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Economic and social developments in the Economic and Social Commission for Western Asia region for the period 2016-2017

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith an overview report on economic and social developments in the Economic and Social Commission for Western Asia region for the period 2016-2017.

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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region for the period 2016-2017

[Original: Arabic and English]

Summary

Economic expansion in the Arab region slowed in 2016, with the average growth rate of gross domestic product (GDP) at 1.8 per cent. International commodity prices, including for crude oil, remained low, agriculture in the Maghreb was hit by severe drought and geopolitical tensions continued to discourage tourism. Rising interest rates in the United States of America dampened domestic credit growth. The balance-of-payments situation remained tight for non-oil exporting Arab countries, particularly Egypt, the Sudan and Tunisia. War and political violence continued to plague Iraq, Libya, Palestine, the Syrian Arab Republic and Yemen. Global economic recovery in 2017 should improve the region's prospects, in spite of the political and social fallout of tensions affecting it, such as potential travel restrictions affecting certain Arab countries. Recovering oil prices and an expansion of domestic demand should accelerate the real growth rate to 2.5 per cent. That said, the degree of recovery is unlikely to be enough to fund policies aimed at implementing the Sustainable Development Goals (SDGs). Arab countries need to redouble fiscal consolidation efforts, and should deepen regional cooperation to make optimum use of financial, human and natural resources.

I. Global context

1. In 2016, the world economy proved resilient in the face of political uncertainty in the developed world, where the prospects of a return to inflation became more apparent, and rising geopolitical tensions in developing economies. A prolonged global slump, arising from weak investment in developed economies and record low policy interest rates in Europe and Japan, had been feared. However, signs of recovery appeared in the second half of 2016, with improved business sentiment and consumer confidence in most developed economies. The continued fast pace of economic expansion in East and South Asia, particularly in China and India, remained the principle driver of global economic growth.

2. The rapid decline of unemployment confirmed the robustness of economic growth in the United States of America. The United States Federal Reserve lifted interest rates by 0.25 of a percentage point in December 2016 and again in March 2017, as the possibility of wage-driven inflation reared its head. Despite political uncertainty, economic expansion in the United States is forecast to accelerate in 2017. European economies also showed signs of improvement, in spite of difficulties facing the European Union. The European Central Bank refrained from further easing the euro after March 2016, as inflation started to pick up. The Japanese economy also accelerated towards the end of 2016. Financial markets reacted calmly to the tightening of US monetary policy, underlining the strength of the present expansion in developed economies.

3. While China and India powered ahead, other developing economies, particularly in Latin America, the Caribbean and Eastern Europe, including Russia, bottomed out in 2016. The gradual recovery in the price of oil and other commodities boosted consumer confidence and business sentiment in those regions. African economies, however, are overly reliant on commodity exports and were also adversely affected by extreme weather conditions in 2016. Drought struck parts of East Africa for the second year in a row. The impact of US interest rate hikes on developing economies was milder than expected. The cost of finance crept up in most but growth in private investment was stable. Several developing economies, however, remain fragile due to a combination of the monetization of fiscal deficits and structural trade deficits.

4. The employment situation improved somewhat in developed economies but it deteriorated further in developing economies. Wage growth in developed countries, however, remained weak, as many of the jobs created were in vulnerable forms of employment. Moreover, youth unemployment remained especially high in Europe. The worsening employment picture in developing economies was exacerbated by increasingly restrictive immigration policies in developed and other host economies for migrant labour. Meanwhile, wages in China have reportedly tripled in the past decade. That is likely to have a considerable impact on global migrant labour dynamics in the near future.

5. External economic conditions for the Arab region (divided for the purposes of the report into subregions: the Gulf Cooperation Council (GCC) countries (Bahrain Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates); the Mashreq (Egypt, Iraq, Jordan, Lebanon, Palestine and the Syrian Arab Republic); the Maghreb (Algeria, Libya, Morocco and Tunisia); and the Least Developed Countries (the Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen) have improved. As global deflationary pressures dwindled, the price of oil bounced back and those of other commodities stabilized. The orderly reaction of financial markets to US interest rate hikes and improved economic performance in Europe buoyed non-oil exports from the Arab region. However, geopolitical tension, partly driven by external political factors, continues to weigh the region down.

II. Natural resource commodities

A. Oil

6. According to the Organization of the Petroleum Exporting Countries (OPEC), the total world demand for oil in 2016 was an estimated average 95.1 million barrels per day (b/d), up by 1.4 million b/d from 2015. OPEC projects that the figure will increase to 96.3 million b/d in 2017. Rising demand and a slowdown in supply growth, mainly due to a significant decline in crude oil production in the United States in the first half of 2016, reduced the margin of oversupply to 0.8 million b/d (total supply was 95.9 million barrels a day) in 2016 from 1.8 million barrels the previous year. Towards the end of 2016, major oil producing countries, excluding the United States, agreed to coordinate a reduction in production. On 30 November, OPEC member countries agreed to reduce production in the first half of 2017 by 1.25 million b/d. On 10 December, non-OPEC oil producing countries agreed to reduce their crude oil production by a total of 0.55 million b/d.

7. The oil market is projected to rebalance by the fourth quarter of 2017. Firm growth in demand is expected from India, which in 2016 became the third largest energy consumer, after the United States and China. Demand from China, which continues to enjoy economic growth and plans to boost its national strategic reserve to 500 million barrels of oil by 2020, is also likely to grow steadily. Recovering demand in Europe will contribute to growth in demand for crude. Stable refining margins and moderate growth in tanker rates tend to confirm growth projections. Growth in demand at the rates seen in 2016 and the planned cuts in production in the first half of 2017 will be sufficient to accommodate a projected increase in US production of between 0.4 and 0.7 million b/d and additional crude supply from storage. In the medium term, supply capacity will be constrained due to the lack of investment in capacity expansion since 2014. If demand growth remains stable, the market should tighten gradually over the next few years.

8. Oil price volatility in 2016 led to greater activity by crude oil producers and speculators in the futures markets. The price of oil is expected to oscillate between $50 and $60 per barrel in 2017, and stabilize at around $80 per barrel by 2020. US producers are expected to be active sellers of short contracts, at around $60 per barrel, to secure profits against downward pressure on the price from rising domestic production. The OPEC Reference Basket price is forecast at $54.80 per barrel on average in 2017 and $57.90 per barrel in 2018 (table 1).

Table 1
Crude Oil Price Estimation and Forecast
(OPEC Reference Basket, $ per barrel)

				Forecast annual average		
	Minimum	*Maximum*	*Annual Average*	*Lower*	*Baseline*	*Higher*
2014	52.00	110.48	96.29			
2015	30.74	64.96	49.49			
2016	25.21	53.46	40.76			
2017				45.6	54.8	63.9
2018				36.0	57.9	84.2

Source: OPEC data for 2014-2016, available from www.opec.org (accessed 10 March 2017). Figures for 2017 and 2018 are ESCWA staff forecasts as of March 2017.

9. Total crude oil production for 2016 in the Arab region is estimated at 25.3 million b/d on average, up 1.7 million b/d on 2015. GCC countries are estimated to have produced 18.4 million b/d in 2016, an increase of 0.7 million b/d over the previous year. Production in Iraq grew substantially, due to the recovery of production facilities in the north and facility expansion in the south. In Libya, production plunged to an estimated 360,000 b/d in 2016, while in Yemen facilities remained shut down. Total production in the Arab region is forecast to decline moderately in 2017 to 24.4 million b/d. The region's total gross oil export revenues are estimated at $321 billion for 2016, a 14 per cent drop from the previous year. Since the projected price increase should outweigh the decline in production, total revenues are forecast to increase by 29 per cent to $415 billion in 2017. Nevertheless, that total is still 51 per cent lower than the peak in 2012.

B. Natural gas

10. Although more natural gas reserves have been found in the Arab region, its export potential has been exploited by only a limited number of Arab countries: Algeria, Egypt, Iraq, Libya, Oman, Qatar, the United Arab Emirates and Yemen. Saudi Arabia uses natural gas for domestic consumption only. Iraq exported its first shipment in March 2016. Nevertheless, like Egypt and the United Arab Emirates, it remained a net importer of gas due to rising internal demand. In Egypt, an increase in production is likely to return it to net exporter status by 2019. Yemen plans to resume production of liquefied natural gas (LNG), which was suspended in April 2015 as a result of armed conflict. In Lebanon, two decrees were issued in December 2016 to license exploration in the east Mediterranean gas field.

11. As of February 2017, the benchmark price stood at $6.27 per million British thermal units (mmbtu) for Europe, $7.5 for Japan and $2.82 for the United States. Those benchmark prices have bottomed out with narrowing regional spreads, which are expected to narrow further due to ongoing investment in LNG trading and deliveries. Moves to establish a secondary gas trading market in Singapore and construction there of an additional LNG terminal are expected to make it a regional hub for LNG trading. As more countries strive to meet carbon emission goals, demand for natural gas is projected to grow. Infrastructure improvements in 2017 will encourage further integration of regionally segmented natural gas markets.

C. Phosphate

12. Demand for fertilizer stagnated in the 2015-2016 crop year due to bad weather in several major production areas of grains, which led to a decline of 2.3 per cent in production. Good weather in the first quarter of 2017, however, has fueled expectations of a rise in production of 4.7 per cent in 2016-2017, which in turn should lead to a rebound in demand for fertilizer. According to the International Fertilizer Industry Association (IFA), global fertilizer demand dropped by 0.1 per cent to 183.4 million tons in the 2015-2016 crop year over the previous season. Demand for phosphorus nutrient, however, grew by 1.4 per cent to 41.6 million tons. The IFA forecasts increases in demand in 2016-2017 of 2.1 per cent for fertilizer and 1.6 per cent for phosphorus nutrient respectively. Following the lead of Morocco, Saudi Arabia boosted production capacity of phosphate-based products, such as phosphoric acid and diammonium phosphate, in 2016.

13. The price of phosphate rock declined by 16 per cent to $103 per metric ton in the year to December 2016 and is expected to hover around the $100 mark in 2017. The price of diammonium phosphate continued its downward trend of the previous

year and fell by 21 per cent to $315 per metric ton in 2016. It is projected to recover to around $380 in 2017.

III. Regional trends

A. Overview

14. The economy slowed in most Arab countries in 2016, with low international commodity prices, tourism affected by regional tensions and conflict, and the rising cost of financing domestic credit. Moreover, a severe drought hit the Maghreb countries in 2016. Real GDP growth in the Arab region is estimated at 1.8 per cent in 2016 (table 2), down from 2 per cent in 2015. The figure is subject to future revision, as official national accounts have been unavailable for Libya, the Syrian Arab Republic and Yemen for some years. The destruction resulting from conflict in those countries makes even an estimation of economic costs difficult. Recovery in the Arab region is expected in 2017, with average real GDP reaching 2.5 per cent on the back of firmer oil prices and expanding domestic demand.

B. Gulf Cooperation Council countries

15. GDP growth in the GCC countries in 2016 is estimated at 2 per cent, down from 3.5 per cent the previous year. There was a slight rise in crude oil production and refinery activities. The non-oil sector continued its downward trend, except in Bahrain and Kuwait, where it expanded moderately in 2016. With low oil export revenues, Governments extended austerity measures into the fiscal year covering 2016. The value of financial and real estate assets stagnated, albeit above the lows recorded in the wake of the global financial crisis of 2008. With the rising cost of finance and tighter monetary policy, broad money growth declined throughout the subregion. Qatar and Saudi Arabia recorded negative broad money growth in 2016, indicating unusually weak domestic credit growth. Consequently, the economic expansion of 2015 could not be replicated in 2016.

16. GDP growth should recover moderately in the GCC countries in 2017. The recovery in oil export revenues is expected to improve business sentiment and consumer confidence. Less austere fiscal policy should stimulate domestic demand. Financing costs will rise further, spurred by expected interest rate hikes in the United States. However, their impact on credit growth is uncertain, as it is determined mostly by the value of financial and real estate assets. Economic growth in China and India should have a positive influence on growth in the GCC countries. Average real GDP growth rate for the subregion is projected at 2.3 per cent for 2017. Kuwait, Oman, Qatar and the United Arab Emirates are projected to grow faster than the subregional average. Growth in Saudi Arabia will be subdued as structural adjustments in the supply side continue and financing costs rise. Forecast growth for 2017 is 2 per cent for Bahrain, 2.4 per cent for Kuwait, 2.6 per cent for Oman, 3 per cent for Qatar, 1.8 per cent for Saudi Arabia and 2.9 per cent for the United Arab Emirates.

Table 2
Real GDP Growth Rate and Consumer Price Inflation Rate, 2014-2018
(Annual percentage change)

	Real GDP growth rate					*Consumer price inflation rate*				
Country/subregion	*2014*	*2015*	*2016[a]*	*2017[b]*	*2018[b]*	*2014*	*2015*	*2016[a]*	*2017[b]*	*2018[b]*
Bahrain	4.5	2.9	3.4	2.0	2.2	2.7	1.8	2.8	3.2	3.8
Kuwait	0.5	1.8	2.7	2.4	3.0	2.9	3.3	3.2	3.4	4.0
Oman	2.9	5.7	1.6	2.6	3.6	1.0	0.1	1.1	2.7	3.6
Qatar	4.0	3.6	2.7	3.0	3.2	3.0	1.8	2.7	2.2	3.2
Saudi Arabia	3.6	3.5	1.4	1.8	3.0	2.7	2.2	3.5	2.0	3.5
United Arab Emirates	3.1	3.8	2.4	2.9	3.2	2.3	4.1	1.6	2.5	3.8
GCC countries	3.3	3.5	2.0	2.3	3.1	2.6	2.6	2.7	2.3	3.6
Egypt[d]	3.1	3.4	2.3	2.7	3.2	10.1	10.4	13.7	17.9	15.0
Iraq	-0.6	-2.4	1.5	3.6	3.9	2.2	1.4	2.8	3.2	3.5
Jordan	3.1	2.4	2.1	2.4	2.7	2.9	-0.9	-0.8	4.1	2.2
Lebanon	2.1	1.3	1.4	1.9	2.2	1.7	-3.7	-0.8	3.8	2.3
Palestine	-0.2	3.4	3.8	3.6	3.8	1.7	1.4	-0.2	1.2	2.0
Syrian Arab Republic[e]	-11.6	-8.1	-6.5	-5.0	0.0	24.3	38.2	46.1	21.3	13.9
Mashreq	1.3	1.1	1.6	2.5	3.1	7.4	7.3	10.1	11.9	9.9
Algeria	3.8	3.2	2.9	2.8	2.7	3.9	4.4	5.8	6.4	5.5
Libya	-47.7	-18.1	5.0	12.8	18.2	2.4	9.8	27.2	22.5	12.5
Morocco	2.4	4.5	1.1	3.8	3.5	0.4	1.6	1.6	1.8	2.0
Tunisia	2.3	1.1	1.0	2.5	3.2	4.9	4.9	3.7	4.2	4.7
Maghre[b]	-2.6	0.9	2.4	4.2	4.7	2.9	4.3	6.8	6.6	5.2
Comoros	3.9	3.6	2.2	3.5	3.8	1.4	2.2	1.8	3.5	3.6
Djibouti	6.0	6.5	6.7	6.8	6.8	3.0	2.7	3.1	3.6	4.0
Mauritania	6.6	1.9	3.4	4.9	4.5	3.5	0.5	1.4	3.2	4.5
Somalia[f]	3.6	3.6	3.4	2.5	3.5	1.3	1.4	1.5	2.7	1.9
Sudan	2.7	4.9	3.2	3.7	4.0	37.5	17.3	17.6	15.2	14.5
Yemen	1.5	-34.6	-11.1	-7.5	-5.0	8.0	39.4	35.0	22.5	18.0
Arab LDCs	2.6	-6.5	-0.8	0.5	1.5	25.5	22.0	21.0	16.1	14.4
Total Arab region[c]	**1.9**	**2.0**	**1.8**	**2.5**	**3.2**	**5.0**	**5.1**	**6.1**	**6.0**	**6.0**

Source: Data are taken from national sources, unless otherwise indicated in the following notes.
Notes:
[a] March 2017 estimates.
[b] March 2017 forecasts.
[c] Figures for country groups are weighted averages, where weights for each year are based on GDP in 2015.
[d] For GDP growth rate in Egypt, figures are for the country's fiscal year, which ends in June.
[e] 2013-2015 GDP growth rates in the Syrian Arab Republic are ESCWA estimates (National Agenda for the Future of Syria project).
[f] GDP growth rate and consumer price inflation rate for Somalia are from International Monetary Fund Country Report No. 17/61 (2016 Article IV Consultation). Available from www.imf.org/en/Publications/CR/Issues/2017/02/27/Somalia-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44706.

C. Mashreq countries

17. Growth in the Mashreq countries in 2016 averaged an estimated 1.6 per cent in 2016, up from the 1.1 per cent registered in 2015, but was dampened by deteriorating foreign exchange conditions. The situation was particularly precarious in Egypt, which was obliged to seek a substantial inflow of foreign financial resources and, in November 2016, devaluate its national currency by 53 per cent. The Iraqi economy regained some stability as the security situation improved in parts of the country. The economy of the Syrian Arab Republic is estimated to have contracted further as the war ground on. Palestine recorded relatively high growth, but per capita income remained below pre-2006 levels. The economies of Jordan and Lebanon, feeling the impact of armed conflict in Iraq and the Syrian Arab Republic, and occupation in Palestine, remained subdued. The dwindling tourism sector contributed to weaker domestic demand in both countries.

18. Average growth for the subregion in 2017 is projected to reach 2.5 per cent. The contraction in the Syrian Arab Republic should narrow in 2017, with a recovery in economic activity in Damascus and Aleppo. However, war, sanctions and a worsening agricultural sector continue to weigh down the Syrian economy. The Iraqi economy is forecast to recover further as the security situation improves. Having attracted foreign capital and bolstered its foreign reserves in the first quarter of 2017, Egypt is expected to maintain a steady course of economic expansion. Growth in Jordan and Lebanon will remain weak. Moderate growth is forecast for Palestine, but it will be insufficient to drive reconstruction of the Gaza Strip and bring per capita income to pre-2006 levels. The forecast GDP growth rates for 2017 are 2.7 per cent for Egypt, 3.6 per cent for Iraq, 2.4 per cent for Jordan, 1.9 per cent for Lebanon and 3.6 per cent for Palestine. The economy of the Syrian Arab Republic is expected to contract by 5 per cent.

D. Maghreb countries

19. Economic growth in the Maghreb averaged 2.4 per cent in 2016, up on the 0.9 per cent recorded in 2015. The figure is heavily conditioned by estimates for Libya, where economic activities are constrained by violence and political instability. Nevertheless, the Libyan economy is estimated to have grown in 2016 despite stagnation in the oil sector. Because the base of the Libyan economy had shrunk so rapidly by 2016, a moderate expansion in the non-oil sector, observed towards the end of the year, brought the economy back on to a growth path. Severe drought hit Algeria, Morocco and Tunisia, causing a contraction in agriculture in those countries. Other sectors, however, experienced consistent growth. Broad money growth accelerated in 2016, especially in Tunisia, after a slump in the previous year, indicating a recovery in non-agriculture sectors, including tourism.

20. Growth of 4.2 per cent is expected for the subregion in 2017. The Libyan economy is on the path to recovery, with reconstruction efforts and crude oil exports both picking up. Good winter rains bode well for agriculture in Algeria, Morocco and Tunisia. Other sectors in those countries are expected to mark a consistent expansion with the expected recovery in commodity prices. Domestic demand is expected to be steady in Algeria and Morocco. The severe balance-of-payments situation in Tunisia will restrain domestic demand in that country. Forecast growth rates for 2017 are 2.8 per cent for Algeria, 12.8 per cent for Libya, 3.8 per cent for Morocco and 2.5 per cent for Tunisia.

E. Arab least developed countries

21. The Arab least developed countries (LDCs) experienced an average economic contraction of 0.8 per cent in 2016. The figure is largely the result of continued contraction in Yemen, exacerbated by ongoing armed conflict, the loss of revenues from oil and natural gas exports, and the destruction wrought on the agriculture sector. In the Sudan, the balance-of-payments situation has deteriorated, despite efforts to diversify the country's exports, after a significant improvement in the previous year. Mauritania has seen growth in agriculture, fisheries and other non-mineral sectors, supported by growing domestic demand. Growth remained stable in the Comoros, where urbanization continued, and domestic demand and foreign aid inflows rose. With port activities at full capacity, Djibouti experienced relatively high growth. Growth in Somalia was steady but slow for a country in a phase of reconstruction.

22. In 2017, the real GDP of the Arab LDCs is expected to average growth of 0.5 per cent. With no improvement in the security situation in sight and agriculture badly hit by the fighting, Yemen is unlikely to resume oil and gas exports and the economy will continue to contract. Foreign exchange difficulties will hinder domestic demand growth in the Sudan, despite development of the oil and mining sectors. Mauritania could benefit from a predicted rise in the price of iron ore. Predicted GDP growth rates for 2017 are 3.5 per cent for the Comoros, 6.8 per cent for Djibouti, 4.9 per cent for Mauritania, 2.5 per cent for Somalia and 3.7 per cent for the Sudan. A 7.5 per cent contraction is forecast for Yemen.

F. Prices and inflation

23. Average annual consumer price inflation for 2016 in the Arab region is estimated at 6.1 per cent, compared with 5.1 per cent in 2015 (table 2). Inflationary pressures remained weak in GCC countries, where food prices declined in the second half of 2016. Aggregate price levels in GCC countries were determined by country-specific factors, including the cost of domestic services, transport and utilities. Jordan, Lebanon and Palestine experienced deflation, influenced by a weak euro and low commodity prices. In Jordan and Lebanon, the aggregate price level declined for the second year in a row. Inflationary pressures were contained in Iraq, despite the uncertainty of supply in parts of the country due to ongoing armed conflict. A shortage of foreign reserves, the declining value of national currencies, rising fiscal deficits and the rapid increase in money stock resulted in hyperinflation in Egypt, Libya, the Sudan, the Syrian Arab Republic and Yemen. The poor harvest in Algeria, Morocco and Tunisia resulted in mild inflation driven by rising food prices. Inflationary pressures in the Comoros, Djibouti and Mauritania were contained as international commodity prices remained low throughout 2016.

24. It is estimated that consumer price inflation rate for the region will average 6 per cent in 2017. International commodity prices have bottomed out and are projected to start rising moderately. However, that is expected to push inflation up substantially in Jordan and Lebanon. Prices are set to continue rising quickly in Egypt, Libya, the Sudan, the Syrian Arab Republic and Yemen as those countries face severe foreign exchange constraints. Economic recovery in GCC countries is expected to come with mild inflationary pressure. The expected introduction of a unified value-added tax (VAT) in 2018 is likely to fuel consumer inflation in 2017 and 2018. Inflation driven by rising food prices is forecast to continue at a slightly faster pace in Algeria, Mauritanian and Tunisia in 2017.

G. Exchange rates

25. In 2016, GCC countries, Djibouti, Iraq, Jordan and Lebanon continued to peg their currencies to the US dollar. The currencies of Algeria, Mauritania, Morocco and Tunisia remained weak against the dollar in parallel with the weakening euro. The exchange rate of the Kuwaiti dinar, which is pegged to a basket of currencies, stabilized against the dollar. Egypt was forced to abandon its orderly depreciation of Egyptian pound after the sudden drop in the parallel market exchange rate in the third quarter of 2016. In November, Egypt decided to float the pound in order to align the official exchange rate with that of the parallel market. As the result, the pound devaluated from LE8.58 to one US dollar to as low as LE19.06/$1. The discrepancy between the official exchange rate and parallel market rate has widened in Libya and the Sudan. Yemen managed to stabilize the rial after a substantial devaluation in 2015. For 2017, countries with a US dollar peg are forecast to maintain their foreign exchange regime. Further devalutions, to varying degrees, are forecast in Egypt, Libya, Mauritania, the Sudan, the Syrian Arab Republic, Tunisia and Yemen. In the cases of Libya, the Sudan and Yemen, the official exchange rates are likely to be aligned with their respective parallel markets.

H. Social dynamics and employment

26. The mass displacement of populations continued in the Arab region in 2016, largely as a result of the conflicts in Iraq, Libya, the Syrian Arab Republic and Yemen, and the ongoing occupation of Palestinian territory. It not only represents a major humanitarian problem, but hinders socioeconomic development in the region. The 5.15 million Palestinian refugees registered with the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) have been joined by millions more from Iraq, the Syrian Arab Republic, Somalia and the Sudan. According to the Office of the United Nations High Commissioner for Refugees (UNHCR), 5.3 million refugees have fled the Syrian Arab Republic alone. As of June 2016, there were also 1.1 million from Somalia, 638,000 from the Sudan and 279,000 from Iraq. The number of internally displaced persons (IDPs) in 2016 remained high in Iraq (4.3 million), Somalia (1.1 million), the Sudan (3.2 million), the Syrian Arab Republic (6.5 million) and Yemen (2.1 million). Among Arab countries, Djibouti, Jordan, Lebanon and Mauritania remained major host countries. The situation is particularly dire in Yemen, where 17 million Yemenis were food insecure by March 2017.

27. Unemployment in the Arab region remains high. According to the latest available figures for 2016, it stood at: 10.5 per cent (third quarter) in Algeria; 12.4 per cent (fourth quarter) in Egypt; 15.8 per cent (fourth quarter) in Jordan; 9.6 per cent (third quarter) in Morocco; 25.7 per cent (fourth quarter) in Palestine; 12.1 per cent among Saudi nationals (third quarter) in Saudi Arabia; and 15.5 per cent (fourth quarter) in Tunisia. Unemployment deteriorated significantly in Jordan and Palestine, particularly in the Gaza Strip, over 2016, rising by 2.2 percentage points in the year to the fourth quarter in Jordan and the Gaza Strip. Anecdotal evidence suggests that the situation in Lebanon also worsened as job opportunities in GCC countries, traditionally a market for skilled Lebanese, have become more scarce. Competition from Syrian refugees for unskilled work had already exacerbated matters inside Lebanon. The gender gap in unemployment showed no sign of improvement in the region. The rate of female unemployment in Palestine continued to rise at an alarming speed, reaching 43.9 per cent in the fourth quarter of 2016, compared with 26.8 per cent in 2010. In 2016, the rate of female unemployment stood at: 20 per cent in Algeria; 25.3 per cent in Egypt; 24.8 per cent

in Jordan; 11 per cent in Morocco; 34.5 per cent among Saudi females in Saudi Arabia; and 23.1 per cent in Tunisia.

28. According to The Global Gender Gap Report 2016, the Arab region ranked last in terms of achieving gender equality. However, some progress has been observed. In the Jordanian parliamentary elections of September 2016, the number of elected women members of parliament rose from 18 out of 150 to 20 out of 130. As a result of elections in December 2016, the number of women sitting on municipal councils in Oman rose from 4 to 7. The only female member of parliament in Kuwait held her seat in elections in 2016. In Tunisia, parliament passed legislation on gender parity in local councils in June 2016. It is thus expected that the representation of women on local councils will improve greatly in elections due to take place in 2017.

29. No Arab countries have ratified the Domestic Workers Convention, 2011 (No. 189) of the International Labour Organization (ILO). However, some, in particular GCC countries, have maintained dialogue with source countries of migrant labour through the Abu Dhabi Dialogue among the Asian Labor-Sending and Receiving Countries (ADD) and taken measures to provide legal protection for domestic workers. Qatar has approved such legislation and Kuwait has set a minimum wage for domestic workers. In Saudi Arabia, new rules allow domestic workers to transfer employer sponsorship under certain conditions. In the United Arab Emirates, the Labour Law now provides domestic workers with contractual protection. The ADD held a meeting of senior officials in May 2016.

IV. Policy developments

30. Arab countries need to mobilize financial resources externally and internally if they are to fulfil aspirations awakened by the Sustainable Development Goals (SDGs). However, the monetary and fiscal environment remains challenging. Available financial resources have shrunk due to low commodity export revenues and the slump in industrial exports. Foreign direct investment in the region has waned and been directed largely at the energy sector and real estate. Geopolitical tensions have led Governments in the region to spend more on security.

31. A tighter monetary stance with rising financing costs has been observed in the Arab region, in tandem with rising US dollar interest rates. Central banks in the GCC countries revised up their respective policy interest rates in December 2016 and March 2017, in line with hikes by the US Federal Reserve. They did so cautiously in order not to discourage domestic credit growth. For example, the Saudi Arabian Monetary Authority kept its policy-lending rate unchanged at 2 per cent, having raised its policy deposit rate in line with the Federal Reserve rate rises. The Central Bank of Egypt lifted its set of policy interest rates by 3 percentage points in November 2016 in order to stabilize the currency and contain accelerating inflation. In Jordan, the Central Bank raised its policy interest rates by 0.5 of a percentage point in February 2017 in an attempt to stabilize rapidly rising prices. In the Arab region, only Morocco has been able to afford an expansionary monetary stance recently. Its Central Bank lowered the policy interest rate in March 2016. Monetary policy in Arab countries is expected to tighten in 2017 and 2018 in line with expected further rate rises in the United States.

32. Prompt action by GCC Governments mitigated the deterioration of their fiscal position. They also diversified revenue sources by tapping international capital markets to issue sovereign bonds, abolishing subsidies in stages and planning new taxation schemes, which include a unified value-added tax (VAT). In June 2016, GCC finance ministers agreed to introduce the tax. The rate is expected to be 5 per cent, with special treatment for essential goods. The decision to introduce a unified

rate was designed to minimize the impact on GCC intra-regional trade, which has flourished since the GCC customs union came into operation in January 2015. Although Governments in other subregions continue efforts aimed at fiscal consolidation, debt is growing as revenue bases weaken.

V. Prospects

33. In spite of expected improvements in the global economy, social and economic development in the Arab region will remain beset by difficulties in 2017. The region's geopolitical turmoil is likely to have repercussions at the international level on the economic relations of Arab countries with other countries and regions, and to exacerbate the region's refugee, IDP and unemployment problems. Downside risks within the region persist. The balance-of-payments situation remains tight for non-oil exporting countries, especially Egypt, the Sudan and Tunisia. Conflict and political instability continue to plague the economies of Iraq, Libya, the Syrian Arab Republic and Yemen. The spillover of conflict is dampening the prospects for economic recovery in Jordan and Lebanon. Nevertheless, Arab countries need to redouble fiscal consolidation efforts in order to shore up financial resources needed to implement the SDGs. Projected real GDP growth in the region of 2.5 per cent in 2017 will be insufficient to generate the resources needed to finance development policies. Greater regional cooperation would help to optimize use of the region's financial, human and natural resources.