes by the United States Federal Reserve. Financing costs are also expected to be affected by the crowding-out effects of the expected increase in the debt issuance of

[10] 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.

GCC Governments. Public spending cuts are likely to weaken domestic demand in Bahrain, Oman, Saudi Arabia and the United Arab Emirates. Kuwait and Qatar are likely to maintain their fiscal spending levels in terms of nominal GDP. Decelerating Chinese growth is expected to have a negative impact, but strong growth in India is likely to sustain the GCC non-oil sector. The average real GDP growth rate of the subregion is projected to be 2.1 per cent in 2016. Among GCC countries, Bahrain, Oman, Qatar and the United Arab Emirates are projected to grow faster than the subregional average. Saudi Arabian growth is projected to slow, owing mainly to a significant cut in capital spending and the rise in financing costs. Kuwait is projected to register consistent growth, setting the stage for expansion in its domestic demand. The forecast growth rates for 2016 are 2.4 per cent for Bahrain, 1.4 per cent for Kuwait, 2.1 per cent for Oman, 3.5 per cent for Qatar, 1.7 per cent for Saudi Arabia and 2.4 per cent for the United Arab Emirates.

Table 2
Real GDP growth rates and consumer inflation rates in the Arab region, 2013-2017
(Annual percentage change)

	Real GDP growth rate					*Consumer price inflation rate*				
Country/area	*2013*[a]	*2014*[a]	*2015*[b]	*2016*[c]	*2017*[c]	*2013*	*2014*	*2015*[b]	*2016*[c]	*2017*[c]
Bahrain	5.4	4.5	2.9	2.4	2.7	3.3	2.7	1.8	2.6	2.0
Kuwait	1.2	-1.6	0.4	1.4	3.0	2.6	2.9	3.3	3.3	3.6
Oman	3.9	2.9	3.3	2.1	2.7	1.3	1.0	0.1	1.7	2.0
Qatar	4.6	4.0	4.2	3.5	4.1	3.1	3.0	1.8	1.3	1.5
Saudi Arabia	2.7	3.6	3.4	1.7	2.4	3.5	2.7	2.2	2.1	1.7
United Arab Emirates	4.3	4.6	3.0	2.4	2.9	1.1	2.2	4.2	2.3	2.7
GCC countries	**3.3**	**3.4**	**3.0**	**2.1**	**2.8**	**2.7**	**2.5**	**2.6**	**2.2**	**2.2**
Egypt[d]	2.1	3.5	2.1	2.6	3.1	9.5	10.1	10.4	9.2	10.0
Iraq	7.6	-0.6	-2.8	1.5	5.4	1.9	2.2	1.4	1.8	2.0
Jordan	2.8	3.1	2.4	1.9	2.4	4.8	2.9	-0.9	1.1	1.5
Lebanon	3.0	2.1	1.3	1.4	1.9	5.7	1.7	-3.7	0.5	1.2
Syrian Arab Republic[e]	-16.9	-11.6	-8.1	-6.5	-5.0	87.7	24.3	37.3	44.0	35.7
State of Palestine	2.2	-0.2	3.5	3.1	3.8	1.7	1.7	1.4	1.2	1.7
Mashreq	**1.5**	**0.5**	**-0.3**	**1.1**	**2.7**	**15.9**	**8.5**	**9.3**	**10.1**	**9.6**
Algeria	2.8	3.8	3.2	1.7	2.2	4.1	3.9	4.4	3.9	4.3
Libya	-30.8	-47.7	-22.0	-5.2	-3.3	2.6	2.4	8.6	11.0	10.0
Morocco	4.7	2.4	4.3	2.7	2.9	1.9	0.4	1.6	1.2	1.7
Tunisia	2.4	2.3	0.8	1.6	2.4	5.8	4.9	4.9	4.2	4.0
Maghreb	**-3.1**	**-6.4**	**-1.6**	**0.7**	**1.4**	**3.5**	**2.9**	**4.5**	**4.6**	**4.7**
Comoros	3.5	3.9	3.6	4.0	4.2	1.6	1.4	2.2	2.0	2.2
Djibouti	5.0	6.0	4.7	5.0	5.0	2.5	3.0	2.7	2.2	2.5
Mauritania	5.7	6.4	3.7	3.4	3.5	4.1	3.5	0.5	1.2	2.0

Country/area	Real GDP growth rate 2013[a]	2014[a]	2015[b]	2016[c]	2017[c]	Consumer price inflation rate 2013	2014	2015[b]	2016[c]	2017[c]
Somalia[f]	–	3.7	2.7	3.4	4.3	4.5	1.3	4.0	3.2	2.9
Sudan	5.3	2.5	3.2	3.6	4.0	36.5	36.9	16.9	15.1	14.6
Yemen	3.2	1.5	-34.6	-11.1	-7.5	11.0	8.0	30.0	35.0	32.5
Arab least developed countries	**4.5**	**2.5**	**-7.3**	**-0.5**	**0.8**	**26.5**	**25.7**	**19.2**	**19.4**	**18.4**
Total, Arab region[g]	**1.8**	**0.9**	**0.9**	**1.5**	**2.4**	**7.2**	**5.2**	**5.4**	**5.4**	**5.2**

Source: National sources.

[a] GDP figures for 2013 and 2014 are from national sources unless otherwise indicated.

[b] March 2016 estimates.

[c] March 2016 forecasts.

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

[e] The GDP growth rate of the Syrian Arab Republic for 2013-2015 is based on estimates from the Economic and Social Commission for Western Asia programme entitled "The national agenda for the future of Syria".

[f] The GDP growth rate and consumer price inflation rate for Somalia are from the 2015 country report by the International Monetary Fund, available at https://www.imf.org/external/pubs/ft/scr/2015/cr15208.pdf.

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

C. Mashreq

17. The economies in the Mashreq subregion are estimated to have contracted by an average of 0.3 per cent in 2015, after registering 0.5 per cent growth in 2014. The major factor affecting the subregion's growth is the dire economic situation in the conflict-affected countries of Iraq and the Syrian Arab Republic. Continuing armed conflict and violence in Iraq, the Syrian Arab Republic and the State of Palestine hampered economic activities significantly. The blockade of the Gaza Strip continued, which prevented effective activities to reconstruct the economic infrastructure and production facilities destroyed in 2014. The expansion in domestic demand in Jordan and Lebanon slowed, thus contributing, in part, to deflation in consumer prices. Growth rates in Jordan and Lebanon were insufficient to maintain the standards of living in those countries, given the significant number of Syrian refugees residing there. A severe balance-of-payments situation continued in Egypt, hampering its economic recovery.

18. In 2016, the economies of the Mashreq subregion are projected to grow by 1.1 per cent on average. The severity of the economic contraction in the Syrian Arab Republic is projected to decrease. Crude oil production in Iraq is expected to rise further, compensating for the weak expansion in domestic demand caused by the armed conflict in the country. Growth in Lebanon and Jordan is forecast to remain weak as geopolitical factors weigh on their economic prospects. In addition, rising financing costs are expected to hamper investment in both countries. Egypt is likely to maintain its current growth level, as the growth potential in the country is capped by the continuing severe balance-of-payments situation. The State of Palestine is expected to experience moderate growth, but the growth rate falls far short of what is needed for the reconstruction of the Gaza Strip. The forecast growth rates for 2016 are 2.6 per cent for Egypt, 1.5 per cent for Iraq, 1.9 per cent for Jordan, 1.4 per cent for Lebanon and 3.1 per cent for the State of Palestine. The Syrian Arab Republic is forecast to experience a 6.5 per cent economic contraction in 2016.

D. Maghreb

19. The economies of the Maghreb subregion are estimated to have contracted by an average of 1.6 per cent in 2015, after a contraction of 6.4 per cent in 2014. The average growth of the subregion continued to be heavily influenced by the growth estimates for Libya, where the economy is projected to experience contraction for three consecutive years. Domestic demand in Libya has crashed as a result of political instability and armed conflict. A certain level of oil and gas production was maintained, but it was insufficient to prevent the Libyan economy from contracting. In 2015, an increase in agricultural output gave a boost to growth in Morocco, while other sectors maintained stable growth. Tunisia experienced a severe deceleration in economic growth as a deteriorating balance-of-payments condition restricted expansion in its domestic demand. Multiple security incidents had a negative impact on the tourism sector, thus contributing to a significant decline in services exports. Public investment remained the main driver of growth in Algeria, despite declining oil and gas revenues.

20. Overall, the subregion of the Maghreb is projected to experience 0.7 per cent economic growth in 2016. The contraction in the Libyan economy is forecast to continue, but to a lesser extent. Morocco is forecast to see decelerated growth owing to a decline in agricultural production compared with the previous year. Space for domestic demand expansion is likely to remain limited for Tunisia, as its severe balance-of-payments situation is likely to persist. Also, the negative impact of the spillover from armed conflict in Libya on the security situation poses a downside risk. Economic expansion in Algeria is projected to slow owing to the decline in public spending caused by fiscal consolidation. For 2016, the forecast growth rates are 1.7 per cent for Algeria, 2.7 per cent for Morocco and 1.6 per cent for Tunisia. The Libyan economy is projected to contract by 5.2 per cent.

E. Arab least developed countries

21. The economies of Arab least developed countries are, on average, estimated to have contracted by 7.3 per cent in 2015. The Sudan managed to maintain consistent economic expansion despite an ongoing severe balance-of-payments situation. Progress was made on the diversification of its export items, and the economy showed signs of increased resilience following the instability that had prevailed since 2012. Growth in Mauritania has stagnated owing to negative spillover from weak iron ore prices. Mineral-related investment has slowed, and growth in the agricultural and fishery sectors was insufficient to maintain the level of domestic demand expansion experienced in previous years. Comoros maintained stable growth in 2015, in line with its long-term trend. A high level of port-related activity driven by the booming Ethiopian economy supported a trend of constant economic growth in Djibouti. Armed violence caused a serious contraction in economic activities in Yemen, with the country’s oil and gas production having ceased in April. Yemeni economic infrastructure was severely damaged by the armed conflict within the country.

22. The real GDP of Arab least developed countries is projected to contract by 0.5 per cent on average in 2016. More space for an expansion in domestic demand is likely to open up for the Sudan, as a moderate improvement in the country’s balance-of-payments situation is expected. Mauritania’s economic expansion is projected to decelerate as a result of weak domestic demand growth and a

continuing decline in foreign capital inflows. The weak prospects for iron ore prices are having an impact, as the tightening balance-of-payments situation hampers domestic demand expansion. Changes in the Yemeni economy are dependent on developments in the security situation. However, negative growth is projected, owing to the serious implosion of the country's domestic demand in parallel with the destruction of economic infrastructure. For 2016, the forecast GDP growth rates are 4 per cent for Comoros, 5 per cent for Djibouti, 3.4 per cent for Mauritania, 3.4 per cent for Somalia and 3.6 per cent for the Sudan. The Yemeni economy is projected to contract by 11.1 per cent in real GDP terms.

F. Prices and inflation

23. The average annual inflation in the consumer price index of the Arab region is estimated to have been 5.4 per cent in 2015, compared with 5.2 per cent in 2014 (see table 2). In GCC countries, weak international commodity prices had a dampening effect on other inflationary pressures, such as the rising price of construction materials owing to subsidy reforms. Low inflation in the eurozone had an impact on several countries, including Jordan, Lebanon and Mauritania. Both Jordan and Lebanon recorded negative inflation rates in 2015. Inflation was contained in Iraq and the State of Palestine, but low inflation rates did not indicate functioning supply chains in either country. Both countries' economic activities faced conflict-related logistical difficulties. In Egypt, a trend of high inflation continued as a result of monetary challenges. The Syrian Arab Republic and Yemen suffered from conflict-related hyperinflation. Libya also experienced a rapid increase in its consumer price index towards the end of 2015. In the Sudan, hyperinflation showed signs of stabilization in 2015.

24. The average inflation rate in the consumer price index of the Arab region is forecast to be 5.4 per cent in 2016. International commodity prices are projected to remain weak, which will keep inflation rates low in most Arab countries. A rise in the price of construction materials due to further subsidy reforms in GCC countries is expected to have a moderate impact on overall price levels in those countries. The inflation rate in the Sudan is expected to stabilize at its 2015 level. Inflation in Libya is projected to accelerate, following the trend in 2015. Inflation in the Syrian Arab Republic is expected to remain high owing to severe constraints on foreign exchange. Monetary challenges pin the inflation rate in Egypt at the 10 per cent mark for 2016. Yemen is forecast to suffer from hyperinflation as a result of its severe balance-of-payments situation and monetary factors.

G. Exchange rates

25. A gradual depreciation of the national currencies of Algeria, Libya, Mauritania, Morocco and Tunisia continued against the United States dollar, mainly as a result of the weakening euro, against which those countries' currencies have traditionally maintained stable exchange rates. The national currency of Kuwait, which is pegged to a basket of currencies, including the euro, also remained weak against the dollar. GCC countries, as well as Djibouti, Iraq, Jordan and Lebanon, have retained the practice of pegging their currencies to the dollar. Egypt managed an orderly depreciation of the Egyptian pound (LE) from LE 7.60 to LE 8.8 to the dollar. The Sudan also managed to set a gradual depreciation of its national

currency, the Sudanese pound, to 6.45 Sudanese pounds to the dollar. The value of the Syrian pound (LS) continued to weaken, from LS 198 to the dollar in January 2015 to LS 442 to the dollar in March 2016. The armed conflict caused a significant devaluation of the Yemeni rial (YRI), from YRI 215 to the dollar in March 2015 to YRI 280 to the dollar in March 2016. Further devaluations of national currencies are forecast for Egypt, Libya, the Sudan, the Syrian Arab Republic, Tunisia and Yemen in 2016.

H. Social dynamics and employment

26. Mass population displacements increased in the Arab region in 2015 owing to intensifying armed conflict in Iraq, Libya, the Syrian Arab Republic and Yemen. The movements of refugees and migrants reached an unprecedented level, reflecting the humanitarian crises in the region. The influx of refugees into Europe from the Arab region, including Iraqis and Syrians, highlighted the desperation of those displaced.

27. Unemployment rates remained high in the Arab region. According to the most recent figures available for 2015, the unemployment rates were as follows: Egypt, 12.7 per cent (in the second quarter);[11] Jordan, 13.6 per cent (in the fourth quarter);[12] Morocco, 9.2 per cent (in the fourth quarter);[13] Tunisia, 15.4 per cent (in the fourth quarter);[14] Saudi Arabia, 11.5 per cent among Saudi nationals (in the second half of the year);[15] and the State of Palestine, 25.8 per cent (in the fourth quarter).[16] Gender gaps in unemployment rates widened in those countries as the employment rates for female job seekers deteriorated. The rapid increase over the past few years in the female unemployment rate in the State of Palestine is particularly alarming, having surged to 39.7 per cent in the fourth quarter in 2015[17] from 26.8 per cent in 2010. In Jordan, Saudi Arabia and Tunisia, where the gender gap in the unemployment rate had shown improvements leading up to 2014, that trend was reversed in 2015. Intensifying armed conflict had a devastating impact on the employment conditions in Iraq, Libya, the Syrian Arab Republic and Yemen. Pressures to emigrate from conflict-affected Arab countries persisted as larger segments of the population were dependent on humanitarian aid, having lost income and savings.

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[11] Egypt, Central Agency for Public Mobilization and Statistics, "Labor force, employment and unemployment in Egypt" (30 March 2016). Available from http://www.msrintranet.capmas.gov.eg/pepo/Labour%20Force/sdds_lb1_e.pdf.

[12] Jordan, Department of Statistics, press release 8 February 2016. Available from http://dos.gov.jo/dos_home_e/main/archive/Unemp/2015/Emp_2015-q4.pdf

[13] Morocco, Haut-Commissariat au Plan, "La Situation du marché du travail au quatrième trimestre de l'année 2015" (30 March 2016). Available from http://www.hcp.ma/La-Situation-du-marche-du-travail-au-quatrieme-trimestre-de-l-annee-2015_a1665.html.

[14] Tunisia, National Statistical Office, "Enquête nationale sur la population et l'emploi" (30 March 2016). Available from http://www.ins.nat.tn/indexen.php.

[15] Saudi Arabia, General Authority for Statistics (30 March 2016). Available from http://www.stats.gov.sa/en/node/4932.

[16] State of Palestine, Palestinian Central Bureau of Statistics, "Labour force survey (October-December, 2015) Round (Q4/2015)" (30 March 2016). Available from http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ42015E.pdf.

[17] Ibid.

IV. Policy developments

28. Policymakers in the Arab region continued to face substantial policy constraints. Those constraints prevented them from adopting policies to stimulate domestic demand. A tighter monetary stance, paired with rising financing costs in the Arab region and in GCC countries in particular, would significantly constrain growth in the region, as the fiscal side has already been tightened in Arab countries following the oil price plunge last year. The United States Federal Reserve decided to raise interest rates by 0.25 percentage points, shifting the target band for the federal funds rate from a range of 0 to 0.25 per cent to a range of 0.25 to 0.5 per cent on 16 December 2015. This was the first change in United States interest rate policy since 2008 and the first hike since 2006. The change in interest rates had an impact on the monetary policy of those countries in the region whose national currencies are pegged, either officially or unofficially, to the dollar, namely, Bahrain, Djibouti, Jordan, Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates. It also had an impact on the monetary policy of Kuwait, where the national currency is pegged to a basket of currencies in which the dollar is significantly weighted. Consequently, the central banks of Bahrain, Kuwait, Saudi Arabia and the United Arab Emirates raised their respective deposit rates by 0.25 percentage points, following the United States Federal Reserve's interest rate decision.

29. The impact of these policy changes, however, was limited in the short run, in part because the financial markets in both the United States and the Arab region had anticipated the changes. A slight rise in financing costs within the expected margins was observed in the region. Nevertheless, the impact in the medium to long run is expected to be felt throughout the Arab region. Financing costs are expected to rise in GCC countries in line with the United States monetary policy. Central banks in Algeria, Egypt, Jordan, Morocco and Tunisia have lost the opportunity to utilize monetary measures for domestic demand expansion. In 2015, key interest rates were lowered in Egypt (in January), Jordan (in January, February and July) and Tunisia (in October) as inflationary pressures receded owing to lower prices for commodities, including energy and food items. However, a deteriorating balance-of-payments situation forced Egypt to raise its interest rates in December 2015 and March 2016. It is unlikely that Arab central banks will take monetary easing measures in 2016 in the current international financial environment. Egypt and Tunisia may tighten their monetary stances to cope with their tight balance-of-payments situations.

30. Fiscal balances in GCC countries deteriorated quickly in 2015 in line with falling oil prices and a failure to cut expenditures. Budget cuts, particularly in terms of capital expenditures, are expected in GCC countries with the exception of Kuwait and Qatar. Both countries are projected to maintain neutral fiscal stances in terms of nominal GDP. Arab Governments in other subregions continue to aim their policies at achieving fiscal consolidation amid continuingly weak revenue prospects. Direct and indirect international assistance have become essential for those countries in maintaining their levels of capital spending, including on development projects. In the State of Palestine, the reconstruction of the Gaza Strip since the 2014 war has gradually accelerated despite the fact that, in February 2016, the disbursement rate stood at 39 per cent of the aid pledged by international donors.[18]

[18] World Bank, "Reconstructing Gaza — Donor pledges", 16 March 2016. Available from http://www.worldbank.org/en/programs/rebuilding-gaza-donor-pledges.

V. Prospects

31. The Arab region on average is forecast to grow by 1.5 per cent in 2016. Lower oil prices and oil revenues are likely to place GCC countries in relatively weaker positions both in fiscal terms and with respect to their balance-of-payments situations. Nevertheless, GCC countries are not expected to be under either fiscal or external constraints in terms of expansion in their domestic demand. Business sentiment and consumer confidence remain weak, but steady growth in domestic demand over next two years is projected for GCC countries, in part as a result of the rapid growth of the Indian economy. GCC countries face challenges with respect to the direction of their economic diversification strategies. A series of reform measures, including subsidy reforms, have highlighted the seriousness of their policy efforts to cope with lower oil prices. As their economies have a certain measure of resilience, GCC Governments are expected to make progress in fiscal consolidation aimed at coping with the "new normal" of low oil revenues.

32. Arab countries in the Mashreq and the Maghreb and Arab least developed countries benefited from lower prices of commodities, including for food and energy. However, the margin of benefit was much lower than expected. Slight improvements in trade balances were offset by weaker inflows of foreign capital resulting from the shift in United States monetary policy. As a result, balance-of-payments conditions generally tightened, as it became more difficult to finance current account deficits. The deteriorating balance-of-payments conditions will be a major constraint on economic growth in 2016 in Arab countries in the Mashreq and the Maghreb and Arab least developed countries, as will the difficult economic situations in Iraq, Libya, the Syrian Arab Republic, Yemen and the State of Palestine, all of which were affected by conflict. Tighter balance-of-payments conditions restrict the expansion of domestic demand and suppress living standards unless effective external assistance is provided, and the need for such assistance is likely to increase in 2016 in these subregions.

33. With the savings glut in developed economies, on the one hand, and the tightening balance-of-payments conditions in developing economies, on the other, the world economy is becoming increasingly polarized. Market mechanisms have failed to balance the availability of funds for development between developed and developing economies. The socioeconomic consequences of this imbalance are grim, especially when they are combined with the pre-existing geopolitical risks that have been having a negative effect on economic activities, particularly in the Arab region. Excess available savings must be invested and utilized to alleviate the balance-of-payments conditions in developing economies, including those of the Arab region. Both regional and international support measures are increasingly vital to efforts to alleviate macroeconomic constraints and create a solid foundation for sustainable economic and social development in those countries.