Economic and Social Commission for Western Asia

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Survey of Economic and Social Developments in the Arab Region

2014-2015

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Preface

The Arab region has been in a transition phase for the past few years. In 2011, the international community set up the Deauville Partnership with Arab Countries in Transition, aimed at supporting Arab countries' transition into free, democratic and tolerant societies. In parallel to this supportive attention from the international community, intraregional support mechanisms have also been at work. The Gulf Cooperation Council and its member countries (GCC countries) have actively pledged and implemented aid to other Arab countries, many of which could not have regained macroeconomic stability without these intraregional aid inflows.

Despite these achievements, international and regional aid today is insufficient to overcome the overwhelming crises in the Arab region, owing to the deteriorating geopolitical and security situation in Iraq, Libya, Palestine, the Syrian Arab Republic (Syria) and Yemen. Intensifying armed violence has led to historically high numbers of externally and internally displaced people in the region. Neighbouring Arab countries are hosting millions of refugees under increasingly tight resource constraints. Many of the displaced are desperately attempting to reach European shores, risking their lives in the Mediterranean Sea at the mercy of human smugglers. In Arab countries that have not been directly affected by armed conflict, there are insufficient decent job opportunities. The gender gap is large, and many women are under threat in conflict-affected areas and refugee camps. Consequently, the Deauville Partnership has identified four priority areas: stabilization, job creation, participation/governance and integration. However, achieving significant progress in these areas appears increasingly elusive in the short run.

Oil prices plunged towards the end of last year, indicating a major structural shift in the global energy sector that has inevitably impacted Arab economies. Oil wealth is vital for oil-exporting Arab countries and is the primary source of positive spillover to oil-importing Arab countries. It constitutes the fundamental pillar of regional growth, upholding a certain level of intraregional flows of capital, remittances and aid from the region's major oil producers. In 2015, geopolitical tensions in the Arab region intensified at the same time as this pillar started to wane. The present report reviews the current state of affairs in the region, based on careful analytical observations of economic and social developments.

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Executive summary

The average growth rate of the gross domestic product (GDP) of the Arab region in real terms for 2014 is estimated at 1.5 per cent, barely changed from 2013. Negative growth estimations for Iraq, Libya and Syria, stemming from intensified armed conflict, have contributed to this stagnation. A significant fall in oil prices and their uncertain prospects have become another predominant economic concern. From their yearly peak in June, oil prices plunged by more than 50 per cent in the second half of 2014.

Despite this significant drop in oil prices, GCC countries have continued to lead growth in the Arab region. Although lower oil prices have affected nominal national income, their impact is less obvious in price-adjusted real GDP figures given that the level of crude oil production has hardly changed. Moreover, the continued expansion of the non-oil sector has maintained GCC economic growth; lower oil prices have not yet negatively affected GCC economic sentiment, although business confidence has started to wane with weakening stock markets and real estate transactions. Furthermore, lower oil prices have benefited oil-importing Arab countries by easing their balance-of-payment and fiscal constraints.

However, this gain is at risk of being offset by declining capital and remittance flows from GCC countries to other Arab countries. Against a backdrop of protracted armed conflict and violence in the region and increasing disruption of intraregional economic activities, one of the main channels for economic stabilization efforts has been intraregional flows of capital and remittances from GCC countries. The Arab region is forecast to grow by an average of 2.4 per cent in 2015, but economic expansion in GCC countries is projected to decelerate. Other Arab subregions, with the exception of conflict-affected countries, are expected to mark moderate growth, owing to an estimated rise in domestic demand because of lower import bills for fuel products and food items.

Meanwhile, no substantial improvement in employment creation has been observed. Progress remains slow in bridging the gender equality gap, although positive developments have been observed since the adoption of the Beijing Declaration and Platform for Action in 1995. Some Arab countries, particularly the Sudan and Tunisia, have shown significant progress in closing the political participation gap, owing to the implementation of quota systems in recent elections. Nevertheless, gender challenges remain in Arab countries because of deficient executive frameworks, gaps in coordination, a lack of funding and human resources, and sluggish inclusion of gender issues in legislation, budgeting and public policy.

Abbreviations and Explanatory Notes

BIS	Bank for International Settlement
CFTC	Commodity Futures Trading Commission (United States Government)
CGE	Computable general equilibrium
DAP	Diammonium phosphate
ECB	European Central Bank
EIA	Energy Information Administration (United States Department of Energy)
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GII	Gender Inequality Index
GNI	Gross national product
HDI	Human Development Index
IEA	International Energy Agency
ILO	International Labour Organization
IMF	International Monetary Fund
IPU	Inter-Parliamentary Union
LDC	Least developed country
LIBOR	London Interbank Offered Rate
MENA	Middle East and North Africa
OAPEC	Organization of Arab Petroleum Exporting Countries
OPEC	Organization of Petroleum Exporting Countries
SWF	Sovereign wealth fund
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
VAR	Vector autoregression
WEF	World Economic Forum
WTI	West Texas Intermediate

References to dollars ($) are to United States dollars, unless otherwise stated. Other currencies use abbreviations defined in ISO4217 currency code, including:

CNY	Chinese yuan renminbi
JPY	Japanese yen

Following the accession of Libya, Morocco and Tunisia to ESCWA in July 2012, it was decided that the territorial coverage of this series of publications would be expanded to include all the countries of the Arab region. The following four subregional groupings are used in the present report, taking into account a combination of per-capita income levels, geographical proximity and similarities in economic and social characteristics and conditions: Gulf Cooperation Council (GCC) countries, incorporating Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; Mashreq countries, comprising Egypt, Iraq, Jordan, Lebanon, Palestine and the Syrian Arab Republic; Maghreb countries, consisting of Algeria, Libya, Morocco and Tunisia; and Arab Least Developed Countries (LDCs), encompassing Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen.


Global economic developments in 2014 were increasingly recognized as possible signs of structural shifts.

I. Global context and its implications for the Arab region

A. Global context

In 2014, the world economy witnessed several significant shifts. Monetary policy stances have revealed a split between the United States of America and other developed economies. Reflecting its robust economic recovery, United States monetary policy is scheduled to be normalized with a hike in interest rates by the end of 2015, but interest rates of other developed economies are expected to stay at their historic lows. This difference in interest rate prospects has caused a significant appreciation of the United States dollar against other major currencies, including the euro and the Japanese yen. A rapid fall in oil prices in the second half of 2014 rebalanced income distributions among oil-exporting countries and oil-importing countries. However, the role of some developing economies as leading growth centres has declined with decelerating economic expansion, including Brazil and China. While the consequences of these shifts are yet to be ascertained, concerns are mounting over the possible long-term stagnation of the world economy as evidenced by a severe deflationary trend in Europe and Japan (box 1).

Robust economic expansion in the United States has continued despite a decrease in the Federal Government's spending (table 1).[1] An active private sector recovering from the 2008 global financial crisis has led this growth.

Table 1. Growth and inflation: world and regional averages, 2013-2016 (Percentage)

	Real GDP growth rate				Consumer price inflation rate			
	2013	2014[a]	2015[a]	2016[a]	2013	2014[b]	2015[b]	2016[b]
Arab region	1.5	1.5	2.4	3.8	7.3	5.1	4.9	4.4
World	2.5	2.6	2.8	3.1				
Developed economies	1.2	1.6	2.2	2.2	1.3	1.5	1.4	1.7
United States of America	2.2	2.4	2.8	2.7	1.4	1.9	1.6	1.6
European Union	0.0	1.3	1.9	2.1	1.5	0.7	1.2	1.7
Japan	1.6	0.0	1.2	1.0	0.4	2.7	1.3	1.5
Economies in transition	2.0	0.7	-2.0	0.9	6.3	8.1	7.4	5.7
Developing economies	4.7	4.4	4.4	4.8	5.8	5.7	5.3	5.0
Africa	3.3	3.3	4.0	4.8	7.2	6.9	6.9	6.8
East and South Asia	6.1	6.2	6.2	6.1	5.3	3.8	3.7	3.8
Latin America and the Caribbean	2.7	1.0	0.5	1.7	7.2	10.2	8.8	7.0

Sources: Figures for the Arab region are ESCWA calculations (see table 5 for details). Other figures are from United Nations (2015). Country groupings are based on United Nations (2015), pp.139-145.

[a] Estimations/projection in part of Project LINK as of May 2015 (with the exception of the Arab region, which is an ESCWA estimation).

[b] Estimations/projection in part of Project LINK as of December 2014 (with the exception of the Arab region, which is an ESCWA estimation).

Box 1. Secular stagnation hypothesis

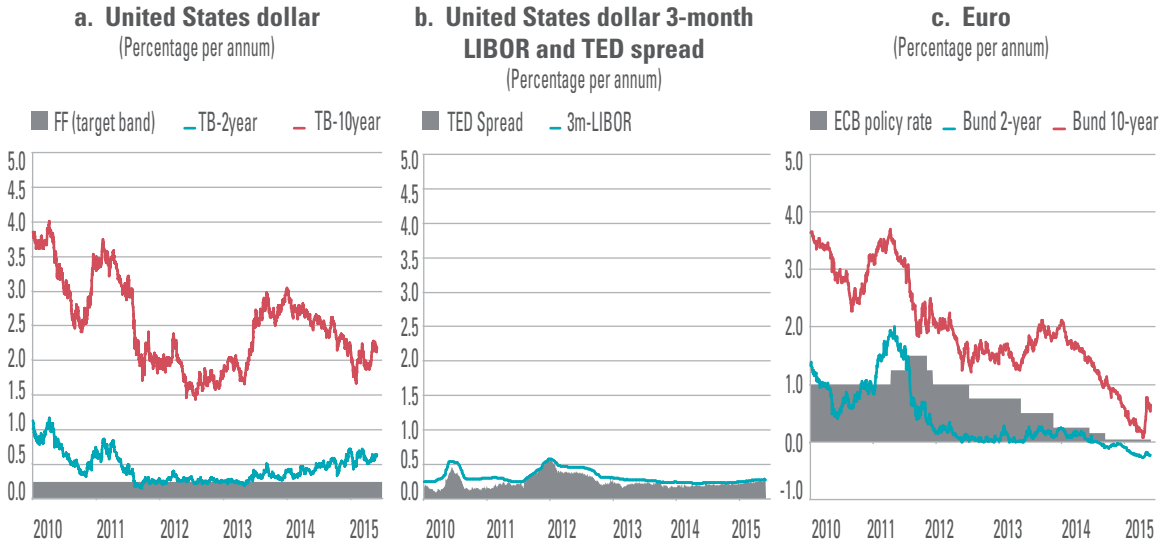
The recent pattern of slow economic growth, low inflation and low real interest rates, commonly experienced in major developed economies, has motivated discussions among macroeconomists as to whether this pattern is the result of structural change in these economies. Recently, Summers[a] argued that the United States economy may have entered a persistently long period of economic stagnation, where a high rate of unemployment could persist with a low growth of outputs and investment, leading to "secular stagnation". The term was first used by Hansen to describe the United States economy during the Great Depression.[b] It refers to long-term economic stagnation initiated by an implosion of effective demand and rising savings. Assuming declining population growth and technological changes, the production side's requirement for physical investment declines in the stagnation process. The decline of effective demand causes deflation, and the resulting excess savings push real interest rates down. In response, the Central Bank is likely to lower policy rates, but it may fail in buoying real interest rates, because it cannot lower nominal policy rates below zero. Summers advocates an active fiscal policy, particularly public investment in infrastructure, to break this vicious cycle by reviving effective demand and creating employment. Critics of the secular stagnation hypothesis point out that it is not applicable to the present United States economy given that the country is recovering, with an improving employment situation and inflation prospects. Moreover, considering existing opportunities to invest in developing economies, which still suffer from shortages of funds, the savings glut at the global level sounds unrealistic. Nevertheless, taking into account that stagnation in Japan has lasted for over 20 years and that some European countries are experiencing severe deflation and low interest rates, the secular stagnation hypothesis may need to be taken seriously. Despite disagreements by macroeconomists on the applicability of the hypothesis,[c] they are increasingly advocating active fiscal policy rather than monetary measures that have been exhausted, so as to achieve robust expansion of effective demand.

[a] Summers, 2014.
[b] Hansen, 1939, p. 4.
[c] Teulings and Baldwin, 2014.

The resilience of the financial sector, backed by recovering asset prices, has supported the expansion of the private sector. The United States Federal Reserve maintained the policy rate in the target range of 0 to 0.25 per cent of the federal funds rate. The uncertainty over economic recovery and the timing of the hike in federal funds rate has caused volatile fluctuations of yields of the United States Treasury bonds (figure 1a). No sign of financial distress has been observed as evidenced by a stable TED spread in the United States dollar (figure 1b).[2] The United States dollar strengthened against both the euro and the Japanese yen in 2013 (see figures 2A and 2B), and against other major currencies in the second half of 2014. It is expected to remain at its present level in 2015, reflecting interest rate prospects and an ongoing economic recovery.

By contrast, the stagnation of the 28 economies of the European Union has continued owing mainly to slow private investment in 2014. Moreover, the debt crisis in Greece has deepened, posing a systemic risk to the eurozone financial system. Domestic demand is so weak that most European economies face severe deflationary pressure and lower international commodity prices. The European Commission has strategized an investment plan to boost private investment,[3] and the European Central Bank (ECB) entered a quantitative easing phase in early 2015 to stimulate credit growth in the eurozone. In addition, ECB started penalizing commercial banks that deposited an excessive amount in the Central Bank. The deposit facility rate was lowered to minus 0.1 per cent in June 2014 and reached minus 0.2

Figure 1. Interest rates: United States dollar and euro, 2010-2015



Source: Board of Governors of the Federal Reserve System. Available from www.federalreserve.gov/releases/h15/data.htm.

Source: Federal Reserve Bank of St. Louis. Available from https://research.stlouisfed.org/fred2/series/USD3MTD156N; and https://research.stlouisfed.org/fred2/series/TEDRATE.

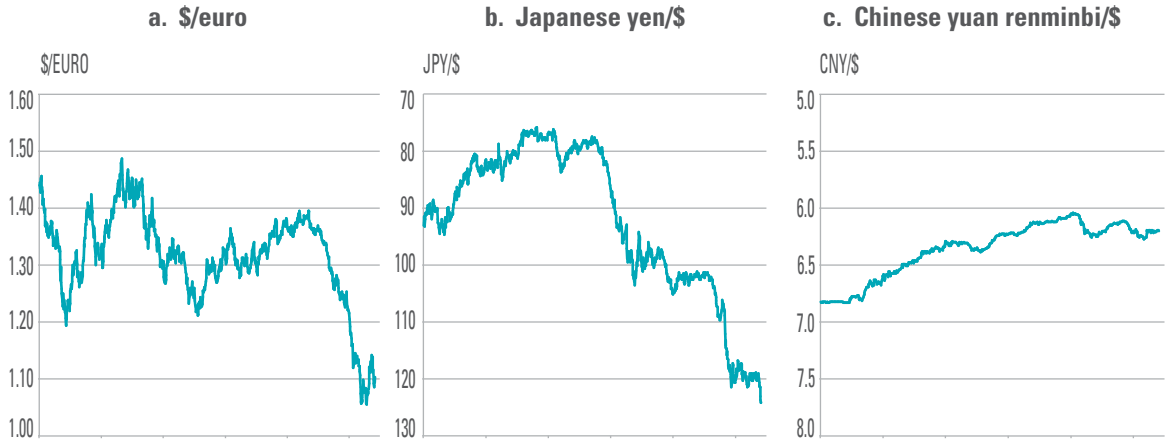
Sources: Deutsche Bundesbank, available from www.bundesbank.de/Navigation/EN/Statistics/Money_and_capital_markets/Interest_rates_and_yields/Term_structure_of_interest_rates/Tables/table.html; and ECB, available from www.ecb.europa.eu/stats/monetary/rates/html/index.en.html.

per cent in September 2014, keeping a 0.25 percentage point margin with the lending rate. Reflecting the extreme ECB monetary easing stance, the short-term government bond yields of several European countries, such as Germany and Switzerland, went into negative numbers in the second half of 2014 (figure 1c). This irregular situation indicates an excessive demand for risk-free assets such as government bonds, which has translated into an extremely low rate of deposits in European countries. The present interest rate structure, however, has not translated into reasonably low funding costs for private investment. Funding costs have remained relatively high against expected returns in real terms in the private sector. The increasingly different monetary policy stances of the United States Federal Reserve and ECB caused a rapid depreciation of the euro in the second half of 2014 (figure 2a). A weaker euro would improve the price competitiveness of exports from the eurozone, which would trigger a gradual recovery of European economies.

However, the economic stagnation of commodity-oriented non-EU European economies in Eastern Europe and Central Asia, defined as economies in transition, has been deepening (table 1), which could limit the trade growth of EU economies. Moreover, the deteriorating geopolitical situation in these transition economies, particularly in Ukraine, threatens economic recovery for both the European Union and transition economies.

East and South Asia have remained the strongest growth centres (table 1). The robust recovery of the United States has continued to benefit export industries in East and South Asia. However, Japan has failed to achieve an export-led recovery as domestic demand growth stagnated after a hike in general sales tax in April 2014. The Chinese economy has shown signs of slowing down, despite active monetary stimulation measures. Other economies in the region, with the exception of Thailand, showed signs of robust economic

Figure 2. Foreign exchange rates of world major currencies, 2010-2015



Source: Board of Governors of the Federal Reserve System. Available from www.federalreserve.gov/releases/h10/hist/.

expansion owing to improving terms of trade. Lowering inflation allowed central banks and monetary authorities in the region to resort to monetary easing measures that support the expansion of domestic demand. Economies in East and South Asia are expected to sustain their present level of economic expansion. Despite an expected further slowdown of the Chinese economy, the accelerated growth of South Asian economies, particularly India, Pakistan and Sri Lanka, is likely to sustain the region's robust growth path. The value of the Japanese yen (JPY) plummeted in the second half of 2014 from around JPY100/$ to JPY120/$ (figure 2b). The guided appreciation of the Chinese yuan renminbi (CNY) had been stalled and the Chinese currency was stabilized between CNY6.1/$ to CNY6.2/$ by the end of 2014 (figure 2c).

A polarizing trend has emerged, based on economic structures in developing economies in 2014. Declining international commodity prices have weakened growth impetus for commodity-exporting countries to varying degrees, but have benefited commodity-importing countries by alleviating balance-of-payment constraints, albeit not sufficiently to spur high economic growth, with the exception of East and South Asia region. Some major developing economies, including Brazil, the Russian Federation and South Africa, have suffered most from declining commodity prices. A combination of high inflation and low growth was seen in Africa and Latin America (table 1); and the extent of this in Latin America was worrying. With declining commodity prices, inflation was caused by country-specific factors, including the rapid growth of domestic demand or structural supply constraints. The sustained trend of domestic demand growth of African economies has been remarkable, and there inflation is more of a demand-pull type. However, inflation in Latin America is mostly due to supply constraints, owing to a lack of financial resources. Given the historically low yields on risk-free assets, such as government bonds in developed economies, international investors have more risk appetite, which may increase the flow of funds to developing economies. However, the expected rise in the funding cost in parallel with the increase in the United States policy rate may have unforeseen negative repercussions for the finances of developing economies.

Over the period 2014-2015, global social dynamics have been characterized by weak employment creation and prospects, a persisting gender gap and the increase in

displaced populations as a result of armed conflicts in the Arab region, Africa and Eastern Europe.

Although a moderate decline in unemployment rates has been observed in several developed economies, including Germany, Japan and the United Kingdom, employment creation stagnated in 2014. According to a recent report by the International Labour Organization (ILO), the global employment gap has continued to grow, reflecting deteriorating employment situations in developing economies,[4] and eliciting sociopolitical tensions against immigrants. Demand for foreign labour in resource-rich economies, such as GCC countries, is projected to decline. While several developed economies are likely to see slight improvements in employment, further deteriorations are expected in developing economies in 2015. Both developed and developing economies are not likely to take substantial fiscal stimulus measures, setting fiscal consolidation as the most important priority. Policy-led recoveries for employment creation are unlikely in the near future, particularly in developing economies.

Weak employment prospects are a combination of both cyclical and structural factors. The primary cyclical cause is slow economic recovery since the 2008 global financial crisis. In recent years, any optimistic growth prospect has turned out to be disappointing in terms of actual performance in most developed economies. The resulting growth uncertainty has prevented employers from actively hiring. There are also several structural causes of weak employment creation. Developed economies have been observing the hollowing-out of medium-skilled or unskilled jobs owing to technological progress and rising labour outsourcing. More jobseekers have been obliged to accept flexible labour contracts, placing them in weak positions without financial security.[5] Lost jobs in developed economies have generally been outsourced to developing economies, but employment creation through this channel is insufficient to provide jobs for the rapidly increasing number of young people in developing economies. The employment situation in developing economies has also been changing. For example, a rapid increase in the wage level in China has resulted in a shift of labour outsource destinations from China to other developing economies.

A significant global gender gap persists. According to the Global Gender Gap Report 2014,[6] the gender gap in 2014 remained at the same level as in the previous year, according to the Global Gender Gap Index, as reflected by the following specific gender indicators: political empowerment was 21.6 per cent in 2014 compared to 21.4 per cent in 2013; economic participation and opportunity was 59.3 per cent in 2014 compared to 59.9 per cent in 2013; educational attainment was 93.6 per cent in 2014 compared to 93.5 per cent in 2013; and health and survival was 96.0 per cent in 2014 compared to 95.7 per cent in 2013. Nevertheless, the Report notes a gradual tightening of the gender gap since 2006, when the Global Gender Gap Index was first published.[7] The most improved area in 2014 was political empowerment, which stood at a modest 14 per cent in 2006. In the other areas, the improvement is more gradual (as in economic participation and opportunity) or marginal (as in educational attainment, and health and survival). Over this eight-year period, the largest absolute change was marked in Latin America, followed by North America. Moreover, since the adoption of the Beijing Declaration and Platform for Action in 1995, progress towards gender equality has been occurring slowly but steadily (box 2).

The newest ILO convention, namely the 2011 Domestic Workers Convention (No. 189), which came into force as a binding international law in September 2013, aims at ensuring basic labour rights to domestic workers. Given that

Box 2. Twenty years after the adoption of the Beijing Declaration and Platform for Action

The Fourth World Conference on Women, held in Beijing in 1995, was a landmark event, calling for public action for gender equality. A total of 189 countries adopted the Beijing Declaration and Platform for Action,[a] pledging international commitment to progressive gender equality through the new notion of gender mainstreaming. The Beijing Platform for Action established a framework for social change, including strategic objectives and actions to be taken by stakeholders, under the following twelve critical areas of concern: women and poverty; education and training of women; women and health; violence against women; women and armed conflict; women and the economy; women in power and decision-making; institutional mechanism for the advancement of women; human rights of women; women and the media; women and the environment; and the girl child.

Significant achievements have been made since the adoption of the Beijing Declaration and Platform for Action. Compared to 1995, women's participation rates in higher education and labour markets have improved, particularly in developed countries.[b] More women have participated in decision-making processes in both the public and private sectors, including as heads of State and presidents of private firms. Institutional changes, such as the reform of discriminatory laws, have also been implemented. The issue of domestic violence against women, formerly regarded as a private matter, has increasingly become part of public policy in many countries, including developing countries.

Despite these positive changes, progress has been "unacceptably slow",[c] and the lack of policy attention to multiple forms of discrimination and inequality has become increasingly recognized. To overcome these issues, the post-2015 development agenda is expected to reflect the lessons learned over the past 20 years in the area of gender equality. Policy infrastructure to support behavioural and social changes for gender equality, such as engendered statistics, is also expected to be strengthened under the agenda. Measures taken following the adoption of the Beijing Declaration and Platform for Action have proven that gender inequalities can be reduced through global public action.

[a] Fourth World Conference on Women, 1995.
[b] UN Women, 2015.
[c] Ibid., p. 9.

a significant majority of domestic workers are women, this advancement of economic right serves to protect women from economic and physical exploitation. By early 2015, 18 countries had ratified the Convention, with a notable absence of Arab countries that host a significant number of domestic workers. However, the need to protect domestic workers is well recognized by Arab countries that have been engaged in consultations with stakeholders through the Abu Dhabi Dialogue, established in 2008 between Arab countries and major domestic workers' countries of origin in Asia. The third Ministerial Consultation of the Abu Dhabi Dialogue was held in November 2014, and adopted the Kuwait Declaration.[8] Moreover, the National Assembly of Kuwait passed an amended labour law granting enforceable labour rights to domestic workers.[9]

The increase in displaced populations, both internally and externally, has become a serious issue for many countries. According to the Global Trends Report, displaced populations increased rapidly in 2014.[10] By the end of 2014, there were 54.9 million displaced persons, up from 42.8 million at the end of 2013. This rapid growth stemmed mainly from a rise in displaced populations in the Arab region, and East and Southern Africa. Many refugees are attempting to reach Europe by crossing the Mediterranean Sea, causing record numbers of fatalities, according to the

International Organization for Migration.[11] Aid access for internally displaced populations in conflict-affected countries, such as Iraq, Libya, Somalia, Syria and Yemen, is not always guaranteed because of security risks, which could lead to humanitarian crises. Although both the international community and individual governments have expressed their willingness to avoid humanitarian crises, coordination with warring parties is often difficult to ensure aid access to crisis-hit areas. At current levels, internally displaced populations have considerably negative effects on conflict-affected countries, particularly given the erosion of human resources and loss of national talent.

B. Developments in the natural resources sector

1. Oil sector

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 to the supply glut rather than geopolitical tensions and supply disruptions. Over the past few years, the world crude oil supply capacity has been increasing rapidly, particularly in North America. A supply glut has become gradually more noticeable as demand growth for crude oil has decelerated because of stagnating global economic recovery; however, unlike in 2008-2009, oil markets have not seen a collapse in demand. According to the Organization of the Petroleum Exporting Countries (OPEC), the total world demand for oil in 2014 was an estimated 91.21 million barrels per day on average, an increase of 0.97 million barrels per day compared to 2013.[12] OPEC projects that demand will grow at the same moderate pace in 2015, by 1.16 million barrels per day. In 2014, OPEC crude oil production dropped by 0.16 million barrels per day to reach 30.07 million barrels per day, but non-OPEC production increased by 2.04 million barrels per day, hitting 56.33 million barrels per day. The estimated level of excess supply in 2014 stood at 1 million barrels per day, which could have been adjusted by the influential swing producers of OPEC. However, in November 2014, OPEC decided to maintain its production level at 30 million barrels per day, and non-OPEC crude oil producers have also not committed to a supply reduction. In 2015, the market is likely to curb supply from costly non-OPEC crude oil producers while OPEC maintains its current production target. The impact of low oil prices on global crude oil supply is likely to become more apparent in the medium term as more oil companies limit capital expenditures, both in upstream and downstream areas.

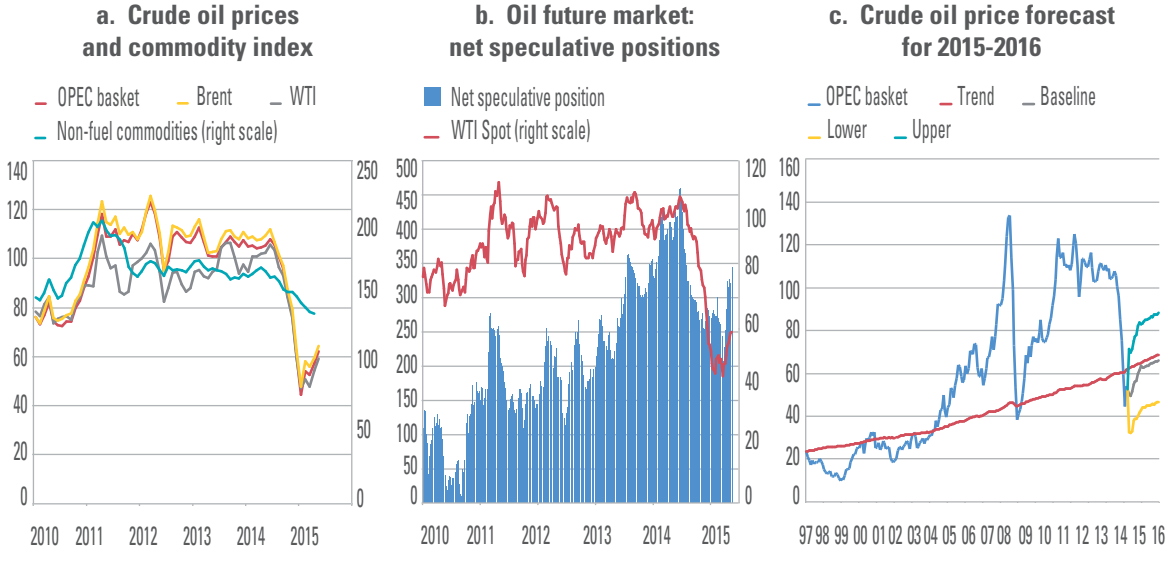
The OPEC basket price averaged $96.29 per barrel in 2014 (table 2). In the first half of 2014, crude oil prices remained above $100 per barrel, following the trend of previous years. Since their yearly peak in June, oil prices have fallen over 7 months; the OPEC basket price reached $41.5 per barrel on 13 January 2015, declining by 62 per cent from the 2014 peak. This price plunge was abrupt, compared to other commodity prices (figure 3a), which indicates that specific causes have driven the recent oil price dynamics. In addition to a supply glut, an increasing risk of rising funding costs, owing to the anticipated United States monetary policy normalization, has discouraged speculative buying in oil futures markets; speculative short selling in oil futures markets has contributed to weak oil prices. The net speculative positions of crude oil futures, defined as the non-commercial traders' total net long positions in the New York Mercantile Exchange, declined significantly during the second half of 2014 because of increased short positions (figure 3b). Demand growth for crude oil has decelerated, but not collapsed. Reflecting an increasing use of oil tankers, freight rates for crude oil transportation remained unchanged throughout 2014.

Table 2. Crude oil price estimation and forecast (OPEC reference basket: $ per barrel)

Year	Minimum	Maximum	Annual average	Forecast 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. Available from www.opec.org/opec_web/en/data_graphs/40.htm; and ESCWA forecasts as of April 2015 for 2015-2016.

Figure 3. Oil prices



Source: IMF, 2015.

Source: ESCWA estimates based on data from the United States Commodity Futures Trading Commission (2015); and EIA, available from www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm.

Sources: ESCWA forecasts; and OPEC, available from www.opec.org/opec_web/en/data_graphs/40.htm.

Several factors need to be taken into account when forecasting oil prices. Factors likely to weaken oil prices consist mainly of demand prospects. Demand for crude oil has been sustained partly by the demand for storage. Since July 2014, oil futures' term structure in main futures markets remained "contango", whereby oil traders may be able to make profits by purchasing crude oil for storage and simultaneously selling oil futures. Commercial inventories remained high in the first half of 2015. This inventory accumulation has been more extensive in North America, which could result in a widening margin between geographical benchmark prices. Although the inventory level is projected to come down for the second half of 2015, it may trigger another downward price adjustment if the demand for gasoline during the peak summer season is weak. However, the robust economic

Box 3. Exchange rates, oil prices and speculation

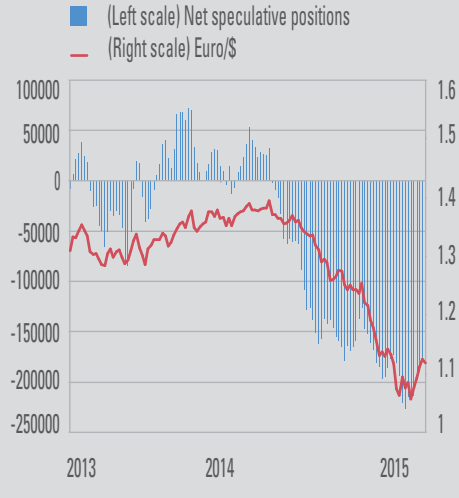
During the oil price plunge in the second half of 2014, it was increasingly recognized that the plunge coincided with the strengthening of the United States dollar against other major currencies, particularly the euro. Studies show that this negative correlation has become stronger since the early 2000s, with the increasing characteristic of oil as a financial asset.[a] However, a theory based on real demand would suggest a positive correlation between oil prices and the United States dollar. Given that crude oil is denominated in United States dollars, the price decline may reduce the demand for dollars for crude oil purchases. The reduced demand for the dollar could lead to a weaker United States currency, as opposed to what has been observed since the early 2000s.

As mentioned in research papers on the subject, the key to understanding the negative correlation between oil prices and the dollar is the "financialization" of crude oil, particularly through the use of crude oil futures and options. Speculative transactions in currency markets are much more extensive than such commodity markets as crude oil. According to data released by the United States Commodity Futures Trading Commission, the net speculative positions of dollar/euro transactions turned negative in May 2014, thereby indicating that more speculative market participants were in short-selling.[b] The magnitude of speculative short-selling increased quickly in parallel with the strengthening of the dollar against the euro. Short-selling the euro against the dollar indicates euro carry trades, whereby speculative investors seek arbitrage opportunities by borrowing in euro for dollar-denominated asset transactions. Oil may have been influenced by euro carry trades as financed funds may be used for a deposit required to initiate short-selling, or used to take speculative long positions. As long as the diverging interest rate prospect between the euro and the dollar continues, crude oil prices are likely to be volatile because of active speculation.

Dollar/euro exchange rate and crude oil prices, 2013-2015

Sources: ECB, available from www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-usd.en.html; and OPEC, available from www.opec.org/opec_web/en/data_graphs/40.htm.

Dollar/euro exchange rate and net speculative positions



Sources: ECB, available from www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-usd.en.html; and CFTC, available from www.cftc.gov/MarketReports/CommitmentsofTraders/HistoricalCompressed/index.htm.

[a] Fratzscher, and others, 2014.
[b] CFTC, 2015.

Table 3. Oil production in the Arab region, 2011-2016 (Thousands of barrels per day)

Country/area	2011	2012	2013	2014[a]	2015[b]	2016[b]
Bahrain	43	46	48	49	49	50
Kuwait	2659	2977	2922	2887	2850	2900
Oman	891	923	947	949	950	980
Qatar	733	734	724	709	700	725
Saudi Arabia	9311	9765	9634	9714	9600	9300
United Arab Emirates	2564	2657	3048	3022	3000	2650
GCC countries	16021	17102	17323	17330	17149	17555
Egypt	668	672	669	672	660	690
Iraq	2653	2950	2977	3113	3200	3300
Syria	330	170	31	0	0	0
Mashreq	3651	3792	3677	3784	3880	3990
Algeria	1180	1113	1217	1209	1220	1250
Libya	283	1450	993	463	350	450
Morocco	0.5	0.5	0.5	0.5	0.5	0.5
Tunisia	68	67	61	54	52	50
Maghreb	1532	2631	2271	1727	1623	1751
Mauritania	8	7	7	7	7	7
Sudan	453	82	85	85	87	100
Yemen	190	180	159	111	70	70
Arab LDCs	651	269	251	203	164	177
Total Arab region	22034	23793	23522	23045	22816	23473

Source: Joint Organizations Data Initiative, Oil World Database, available from www.jodidata.org/oil/, with the exception of Mauritania, Morocco, Syria, the Sudan and Yemen. For those countries, the source is OAPEC databank, available from www.oapecorg.org/Home/DataBank.
[a] ESCWA estimates as of April 2015.
[b] ESCWA projections as of April 2015.

recovery of the United States and the resilient growth prospects of East and South Asian countries may point to a reasonable growth for crude oil. Moreover, speculative purchases of oil futures are expected to continue as the net speculative position of oil futures has remained high. The funding cost for speculative purchase may remain low, despite the normalization of the United States monetary policy, owing to the opportunities of low-cost funding through the euro-dollar carry trades. Taking these factors into consideration, crude oil prices are likely to converge into a long-term trend line over 2015 and 2016 with

Table 4. Gross oil export revenues in the Arab region, 2011-2016 (Billions of United States dollars)

Country/area	2011	2012	2013	2014[a]	2015[b]	2016[b]
Bahrain	15.3	15.0	15.1	14.2	7.9	9.5
Kuwait	96.7	112.5	108.5	97.4	53.0	64.5
Oman	29.1	31.7	32.5	28.3	15.8	19.5
Qatar	33.8	34.4	32.4	25.8	15.7	19.4
Saudi Arabia	285.0	305.2	294.0	269.8	147.1	179.5
United Arab Emirates	99.6	105.6	108.3	97.6	53.6	66.1
GCC countries	559.5	604.4	590.9	536.1	293.2	358.5
Egypt	13.4	12.8	13.1	11.9	6.8	8.2
Iraq	79.4	93.8	89.3	85.3	46.9	61.4
Syria	3.0	..[c]	..[c]	..[c]	..[c]	..[c]
Mashreq	95.8	106.6	102.4	97.3	56.7	69.7
Algeria	46.2	43.5	40.1	36.2	20.5	25.1
Libya	18.1	59.7	44.8	16.8	5.3	7.8
Morocco	0.5	0.9	1.1	1.0	0.8	0.7
Tunisia	2.6	2.8	2.6	2.1	1.1	1.2
Maghreb	67.5	106.9	88.6	56.2	68.9	34.8
Mauritania	0.2	0.3	0.2	0.2	0.1	0.1
Sudan	7.0	0.7	1.7	1.1	1.3	1.7
Yemen	7.7	6.3	6.5	4.5	0.7	0.9
Arab LDCs	14.9	7.3	8.5	5.8	2.2	2.7
Arab region total	738.1	825.4	790.4	695.4	379.5	465.7

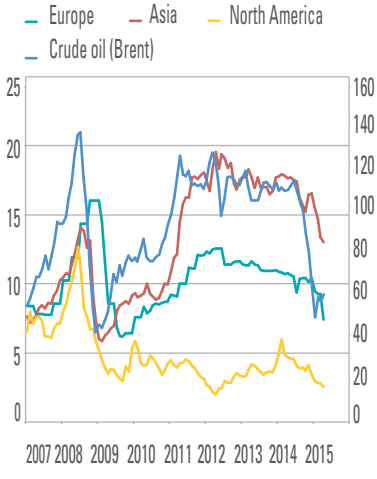
Source: Compiled by ESCWA, based on national statistical sources (see annex II).
[a] ESCWA estimates as of April 2015.
[b] ESCWA projections as of April 2015.
[c] Two dots (..) indicate that data are not available or are not separately reported.

volatile fluctuations (figure 3c). The OPEC reference basket price is forecast to average $54.5 per barrel in 2015 within the projected range of $40.6 to $70.3 (table 2).

Average total crude oil production in the Arab region was an estimated 23.0 million barrels per day in 2014, declining by 0.5 million barrels per day compared to 2013 (table 3). A marginal decline in crude oil production is expected in 2015 since no significant reduction in production is projected for OPEC member countries in the region. GCC countries produced an estimated 17.3 million barrels

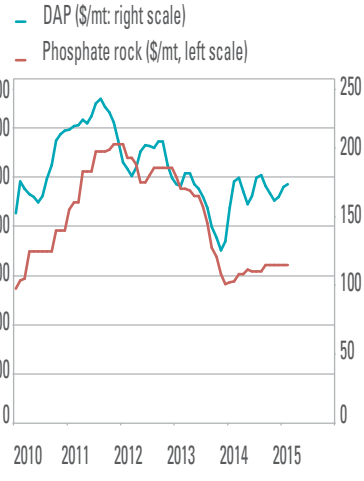
Figure 4. Phosphate price and exports, and natural gas prices

a. Natural gas spot prices, 2007-2015



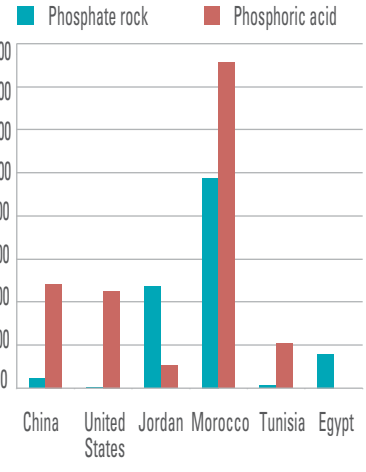
Source: IMF, 2015.

b. Price of phosphate rock and DAP



Source: World Bank, 2015a.

c. Phosphate exports: selected countries in 2014



Source: International Trade Centre, Trade Map. Available from www.trademap.org/Index.aspx.

per day in 2014, similarly to 2013. This trend is projected to remain unchanged in 2015. Armed conflict substantially reduced production levels in Libya and Yemen in 2014, and crude oil production in both countries is likely to be severely disrupted throughout 2015. Iraq saw a growth in crude oil production in 2014 because its southern major production facilities remained operational despite intensifying armed conflict since June 2014. The production capacity in southern oil fields in Iraq is projected to grow in 2015, while production in northern oil fields, including Kirkuk, is expected to remain marginal.

The Arab region's total gross oil export revenue has been estimated at $695 billion for 2014, which represents a decline of 12.0 per cent from 2013. It is forecast to decline by a further 45.4 per cent to reach $379.5 billion in 2015 (table 4). The drop in crude oil prices has significantly contributed to the decline in oil export revenue. However, a growing domestic demand for fuel products in oil-producing countries has also contributed to the decline in oil export revenues. Currently, local refineries in Arab countries serve their respective domestic markets. However, new refineries, particularly in GCC countries, are potentially competitive globally owing to latest cost-efficient technology. More varieties of fuel products, in addition to crude oil, are likely to be added to their energy export portfolios in the near future. Several GCC countries, such as Saudi Arabia and the United Arab Emirates, saw a rapid expansion of refining capacity in 2014 and 2015.

Despite considerable policy efforts for economic diversification, the Arab region remains heavily dependent on crude oil production for its export earnings. Consequently, the rapid decline of crude oil prices in the second half of 2014 signalled the end of the recent "oil boom" that had lasted since 2003. The sudden downward shift of this key variable for the region's economic activities is expected to influence economic and social developments in the forthcoming years.

2. National gas sector

Natural gas constitutes another strategically important hydrocarbon resource in the Arab region, making it a primary source of national wealth in some Arab countries. It provides an economical and efficient source of thermal power and is used as a feedstock for the petrochemical industry. Arab countries have witnessed a rapidly growing domestic demand for natural gas, and not all gas-producing countries are export-oriented. However, Qatar remained the largest liquefied natural gas exporter in the world in 2014. Algeria has invested actively in enhancing its gas production capacity, with a plan to explore shale gas production. However, the exploration plans of Lebanon, Palestine and Syria for offshore gas fields under the eastern Mediterranean have stalled.

The natural gas market remains more geographically segmented than that of crude oil, owing to the need to invest heavily in transportation facilities from producers to final users, either in the form of pipelines or liquefied natural gas. The extent of this segmentation is reflected in wide margins in spot natural gas prices in Europe, Japan and the United States (figure 4a). In January 2015, the benchmark price stood at $9.50 per million metric British thermal units in Europe, $16.00 per million metric British thermal units in Japan and $2.97 per million British thermal units in the United States.[13] Natural gas prices plummeted in 2014, but to a lesser extent than crude oil. While the price of Dated Brent crude plunged by 55 per cent in the year to January 2015, natural gas spot prices went down by 12.8 per cent in Europe, 9.9 per cent in Japan, and 39.2 per cent in the United States. As a result, the decrease in natural gas export revenues of Arab countries is projected to be more moderate than that of crude oil for 2014 and 2015, given that they export to Europe and Asia. While some transactions are made at prices linked to oil prices, multi-yearly fixed-price contracts are more common in the natural gas trade, which is likely to contribute to relative revenue stability in gas-exporting countries.

3. Phosphate sector

There is increasing competition in the phosphate sector in downstream areas of the global fertilizer market. According to estimates from the International Fertilizer Industry Association, world fertilizer demand could reach 183.8 million tons over the 2014-2015 cropping season, 41.5 million tons of which are phosphorus nutrient.[14] While only moderate world demand growth is expected in the near future, the supply capacity of phosphate rock and phosphate acid is projected to expand in China, Jordan and Morocco. The supply capacity of diammonium phosphate (DAP), one of the most widely used phosphorus fertilizers, is also projected to grow faster than demand growth.

Since its recent peak in January 2012, the price of phosphate rock registered a decline of 51 per cent over the two years to December 2013 (figure 4b). There was a moderate recovery in 2014, from $102.2 per metric ton in January to $115.0 per metric ton in December.[15] The price of diammonium phosphate shows a parallel trend, increasing moderately in 2014 from $438.3 per metric ton in January to $459.6 per metric ton in December. Similar trends are projected in 2015, with possible downward adjustments owing to growing global supply capacity. Moreover, Chinese export tariff reform on phosphate products might impact global fertilizer markets, because of the improving price competitiveness of Chinese exports.

Egypt, Jordan, Morocco, Saudi Arabia and Tunisia are major producers of phosphate products in the region. Morocco remains the largest exporter of phosphate products, including phosphate rocks, phosphoric acid and DAP. Other countries in the region, particularly Jordan and Saudi Arabia, have showed rapid growth. The value-added

structure of phosphate exports varies among these countries. According to data from the International Trade Centre, in 2014, Morocco and Tunisia exported more phosphoric acid, an intermediately processed form of phosphate products, than phosphate rocks (figure 4c). This pattern is in line with other such major producers as China and the United States. Jordan and Egypt, however, continued exporting more phosphate rocks than phosphoric acid, indicating potential future development in this sector in downstream areas with higher value-added phosphate products.

C. Financial and trade linkages to the Arab region

The Arab region is greatly influenced by global economic developments in the following two ways: firstly, the increasingly accommodating global financial situation and the growing risk appetite of international investors: as the return of risk-free financial assets, such as treasury bonds of developed countries, fell to an extremely low level, more international investors started taking risks for returns; and secondly, the decline in the inflows of funds owing to decreasing export revenues from oil and other commodities, including natural gas and phosphate products. Both factors determine the availability of funds and funding costs in the region, and the international financial situation has been stable for Arab countries with the exception of those countries affected by armed conflict and economic sanctions.

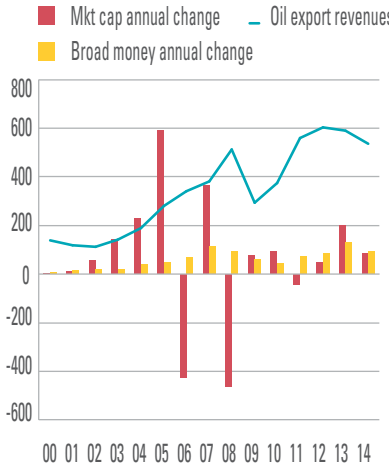
Despite the decline in oil export revenues, the value of financial wealth, as measured by market capitalization of stock markets, marked a yearly growth by the end of 2014 in GCC countries. A parallel trend has been observed in the value of commercial and residential real estate in GCC countries. However, the magnitude of value growth remained at a much lower level compared to 2003-2007, when it surpassed yearly oil export revenues (figure 5a). This situation indicates a moderate level of financial leverage and sufficient availability of funds in GCC countries. The funding cost, as measured by three-month money market rates, stayed low at around one percentage point in GCC countries (figure 5c). The funding cost also came down in Jordan where three-month money market rates have continuously declined since 2013. The narrowing gap in funding costs between Jordan and GCC countries indicates the availability of funds in the region; the same trend has been observed in Egypt, Lebanon and Morocco.

As figure 5b shows, the total loan exposures of commercial banks in the reporting countries of the Bank for International Settlement (BIS) to Arab countries increased during 2014.[16] The foreign loan exposures to GCC countries grew positively in 2014 after a decline that began in 2011. Kuwait and the United Arab Emirates were major drivers of these foreign lending inflows. BIS reporting banks' loan exposure to Egypt and Jordan also shows a constant growth trend, contributing to its overall trend for the Mashreq subregion. Meanwhile, BIS reporting banks' loan exposure to Arab least developed countries (LDCs) continued to decline, and the growth in their exposure to the Maghreb subregion stagnated after two years of remarkable growth, mostly directed to Morocco.

In the area of international finance, the major downside risk for Arab countries is the possible adverse impact of the normalization of monetary policy by the United States Federal Reserve. While the Arab region has been spared the negative impacts of the recent hike of United States Treasury bonds yields, it is likely that the region's funding costs, particularly that of GCC countries, will climb in parallel with the hike in United States policy

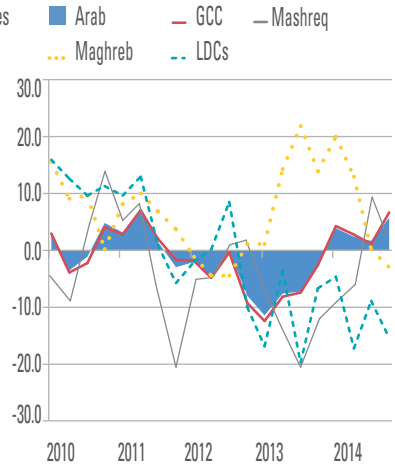
Figure 5. Oil-financial markets nexus

a. Financial asset growth and oil export revenue: GCC countries
(Billions of $)



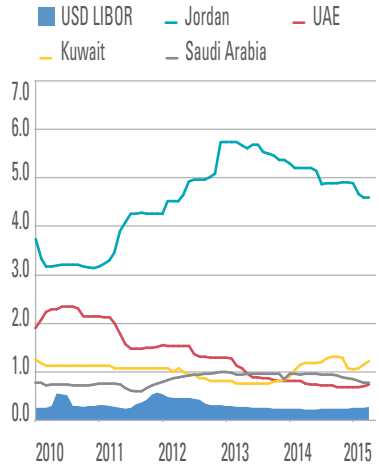
Sources: ESCWA, based on AMF www.amf.org.ae/amdb for stock market capitalization; IMF, International Financial Statistics for money stock; and national sources for oil-export revenues (see also table 4).

b. Year-on-year changes of BIS reporting banks' claims on Arab countries
(Percentage)



Source: BIS, locational banking statistics, table 7A. Available from www.bis.org/statistics/bankstats.htm.

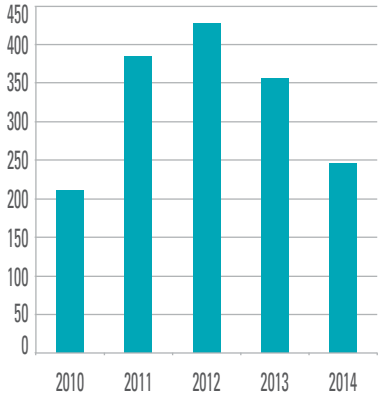
c. Three-month money market rates and three-month dollar LIBOR
(Percentage per annum)



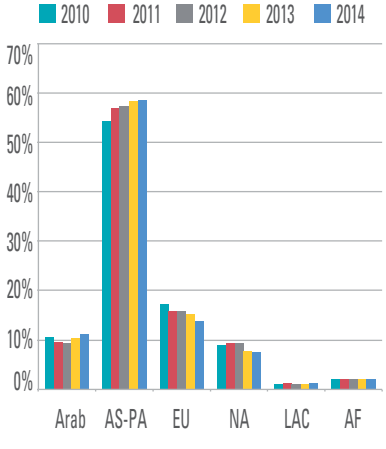
Sources: ESCWA, based on Federal Reserve Bank of St. Louis; Association of Banks in Jordan; Central Bank of the United Arab Emirates; Central Bank of Kuwait; and Saudi Arabian Monetary Agency.

Figure 6. Global trade linkages of the Arab region, 2010-2014

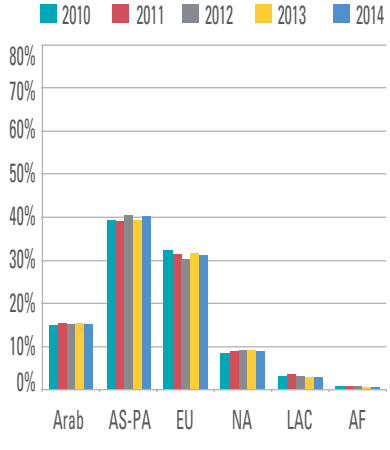
a. Net export of Arab countries: Gross total
(Billions of $)



b. Regional destinations of Arab exports
(Percentage of gross total values)



c. Regional origins of Arab imports
(Percentage of gross total values)



Source: ESCWA, based on IMF Direction of Trade Statistics. Available from www.imf.org/external/data.htm.
Note: The abbreviations refer to the following: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; and AF, Africa excluding Arab countries.

interest rates. For the improving yields, the region's sovereign wealth funds may increase their holding of United States Treasury bonds, replacing local government bonds, which may also contribute to a possible rise in the funding cost in the subregion. The rising funding cost in GCC countries is likely to impact other Arab countries, particularly those whose national currencies are pegged to the United States dollar.

The decline in the inflows of funds to the Arab region owing to decreasing export revenues could be a concern. However, the growing trade linkage with the Asia and the Pacific region, the fastest-growing region in the world, remains a positive factor for the Arab region's merchandise trade situation. In international merchandise trade, the Arab region's net exports (gross total) decreased from $357 billion in 2013 to $246 billion in 2014. The decline in oil and other commodity prices contributed to the decline of total exports from $1,243 billion to $1,165 billion, while total imports continued to increase from $887 billion to $919 billion. In subregional terms, GCC countries remained net exporters in 2014 while other subregions were net importers with growing trade deficits. In terms of gross total estimations for 2014, 58.4 per cent of merchandise exports from the Arab region were shipped to the Asia and the Pacific region, slightly above the previous year's share. Europe accounted for 13.8 per cent of total Arab exports in 2014, down from 15.2 per cent in 2013. Since Europe is the primary destination of non-energy exports from the Arab region, this trend has a negative implication for the region's economic diversification. North America accounted for 8.8 per cent of total Arab exports. The share of Arab exports to Latin America and the Caribbean stood at 1.2 per cent, and the share of Africa stood at 2.1 per cent. The share of imports from the Asia and the Pacific region increased slightly to 40.3 per cent in 2014 from 39.4 per cent in 2013, while the share of Europe declined slightly to 31.2 per cent from 31.7 per cent over the same period. Imports from North America, Latin America and the Caribbean and Africa accounted for 8.8 per cent, 2.8 per cent and 0.8 per cent, respectively.

The share of intraregional trade was an estimated 11.3 per cent of total gross exports and 15.4 per cent of total gross imports in 2014. Although the share in terms of imports did not change from the previous year, the share in terms of exports marked a noticeable increase by one percentage point from 2013. Considering disruptions and closures of land routes in Iraq and Syria for intraregional trade flows, the figures indicate a growing trend of intraregional trade through routes not impacted by armed conflict. The Gulf Customs Union, which came into effect on January 2015, is expected to promote intraregional trade among GCC countries.

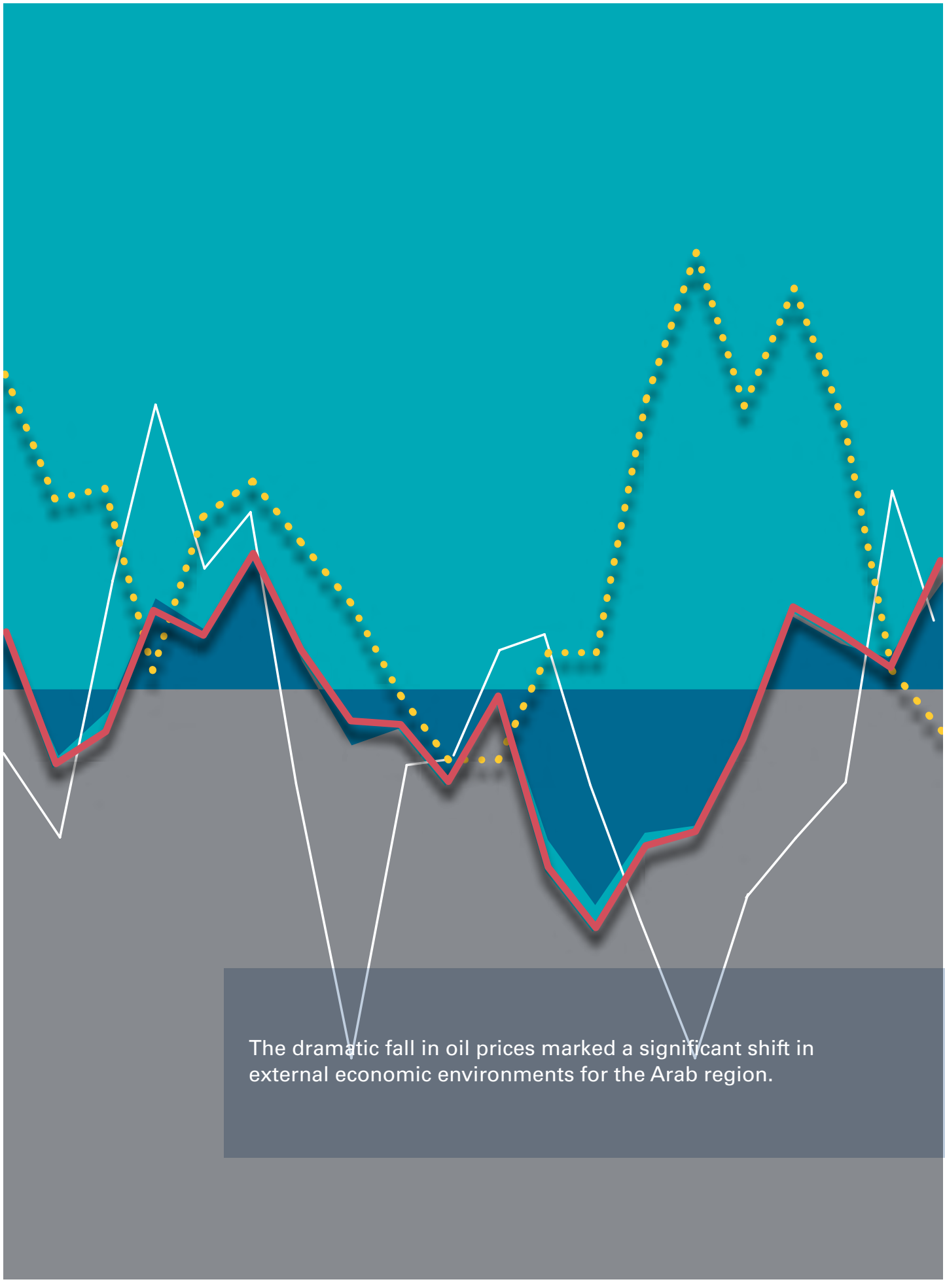
D. Concluding remarks

In this global context, several adverse factors have noticeably influenced Arab economies in the period covered by the present report. Mounting geopolitical tensions, armed violence and mass displacement remain a prevailing concern. Declining oil prices have not only impacted the fiscal positions of Arab oil-exporting countries, particularly GCC countries, but also those of other Arab countries by changing patterns of intraregional capital and remittance flows. Weak economic prospects in European economies continue to hamper non-oil exports from the region, particularly from Arab Maghreb countries. The anticipated rise in United States interest rates is likely to impact the funding costs of Arab countries. Nevertheless, the following positive factors have had a bearing on regional economic prospects: low oil prices have alleviated balance-of-payment and fiscal constraints in Arab oil-importing countries; the continued

decline in other commodity prices, particularly food items, has eased inflationary pressures in the region; a consistent economic expansion of East and South Asian economies has sustained the non-oil sector, particularly in GCC countries; and a robust economic recovery in the United States has prevented regional economic sentiments from becoming overly pessimistic.

As seen in arguments about secular stagnation hypothesis (box 1), global economic developments in 2014 were increasingly recognized as possible signs of structural shifts rather than a phase of an economic cycle. Only a few years ago, policymakers in most countries were concerned about inflationary pressures. Now, a number of developed economies and some developing economies, including China, are concerned about deflationary pressures and economic stagnation. Negative interest rates have become a reality in short-term government bond yields of certain European countries. With the exception of the United States, major monetary authorities have pushed their monetary easing stances to the extreme to stimulate investment, which is the most important driver of economic expansion. However, those monetary easing stances have failed to increase investment expenditures.

It is unclear where the present structural shift will lead, but the need for a new policy framework is clear. There is a certain level of recognition that accelerating investments in developing economies can be beneficial for both developed and developing countries. The increased usage of developed countries' capital in investments in developing economies may bring much-needed income growth in those economies, which may also ease the savings glut and deflationary pressure in developed countries.



The dramatic fall in oil prices marked a significant shift in external economic environments for the Arab region.

II. Socioeconomic trends and developments in the Arab region

A. Economic situation and prospects

1. Overview

The average real GDP growth in the Arab region was an estimated 1.5 per cent in 2014, unchanged from 2013 (table 5). A major fluctuating factor are negative growth estimations for Iraq, Libya and Syria. Despite falling oil prices in the second half of 2014, GCC countries have remained the growth centre of the Arab region. The active non-oil sector in GCC countries has outpaced the decelerating oil sector. The value of financial and real estate assets has shown a positive growth in GCC countries, although the speed of growth stalled in the second half of 2014. However, the recent trend of polarized economic performances between GCC countries and other Arab countries has ended owing to lower oil prices, which have benefited oil-importing Arab countries by easing their balance-of-payment and fiscal constraints. As a result, critical balance-of-payment situations observed in some Arab countries, particularly Egypt, the Sudan and Tunisia, have subsided although they remain fragile. With the exception of conflict-affected countries, Arab economies have regained macroeconomic stability. Armed conflicts in Iraq, Libya, Palestine, Syria and Yemen continue to affect negatively socioeconomic development. Moreover, political instability and a deteriorating security situation have made humanitarian assistance and reconstruction efforts extremely difficult.

Commodity export revenues, including from oil, natural gas, phosphate and metal, are projected to decline in 2015. However, the non-oil sector in GCC countries is forecast to remain resilient owing to active fiscal support and growing economic linkages with East and South Asian countries. For this reason, the GCC subregion is expected to remain the growth driver of the Arab region. Countries in other subregions, with the exception of conflict-affected countries, are expected to benefit further from low commodity prices in 2015. A stable balance-of-payment condition will promote domestic demand growth. The magnitude of conflict-related economic contractions in Iraq, Libya, Palestine and Syria is expected to decrease amid slow reconstruction efforts. With the narrowing gap between GCC countries and other Arab countries, Arab economies are forecast to grow by an average of 2.4 per cent in 2015.

The average annual consumer price inflation of the Arab region was estimated at 5.1 per cent in 2014, compared to 7.3 per cent in 2013 (table 5). Falling international commodity prices have contributed to this overall decline. While much attention has been focused on oil prices, food prices also declined in 2014. The main driver of inflation in GCC countries remains the rising price of housing-related items, reflecting high property rents. Amid intensifying armed violence and social unrest, both Iraq and Libya have successfully maintained low inflation levels through subsidies. Inflation has also been contained in Palestine; however, low inflation rates do not necessarily imply a sufficient supply of essential goods. Anecdotal evidence has sometimes suggested otherwise, but policy efforts have been made to maintain supply chains in these countries. A high inflation trend in Egypt, the Sudan, Syria and Yemen continued in 2014. Hyperinflation in the Sudan and Syria was a direct consequence of

Table 5. Real GDP growth rate and consumer price inflation rate, 2012-2016 (Annual percentage change)

Country/area	Real GDP growth rate					Consumer price inflation rate				
	2012[a]	2013[a]	2014[b]	2015[c]	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[e]	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
Palestine	6.3	2.2	-2.5	3.0	3.2	2.8	1.7	1.7	2.5	3.0
Syrian Arab Republic[f]	-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	2.5	2.2	2.0	2.5
Mauritania	6.0	5.7	6.4	6.1	6.2	4.9	4.1	3.5	3.2	3.5
Somalia	..[h]	..[h]	..[h]	..[h]	..[h]	..[h]	..[h]	..[h]	..[h]	..[h]
Sudan	0.4	3.6	2.5	2.8	3.0	35.1	37.1	37.5	17.0	15.0
Yemen[g]	2.2	3.2	1.5	-2.0	3.2	10.2	11.0	8.0	11.5	12.0
Arab LDCs	1.2	3.6	2.4	1.5	3.2	26.3	27.8	27.2	14.7	13.5
Total Arab region[d]	6.8	1.5	1.5	2.4	3.8	6.0	7.3	5.1	4.9	4.4

Source: Compiled by ESCWA, based on national statistical sources (see annex II).
[a] GDP figures for 2012 and 2013 are from ESCWA, 2015.
[b] March 2015 estimates.
[c] March 2015 forecasts.
[d] Figures for country groups are weighted averages, where weights for each year are based on GDP in 2010.
[e] For GDP growth rate of Egypt, the figures are for the country's fiscal year, ending in June.
[f] GDP growth rates of Syria for 2012-2014 are the estimated figures in Syrian Center for Policy Research (2015).
[g] Forecasts for Yemen are subject to a further downward revision owing to the intensifying armed conflict.
[h] Two dots (..) indicate that data are not available or are not separately reported.

severe foreign exchange constraints related to economic sanctions in those countries. Monetary factors have continued to cause high inflation in Egypt and Yemen.

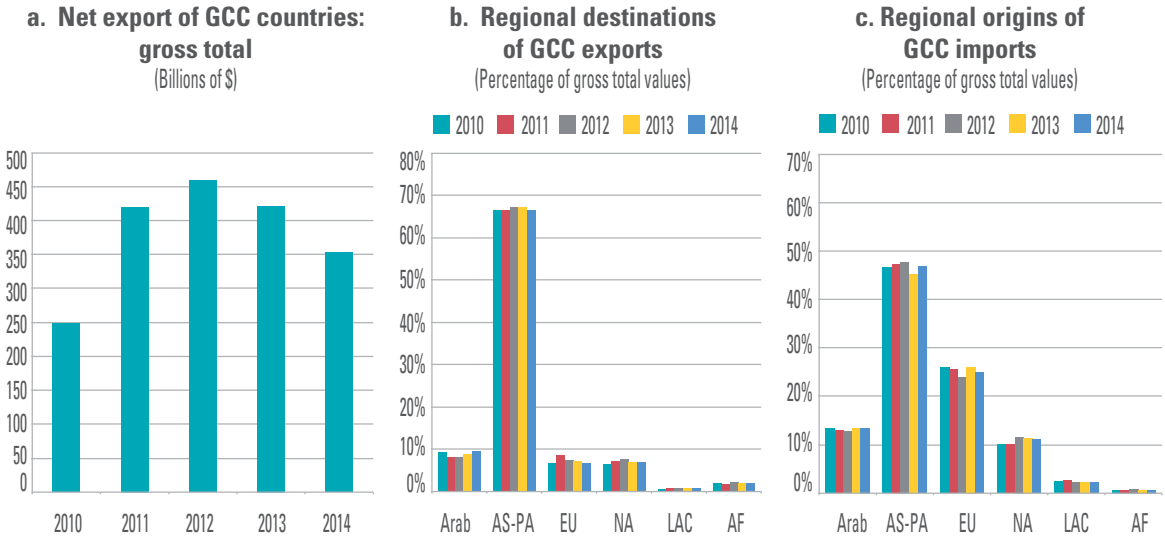
The forecast consumer price inflation rate for the Arab region averaged 4.9 per cent in 2015. International commodity prices are projected to decline further, setting the overall trend for the region. The upward shift in the price of housing-related items in GCC countries is expected to taper off, moderately lowering consumer price inflation. Among high-inflation countries, the inflation rate in the Sudan is expected to decline considerably, mainly because of expected lower import prices. The inflation rate in Syria will rise due to severe foreign exchange constraints. Structural high inflation is projected to continue in Egypt and Yemen. Moreover, a possibility of hyperinflation cannot be ruled out for Yemen if armed conflict intensifies further.

Several Arab countries experienced a significant depreciation of their national currencies against the United States dollar from 2014 to early 2015. To varying degrees, the national currencies of Maghreb countries, namely Algeria, Libya, Morocco and Tunisia, depreciated against the dollar, mainly owing to the euro's rapid depreciation against the dollar in the second half of 2014. Maghreb countries have traditionally maintained a stable exchange rate against the euro given that the eurozone is their primary 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. GCC countries, Djibouti, Iraq, Jordan and Lebanon maintained the foreign exchange regime of pegging their currencies to the dollar. Egypt managed its orderly depreciation of the Egyptian pound from 7.0 pounds to the dollar to 7.6 pounds to the dollar. The Sudan managed to set a gradual depreciation of the value of its national currency to 6.1 Sudanese pounds to the dollar. The value of the Syrian pound continued to drop from 160 pounds to the dollar to 220 pounds to the dollar through 2014. Further devaluations of national currencies are projected in 2015 for Egypt, the Sudan, Syria, Tunisia and Yemen as a result of their weak balance-of-payments situations.

2. GCC countries

GDP growth in the GCC subregion was an estimated 4.0 per cent in 2014, compared to 3.7 per cent in 2013. In real terms, the fall in oil prices has had a mild impact on GDP figures, given that the level of crude oil production has remained the same. A stable growth of the non-oil sector has been observed throughout GCC countries. With the exception of Kuwait, GCC countries exhibited a strong growth in domestic demand until the third quarter of 2014, reflected in a stable growth of broad money. However, a deceleration in the growth rate of broad money in the fourth quarter of 2014, particularly in Saudi Arabia and the United Arab Emirates, indicates a shift in economic sentiment and business confidence. In parallel with declining oil prices, the value of financial assets and real estate has entered a downward adjustment phase, following a remarkable growth of asset values over the past three years in the United Arab Emirates, for example. However, this current decline will not impact GCC countries as much as it did during the global financial crisis of 2008. The financial sector in GCC countries has limited exposure to risky assets, and the relatively strong economic performance of East and South Asian countries supports the non-oil sector of GCC countries. Estimated growth rates for 2014 are 6.2 per cent in Qatar, 4.7 per cent in Bahrain, 4.5 per cent in the United Arab Emirates, 3.6 per cent in Saudi Arabia, 3.2 per cent in Oman and 2.2 per cent in Kuwait.

Figure 7. Geographical trade structure: GCC countries



Source: ESCWA, based on IMF Direction of Trade Statistics. Available from www.imf.org/external/data.htm.
Note: The abbreviations refer to the following: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; and AF, Africa excluding Arab countries.

The value of total exports from GCC countries declined in 2014, owing primarily to lower energy prices. Meanwhile, the value of imports grew as a result of the continuing expansion of domestic demand. As a result, net merchandise exports decreased in the second year from an estimated $421 billion in 2013 to $353.5 billion in 2014 (figure 7a). The share of exports from GCC countries to the Asia-Pacific region decreased slightly in 2014 to 66.5 per cent, while the share of imports from the Asia-Pacific region rebounded to 46.8 per cent (figure 7b). The share of exports from GCC countries to Europe also decreased in 2014 to 6.8 per cent, while the share of imports from Europe declined to 25 per cent (figure 7c). Exports to North America, Latin America and the Caribbean and Africa accounted for 7.0 per cent, 0.9 per cent and 2.2 per cent of total GCC exports, respectively. Imports from North America, Latin America and the Caribbean and Africa accounted for 11.0 per cent, 2.2 per cent, and 0.8 per cent of total GCC imports, respectively. The share of intraregional trade increased in 2014, from 8.7 per cent to 9.7 per cent for exports, and from 13.3 per cent to 13.5 per cent for imports. All GCC countries are estimated to record surpluses in both trade accounts of merchandise trade and current accounts in 2014 (figure 8). Given that oil prices are forecast to remain at a significantly lower level than those of the period 2010-2014, the margin of trade account surpluses is expected to narrow in 2015 and 2016 for all GCC countries. Considering the expected growth of imports owing to resilient domestic demand expansion, however, the current accounts of Bahrain, Oman, Saudi Arabia and the United Arab Emirates are projected to mark deficits in 2015. Given their high levels of foreign reserves (figure 9), GCC countries, including those with current account deficits, are not expected to face foreign exchange constraints. They are also projected to face little financial constraints to their domestic demand expansion.

The fiscal stance of GCC countries remained positive in 2014. Owing to lower oil export revenues, the size of government revenues in terms of GDP is estimated to have

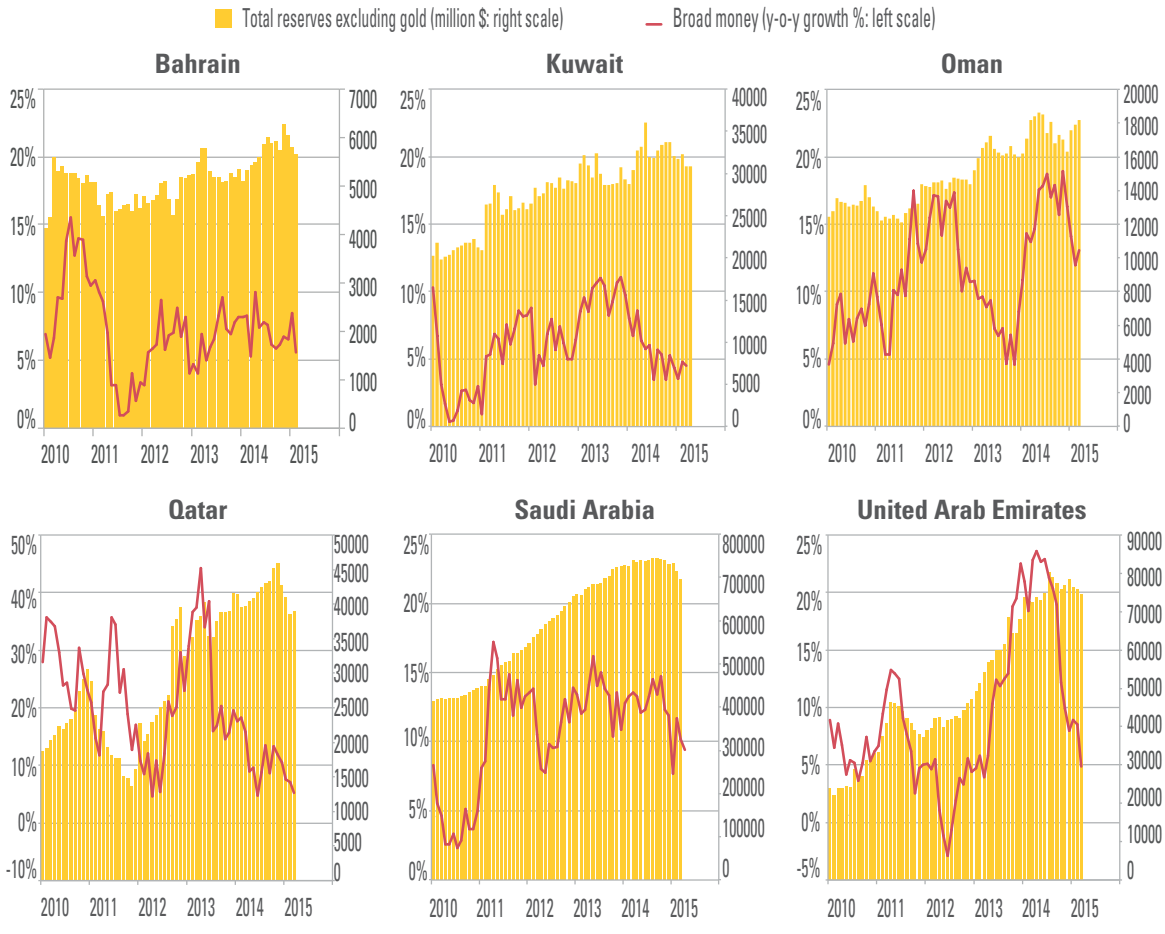
Figure 8. Trade and current account balances of GCC countries

Source: ESCWA, based on IMF Direction of Trade Statistics. Available from www.imf.org/external/data.htm.
Note: The abbreviations refer to the following: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; and AF, Africa excluding Arab countries.

declined in all GCC countries in 2014 (figure 10). Meanwhile, the size of government expenditure kept growing, resulting in significant fiscal balance deteriorations in 2014. Bahrain is estimated to have marked a budget deficit of 4.8 per cent of GDP in 2014, and is forecast to widen further to 15.8 per cent of GDP in 2015. In Oman, the budget deficit was an estimated 1.1 per cent of GDP in 2014, forecast to widen further to 10.3 per cent of GDP in 2015. Saudi Arabia is estimated to have marked a budget deficit of 1.9 per cent of GDP in 2014, forecast to widen further to 11.4 per cent of GDP in 2015.

By contrast, the budget surplus in the United Arab Emirates was estimated at 3.8 per cent of GDP in 2014, but is expected to mark a deficit of 2.9 per cent of GDP in 2015. The fiscal positions of Kuwait and Qatar were more resilient to the recent oil price fall, and both countries are projected to retain budget surpluses during the forecasting period, albeit at lower levels. In Qatar, the budget surplus of 11.5 per cent of GDP in 2014 is projected to decline to 4.9 per cent of GDP in 2015. In Kuwait, the surplus of 19.0 per cent of GDP for 2014 is forecast to decline to 2.1 per cent of GDP in 2015.

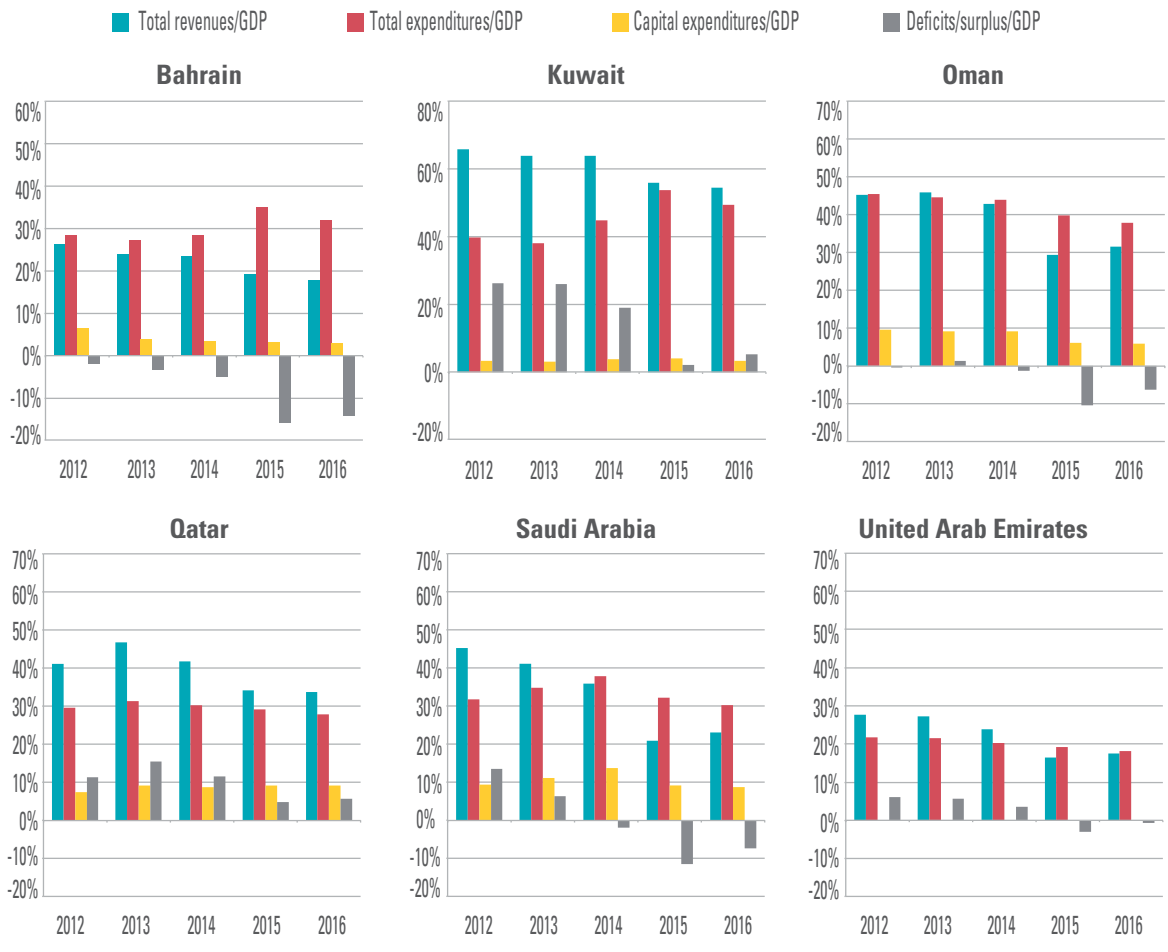
Figure 9. Monetary indicators of GCC countries



Source: ESCWA calculations, based on IMF International Financial Statistics.

The GDP growth rate is projected to slow down in all GCC countries in 2015. Lower oil prices are likely to erode economic sentiment and business confidence further in the non-oil sector, particularly the real estate sector. Expected rising funding costs and the anticipated United States interest rate hike by the end of 2015 could also negatively affect credit growth in GCC countries. However, the firm linkage of GCC countries with growing East and South Asian countries is likely to sustain the growth of the non-oil sector. The GCC Customs Union, which came into effect in January 2015, is expected to enhance intra-GCC trade. The average real GDP growth rate in this subregion is estimated at 3.4 per cent for 2015. Among GCC countries, Qatar and the United Arab Emirates are projected to grow faster than the subregional average. Both countries are expected to continue infrastructure investment in preparation for hosting forthcoming global events. The growth of Saudi Arabia is projected to slow down mainly as a result of a rapid policy response to new oil prices. Public expenditures, mostly extrabudgetary expenditures, are expected to decrease significantly. Forecast growth rates for 2015 are 5.2 per cent in Qatar, 4.2 per cent in the United Arab Emirates, 3.2 per cent in Bahrain, 3.0 per cent in Oman, 3.0 per cent in Saudi Arabia and 2.0 per cent in Kuwait.

Figure 10. Fiscal positions of GCC countries

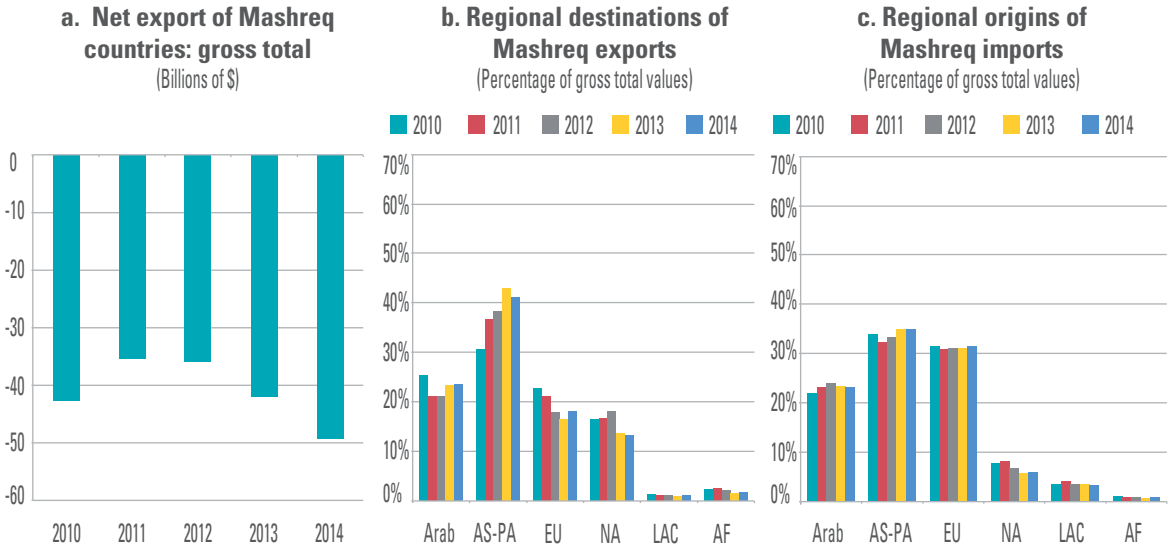


Source: ESCWA calculations, based on national statistical sources (see annex II).
Note: Figures for 2014-2016 are ESCWA estimates and projections.

3. Mashreq countries

The economies of the Mashreq subregion contracted by an estimated average of 0.6 per cent in 2014, after registering a contraction of 2.2 per cent in 2013 (table 5). Armed conflict and violence have greatly affected this subregion, with Iraq, Palestine and Syria suffering from economic infrastructure destruction and supply-chain disruption. Iraq has experienced negative growth owing to a contraction in domestic demand and lower oil prices. One of the fastest growing regions in Iraq, Iraqi Kurdistan, has been severely affected by armed conflict. Despite growth in crude oil production in 2014, the fall in oil prices has considerably reduced Iraqi government revenues. The destruction of economic infrastructure and production facilities continued in Syria in 2014. Although production continued in safer areas, private sector activities were severely constrained by frequent disruptions in energy supply and logistical chains. The destruction of the economic infrastructure in the Gaza Strip in July 2014 negatively impacted the Palestinian economy; continuing restrictions on economic activities have weakened domestic demand and hampered reconstruction efforts. Jordan and Lebanon maintained moderate domestic

Figure 11. Geographical trade structure of Mashreq countries

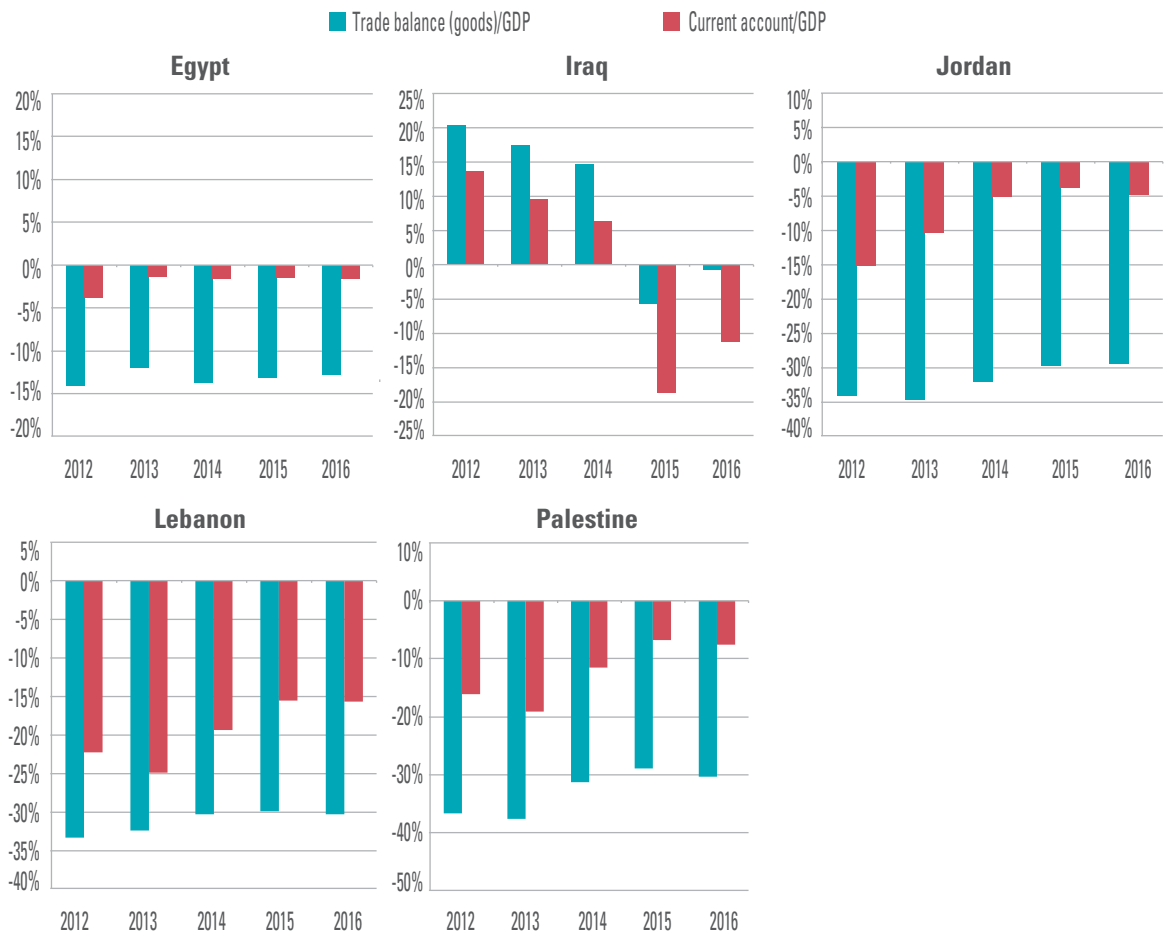


Source: ESCWA, based on IMF Direction of Trade Statistics.
Note: The abbreviations refer to the following: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; and AF, Africa excluding Arab countries.

demand expansion; the improved balance-of-payments condition contributed to an accumulation of foreign reserves to historic highs in both countries in 2014. In Jordan, the rapid growth of quarrying activities also sustained growth levels. However, it should be emphasized that the growth magnitude of Jordan and Lebanon has dropped critically, because of a growing number of residents owing to an influx of Syrian refugees. Egypt has regained stability with increasing business confidence, marking consistent growth in 2014. The balance-of-payments condition in Egypt has improved because of constant foreign capital inflows and declining international commodity prices. Estimated growth rates for 2014 are 3.2 per cent for Lebanon, 3.1 per cent for Jordan and 2.2 per cent for Egypt. The economies of Iraq, Palestine and Syria are estimated to have contracted by 2.6 per cent, 2.5 per cent and 10.5 per cent in 2014, respectively.

No significant change was observed in the directions of merchandise trade from this subregion. In 2014, merchandise exports from Mashreq countries to the Asia and the Pacific region are estimated to have accounted for 41.1 per cent (figure 11b) of total exports. Exports to Europe accounted for 18.1 per cent, and the share of exports to North America stood at 13.2 per cent. Latin America and the Caribbean and Africa accounted for 1.0 per cent and 1.7 per cent of the subregion's exports, respectively. Imports to Mashreq countries from the Asia and the Pacific region are estimated at 35.1 per cent, followed by Europe at 31.5 per cent, North America at 6.0 per cent, Latin America and the Caribbean at 3.4 per cent, and Africa at 0.8 per cent. The share of intraregional trade for the subregion stayed at roughly the same level: 23.6 per cent for exports and 23.1 per cent for imports. Given the destruction of main land routes for intraregional trade in Iraq and Syria, the maintained level of intraregional trade implies the use of alternative routes or destinations within the Arab region. Anecdotal evidence shows that limited commercial transports have continued to function in conflict-affected

Figure 12. Trade and current account balances of Mashreq countries

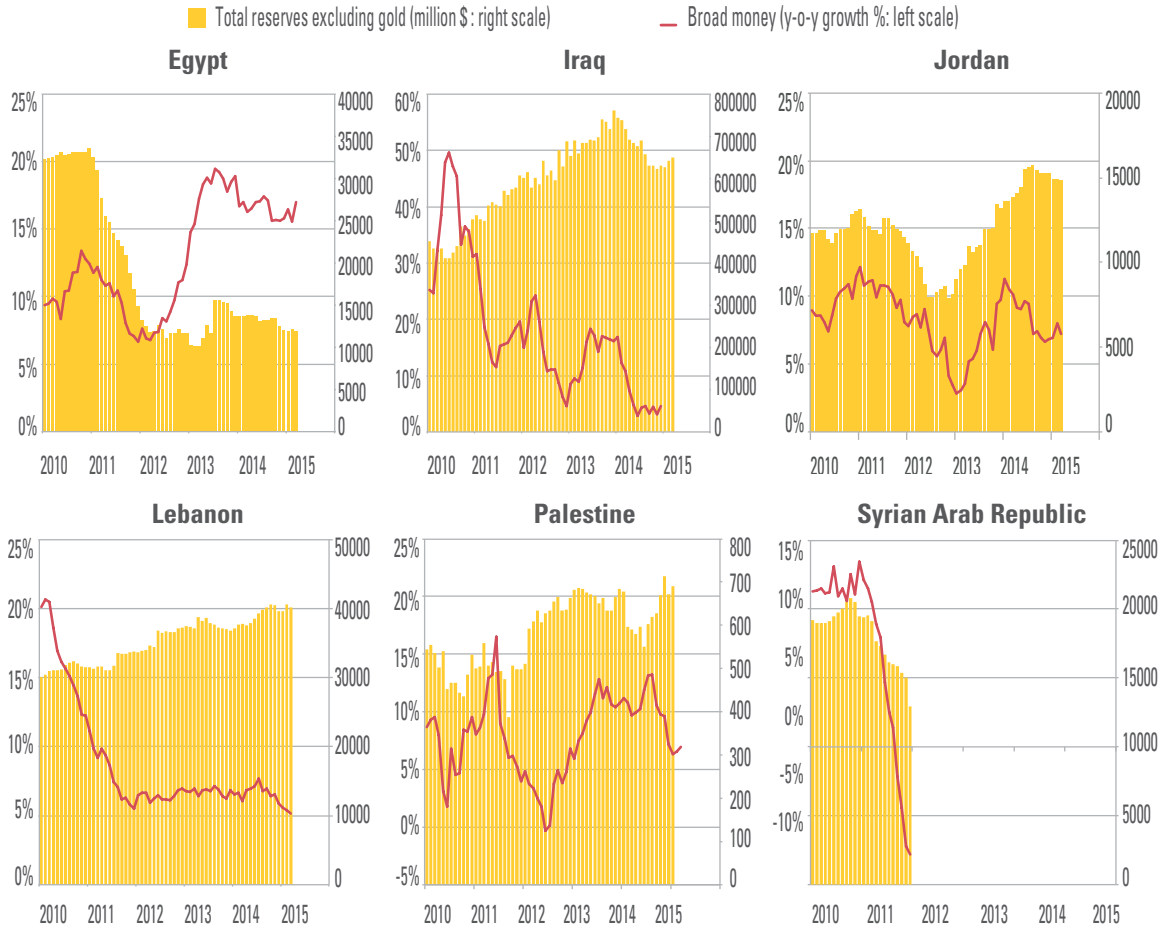


Source: ESCWA calculations, based on national statistical sources (see annex II).
Note: Figures for 2014-2016 are ESCWA estimates and projections. Owing to the lack of official statistics, figures for Syria were not estimated.

areas, but intensifying armed violence caused more closures of land routes in the second half of 2014. Intraregional trade has been a vital source of export revenues for Mashreq countries, and the deteriorating security situation may negatively influence the balance-of-payments conditions of those countries.

Egypt, Jordan, Lebanon and Palestine remained net importers in 2014, with substantial merchandise trade deficits financed by surpluses in service accounts, mainly transport and tourism, income accounts, transfers including workers' remittances, foreign aid and capital inflows (figure 12). Given the chronic deficit in current accounts, the extent of foreign exchange constraints was mostly determined by capital inflows. A sufficient amount of capital inflows was observed in 2014, which put foreign reserves in a stable position (figure 13). In Egypt, although foreign reserves remained low, the balance-of-payments situation stabilized, and is projected to remain stable in 2015. A stable balance-of-payments situation is also expected in Jordan, Lebanon and Palestine in 2015, as no material change is projected for capital and remittance inflows into those countries. The Iraqi current account surplus

Figure 13. Monetary indicators of Mashreq countries

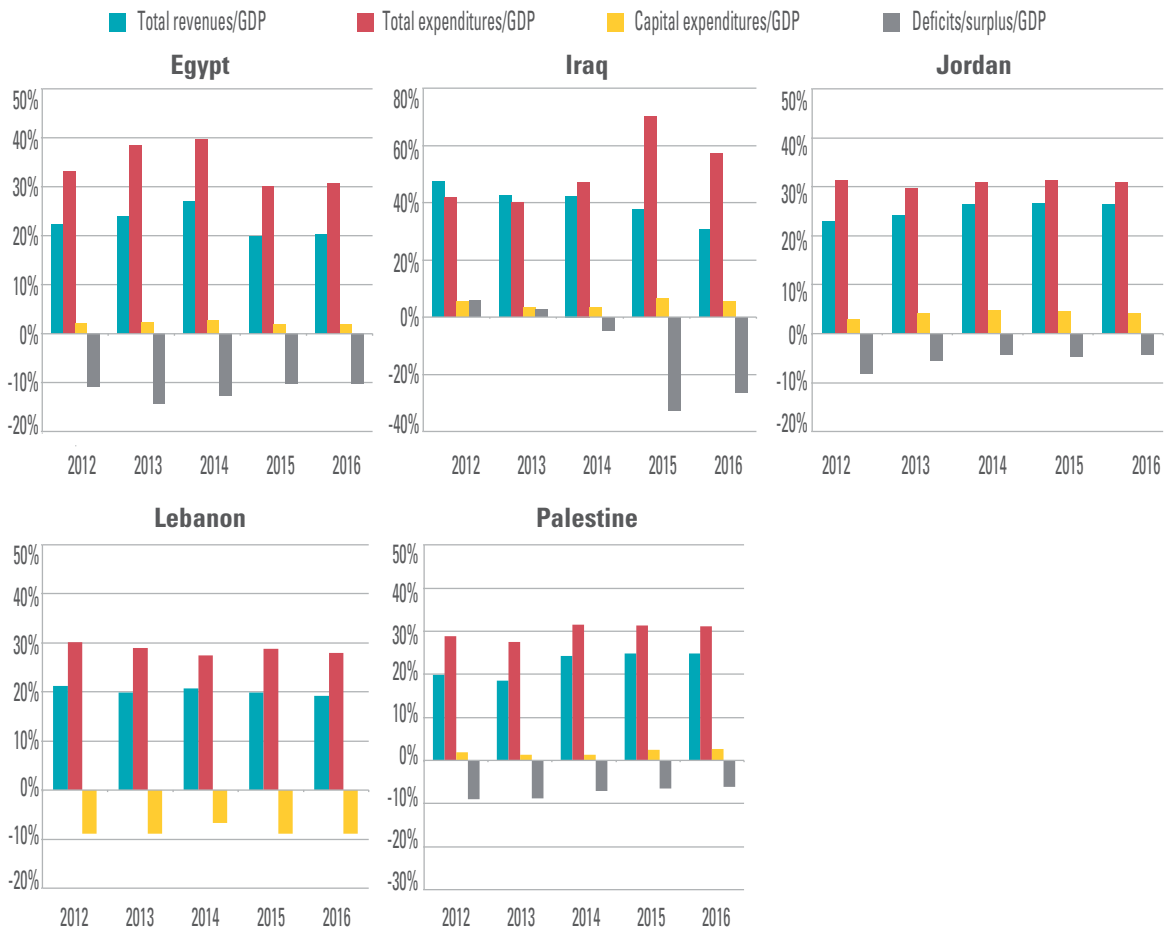


Source: ESCWA calculations, based on IMF International Financial Statistics.

for 2014 is projected to fall into deficit in 2015; dependency on imports has remained high and the value of imports is not expected to decline in parallel with the decrease in oil export revenue. Although its foreign reserves are set to remain at relatively high, Iraq may consider devaluating its national currency to manage growing import demand. In Syria, despite a lack of official figures for 2014, the balance-of-payments situation is estimated to have further deteriorated.

The fiscal stance of Mashreq countries remained neutral to moderately positive. The size of government revenue in terms of GDP is estimated to have increased in Egypt, Jordan, Lebanon and Palestine in 2014, while the size of government revenue in Iraq is estimated to have marked a slight decrease (figure 14). Given that no disbursement data are available, this figure cannot be estimated for Syria. Meanwhile, government expenditures in Mashreq countries were reasonably restrained. The budget deficit of Egypt is estimated at 12.6 per cent of GDP for 2014, narrowing to 10.4 per cent in 2015. In Jordan, the budget deficit is estimated at 4.4 per cent of GDP for 2014, increasing to 4.7 per cent of GDP in 2015. Lebanon is estimated to have reached a budget deficit of 6.7 per cent of GDP in 2014, growing to 9.0 per cent of GDP in 2015. The budget deficit of Palestine

Figure 14. Fiscal positions of Mashreq countries



Source: ESCWA calculations, based on national statistical sources (see annex II).
Note: Figures for 2014-2016 are ESCWA estimates and projections. Total revenues of Jordan and Palestine include foreign grants. Owing to the lack of official statistics, figures for Syria were not estimated.

was an estimated 7.1 per cent of GDP in 2014 and is projected to decrease to 6.6 per cent of GDP in 2015, on the assumption that pledged foreign aid is smoothly disbursed. Iraq, which had registered a budget surplus since 2005, is estimated to have reached a deficit of 5.0 per cent of GDP in 2014, widening to 32.5 per cent of GDP in 2015.

Mashreq countries, including Iraq, have varying degrees of foreign exchange and fiscal constraints. Although these countries no longer implement austerity measures, the real growth of fiscal expenditures remains neutral to slightly positive. Foreign exchange constraints exercise modest pressure on the economies of Egypt and Iraq, and severe pressure in Syria. Declining foreign reserves in Iraq are a result of its decreasing oil export revenue. For other Mashreq countries, stagnated foreign reserves accumulations imply a decelerating growth in foreign capital inflows (figure 13). The deceleration of broad money growth in Iraq, Jordan, Lebanon and Palestine occurred in parallel with stagnating foreign reserves accumulation, indicating constrained external-to-internal linkages of money growth in those countries. In contrast

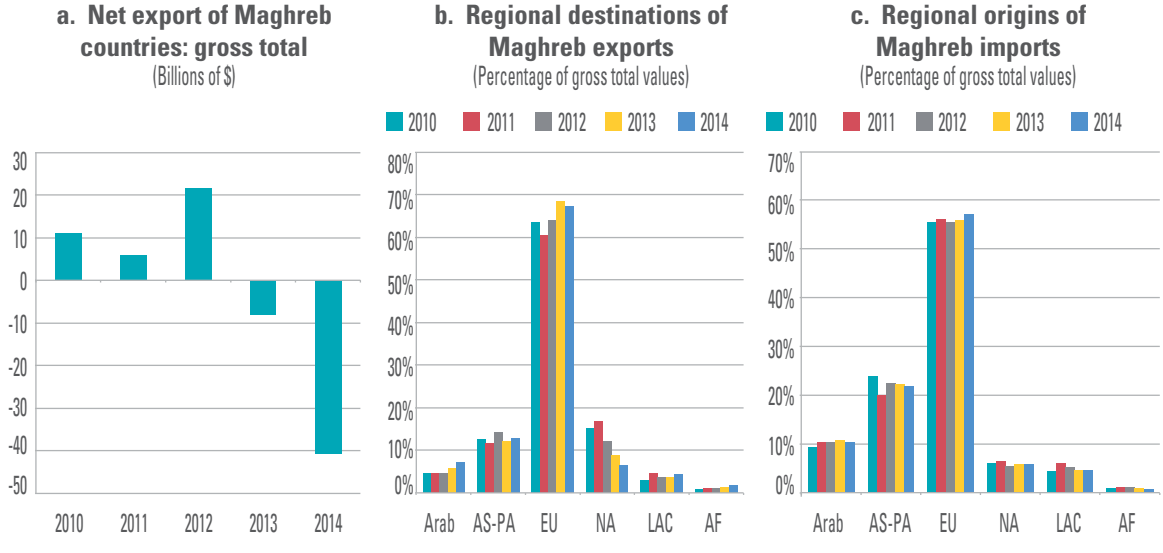
to other countries in the subregion, Egypt recorded continuing high broad money growth in 2015, with a low level of foreign reserves accumulation in 2014. The Central Bank of Egypt continued to hold a substantial amount of domestic government bonds and maintained a stable nominal exchange rate throughout 2014. This monetary policy cannot be ruled out as an important cause of high consumer inflation rates in Egypt.

The Mashreq subregion is projected to grow by an average of 1.2 per cent in 2015, after a two-year contraction. The economic contraction in Syria is expected to decrease, and domestic demand in Iraq is projected to grow slightly. Growth in Jordan and Lebanon is expected to slow down; although both countries are likely to benefit from lower oil and commodity prices, an economic slowdown in GCC countries might weaken positive spillovers to these countries. Egypt is likely to be a primary growth driver in the subregion in 2015; further balance-of-payment improvements are likely to accelerate domestic demand expansion. Palestine is projected to show a positive growth, owing to a rebound of economy in the Gaza Strip. Yet, the extent of the rebound is not sufficient to bring the Gazan economy to the level before the contraction in the second half of 2014. The forecast assumes moderately accelerated reconstruction activities in Gaza, depending on the geopolitical situation. Forecast growth rates for 2015 are 3.2 per cent for Egypt, 3.0 per cent for Lebanon, 3.0 per cent for Palestine, 2.8 per cent for Jordan and 0.5 per cent for Iraq. Syria is expected to contract by 7.0 per cent.

4. Maghreb countries

The economies of the Maghreb subregion contracted by an estimated average of 3.9 per cent in 2014, after a 1.1 per cent contraction in 2013. The average growth of this subregion continues to be heavily influenced by growth estimations for Libya, whose economy is anticipated to record two consecutive annual contractions. In 2014, political instability

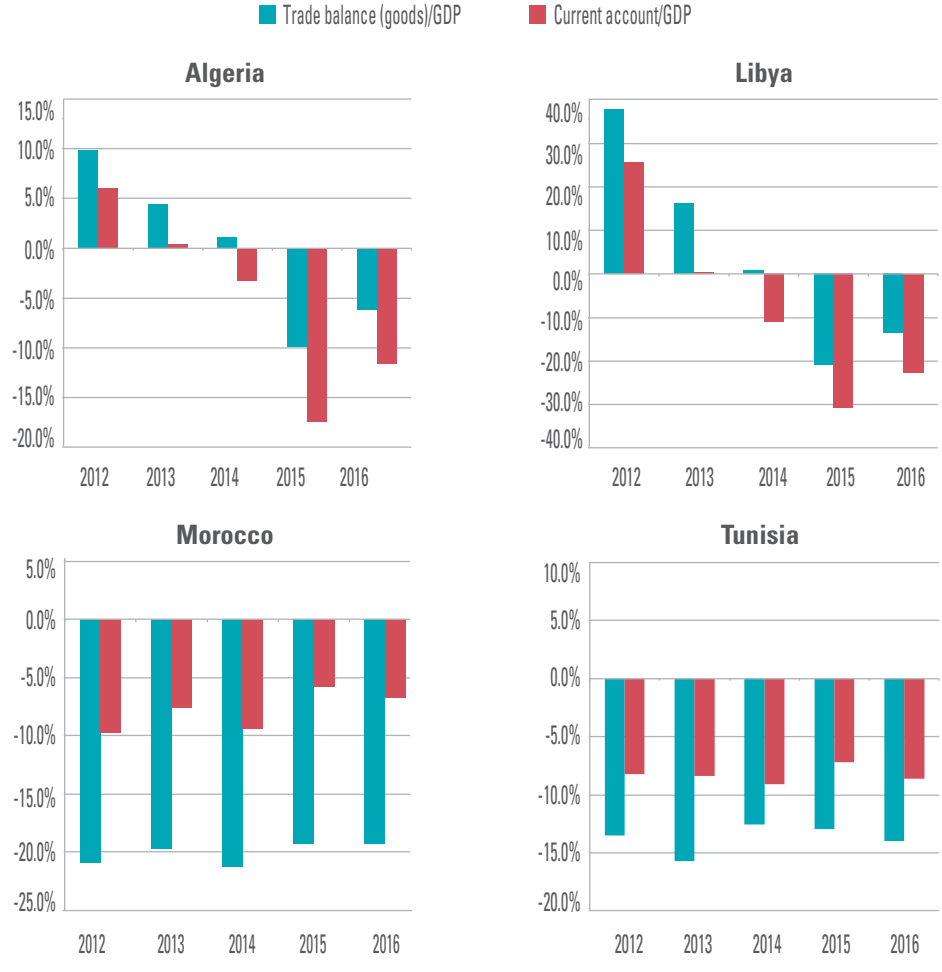
Figure 15. Geographical trade structure of Maghreb countries



Source: ESCWA, based on IMF Direction of Trade Statistics.
Note: The abbreviations refer to the following: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; and AF, Africa excluding Arab countries.

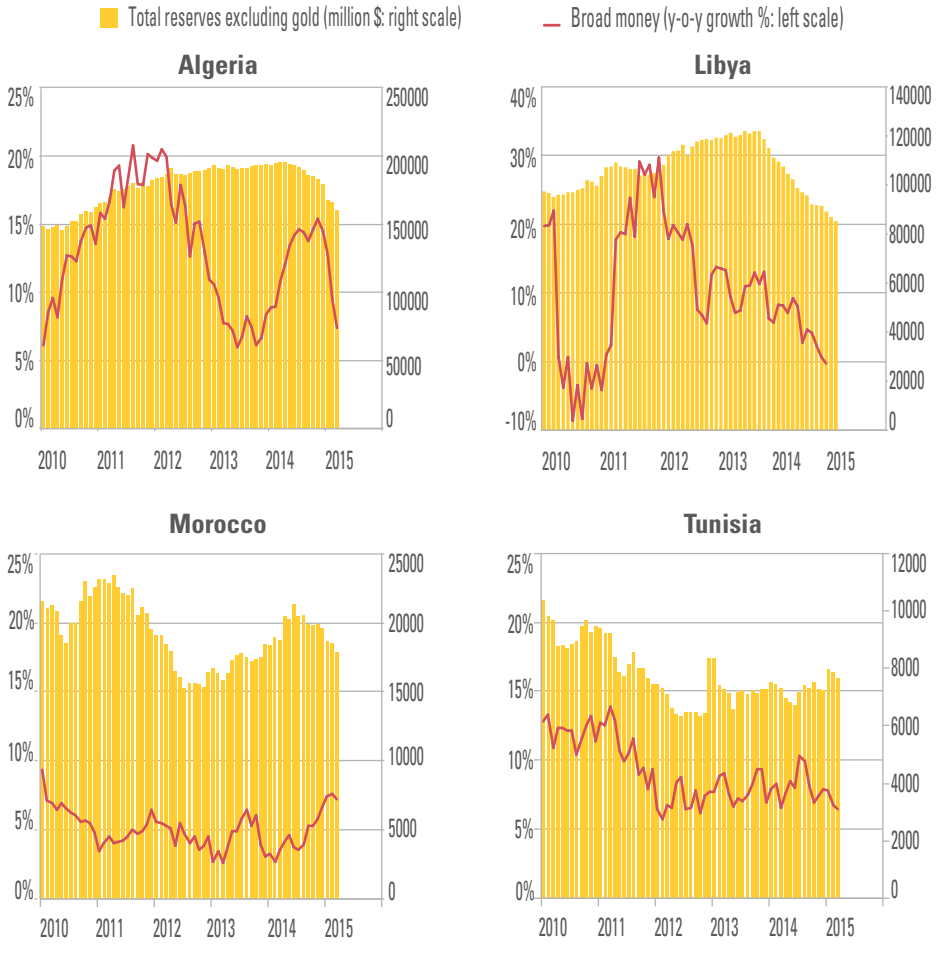
and armed conflict substantially decreased Libyan domestic demand, and Libyan oil production and exports dwindled owing to sabotage and work stoppages. A fall in agricultural outputs slowed growth in Morocco in 2014, while other sectors maintained stable growth. Constant domestic demand growth was reflected in accelerating broad money growth in 2014; however, Moroccan exports were negatively impacted by stagnating European economies. Tunisia experienced decelerating economic growth in 2014, given that its domestic demand growth was hampered by a severe balance-of-payments condition. A weak external position persists, although the depletion of foreign reserves has been contained. Similarly to Morocco, Tunisia has been negatively impacted by stagnating European economies. Active public investments in Algeria drove the growth of its economy in 2014, despite declining oil prices in the second half of the year. Estimates show that domestic demand consistently expanded as broad money growth accelerated in 2014. Estimated growth rates for 2014 are 2.4 per cent for Morocco, 3.2 per cent for Algeria, and 2.3 per cent for Tunisia. The Libyan economy contracted by an estimated 32.7 per cent.

Figure 16. Trade and current account balances of Maghreb countries



Source: ESCWA calculations, based on national statistical sources (see annex II).
Note: Figures for 2014-2016 are ESCWA estimates and projections.

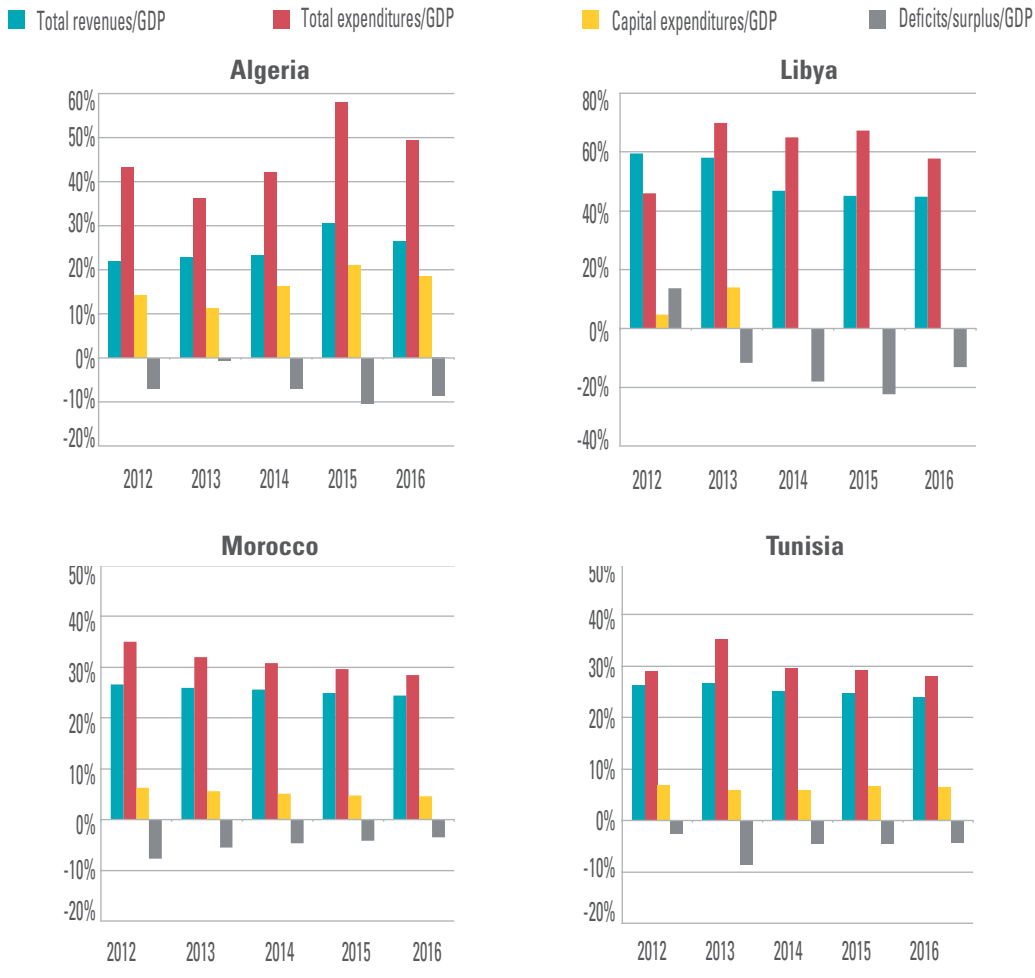
Figure 17. Monetary indicators of Maghreb countries



Source: ESCWA calculations, based on IMF International Financial Statistics.

The strong trade links between the Maghreb subregion and Europe stayed intact in 2014, despite the decline in the value of total exports (figure 15). Stagnation of the European economy impacted non-energy exports from the subregion and falls in commodity prices, including crude oil, natural gas and phosphate, contributed to a decline in the value of total merchandise exports. Europe accounted for an estimated 67.2 per cent of the subregion's gross total exports in 2014, followed by the Asia and the Pacific region with 12.8 per cent, North America with 6.5 per cent, Latin America and the Caribbean with 4.3 per cent, and Africa with 1.6 per cent. Europe also remained the largest exporter to the subregion, accounting for an estimated 57.2 per cent of gross total imports to the subregion in 2014, followed by the Asia and the Pacific region with 21.8 per cent, North America with 5.7 per cent, Latin America and the Caribbean with 4.5 per cent, and Africa with 0.5 per cent. The share of intraregional trade for total exports expanded from 5.8 per cent in 2013 to 7.2 per cent in 2014, owing to an increase in Moroccan and Tunisian exports to Arab countries. The share of intraregional trade for imports declined slightly from 10.9 per cent in 2013 to 10.3 per cent in 2014.

Figure 18. Fiscal positions of Maghreb countries



Source: ESCWA calculations, based on national statistical sources (see annex II).
Note: Figures for 2014-2016 are ESCWA estimates and projections.

The current accounts of Maghreb countries were estimated to be in deficit in 2014, owing to weak export performances and growing imports. The current accounts of Algeria and Libya fell into deficit in 2014, following surpluses in 2013. The weak export performances of both countries were reflected in a decline in foreign reserves in 2014 (figure 17). The chronic merchandise trade deficits of Morocco and Tunisia remained, and their balance-of-payment situations depended on service trade, including tourism, transfers, foreign aid, workers' remittances and capital inflows. The stagnation of foreign reserves accumulations in Morocco and Tunisia (figure 17) indicated the weak overall balance-of-payment situation of both countries in 2014.

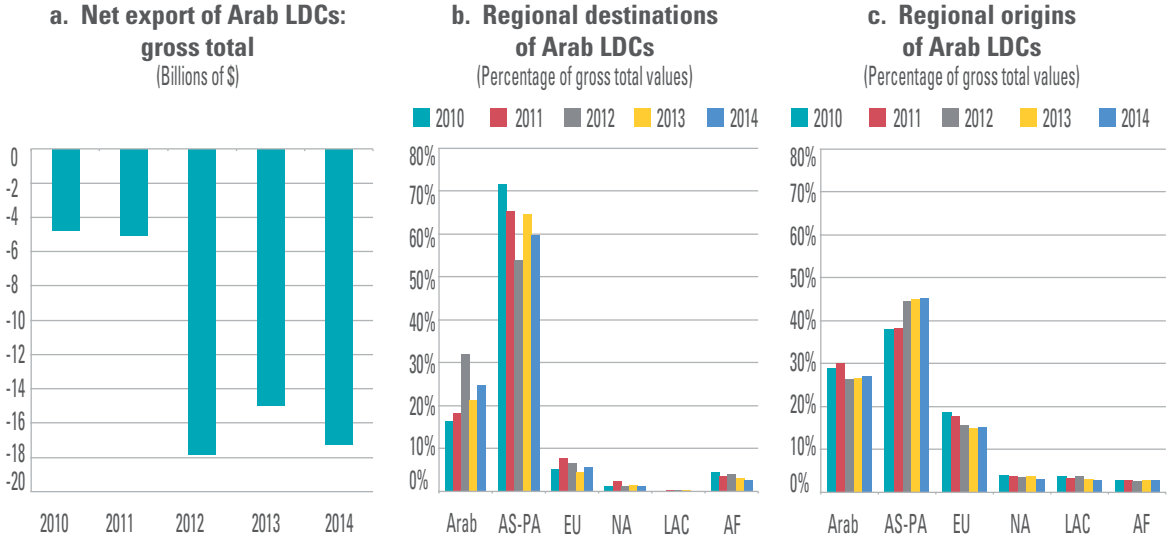
Government revenues in terms of GDP are estimated to have been stable in Algeria, Morocco and Tunisia, but declined substantially in Libya (figure 18). Meanwhile, government expenditures are estimated to have grown in Algeria, and have declined in Libya, Morocco and Tunisia in terms of GDP in 2014. Algeria maintained a positive fiscal

stance, but Morocco and Tunisia took neutral fiscal stances, aimed at fiscal consolidation. The budget deficit of Algeria was an estimated 6.8 per cent of GDP in 2014, widening to 10.3 per cent in 2015. Libya registered a budget deficit estimated at 18.2 per cent of GDP in 2014, increasing to 22.3 per cent of GDP in 2015. In Morocco, the budget deficit was an estimated 4.7 per cent of GDP in 2014, projected to drop to 4.1 per cent of GDP in 2015. Tunisia marked an estimated budget deficit of 4.5 per cent of GDP in 2014, which is set to widen modestly to 4.6 per cent of GDP in 2015.

Despite the projected rise in external and fiscal deficits, Algeria and Libya are under no financial constraints for domestic demand expansion in 2015. Both countries have amassed a comfortable level of fiscal and foreign reserves to cover deficit payments. Morocco is estimated to be under moderate financial constraints for domestic demand expansion in 2015, owing to fiscal prudence. Tunisia is expected to be affected by both foreign exchange and fiscal constraints for domestic demand expansion; however, the extent of those constraints is not as severe as in 2014.

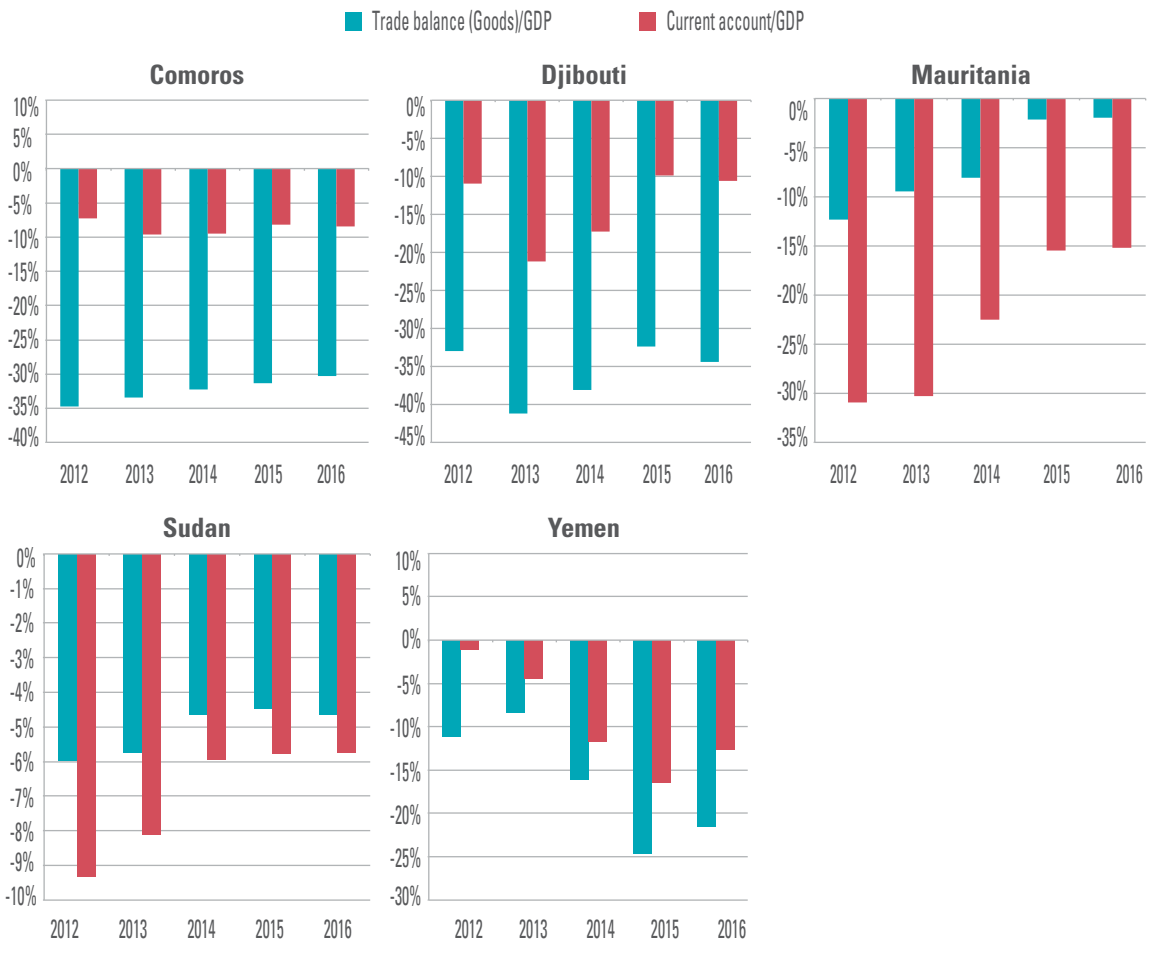
The Maghreb subregion is projected to grow by 1.2 per cent in 2015. In Libya, a certain level of crude oil production and exports are projected to continue, but the displacement of foreign workers, including those critical to maintaining the economic infrastructure, will lead to a further decline in economic activities. Morocco is forecast to mark an accelerated growth owing to an increase in agricultural harvests. Low oil prices have benefited Morocco and Tunisia, easing their balance-of-payments and fiscal conditions. The resulting moderate domestic demand expansion is expected to sustain growth in Tunisia; however, security spillovers from armed conflict in Libya pose a risk, particularly on the vital tourism industry. While economic growth in Algeria is projected to slow down owing to a drop in its hydrocarbon revenues, continuing active public investments are likely to buoy domestic demand. Forecast

Figure 19. Geographical trade structure of Arab LDCs



Source: ESCWA, based on IMF Direction of Trade Statistics.
Note: The abbreviations refer to the following: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; and AF, Africa excluding Arab countries.

Figure 20. Trade and current account balances of Arab LDCs



Source: ESCWA calculations, based on national statistical sources (see annex II).
Note: Figures for 2014-2016 are ESCWA estimates and projections.

growth rates for 2015 are 4.2 per cent for Morocco, 2.8 per cent for Algeria and 2.7 per cent for Tunisia. The Libyan economy will contract by an estimated 7.5 per cent.

5. Arab least developed countries

The economies of Arab LDCs grew by an estimated average of 2.4 per cent in 2014, following a growth of 3.6 per cent in 2013. The Sudan managed to maintain positive economic expansion amid a severe balance-of-payment condition. Despite a loss in oil-export revenues since the creation of South Sudan, the country has managed to diversify its exports to other commodities, including food items and gold. The economic growth of Yemen has decelerated; domestic demand expansion has been weakened by an increasingly unstable political situation. Crude oil production in Yemen has stagnated because of ageing production facilities and continuous sabotage of oil pipelines. Although external financial support sustained monetary stability, foreign reserves continued to decline in 2014. The Comoros maintained stable growth in 2014, in line with its long-term trend. A high level of port activities, partly driven by growing transport to Ethiopia, has led to constant economic expansion in Djibouti.

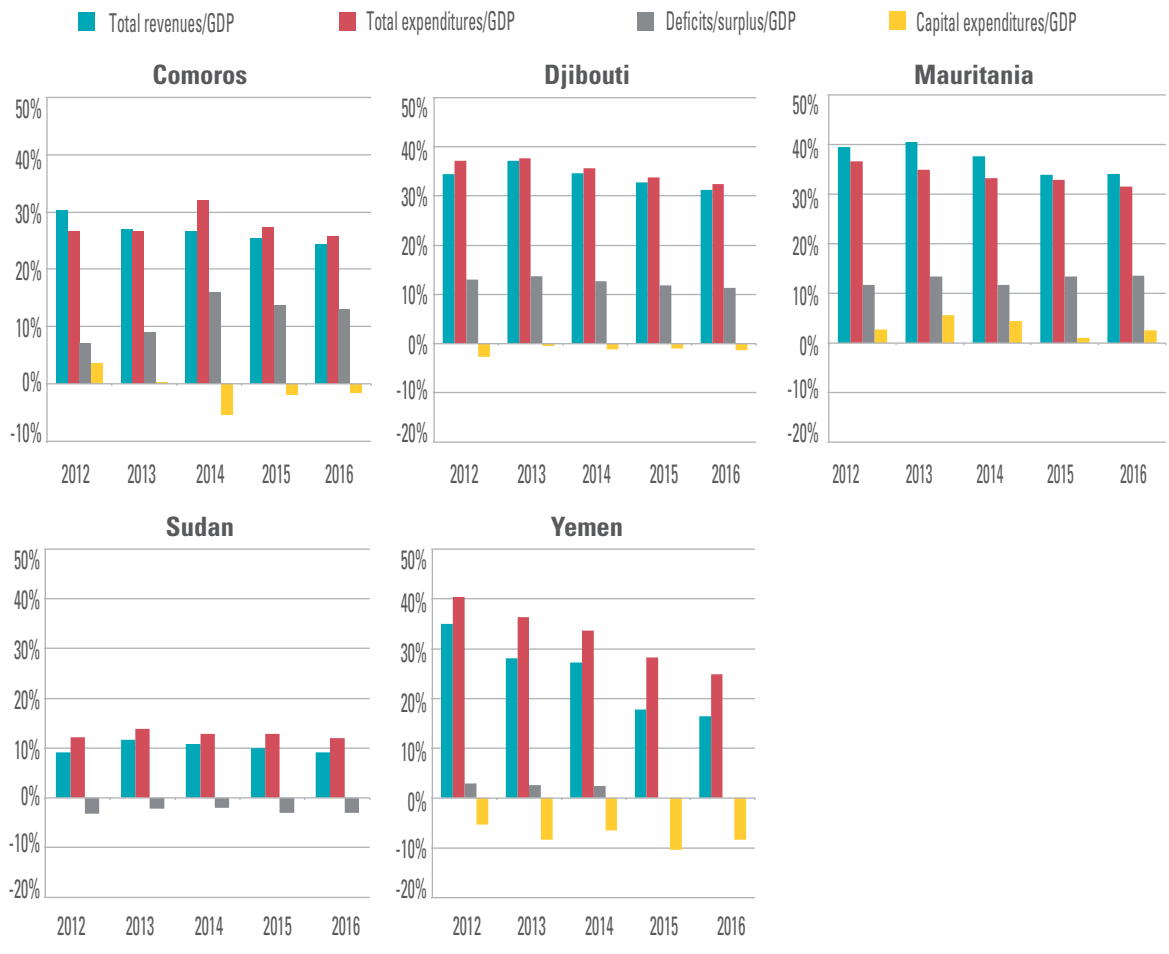
Figure 21. Monetary indicators of Arab LDCs

Sources: ESCWA calculations, based on IMF International Financial Statistics. For the Sudan, total reserves, excluding gold, were estimated from the Central Bank of Sudan's balance sheet.

Despite occasional security incidents, Somalia is expected to make a rapid economic recovery owing to progressing reconstruction work. Mauritania has experienced a deceleration of economic growth; declining metal prices have impacted its export performance, but domestic demand is estimated to have steadily expanded. Estimated growth rates for 2014 are 6.4 per cent for Mauritania, 5.0 per cent for Djibouti, 3.7 per cent for the Comoros, 2.5 per cent for the Sudan and 1.5 per cent for Yemen.

The Asia and the Pacific region remained the largest export destination in 2014 for Arab LDCs, receiving an estimated 59.6 per cent of gross total merchandise exports (figure 19). The Asia and the Pacific region was the largest export destination for Mauritania, the Sudan and Yemen for exports of energy and other natural resources. Europe is estimated to account for 5.7 per cent of gross total merchandise exports. It is the primary export destination for the Comoros and the second destination for Mauritania. North America, Latin America and the Caribbean and Africa accounted for an estimated 1.2 per cent, 0.1 per cent and 2.7 per cent of the subregion's gross total merchandise exports in 2014, respectively. In 2014, the share of intraregional trade by Arab LDCs reached 24.6 per cent for exports

Figure 22. Fiscal positions of Arab LDCs



Source: ESCWA calculations, based on national statistical sources (see annex II).
Note: Figures for 2014-2016 are ESCWA estimates and projections. Total revenues of the Comoros, Djibouti and Mauritania include foreign grants.

and 26.9 per cent for imports, mainly owing to growing trade activities with GCC countries.

All Arab LDCs are estimated to have remained net importers in 2014, although Mauritania witnessed a shrinking trade deficit owing to growing exports of natural resources (figure 20). Arab LDCs were under significant foreign exchange and fiscal constraints in 2014, and the potential for stable domestic demand expansion remained limited. Foreign aid inflows were essential to alleviating those constraints. In general, foreign reserve accumulations have remained stagnant in Arab LDCs (see figure 21) and current accounts have remained in deficit (figure 20), indicating weak capital inflows and deteriorating balance-of-payments. The Comoros, Djibouti and Mauritania have maintained relatively high government spending (figure 22). In 2014, the Comoros and Djibouti had relatively low fiscal deficits, and Mauritania maintained a fiscal surplus. However, the Comoros greatly depends on foreign aid to finance its trade deficits and government budget, given that such potential growth sectors as tourism are yet to be developed. The Sudan and Yemen saw narrowing trade deficits, but their current accounts remained in deficit in 2014. Tight fiscal conditions continued in both countries as

government debt increased, but broad money stocks significantly dropped in 2014, indicating a more stable government financing.

In 2014, government revenues in terms of GDP were estimated to have declined in Arab LDCs (figure 22), owing to a drop in revenues from natural resources. Government expenditures as a share of GDP are also estimated to have declined moderately. The budget deficit of the Comoros was an estimated 5.5 per cent of GDP in 2014, narrowing to 1.1 per cent in 2015. Djibouti marked an estimated budget deficit of 1.1 per cent of GDP in 2014, dropping to 1.0 per cent of GDP in 2015. In Mauritania, the budget surplus was an estimated 4.4 per cent of GDP in 2014, forecast to drop to 1.0 per cent of GDP in 2015. The Sudan registered an estimated budget deficit of 2.0 per cent of GDP in 2014, remaining unchanged in 2015. In Yemen, the budget deficit was 6.5 per cent of GDP in 2014, forecast to grow to 10.4 per cent of GDP in 2015. Somalia increased its government budget for 2014 to $218 million from $114.3 million in 2013,[1] slightly increasing to 239.9 million for 2015.[2] The government budget is expected to increase in line with the expanding role of the federal government. Owing to a fragile tax base, however, high dependency on foreign aid is projected to continue.

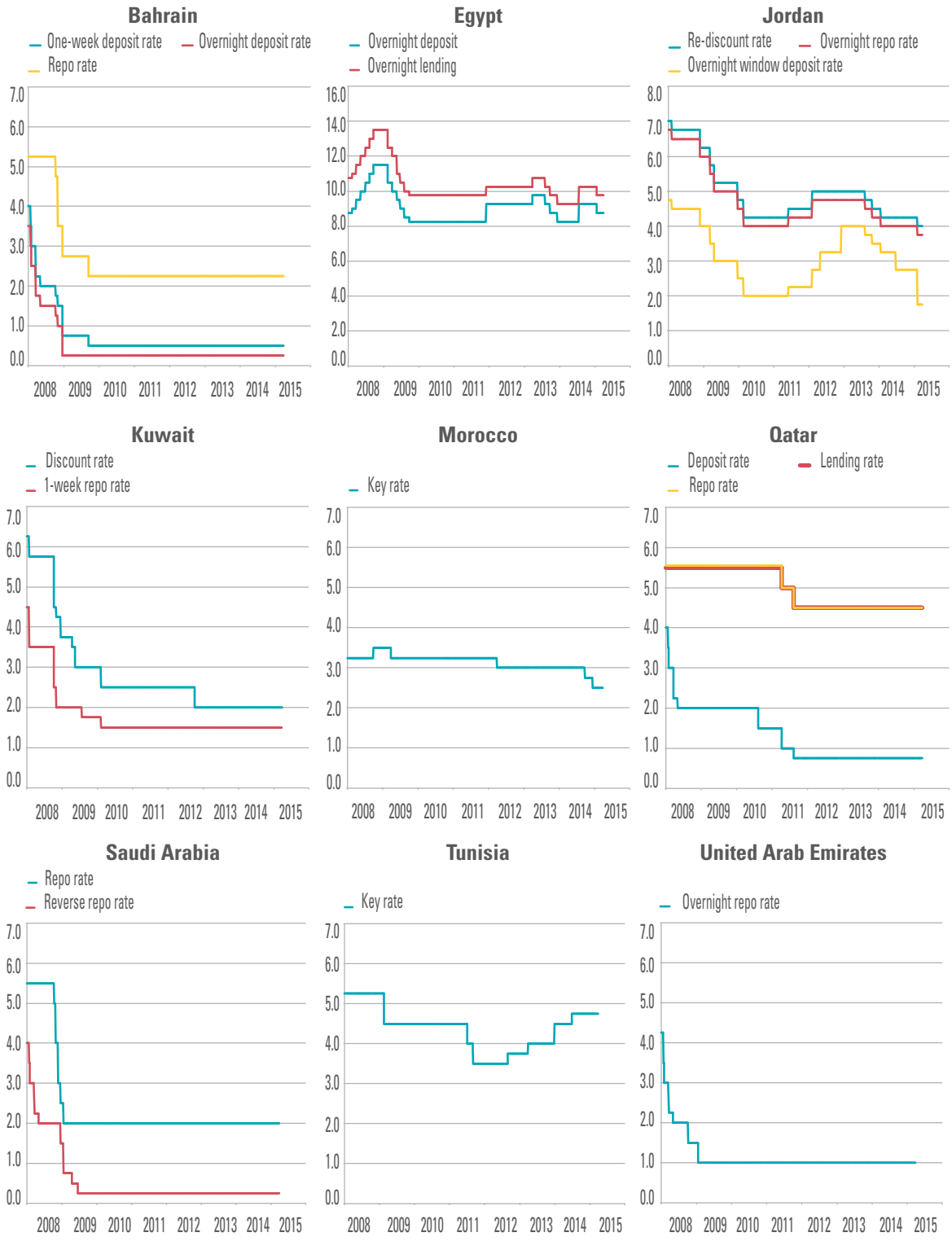
In 2015, real GDP growth of Arab LDCs is projected to average 1.5 per cent. The balance-of-payment condition is expected to improve in the Sudan, which is likely to see domestic demand expansion. In Yemen, intensified armed conflict and political instability are likely to result in economic contraction. Lower commodity prices will benefit the Comoros and Djibouti, but domestic demand expansion is projected to taper off as broad money growth slows. The mining sector is expected to continue expanding in Mauritania, despite a weak projection for metal prices; growth of foreign direct investment in this sector will positively affect the country's domestic demand expansion. Despite these positive figures, growth levels remain insufficient to change poverty profiles in Arab LDCs; greater international and regional efforts are therefore needed to alleviate poverty in these countries. Forecast growth rates for 2015 are 6.1 per cent for Mauritania, 4.8 per cent for Djibouti, 3.5 per cent for the Comoros and 2.8 per cent for the Sudan. Yemen is projected to mark a 2.0 per cent contraction, but the economy might contract further if the armed conflict intensifies.

B. Policy challenges

Policy challenges have widened for policymakers in the Arab region. For major energy exporters, rapid policy responses were needed to cope with the fall in oil revenues and weakened fiscal balances. Governments in GCC countries have played a pivotal role in diversifying their economies to include the non-oil sector by actively investing in infrastructure, communications, technology, health and education. They are now faced with the policy dilemma of whether they should maintain these levels of public expenditure. Counter-cyclical fiscal measures might be needed to allow economies to achieve targeted economic diversity. However, lower oil revenues are likely to lead to budget cuts to maintain fiscal prudence. Although foreign exchange constraints have been moderately eased because of declining international commodity prices, many Arab countries 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 their fiscal positions remain structurally weak.

Monetary policies in GCC countries have remained unchanged since 2013, shadowing those of the United States Federal Reserve, including its interest rate policies. Given that United States interest rates are projected to rise by the end of 2015, the monetary stance of GCC countries is expected to change in the same timeline. However, since low inflation

Figure 23. Policy interest rates in selected Arab countries, 2008-2015



Sources: Central Bank of Bahrain; Central Bank of Egypt; Central Bank of Jordan; Central Bank of Kuwait; Central Bank of Morocco; Qatar Central Bank; Saudi Arabian Monetary Agency; Central Bank of Tunisia; and Central Bank of the United Arab Emirates.

is expected and there is a need to maintain economic stimulus amid lower oil revenues, monetary authorities in GCC countries are likely to devise policy measures to lessen the anticipated adverse effects of these policy changes.

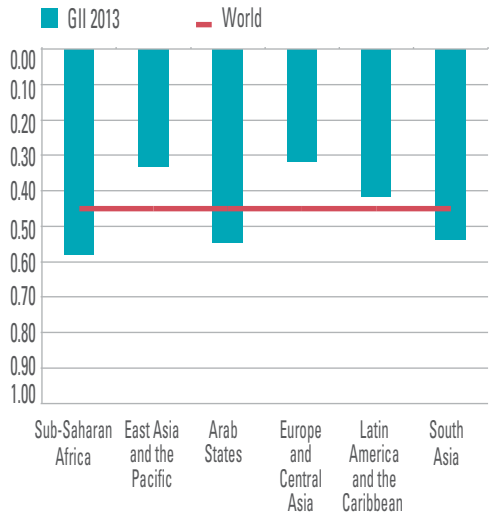
Falling international commodity prices and increases in foreign capital inflows have created a sizeable policy space for monetary easing in Egypt, Jordan and Morocco (figure 23). In July 2014, the Central Bank of Egypt took a precautious measure to cope with anticipated inflation by raising interest rates by 1 per cent. However, in January 2015, it moved back to a monetary easing stance, lowering interest rates by half a percentage point after it became apparent that a decline in commodity prices eases foreign exchange constraints. The Central Bank of Jordan took monetary easing measures in January and June 2014, and in February 2015. The overnight window deposit rate, a key Jordanian interest rate, went down from 3.5 per cent in January 2014 to 1.75 per cent at the end of the first quarter of 2015.[3] The Central Bank of Morocco lowered its key policy rate by 0.25 percentage points in September 2014 for the first time since March 2012. Interest rates in Morocco were lowered again in December 2014 by another 0.25 per cent. The Central Bank of Tunisia maintained a tight monetary stance, mainly to cope with a difficult balance-of-payment condition, by raising its key policy interest rates by 0.25 per cent to 4.75 per cent in June 2014. The Central Bank of Lebanon has actively used monetary stimulus measures. The Central Bank of Syria attempted an orderly gradual depreciation of its national currency while managing demand for foreign currencies. Despite the continuing armed violence in the country and substantial devaluation of the Syrian pound, it is worth noting that the Syrian currency has not lost its credibility.

Fiscal balances in GCC countries saw substantial changes in 2014 following a drop in oil prices. Budget deficits for 2014 have been estimated for Bahrain, Oman and Saudi Arabia, and other countries are likely to face a budget deficit in 2015. However, in terms of budget planning, GCC countries are expected not to reduce government expenditure to the extent of fiscal austerity. Fiscal stances remain mildly positive to neutral. Gradual reforms of subsidy regimes were initiated during 2014 and 2015. As a result, the price of natural gas for industrial use went up in Bahrain and Oman,[4] and the price of fuel products rose in Kuwait.[5] Abu Dhabi has adopted a new tariff scheme for water and electricity.[6] However, these subsidy reforms are not expected to reduce expenditure levels significantly for energy products. Spending on public investment projects in infrastructure, health, education and social affairs is expected to continue in selected prioritized areas. In a move to improve fiscal management, Qatar has decided to change its fiscal year to a January-December cycle from its April-March cycle.

Arab governments in other subregions continue to aim for fiscal consolidation. Although subsidy reforms progressed in several countries in 2014, including Egypt, Jordan and Morocco,[7] weak revenue prospects remain. Direct and indirect external assistance have become essential for those countries to maintain their capital spending levels, including in the form of development projects. International capital markets are accessible to Mashreq and Maghreb countries for foreign borrowing. Jordan, Lebanon, Morocco and Tunisia raised funds through bond issuances in international capital markets in 2014. However, as the majority of international debts were denominated in United States dollars, Morocco and Tunisia are vulnerable to the rising repayment burden in local currencies, which have been devalued against the dollar.

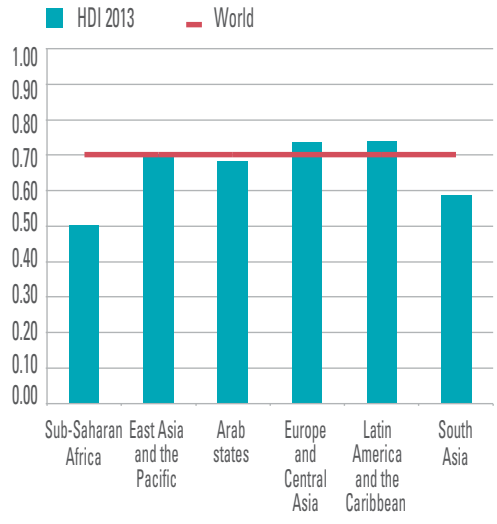
An effective labour force, which strikes a balance between nationals and non-nationals and between men and women, has continued to be a major policy challenge in GCC countries. In 2014, labour policies in

Figure 24. Gender Inequality Index 2013: regional comparison



Source: UNDP, 2014.

Figure 25. Human Development Index 2013: regional comparison



Source: UNDP, 2014.

GCC countries started to diversify. Oman and Saudi Arabia have focused on a more effective application of their labour force nationalization strategies: the proposed new Saudi labour law requires employers to provide more training to their Saudi employees,[8] and Oman has placed restrictions on hiring foreign workers.[9] Kuwait and Qatar have focused on protecting their existing foreign work force. The amended Kuwaiti labour law, passed by the National Assembly in June 2015, could become a landmark piece of legislation in the Arab region, since it has granted enforceable labour rights to domestic workers.[10] The Qatari new labour law requires employers to pay employees' wages electronically and on time.[11]

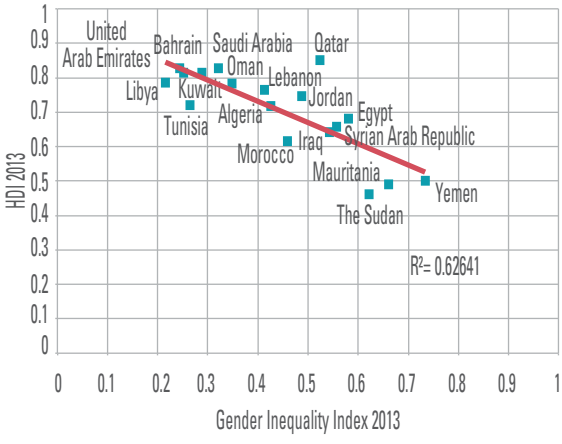
C. Women's socioeconomic and political developments in the Arab region

1. Overview

The period 2014-2015 has been eventful for women in the Arab world. Although many characteristics of the status of Arab women have remained the same, there have been changes that call for careful analysis. The following two major measures of gender inequality illustrate this appropriately.

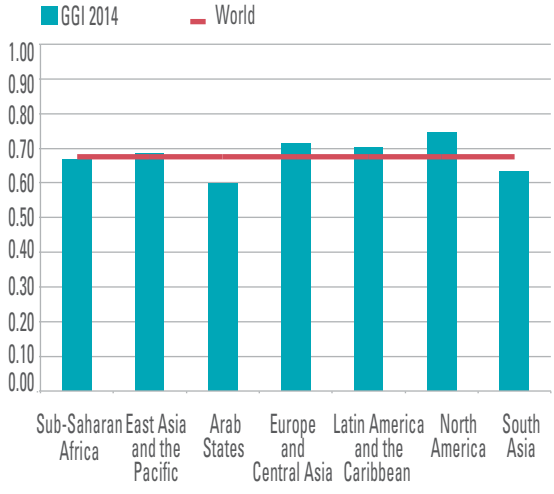
The Gender Inequality Index (GII), developed by UNDP, remained relatively high in 2014,[12] reflecting continued poor performance in this simple assessment that captures overall gender-based inequalities in different countries. As a composite measure, GII captures the loss of achievement within a country owing to gender inequality, using three dimensions, namely reproductive health, empowerment and labour market participation. The Human Development Index (HDI) is a comparative measure of life expectancy, literacy, education, standard of living and quality of life. HDI ranks countries worldwide in terms of human development and determines whether a country is developed, developing or underdeveloped. It also measures the impact of economic policies on quality of life. A higher HDI value reflects better performance, unlike GII, where a higher value reflects poorer performance (figures 24 and 25).

Figure 26. HDI and GII correlation between Arab countries



Source: ESCWA calculations, based on data from UNDP, 2014.

Figure 27. Global Gender Gap Index scores by region, 2014



Source: ESCWA calculations based on WEF (2014).
Note: Regional average scores are weighted by population using population data from the World Bank's World Development Indicators online database. The original regional grouping of Asia and the Pacific is divided into East Asia and the Pacific and South Asia to make it comparable to the Gender Inequality Index. Moreover, the regional average for Arab countries is calculated based on the Gender Gap Index (GGI).

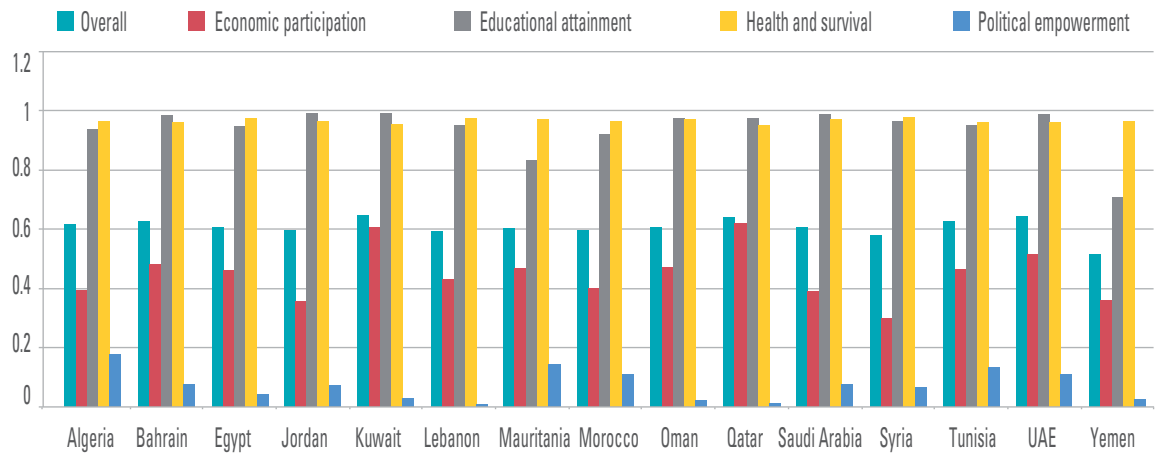
Arab countries scored a GII value of 0.546 in 2013, ranking fifth of the six global regions (figure 24), with Europe and Central Asia having the highest index and sub-Saharan Africa having the lowest.[13] A difference of 0.083 between the Arab GII value and the world average of 0.463 makes for a negative scenario, exacerbated by the fact that the Sudan and Yemen rank 138nd and 152th, respectively, from 152 countries in the 2013 index. However, Libya scored the best GII value among Arab countries, at 0.215, ranking fortieth worldwide.

Arab countries scored an HDI value of 0.682 in 2013, ranking fourth of six global regions (figure 25). A negative correlation has been observed between GII and HDI in Arab countries (figure 26). As gender equality increases (GII scores drop), HDI scores increase, reflecting better living standards.

The Global Gender Gap Index, another global measure developed by the World Economic Forum, provides a snapshot of how countries are doing using different inequality indicators.[14] It measures gender gaps in four fundamental subindices, namely economic participation and opportunity, educational attainment, health and survival, and political empowerment. The Index encompasses 142 countries and offers country rankings, thereby allowing comparisons among regions and between different income groups. It measures gaps in access to resources between men and women, regardless of the level of available resources; evaluates countries based on outcomes rather than inputs; and ranks countries according to their proximity to gender equality rather than women's empowerment.

The results of the 2014 Index reveal that the Arab region came last in the overall score,[15] having closed only 60 per cent of its gender gap, compared to North America, which occupied the highest rank after bridging nearly 75 per cent of its gender gap (figure 27). The Arab region also ranked last in terms of closing its political gender gap (8 per cent) and its economic gender gap (42 per cent), although these figures were up slightly from 6 per

Figure 28. Gender Gap Index scores of Arab countries, 2014



Source: WEF, 2014.

cent and 37 per cent, respectively, in 2013.[16] The Arab region showed the largest absolute improvement from 2013 in its overall gender gap, though it continued to rank last. However, on the health and survival subindex, the region ranked fifth, compared to fourth in 2013. Kuwait was the top-performing Arab country in 2014 owing to an increase in the estimated earned income ratio, closely followed by the United Arab Emirates, which had the highest percentage change on the political subindex compared to its score in 2006.[17]

The Arab region achieved the third largest improvement on the overall Index score, compared to 2006, and the third largest relative change compared to its own original 2006 score. Only two Arab countries are above average on the economic subindex, namely Qatar and Kuwait, while 13 of 16 Arab countries are part of the 20 lowest-performing countries on the economic indicators of labour force participation, legislators, senior officials and managers. The United Arab Emirates closed over 5 per cent of its total gender gap in the period 2006-2014. A particularly interesting fact is that tertiary enrolment rates for women are higher than for men in ten Arab countries included in the measure, namely Algeria, Bahrain, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria and Tunisia. This suggests that the gender problem does not lie in education, but rather in a lack of economic participation by Arab women.

The gender gap subindices for Arab countries reveal a diverging pattern of gender inequality. The economic, political and social rights of women are still under the influence of the traditional social contract and the patriarchal gender contract. The implementation of these contracts varies between Arab countries. A striking example is that high economic participation is not necessarily correlated with high political participation. While Qatar is above average on the economic subindex (one of only three countries to attain such a status) and although it has the highest overall enrolment score in the tertiary education indicator, it is also one of two countries that are below average on the health subindex, and performs similarly poorly on the political subindex, with a complete absence of women in parliament. Algeria, however, is the best country in the region in the political subindex, because 32 per cent of its parliamentarians are women, but it is also one of the ten lowest-performing countries on the economic subindex overall.[18]

Box 4. Tertiary education and the gender gap in the Arab region

To understand socioeconomic and political developments in the region, it is necessary to examine the education attainment status, which is affected by differences in social structure, economic affairs and political awareness. Many studies have focused on targeting the education of women and girls to drive development in different regions. Although this is important, numbers in the Arab region show that this is not enough. For instance, although Qatar ranks top in this regard, it is below average on health indicators, and does not have any women in parliament. Kuwait similarly ranks low on female political participation. Algeria and Tunisia, despite relatively high levels of female enrolment in tertiary education, have suffered much political unrest owing to youth unemployment and lack of jobs that match skill sets. Lebanon is no different, with more women than men in tertiary education but low female political participation, low scores on other gender-related indicators and a lack of recognition of many women's rights, including the right of mothers to pass citizenship to their children.

The Human Development Report of 2014 puts the overall literacy rate of adults (aged 15+) in the Arab region at 77 per cent, and of young people (aged 15-24) at 89.9 per cent, which represents a positive outlook for the region as a whole. The global adult literacy rate stood at 81.2 per cent and that of young people at 87.9 per cent.[a] Although 105 per cent of the primary school-age population is enrolled in primary school, only 76 per cent of the secondary school-age population is enrolled in secondary and 28 per cent of the tertiary school-age population is enrolled in tertiary education. Overall, 41.1 per cent of the total population aged 25+ has had at least some secondary school education, compared to 38.4 per cent in South Asia and 28.1 per cent in sub-Saharan Africa. Arab countries generally do better than both South Asia and sub-Saharan Africa in education indicators.

The Global Gender Gap Report of the 2014 World Economic Forum provides the above figures for tertiary enrolment for the Arab world. Arab countries do relatively well on this indicator. However, this ranking may need to be interpreted with caution as male tertiary education enrolment rates in GCC countries tend to be significantly low owing to a large number of male foreign workers at the official secondary school graduation age. Maghreb countries also do well, with Tunisia and Algeria ranking fourteenth and twenty-eighth, respectively. Oman ranks thirtieth, joining its GCC peers. The percentages of women and men enrolled in tertiary education converge in Mashreq countries, although women's rates are higher. Around 50 per cent of women and 43 per cent of men in Jordan, and 48 per cent of women and 45 per cent of men in Lebanon attend tertiary school. Saudi Arabia marked the highest tertiary education enrolment rate, at 53 per cent, in the Arab region, although it ranks lower than its GCC counterparts in the female-to-male ratio. Syria has equal rates of 26 per cent for both women and men. Egypt, Mauritania and Yemen have higher male enrolment rates.

This situation raises the question of why the rapidly closing gap in educational attainment, including tertiary education enrolment, has not positively impacted women's economic and political participation in the Arab region. One hypothesis is that the women's choice of academic specialization at the tertiary level is influenced by occupational segregation. Given that occupational segregation is a product of gender bias, educated women may end up in a weaker position than their male counterparts by being engaged in occupations that are more vulnerable to economic recession.[b]

The figure in box 4 shows the percentage share of female graduates in selected academic disciplines. The shares of women graduates in tertiary education in the areas of engineering, manufacturing and construction, and science and technology are relatively high in Arab countries. In science and education, shares in Oman and Tunisia stood at over 50 per cent. Compared to several developed countries, such as the United States (30.4 per cent), France (30.3 per cent) and Japan (14.4 per cent), Arab countries have higher numbers of women science and technology graduates. STEM (science, technology, engineering

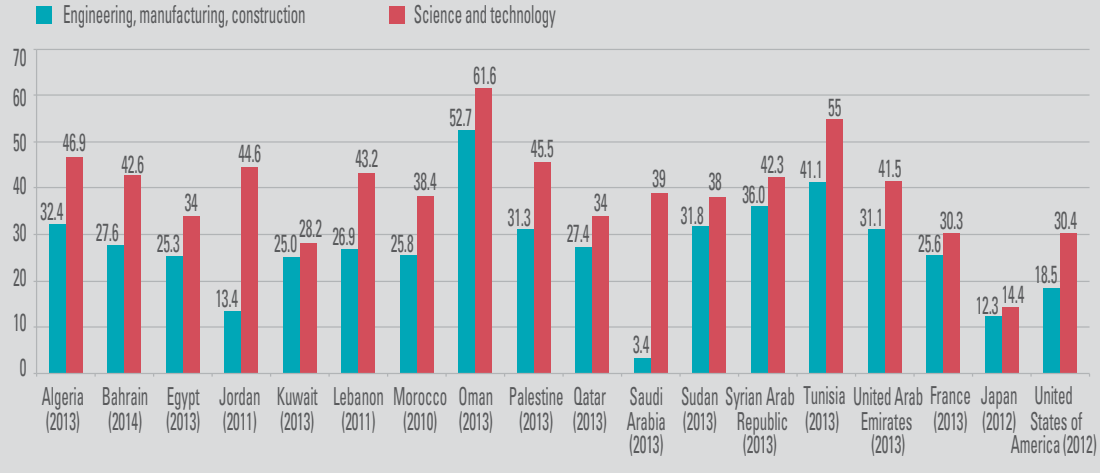
and math) has become an often-used acronym in higher education and labour policy for the occupational stability and importance in innovation of these specializations.

Tertiary education enrolment rate, 2013

Country	Female	Male	Female-to-male ratio	Rank
Qatar	37	5	6.76	1
Kuwait	31	15	2.1	4
Bahrain	47	24	1.98	6
Tunisia	43	27	1.59	14
Algeria	38	25	1.48	28
Oman	34	24	1.45	30
Jordan	50	43	1.15	76
Lebanon	48	45	1.07	88
Saudi Arabia	53	49	1.06	89
Syria	26	26	1.01	97
Egypt	29	31	0.96	101
Yemen	6	14	0.44	131
Mauritania	3	7	0.43	132

Source: WEF, 2014; and UNESCO Institute for Statistics Data Centre.

Share of women graduates in academic disciplines (Percentage)



Source: UNESCO Institute for Statistics Data Centre.

Despite the high rates of women undertaking science majors in tertiary education institutions in Arab countries, employment opportunities in STEM areas in the region are still limited. GCC countries have increasingly invested in the area of STEM research, education and business in recent years, but the region has yet to establish globally leading STEM institutions. This mismatch could impede potential progress for gender equality in STEM jobs in the region. The promotion of technology and innovation and the creation of STEM jobs in the region have a significant potential for closing the gender gap.

[a] UNDP, 2014, Statistical Tables, 9 Education.
[b] ILO, 2012.

Table 6. Women in national parliaments: comparison between June 2014 and June 2015

Country	IPU rank (date)	Lower or single house		Upper house or senate	
		Last election date to the rank date	Women's representation (percentage)	Last election date to the rank date	Women's representation (percentage)
Algeria	27 (2015)	May 2012	31.6	May 2012	6.9
	29 (2014)	May 2012	31.6	May 2012	6.9
Tunisia	30 (2015)	October 2014	31.3	..*	..*
	39 (2014)	October 2011	28.1	..*	..*
Sudan	34 (2015)	April 2015	30.5	June 2015	35.2
	58 (2014)	April 2010	24.3	May 2010	17.2
Iraq	43 (2015)	April 2014	26.5	..*	..*
	53 (2014)	April 2014	25.3	..*	..*
Mauritania	47 (2015)	November 2013	25.2	November 2009	14.3
	54 (2014)	November 2013	25.2	November 2009	14.3
Saudi Arabia	69 (2015)	January 2013	19.9	..*	..*
	76 (2014)	January 2013	19.9	..*	..*
United Arab Emirates	78 (2015)	September 2011	17.5	..*	..*
	88 (2014)	September 2011	17.5	..*	..*
Morocco	81 (2015)	November 2011	17.0	October 2009	2.2
	89 (2014)	November 2011	17.0	October 2009	2.2
Libya	85 (2015)	June 2014	16.0	..*	..*
	92 (2014)	July 2012	16.5	..*	..*
Somalia	93 (2015)	August 2012	13.8	..*	..*
	103 (2014)	August 2012	13.8	..*	..*
Djibouti	100 (2015)	February 2013	12.7	..*	..*
	112 (2014)	February 2013	12.7	..*	..*
Syria	102 (2015)	May 2012	12.4	..*	..*
	115 (2014)	May 2012	12.0	..*	..*
Jordan	103 (2015)	January 2013	12.0	October 2013	10.7
	115 (2014)	January 2013	12.0	October 2013	12.0
Bahrain	121 (2015)	November 2014	7.5	December 2014	22.5
	125 (2014)	November 2010	10.0	November 2010	27.5
Lebanon	132 (2015)	June 2009	3.1	..*	..*
	144 (2014)	June 2009	3.1	..*	..*
Comoros	133 (2015)	January 2015	3.0	..*	..*
	145 (2014)	December 2009	3.0	..*	..*
Kuwait	136 (2015)	July 2013	1.5	..*	..*
	148 (2014)	July 2013	1.7	..*	..*

Oman	137 (2015)	October 2011	1.2	October 2011	18.1
	149 (2014)	October 2011	1.2	October 2011	18.1
Yemen	138 (2015)	April 2003	0.0	April 2001	1.8
	150 (2014)	April 2003	0.0	April 2001	1.8
Qatar	138 (2015)	July 2013	0.0	..*	..*
	151(2014)	July 2013	0.0	..*	..*

Source: IPU, 2014 and 2015.
Notes: Rank date (2014) stands for June 2014 and (2015) stands for June 2015.
* Two dots (..) indicate that data are not available or are not separately reported.

The Arab region therefore continues to improve steadily, but unevenly, in the different indicators that measure gender equality (figure 28). Although GCC countries tend to do better than others in economic indicators, they are behind in political indicators. Mashreq countries are not doing well overall; Jordan is one of five countries with the highest absolute decrease in overall score. Lebanon, ranked 135, is the second-lowest performing country of the upper-middle income group, and also second-to-last overall on the political empowerment subindex. Lebanon is also one of the ten lowest-performing countries on the economic participation and opportunity subindex, along with Syria, which occupies the last place overall on this subindex and which also has the lowest score on the labour-force participation indicator.

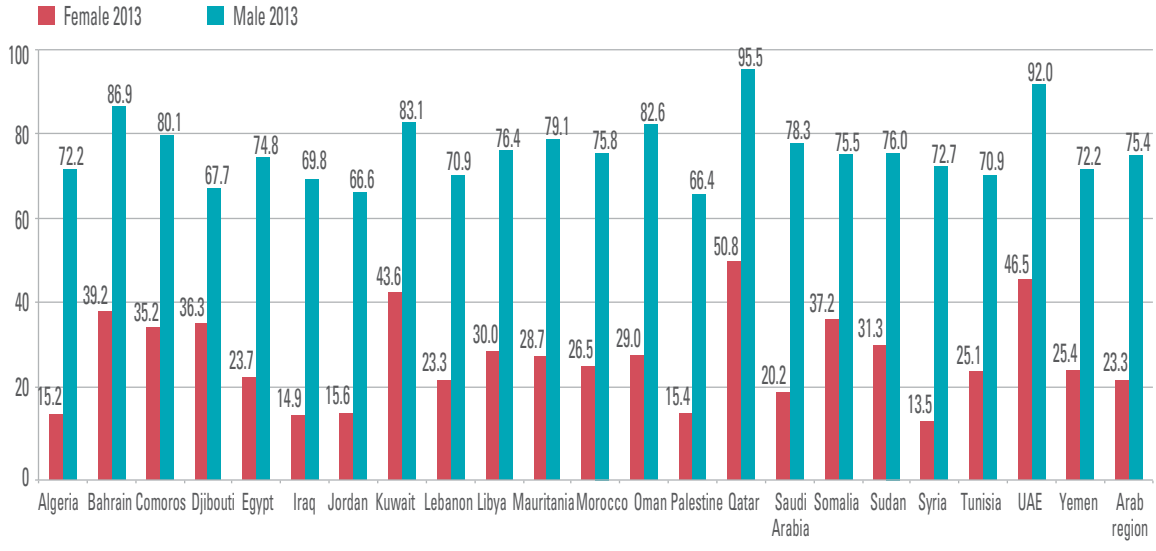
2. Women's political representation

By 1 June 2015, an average of 22.2 per cent of global parliamentary seats were occupied by women, both at the single and upper levels, up from 21.9 per cent in the same month of 2014.[19] The average women's political representation rate for the Arab region rose from 15.9 per cent in June 2014 to 17.1 per cent in June 2015, but remains below the global average.

As shown in table 6, 20 of 22 Arab countries were included in the statistics provided by the Inter-Parliamentary Union (IPU); Egypt and Palestine were excluded. Data on Egypt stopped appearing in the IPU database after July 2013. The overall rankings of most countries had improved by June 2015 compared to June 2014. The number of women parliamentarians in the Sudan and Tunisia increased, but decreased in Bahrain and Libya. Women's representation in the Libyan parliament decreased by 0.50 per cent after the June 2014 elections. Women's representation in Bahrain decreased by 2.5 percentage points in the lower house and by 5.0 percentage points in the upper house.

Tunisia scored a 3.2 percentage point increase between 2014 and 2015, with an increase of seven women in Parliament after the October 2014 elections. Unlike other countries in the region, article 46 of the Tunisian constitution stipulates that the State seeks to achieve equality of representation between men and women in elected assemblies. The results of the October 2011 National Constituent Assembly election gave 58 of 217 seats to women.[20] In 2014, an additional three seats were given to women by default after the elected men withdrew, increasing the number of seats occupied by women to 68 out of 217.[21] Article 12 of the electoral law in Tunisia stipulates that candidate lists must alternate between men and women. However, under the system of proportional representation, usually only the head of a list is elected in a constituency. Given that the majority of women were not placed at the top of lists, the two previous electoral outcomes have

Figure 29. Labour force participation rates, 2013



Source: ILO, Key Indicators of the Labour Market Database (ILO estimates over population +15) from World Bank, 2015b.

been far below 50 per cent representation for women. Women's political representation in the Sudanese National Assembly increased by 6.2 percentage points in the April 2015 elections, giving 130 of 426 seats to women. By adopting a more rigid quota system than in Tunisia, the Sudanese electoral system guarantees 30 per cent representation for women in the National Assembly.

The Arab region's progress in women's political representation, as observed in the cases of Tunisia and the Sudan, may be attributed to the implementation of a quota system, which is a vital policy instrument for gender equality in the area of political participation.

3. Women's socioeconomic representation

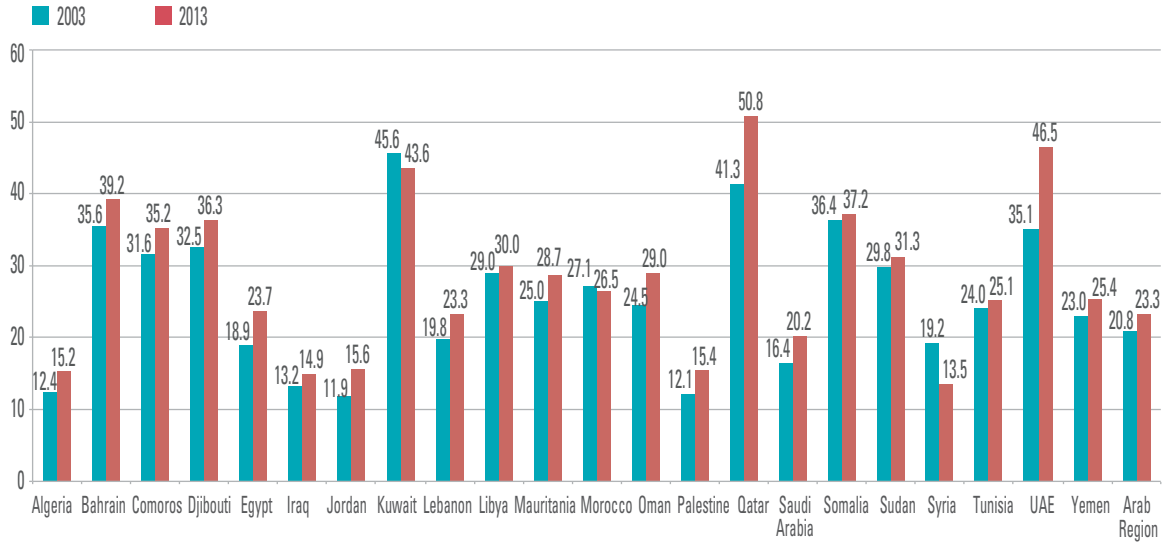
(a) Labour force participation

Labour force participation rates remain a useful measure of socioeconomic development. ILO estimated that the female labour participation rate was 23.3 per cent in the Arab region in 2013 (figure 29). The Arab women's labour force participation rate is therefore below half the world average of 50.2 per cent. The Arab male participation rate is 75.4 per cent, which is only slightly lower than the world average of 76.7 per cent.

GCC countries had the highest women's participation rates in the region in 2013. Qatar had the highest rate at 50.8 per cent, followed by the United Arab Emirates at 46.5 per cent, Kuwait at 43.5 per cent and Bahrain at 39.2 per cent. Oman had a female labour force participation rate of 29 per cent, and Saudi Arabia had the lowest at 20.2 per cent. Social and gender contracts in GCC societies prevent female nationals from participating in labour markets, therefore high participation rates of women in GCC countries are the result of large numbers of foreign female workers.

Rates in the Maghreb subregion varied significantly, with Libya at 30 per cent, Tunisia at 25.1 per cent, Morocco at 26.5 per cent and Algeria at 15.2 per cent. In the

Figure 30. Female labour force participation rates, 2003 and 2013



Source: ILO, Key Indicators of the Labour Market Database (ILO estimates over population +15) from World Bank, 2015b.

Mashreq subregion, Egypt and Lebanon performed better than their other subregional counterparts, at 23.7 per cent and 23.3 per cent, respectively. Jordan and Syria achieved only 15.5 per cent and 13.5 per cent, respectively. Rates in Arab LDCs were estimated to be relatively higher than in most Maghreb and Mashreq countries, with 31.3 per cent in the Sudan, 28.7 per cent in Mauritania and 25.4 per cent in Yemen.

Despite these low results in 2013, the participation of women in Arab labour markets has been increasing over the past ten years. The female labour force participation rate stood at 20.8 per cent in 2003 (figure 30). With the exception of Kuwait and Syria, women's socioeconomic participation in Arab labour markets has been progressing, thus narrowing the gap between men and women in many countries.

Low female labour participation rates in the region result from a complex range of factors. While many women voluntarily choose not to participate in the labour market, perhaps for cultural reasons, those who do have a limited range of occupational choices owing to the traditional social contract and the patriarchal gender contract. Working women may be discriminated against by employers: women may not be paid the same wages as men owing to the perception that men are financially responsible for families, and they may also face difficulties with regard to maternity leave or re-entering the labour market after a pregnancy.

(b) Unemployment

Employment creation, for both women and men, remained the most important item on the policy agenda in the Arab region, as unemployment rates remained high in 2014. According to available data for the fourth quarter of 2014, unemployment rates in Palestine stood at 26.5 per cent,[22] in Tunisia at 15.0 per cent;[23] in Saudi Arabia at 11.6 per cent among Saudi nationals,[24] in Egypt at 12.9 per cent,[25] in Jordan at 12.3 per cent[26] and in Morocco at 9.7 per

Box 5. Beijing Declaration and Platform for Action: twenty years later

The Beijing Declaration and Platform for Action, adopted in 1995 at the Fourth World Conference on Women, is a global framework for the empowerment of women and girls and the realization of gender equality. It focuses on strategic action in critical areas of concern, such as poverty, education and training, health, violence, and armed conflict, to reach the goal of gender equality. The Arab Regional Synthesis Report on the Implementation of the Beijing Platform for Action Twenty Years Later combines 21 national reports submitted by member States on advancements since 1995.

The Report summarizes important data on developments in the region. Somalia and the Sudan are the only two Arab countries that have not yet ratified the Convention on the Elimination of All Forms of Discrimination against Women. Great progress has been made in many countries, however. For example, maternal mortality rates have fallen in all countries that submitted reports, and national health strategies have resulted in improvements in gender-sensitive health care. There has also been an overall increase in the number of health centres and clinics in rural areas, but deficiencies remain in many countries with regard to health insurance and free health care, which fail to cover vulnerable segments of the female population.

Maternal mortality rates per 100,000 live births are very low in the United Arab Emirates and Kuwait, at 0 and 1.7, respectively; they are slightly higher in Jordan (19), Saudi Arabia (14), Oman (12.3) and Lebanon (10). The highest maternal mortality rates are in the Sudan at 216 per 100,000 live births, Mauritania at 626, Morocco at 112 and Yemen at 148.

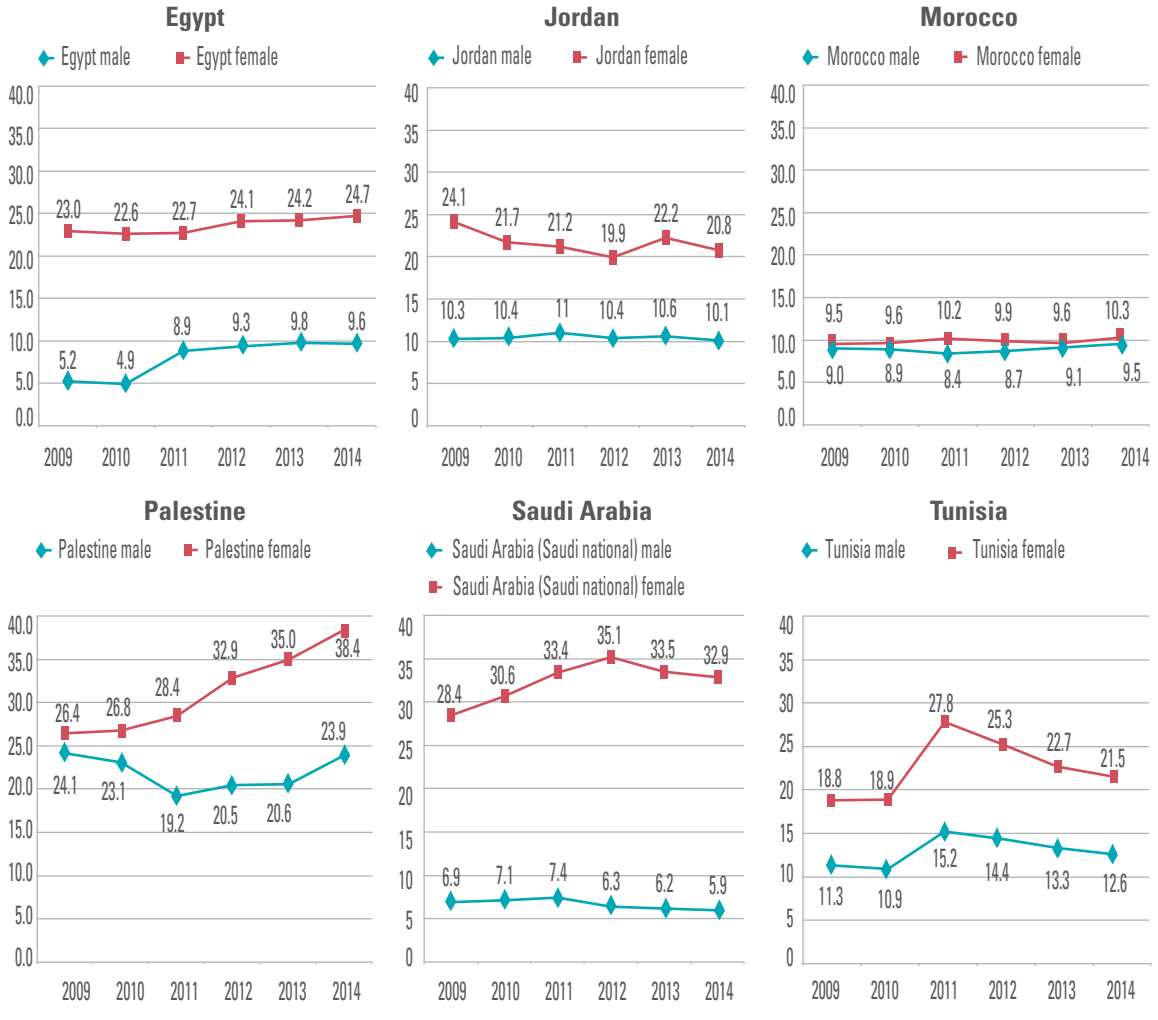
Female unemployment rates remain high for all countries, reflecting socioeconomic and political problems that have affected all population groups in the region, particularly women. As the Report makes clear, in some countries, unemployment among women has increased and economic activity decreased, despite high percentages of educated women.*

* ESCWA, and others, 2015.

cent.[27] Owing to the existence of informal sectors, the region's unemployment rates reflect structural employment gaps rather than cyclical gaps. Two significant structural changes in Arab labour markets were observed in 2014. The first is a significant deterioration of the employment situation in Palestine, particularly in the Gaza Strip, where the unemployment rate jumped from 32.6 per cent in 2013 to 43.9 per cent in 2014.[28] The attack on Gaza in July 2014 and continuing restrictions on economic activities have contributed to the worst employment situation in years. The second is that the gender gap in employment moderately improved in some Arab countries, particularly in Jordan, Saudi Arabia and Tunisia (figure 31).

The female unemployment rate in Jordan went down from its recent peak of 26.8 per cent in the third quarter of 2013 to 19.1 per cent in the fourth quarter of 2014.[29] Similarly, the female unemployment rate in Saudi Arabia went down from its peak of 35.7 per cent in the fourth quarter of 2012 to 32.5 per cent in the fourth quarter of 2014.[30] In Tunisia, it went down from its recent peak of 28.2 per cent in the fourth quarter of 2011 to 21.1 per cent in the fourth quarter of

Figure 31. Unemployment trends in selected Arab countries, 2009-2014



Source: ESCWA, based on national statistical sources (see annex II).
Note: Yearly averages over quarterly data are calculated for Egypt, 2014; Jordan, 2014; Saudi Arabia, 2012, 2013 and 2014; and Tunisia, 2011, 2012, 2013 and 2014.

2014.[31] In the meantime, the unemployment gap has been widening in Palestine with no improvement in sight, mainly owing to the recent armed violence and other restrictions on fundamental economic activities.

A stringent application of the labour nationalization policy in Saudi Arabia was exercised in 2014, with the introduction of new measures aimed at restricting foreign workers by enhancing the Nitaqat system introduced in 2011, which actively encourages Saudi nationals to seek a career in the private sector. Over the period 2011-2012, Saudi male employees in the private sector increased by 23 per cent while Saudi female employees in the private sector increased by 117 per cent.[32] This rapid rise in the female participation rate could be the cause of the growing female unemployment for the same period (figure 31). The implication is that female nationals started to fill jobs formerly occupied by foreign workers in the private sector in Saudi Arabia.

4. Way forward

Undoubtedly, progress has been slow in the Arab region with regard to achieving gender equality. However, until there is widespread acknowledgement of the need to put gender issues at the forefront of developmental goals, in such a way as to push governments and societies to work together, the status of women will continue to lag.

Many countries in the region have failed to provide gender indicators in line with those declared by the United Nations, as made clear in the regional Beijing +20 report.[33] The fields most deficient in indicators, as per the report, are those regarding women's participation in public and economic life and their human rights. In addition to a scarcity of data disaggregated by sex, challenges to improving gender equality in the region include deficient executive frameworks, gaps in coordination, a lack of funding and human resources, and sluggish inclusion of gender issues in legislation, budgeting and public policy.

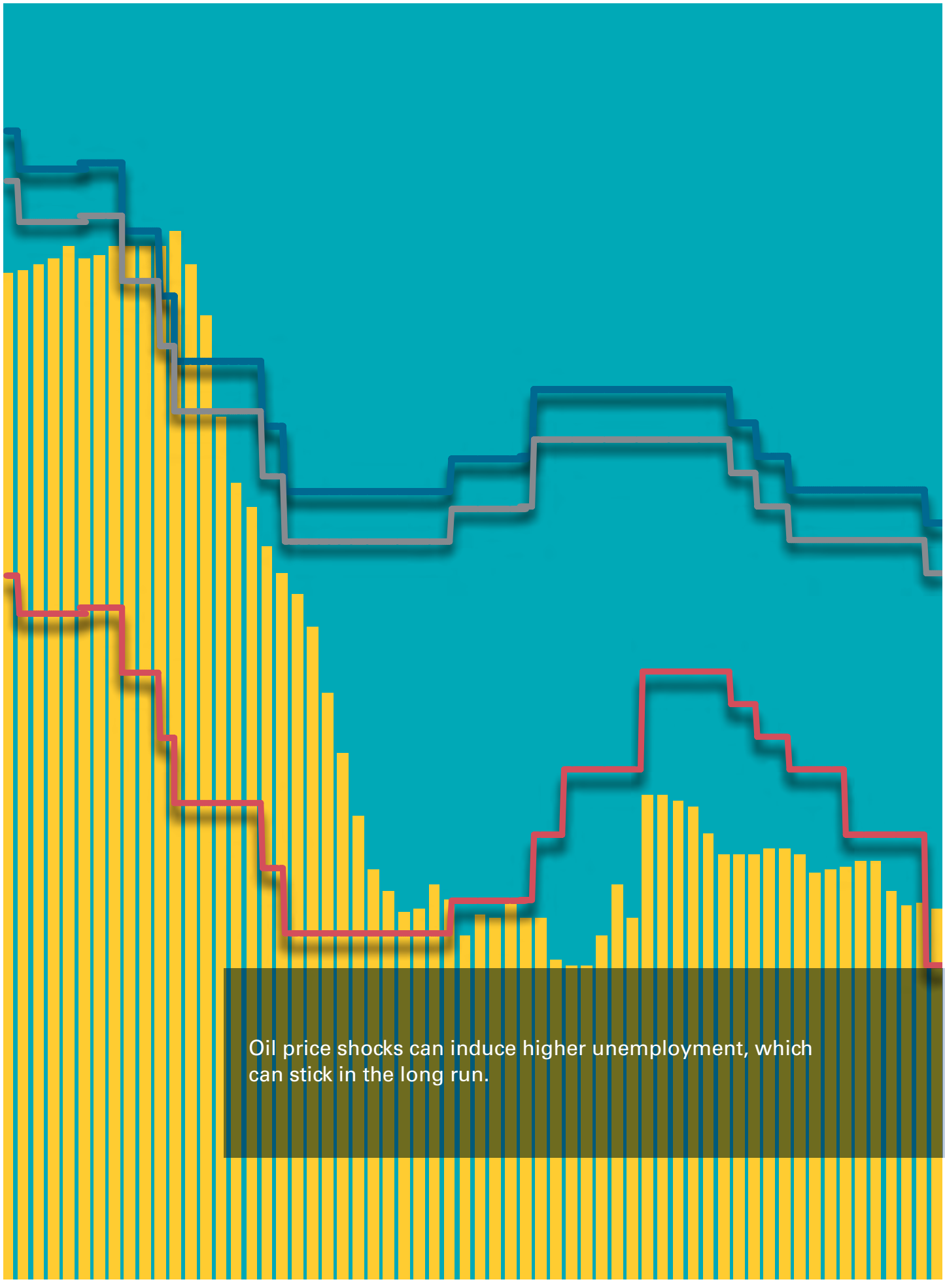
To move forward, Arab countries need to focus on tackling gender inequality in a systematic manner to ensure structural transformation. GCC countries need to focus on political participation while continuing to improve labour force participation numbers; Maghreb countries must focus on labour force participation while continuing to improve political participation; and Mashreq and Arab LDCs need to focus on developing stronger systems. Quotas can improve women's political representation, and laws to support women in the workforce may be powerful ways of pushing ahead the economies of the Arab region. Progress in education is staggering, but it will not have the necessary far-reaching effects without employment opportunities and the inclusion of women in the public sphere. The region has much untapped talent and potential; targeted policies can employ these reserves to improve overall living standards and drive development.

D. Concluding remarks

Oil wealth is vital for oil-exporting Arab countries and is the primary source of positive spillover to oil-importing Arab countries. Oil wealth is distributed over the region in forms of capital, remittances and foreign aid. Lower oil prices are benefiting oil-importing countries in the region by improving their balance-of-payments conditions. However, as a secondary effect, lower oil prices might reduce capital, remittances and aid flow from GCC countries to other Arab countries. The Arab region has seen a positive economic expansion, on average, over the past few years despite geopolitical tensions, political instability and social unrest. Armed conflicts have intensified in Iraq, Libya, Palestine, Syria and Yemen, and security has frequently been disrupted in Lebanon and Tunisia. The fundamental pillar sustaining regional growth, despite these prevailing negative factors, has been the growing oil wealth, which has upheld a certain level of intraregional flows of capital, remittances and aid from the region's major GCC oil producers. However, geopolitical tensions remain, and this pillar of regional economic stabilization has started to wane. The overall structural impact of low oil prices remains to be seen, but ongoing economic and non-economic events in the Arab region continue to challenge sustainable regional medium- to long-term growth. Weak oil revenues and waning oil wealth are likely to force Arab countries to rethink their growth strategies.

GCC countries were successful in their economic diversification strategy, to a certain extent, during the oil boom that began in 2003. The non-oil sectors, particularly the finance, telecommunications, transport and services sectors, registered a remarkable growth.

However, oil remains an essential source of national wealth, government revenue, business confidence and economic sentiment in GCC countries. Therefore, they must develop further economic diversification strategies to reduce their dependence on oil, which might require effective labour nationalization policies affecting employment opportunities for jobseekers in other Arab countries. Efficient rebalancing of intraregional capital and labour flows would benefit 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, so as to reach a higher sustainable regional growth path.



Oil price shocks can induce higher unemployment, which can stick in the long run.

III. Impact of the 2014 oil shock on Arab economies

A. Introduction

Despite a considerable increase in the use of alternative sources of energy and efficiency improvements, oil remains one of the most strategic commodities in the modern economy. The twentieth century has been labelled the "hydrocarbon century": at the beginning of the century, global oil output was about 150 million barrels per year; at present this amount is extracted in just a few days. Oil prices are one of the most significant explanatory variables of global growth, but their fluctuations can be intense and unpredictable. Explaining oil price fluctuations and assessing their macroeconomic consequences at the national and global levels has become one of the most recurrent topics in economic literature.

Over the past 40 years, researchers have explored the relationship between oil price shocks and macroeconomic performance. The oil crisis of 1973 was a particular turning point, and substantial empirical literature on the macroeconomic impact of oil supply appeared thereafter. Some early studies noted that higher prices of energy resources, relative to the prices of labour and capital, resulted in a loss of economic capacity and higher output prices.[1] In 1980, it was estimated that oil shocks depressed real output by 2 per cent in 1974 and by 5 per cent in 1975 (prices rose by 4 per cent in 1974 and by a further 2 per cent in 1975).[2]

In 1983, James Hamilton published a seminal study on oil shocks. He looked at how oil prices affected the United States economy with a vector auto regressive (VAR) system, using quarterly data on gross national product (GNP) and other macroeconomic variables. The results were clear: all but one of the post-Second World War recessions in the United States were preceded, typically with a lag of nine months, by a dramatic increase in oil prices.[3] Several other studies have corroborated Hamilton's findings and documented similar relations for countries other than the United States.[4]

Hamilton's 1983 study belonged to a period in which all large oil price movements were upward, and therefore did not explore price declines. Mork showed that if Hamilton's sample is extended to 1988 (prices dropped drastically in the mid-1980s) the results "persist in the longer sample and are strengthened by the correction for price controls. On the other hand, an asymmetry in the responses is quite apparent in that the correlation with price decreases is significantly different and perhaps zero."[5]

Other research shows evidence that "oil prices no longer Granger cause many United States macroeconomic indicator variables in data after 1973".[6] A number of studies have suggested that this breakdown of the oil price-economy relation was a result of misspecification of the oil price rather than a weakened effect. Subsequently, the literature refined positions about oil price measurement and specifications.[7] For instance, some economists incorporate different transformations of oil price data to account for possible non-linear relationships.[8] It has also been argued that what matters are different measures of oil price volatility,[9] which suggests the role of expectations: the most important aspect is how surprising an oil price increase was relative to the observed recent evolution of prices. In this vein, it has been claimed that

only price changes that establish new annual highs should be considered.[10]

Rises in oil prices change the terms of trade, implying a wealth transfer from net oil-importing countries to net oil-exporting ones. In today's context, however, the oil price plunge since mid-2014 has caused a reverse transfer of wealth. Compared to a hypothetical case where oil prices stayed at the level of June 2014, $275 million of potential revenue was estimated to have been lost in oil-exporting countries by the end of 2014.[11] The theoretical loss by oil-exporting countries by the end of 2015 is projected to be $1.7 billion. The same amount of gain, against a hypothetical benchmark case where oil prices remain at the level of June 2014, was realized in oil-importing countries; the situation can be interpreted as a reverse transfer of wealth to oil-importing countries. However, higher oil-price shocks can also affect the economy directly and indirectly.[12] The indirect effect is transmitted through trade. For example, Indonesia and Malaysia are net oil exporters and major trading partners of Singapore, an oil-importer. While higher oil prices impact negatively GDP growth in Singapore, Malaysia and Indonesia reap the benefits in terms of higher export revenues. This, in turn, increases their imports from Singapore. The net effect of oil prices on the latter, therefore, depends on the magnitude of these direct and indirect effects. In turn, this depends on how trade-dependent countries are, and how net oil-exporting countries use their extra windfall purchasing power.

Higher oil prices make the oil sector more attractive to invest in. However, they also diminish the profitability of sectors for which oil is vital (such as transportation). This explains the large investment in renewable energies when oil prices are very high. When oil is cheap, however, investments in clean energies have to be heavily subsidized if they are to be undertaken. Similarly, it is worth noting that if oil prices were to remain low, the use of oil would be favoured relative to other more polluting fuels such as coal, especially in China, where it is widely used.

Exchange rates are also affected. Research has shown that oil prices significantly explain movements in the value of the United States dollar against major currencies from the 1970s to 2008.[13] As oil is denominated in United States dollar, higher prices are associated with an appreciation of the dollar (countries demand more dollars to buy oil). However, depending on the extent to which importing countries sell those dollar revenues and convert them into their national currencies, the effect may fade away. As with any other export commodity, increases in the real price of that commodity lead to an appreciation of the exporting country's currency. This rationale is consistent with recent evidence. Following the current slump in oil prices, Nigeria and the Russian Federation have seen large depreciations of their currencies.

Given that countries import in dollars and may have debts denominated in dollars, weaker currencies trigger fiscal tightening efforts. If sovereign wealth funds (SWF) are available, it may be tempting to draw from them because the relative value of net foreign asset holdings has increased, especially in the current context of quantitative easing in some of the most important world economies. It has recently been noted that the asset structure of SWFs is starting to change, especially of those fuelled by oil revenues: SWFs are becoming more liquid, as their share of investments in money market funds has grown, and the balance of SWFs has remained stable or declined for some countries, but not increased.[14]

To assess the relationship between oil prices and the economy, methodological issues have also been raised over time. For instance, it has been argued that in most of the research relating to oil price shocks, the reasons underlying those shocks are ignored, which is a mistake because not all oil shocks are alike.

To address this, it is necessary to account for the endogeneity of energy prices, and differentiate between the effects of demand and supply shocks in energy markets.[15]

For Arab economies, the influence of oil prices is very important given that the region is a major actor on the global oil market. While no individual country can influence the price by itself, the combined role of Arab countries in OPEC and their low production cost allow them to control a large part of the global supply, and therefore to affect the world's oil price. Oil has played an essential role in the socioeconomic development of the Arab region, decisively shaping Arab countries and their modern-day development trajectories. Nonetheless, few studies have focused on the economic implications of oil prices on the economies in the region. The recent slump in oil prices is therefore an opportunity to contribute towards filling this gap.

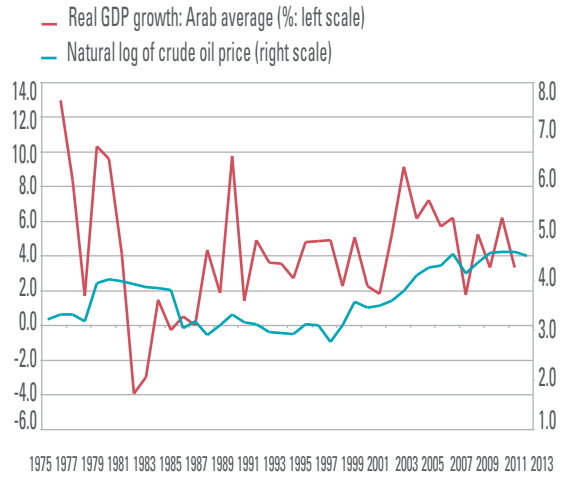
B. Importance of oil to the Arab region

Arab countries hold approximately 71 per cent of the world's total proven oil reserves (see figure in annex I). In 2014, they produced 23 million barrels per day, which represents nearly one-third of global oil supply, making the region the world's most important supplier of crude oil.[16] However, there is great variability in oil production.[17]

Figure 32 shows that growth has been more volatile than oil prices, but this mismatch has declined over time. Broadly, economic performance and oil prices are loosely correlated, but this includes different price periods and all countries.

To assess country-specific patterns over time, table 7 shows the correlation coefficients for the entire period 1979-2013 (column 1), the first half (column 2) and the second half (column 3). The time break-up is relevant. It has often been noted that during the first boom in the 1970s, Arab oil exporters did not follow prudent macroeconomic policies, although they have done so in the past 15-20 years, especially through the accumulation of reserves.[18]

Figure 32. Relation between Arab growth rate and oil prices



Source: ESCWA, based on data from World Bank (2015b).

The coefficients in table 7 show that not only oil is important for Arab growth, although overall it has become more important with time (the coefficients increased from 0.0237 to 0.2726). This move has been driven by such countries as Djibouti, Saudi Arabia, the Sudan and Yemen.

Conversely, the relationship (either positive or negative) between growth and oil prices has faded for such countries as Algeria, Egypt, Kuwait and Oman. This could be explained by economic diversification in those countries, although not necessarily out of hydrocarbons. For example, if the gas sector is highly promoted, dependence on oil is reduced.

Oil-exporting countries rely heavily on oil revenues to fund their budgets. For instance, in 2013, oil revenues amounted to 92.1 per cent and 89.5 per cent of government revenues in Kuwait and Saudi Arabia, respectively.[19]

Table 7. Correlation coefficients between growth and oil prices by country

Country	1979-2013 (1)	1979-1994 (2)	1995-2013 (3)
Algeria	0.2968[a]	0.7368[a]	-0.2833
Comoros	0.1517	0.4389	-0.0668
Djibouti	0.8082[a]	0.0892	0.8183[a]
Egypt	0.1766	0.6818[a]	-0.1016
Iraq	-0.0574	0.006	-0.1577
Jordan	0.2104	0.3547	0.1609
Kuwait	-0.1947	-0.5264[a]	0.1713
Lebanon	0.0358	0.3034	0.2447
Morocco	0.0042	-0.1461	0.1325
Oman	0.2048	0.5480*	0.2833
Qatar	0.2301	..[b]	0.2301
Saudi Arabia	0.2113	-0.2508	0.6336[a]
Somalia	-0.0763	-0.0763	..[b]
Sudan	-0.3439[a]	-0.3342	-0.4716[a]
Syria	0.0657	-0.009	0.273
Tunisia	0.0296	0.3697	-0.3019
United Arab Emirates	0.1017	0.2452	-0.0804
Palestine	-0.3961[a]	..[b]	-0.3961[a]
Yemen	-0.4757[a]	0.4375	-0.4228[a]
Total Arab region	0.1856	0.0237	0.2726

Source: ESCWA calculations.
[a] Significant at 10 per cent level.
[b] Two dots (..) indicate that data are not available or are not separately reported.

According to the International Monetary Fund, fiscal break-even oil prices per barrel in 2013 were as follows: $52 in Kuwait, $59.4 in Qatar, $81.3 in the United Arab Emirates, $84.3 in Saudi Arabia, $89.4 in Oman, $106.7 in Algeria and $126.9 in Bahrain.[20] Based on these estimates, Bahrain and Oman would be the most affected by the current drop in prices because they have a high fiscal breakeven and low reserve buffers: their SWFs are estimated at $10.5 billion and $19 billion, respectively, while that of Algeria is estimated at $50 billion.[21] At the other extreme, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates have a similar shock absorption capacity, although in 2013, Saudi Arabia had reserves estimated at $718 billion (table 8). Saudi Arabia has accumulated huge reserves because it

retains the lowest cost of production per barrel in the world, estimated at $10.

A second vital link between oil and national economy are subsidies, which apply to both net oil exporters and importers. Globally, an estimated 0.7 per cent of GDP, or 2 per cent of government revenue, was spent on energy subsidies in 2011,[22] but this situation is much more pronounced in the Middle East and North Africa (MENA) region, which spent 8.6 per cent of its GDP (approximately $237 billion) on subsidies.[23] Table 8 shows that very significant shares of government spending go towards subsidies and other transfers.

While subsidies mainly cover petroleum and food products, the subsidization rate is

Table 8. Key indicators of the importance of oil for exporting countries

Country	Oil price at fiscal breakeven in 2013 ($ per barrel)	Gross official reserves in 2013 (Billions of $)	Subsidies and other transfers (latest available year) (% of expenses)
Algeria	106.7	194	44.9 (2011)
Bahrain	126.9	4.7	38.6 (2011)
Kuwait	52	27.5	29.0 (2012)
Libya	106.2	122.5	..*
Oman	89.4	16.6	17.4 (2012)
Qatar	59.4	42.1	15.8 (2010)
Saudi Arabia	84.3	718.4	..*
United Arab Emirates	81.3	71.8	25.6 (2013)

Source: ESCWA, based on IMF (2014), tables 6 and 22; and World Bank (2015b).
* Two dots (..) indicate that data are not available or are not separately reported.

Box 6. Social impact of declining oil prices in Arab countries

Generous energy subsidies have been a long-standing feature in the Arab region. Increasingly, however, such subsidies have been subjected to harsh criticism as they are expensive, disproportionately benefit the affluent and encourage wasteful use of energy. Over the past few years, many Arab governments have initiated or resumed efforts to reduce subsidies. These reforms commenced prior to the global price decline but have been greatly facilitated by it.

Although energy subsidies are regressive (in other words, the rich benefit more from them than the poor), it is often people living on marginal budgets who are most detrimentally affected by subsidy cuts. Hence, in their endeavours to reduce subsidy expenditures, governments have sought to protect vulnerable groups by improving other social assistance programmes, such as targeted cash-transfer schemes, or setting up new ones. In Tunisia, for example, a new social housing programme has been established, and in Egypt, the food subsidy system has been expanded.[a]

The ambition to protect vulnerable groups has also been reflected in the pace and scope of subsidy reductions. Whereas Jordan and Morocco have adopted automatic pricing mechanisms that link the domestic price of selected fuels directly to the international price, a more conventional strategy has been to incrementally phase out subsidies, rather than abruptly abolish them.[b] This gradual approach opens up the fiscal space needed to establish progressive social assistance measures less quickly, but it has the advantage of allowing new measures to be evaluated and, if necessary, improved in a context of controlled domestic price levels.[c] Concern for vulnerable groups has also influenced government decisions as to which energy subsidies should be prioritized. In Morocco, for instance, liquefied petroleum gas that, unlike petrol, is mostly used by the poor, has remained subsidized.[d]

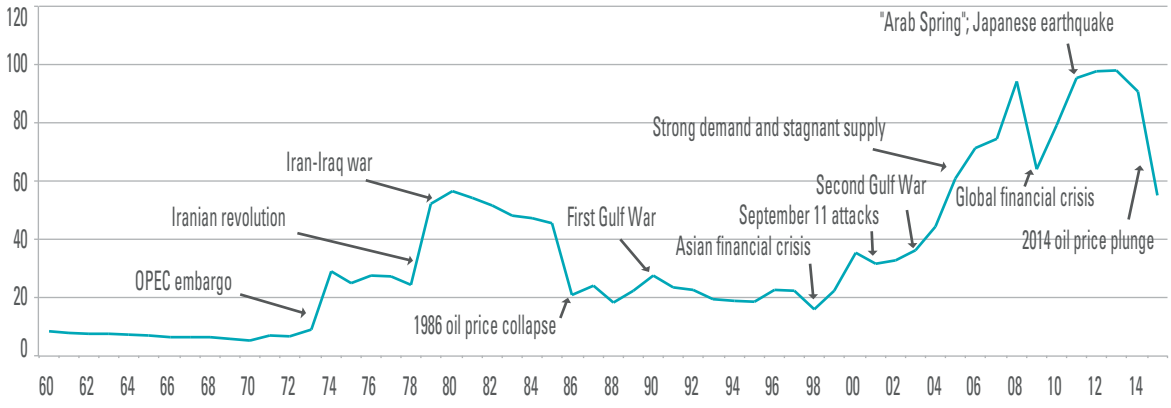
The uneven nature of recent subsidy reforms implies that the low international price of oil has different effects on different countries. Where automatic adjustment mechanisms have been put in place, lower prices benefit consumers directly at the pump. Where subsidies have merely been reduced, or have been left intact, the windfall accrues to governments, whose subsidy bills become lower. Importantly, however, a sudden global price hike would have the opposite effects: consumers would be directly affected where subsidies have been abolished, and public finances would suffer where they have not, in which case further drastic subsidy cuts might be unavoidable. In this scenario, the social impact could be severe. For example, the poor in Yemen suffered enormously after fuel subsidies were cut and prices shot up in July 2014, resulting in demands for the return of regressive universal subsidies.[e]

For reforms to be viable in the long term, governments must invest in measures that adequately cushion the impact on vulnerable groups as circumstances change.[f] In addition to appropriate social assistance programmes, resources could be allocated to infrastructural projects, rendering possible long-term sustainable and equitable development that ultimately will enable people to graduate from those programmes.[g]

The macro-level direct impact of lower or higher global oil prices does, of course, differ between net importers and net exporters. While domestic subsidies are burdensome to all countries, net exporters' gain from reducing them is offset by a loss of revenue when international prices decline. In such countries, social spending, and thus vulnerable groups who depend on it, could be left suffering if oil prices remain low. Generally, however, net exporting countries have lower poverty levels to start with. A notable exception is Yemen, where the budget is entirely contingent upon revenue from oil sales and poverty is widespread. Households in Yemen, as in oil-importing countries highly dependent on remittances, will be negatively affected by a decline in remittances from oil-exporting countries. Furthermore, with low oil prices, oil exporters may reduce their aid; reductions in official aid from GCC countries could lead to reductions in social budgets. The combination of these two cutbacks would be severe, especially for such countries as Yemen, which are affected by turmoil.

[a] Sdralevich, and others, 2014, pp. 45-46; and el-Katiri and Fattouh, 2015, p. 11.
[b] El-Katiri and Fattouh, 2015, pp. 8-12; Sdralevich and others, 2014, pp. 44-55; Clarke, 2014; and Verme, and others, 2014.
[c] A factor to take into account when reducing subsidies is the impact upon the general level of inflation. Whether the gradual approach helps to keep inflation down is, however, contested. See World Bank, 2014, p. 25.
[d] Verme, and others, 2014. It should be noted that selectively subsidizing some fuels tends to be unsustainable in the longer term, given that non-poor consumers eventually switch over to the subsidized ones. See, for example, Del Granado, and others, 2012, pp. 242-248.
[e] Oxfam, 2014.
[f] Past attempts to reform fuel subsidies in the Arab region, and elsewhere, have often had to be reversed owing to rising prices and political pressure. Jordan, for example, abolished fuel subsidies in 2008, only to reinstate them in 2011. See Vagliasindi, 2013, p. 74; and el-Katiri and Fattouh, 2015, p. 8.
[g] A 2012 simulation study on how best to implement fuel subsidy reform in Yemen found that the most favourable strategy to do this, taking into account the poverty rate and the state of public finances and future economic development, was combining reducing the deficit, dispensing cash-transfers to the poorest groups and investing in infrastructure. See Breisinger, and others, 2012.

Figure 33. Average price of crude oil since 1960 (Current United States dollars)



Source: ESCWA, based on IMF International Financial Statistics.

usually higher in oil-exporting countries. The average subsidization rate is 77.5 per cent of the total fuel cost in Algeria, 78.4 per cent in Kuwait, 77.3 per cent in Saudi Arabia and 65 per cent in the United Arab Emirates. Egypt represents the first among net importers, at 61.2 per cent.[24]

The current drop in oil prices offers a unique opportunity to reform subsidies smoothly. Indeed, several countries have made efforts to implement reforms and reduce or eliminate subsidies since 2014, including Tunisia (April 2014), Egypt (July 2014), Kuwait (September 2014) and Morocco (February 2015).[25]

C. Why the sharp drop in oil prices?

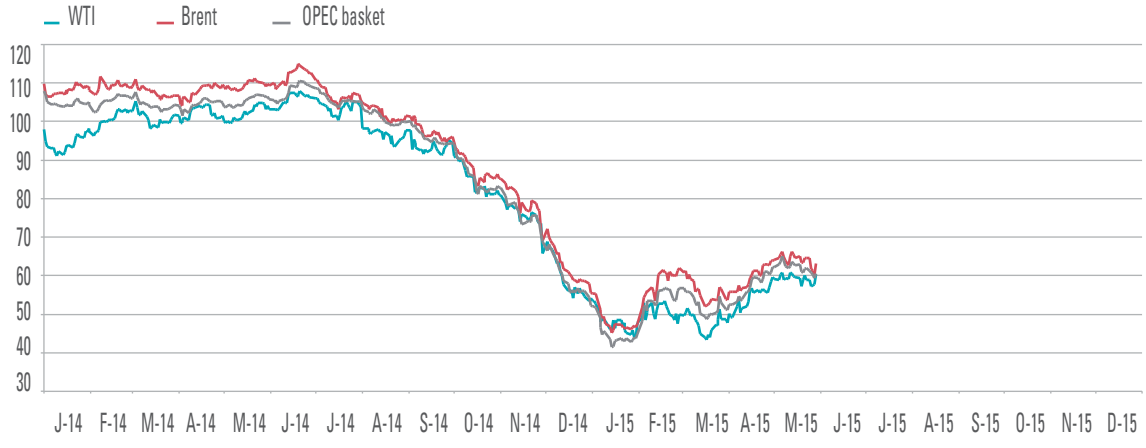
Historically, the oil market has experienced many shocks between 1960 and 2014 (figure 33). Firstly, the oil supply shock of 1973-1974 was a visible event followed by considerable turmoil. The oil crisis of 1979 occurred in the wake of the revolution in Iran. The protests shattered the Iranian oil sector. OPEC countries increased production to offset the decline, and the total loss in production was about 4 per cent. A widespread panic resulted, however, driving the oil price to double its previous level.

By the early to mid-1980s, continuing increase of North Sea, Mexican and Angolan oil output led to OPEC experiencing falls in its market share. At the same time, Saudi Arabia increased oil production despite slow world oil demand growth, which led to the oil price collapse of 1985-1986.

The energy crisis of 1990 was milder and briefer than the two previous oil crises (1973 and 1979). The Iraqi invasion of Kuwait in 1990 effectively removed some 9 per cent of world oil production from the market and caused considerable uncertainty. The oil price rose from $17 to $25 per barrel during the crisis. A second minor decline in oil prices took place at the beginning of 1996, when Iraq began exporting oil under the oil-for-food deal.[26] Prices declined again as the Asia crisis hit and world demand slowed down, but they climbed again shortly afterwards.

At the beginning of 1999, the threat of a new oil shock appeared, especially following California's energy crisis[27] and tensions in the Middle East with the beginning of the

Figure 34. Evolution of oil prices, 2014-2015



Sources: ESCWA, based on the Energy Information Administration of the United States Department of Energy (EIA) for West Texas Intermediate (WTI) and Brent, available from www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm; and OPEC for OPEC basket, available from www.opec.org/opec_web/en/data_graphs/40.htm.
Note: The legend of the x-axis indicates the consecutive months of the years 2014 and 2015.

Second Intifada in Palestine. These factors were compounded with the emergence of the new industrial superpowers, namely Brazil, China, India, Iran and Turkey, with a combined population close to 2.8 billion. In the following years, oil prices climbed modestly owing less to a shortfall of supply and more to a steady growth in demand.

After the terrorist attacks of 11 September 2001 on the United States, the war in Iraq and ensuing instability in the region led to a significant hike in prices. Oil prices rose to unprecedented levels, but when the financial crisis hit in 2007, oil prices declined drastically as a result of weak global demand.

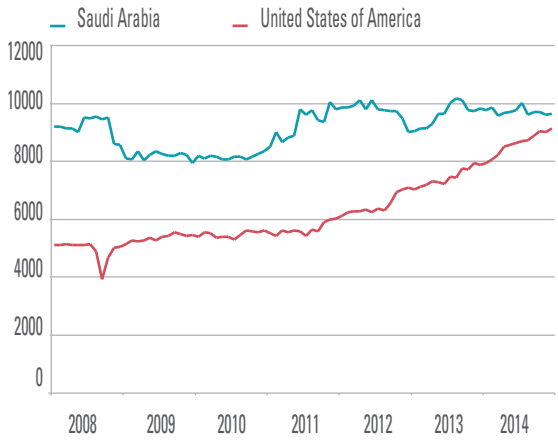
Uncertainties over the supply of oil linked to the Arab uprisings helped oil prices to regain previous levels. Prices remained relatively stable, hovering at around $110 for approximately three years and reaching a peak of $115 in mid-2014 (figure 34).

In mid-2014, prices started to fall; between July 2014 and January 2015, prices in the world market for crude oil, using Brent as benchmark, decreased by 58 per cent. This plunge constitutes the second largest fall over a twelve-month period in the past 50 years.

The reasons behind the recent and marked drop in oil prices are multiple. The United States has implemented a ban on oil export since the 1970s, but the rapid expansion of North American crude oil thanks to new technologies in shale oil extraction, horizontal drilling and exploration in deep offshore has constituted a significant expansion of supply. Moreover, traditional suppliers, such as Saudi Arabia, have remained quite stable (figure 35). It has been shown that three-fifths of the oil price drop in the second half of 2014 was caused by growth in supply, raising global economic activity between 0.3 and 0.7 per cent in 2015.[28]

However, the demand side has also contributed to this evolution. Economic forecasters in government and international organizations, including the United Nations, have projected that global growth in 2015 is expected to remain much weaker than it was over the period 2003-2008 when oil prices

Figure 35. Crude oil production of Saudi Arabia and the United States (Thousands of barrels per day)



Source: Joint Organizations Data Initiative, Oil World Database, available from www.jodidata.org/oil/.

rose substantially.[29] In the same vein, growth projections in the eurozone, China, Japan and the Russian Federation are slower than initially projected.

The International Energy Agency expectations of global demand for oil have been revised downwards on several occasions over the past year. Between July and December 2014 alone, the projected oil demand for 2015 was revised downwards by 0.8 million barrels per day.[30]

Technology improvements also have contributed to reducing the demand for oil as a long-term trend.[31] Improvements in energy efficiency have allowed the oil-intensity of global GDP to be halved since the 1970s. Moreover, the recent surge in investments in renewable energies has led to an increase in production capacity with renewable energies that would be replacing the oil demand with other energy sources.

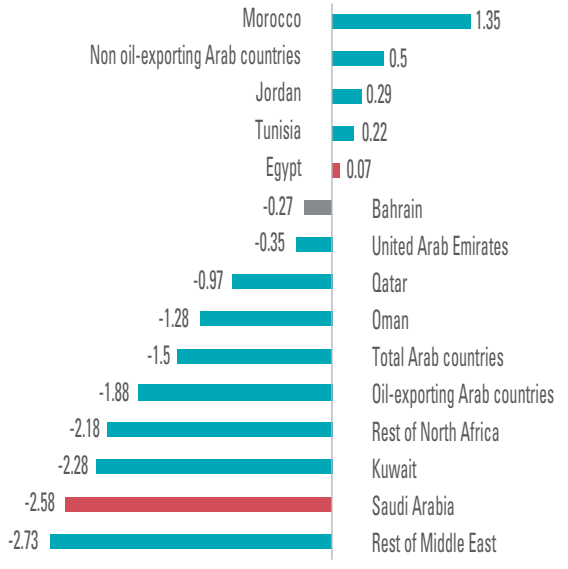
Faced with this situation, in November 2014, OPEC producers decided to maintain the same level of production to keep their market share.[32] The move was controversial given that producers with the highest breakeven prices, including, for example, Venezuela, wanted to cut production to see oil prices rebound. Saudi Arabia led the position of the cartel, however, arguing that it was not OPEC that had increased supply, and that if cuts were made, these should be undertaken by all producers, not only OPEC countries. This strategy seems to have yielded results.[33]

Geopolitical reasons have also been given to explain the Saudi Arabian reaction not to cut production and let prices surge. According to some, the move by Saudi Arabia was aimed at keeping the country's market share and putting financial pressure on three fronts, namely on shale oil producers to drive them out of the market; on Iran's endeavours for supremacy in the region, particularly in a geopolitical context; and on the Russian Federation, in a move that would be appreciated by the United States and Europe, which have imposed sanctions on the Russian Federation in response to its actions in Ukraine. It must be noted that, as of May 2015, shale oil producers have started to face financial strains: they have increased their debt levels and some have already filed bankruptcy; Saudi Arabia has retained its market share.

D. Results

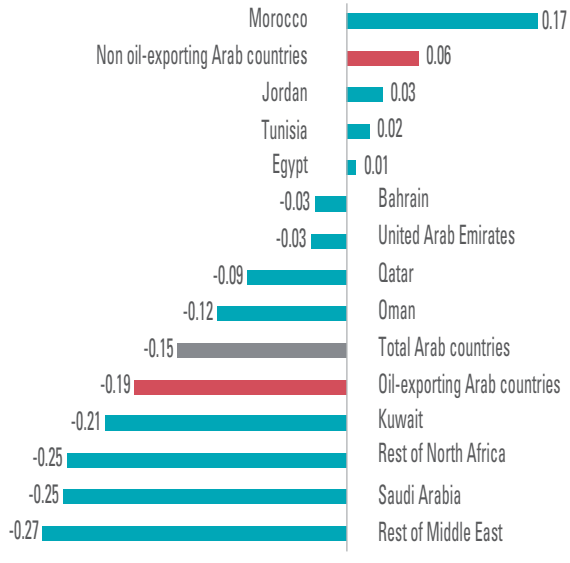
The use of computable general equilibrium (CGE) models to analyse the macroeconomic impact of an oil-price shock is relatively new. The idea is to measure the structural, not cyclical, impact of a specific shock in oil prices. For instance, using a dynamic CGE model, it has been shown that the oil price rise during the period 2002-2008 caused a decrease of 2-3 per cent of GDP annually in six oil-importing countries, namely Bangladesh, El Salvador, Kenya, Nicaragua, Tanzania and Thailand.[34] It has also been estimated that, in ten years, a

Figure 36. Short-term implications of a 10 per cent decline in oil price



Source: ESCWA simulation.

Figure 37. Medium-term implications of a 10 per cent decline in oil price



Source: ESCWA simulation.

doubling of oil prices could cause a 14 per cent loss of economic output in Turkey.[35] Using a global CGE model to assess the effect of an increase in oil prices, it has been demonstrated that an increase of 50 per cent in oil prices could reduce global GDP by 1.5 per cent by 2020; while GDP reductions would be smaller than 1 per cent in most developed countries or regions, the losses would be much higher in such emerging developing economies as China, India, Indonesia, Malaysia and Thailand, and in economies in transition.[36]

Under the same methodological approach, this analysis uses a modified version of MIRAGE, a multi-country, multi-sector recursive dynamic and global CGE model to assess the economic implications of a drop in oil prices for Arab economies. The tool also gives the possibility of discerning the mechanisms through which the shock is transmitted, including the reallocation of resources within an economy's productive structure. Moreover, it captures the effects on unemployment and fiscal policy.

1. Short-term implications of a 10 per cent decline in oil prices

The initial simulation consists of a shock in oil prices, driven by an increase of the United States supply of oil; all other producers maintain their supply at the 2014 level. The shock is supposed to take place early in 2015 and to be maintained until 2020.

The results show that, as a whole, the Arab region would lose 1.5 percentage points in the year following the shock (figure 36). The impact of lower oil prices on individual countries depends on their situation in the oil market as net exporters or net importers. Oil-exporting countries would lose 1.88 percentage points of growth, while the remaining Arab countries would lose 2.73 percentage points of growth.[37] The growth loss of Saudi Arabia is estimated at 2.58 percentage points, while that of Kuwait is 2.28 percentage points.

Oil-importing countries do benefit, but the gain is lower than the loss registered by oil

exporters. The average gain is 0.5 percentage points of additional growth. Morocco is the greatest winner, with 1.35 percentage points of extra growth, followed by Jordan at 0.29 per cent and Tunisia at 0.22 per cent. The impact on Bahrain, Egypt and the United Arab Emirates is negligible, given that these countries face a combination of positive and negative effects that offset each other.

As expected, the nature of the effects also varies across sectors. Oil production and construction are negatively impacted by the shock, while oil-intensive sectors, such as chemical products, metal, transport and oil refinery, see their production increasing (annex I, table 1). These results are in line with previous research, noting that output in oil-exporting countries could contract by 0.8 to 2.5 percentage points in the year following the shock.[38] Similarly, previous works have pointed out that a 10 per cent decrease in oil prices would raise growth in oil-importing economies by 0.1 to 0.5 percentage points, depending on those countries' share of oil imports to GDP.[39]

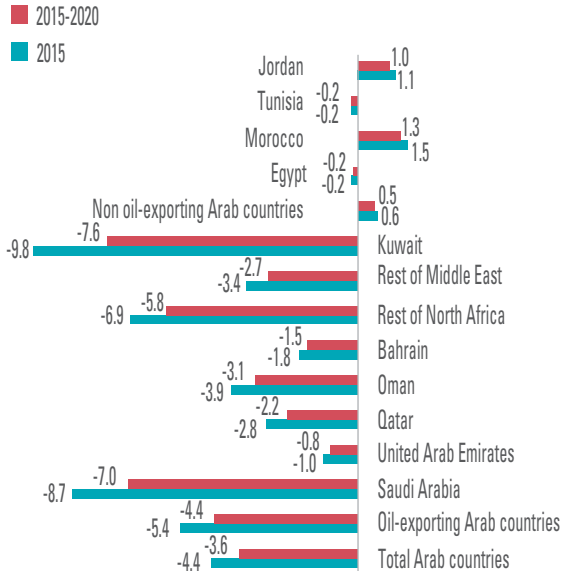
Furthermore, the estimates are in line with previous results that find a significant effect of oil prices on the output of Algeria, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Syria and United Arab Emirates, but a non-significant effect on the output of Bahrain, Djibouti, Egypt, Jordan, Morocco and Tunisia.

2. Medium-term implications

The medium-term effect is simulated by a permanent 10 per cent price reduction over the period 2015-2020. In this timeframe, the reallocation of resources among sectors is expected to assuage the growth implications of the shock.

On average, the net result for the region is a growth loss of 0.15 percentage points. Oil-exporting countries would lose annually 0.19 growth points, while oil-importing countries would win 0.06 percentage points of growth (figure 37).

Figure 38. Variation of total investment compared to the reference scenario

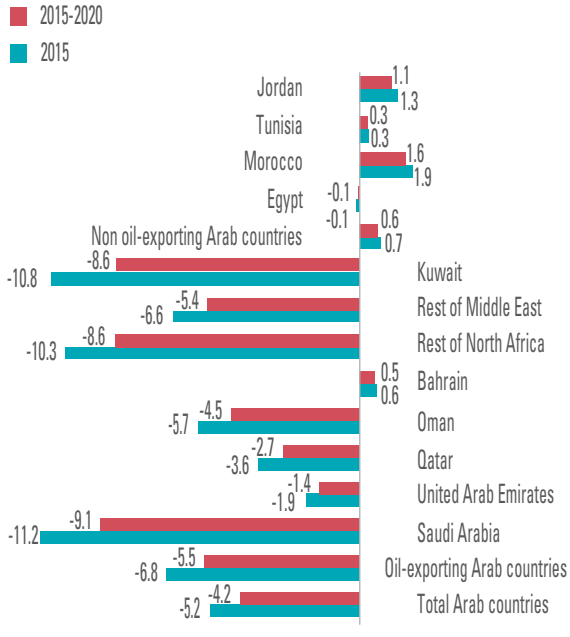


Source: ESCWA simulation.

For Arab oil exporters, the shock affects the profitability of investments, especially in the oil and construction sectors (annex I, table 2). According to the simulations and despite maintaining the level of public investment unchanged,[40] total investment could be reduced by 4.4 per cent in 2015 and by 3.6 per cent cumulatively between 2015 and 2020, compared to the reference scenario (figure 38). This effect is more visible in oil-exporting countries, especially Saudi Arabia, where total investment could be reduced by 8.7 per cent in 2015 and by 7 per cent between 2015 and 2020. In Kuwait, the reduction would be 9.8 per cent and 7 per cent, respectively. For North Africa, the loss is estimated at 6.9 per cent and 5.8 per cent, respectively; and for the rest of the Middle East, at 3.4 per cent and 2.7 per cent, respectively.

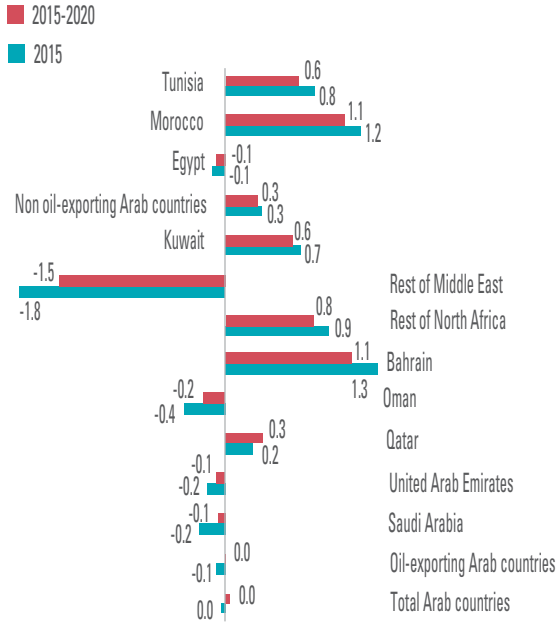
In oil-importing countries, the shock affects positively the profitability of oil-consuming

Figure 39. Variation of total imports compared to the reference scenario



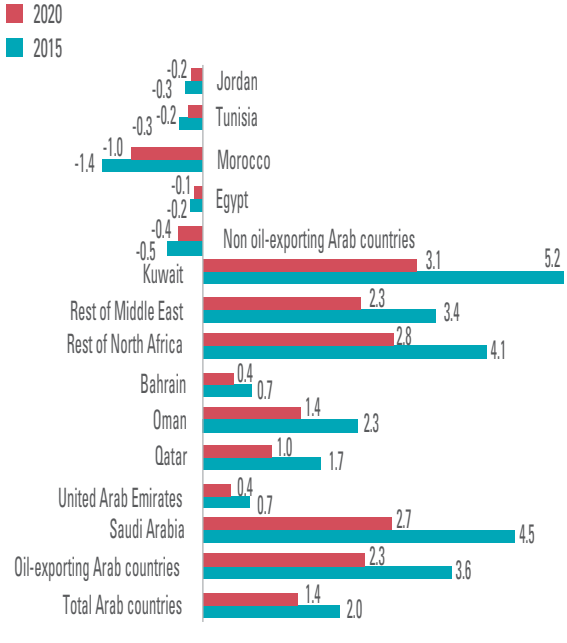
Source: ESCWA simulation.

Figure 40. Variation of total exports compared to the reference scenario



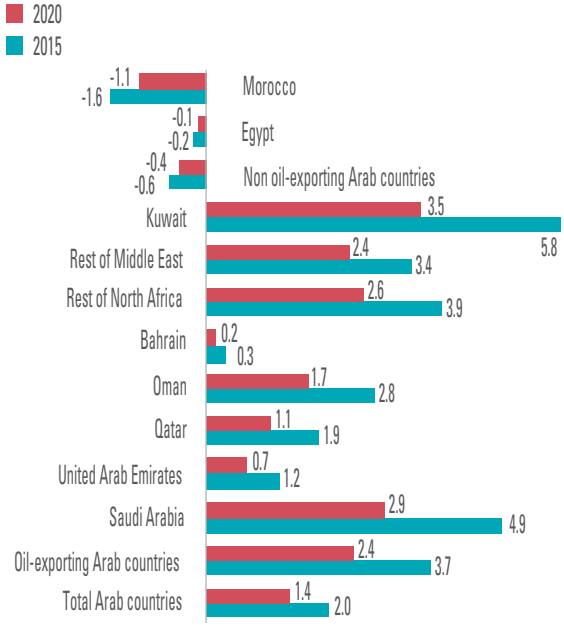
Source: ESCWA simulation.

Figure 41. Variation of skilled unemployment



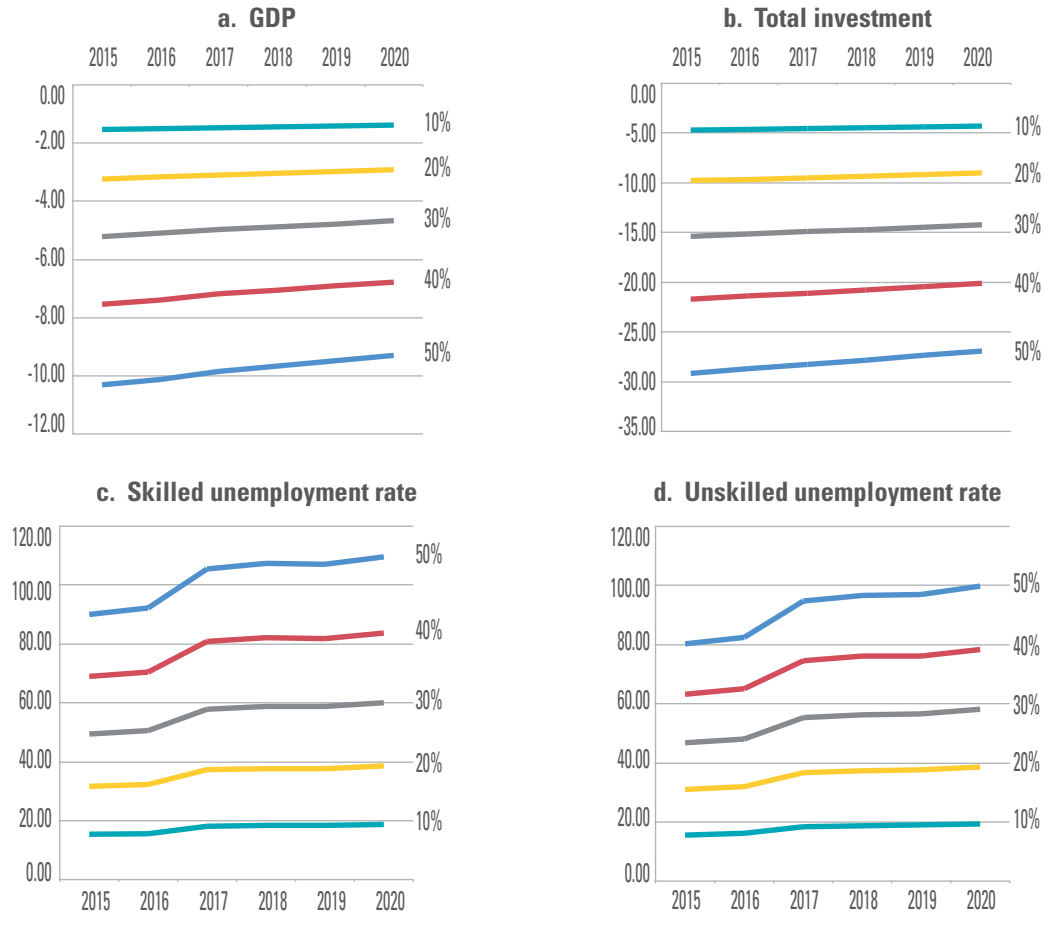
Source: ESCWA simulation.

Figure 42. Variation of unskilled unemployment



Source: ESCWA simulation.

Figure 43. Entire region: difference between baseline projection and permanent oil shock scenario projection



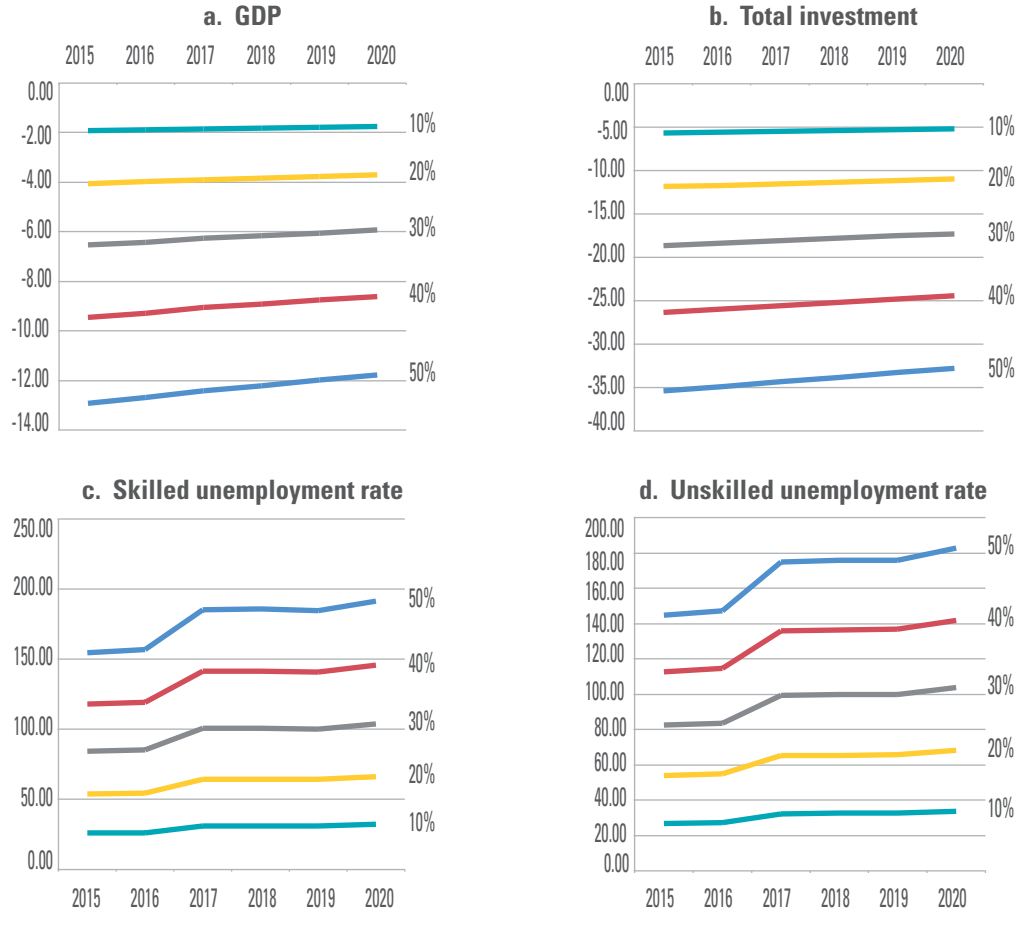
Source: ESCWA simulation.

sectors, especially chemical products, oil refinery and metal sectors. This leads to an increase in total investment of 0.5 per cent, which reaches 1.5 per cent in Morocco and 1.1 per cent in Jordan in 2015 (figure 38).

The variation of investment is also linked to trade (figure 39). Given that Arab oil exporters receive less foreign exchange, their currencies lose strength and their imports decline. This decline is approximately 6 per cent depending on the scenario: -6.8 in 2015, and -5.5 per cent in the medium run as economic structures adapt. Countries that suffer the most from this phenomenon are those most reliant on oil, including Kuwait and Saudi Arabia. Conversely, Jordan, Morocco and Tunisia import more: now that they spend less of their resources on oil, they can use more funds to import.

With regard to exports, having weaker currencies means that countries can export more (figure 40). This offsets the shock-induced loss of export revenues but exports from oil-exporting countries still decline by -0.1 per cent. Other countries, such as Tunisia and Morocco, export considerably more because they have small economies that are very export-oriented; everything else

Figure 44. Oil exporters: difference between baseline projection and permanent oil shock scenario projection



Source: ESCWA simulation.

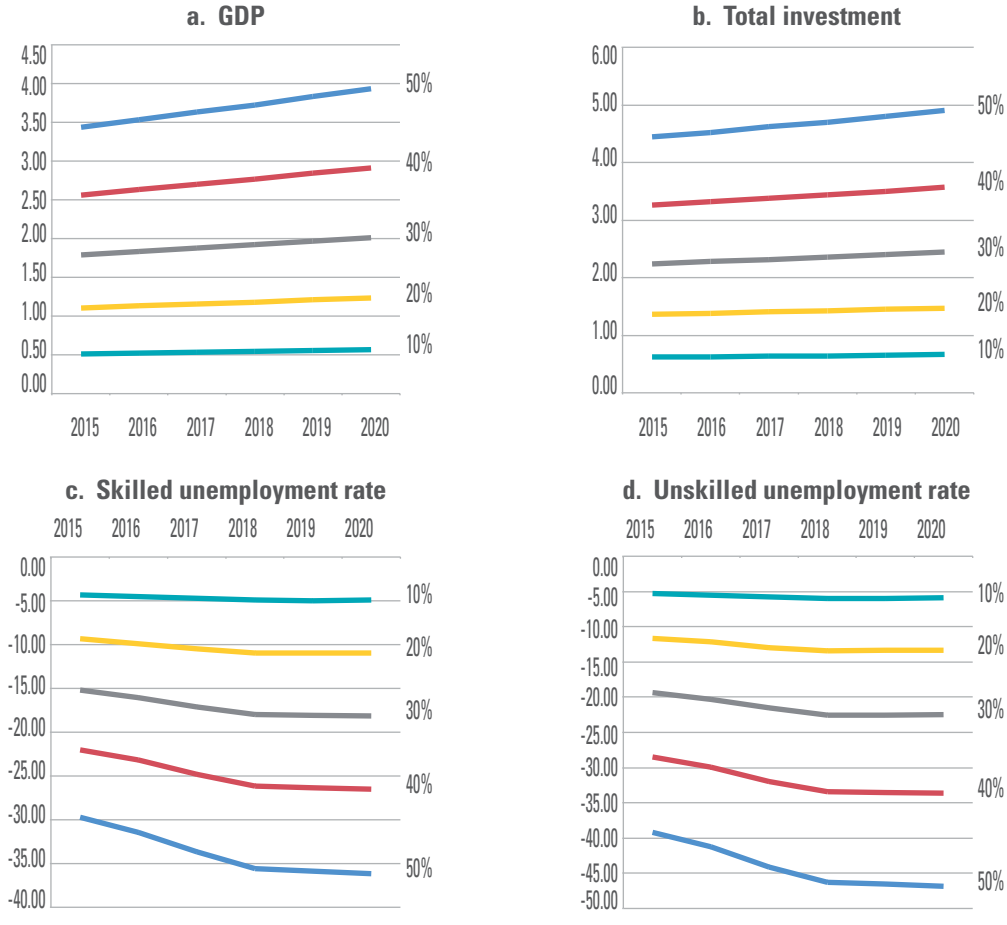
constant, paying less for their energy costs can boost their productivity and hence their exports.

In the given six-year timeframe, the simulated shock induces structural changes in national economies. This includes the use of such actors of production as labour, which is of particular importance given the high unemployment rates in the region.

Keeping the supply of labour constant, firms demand less labour because they have lower activity levels as they export less. The overall effect is the same for both skilled and unskilled labour. For the entire region, unemployment increases by 2 per cent in 2015, which is reduced to 1.4 per cent in the larger timeframe (2015-2020) given that factors of production are more flexible (figures 41 and 42).

The simulated 10 per cent negative shock in oil prices is lower than the actual shock experienced between July 2014 and January 2015. Thus, it is important to explore the sensitivity of results presented so far with regard to the actual magnitude of the shock.

Figure 45. Oil importers: difference between baseline projection and permanent oil shock scenario projection



Source: ESCWA simulation.

To do so, the results of five types of shock are described: from 10 per cent incrementally to 50 per cent.

As the difference between oil exporters and oil importers is vital, the simulation results are presented in three categories, namely for the entire sample of Arab countries (figure 43); for oil-exporting Arab countries only (figure 44); and for oil-importing Arab countries only (figure 45).

Overall, the simulations show that the larger the shock, the more significant the macroeconomic consequences with regard to GDP growth, total investment and skilled and unskilled unemployment rates.

Larger shocks exhibit higher slopes over time, however, which implies that the harder oil prices are shocked, the more that flexibility in the allocation of resources pays off in the long run (figure 43).

The elasticity of different dimensions varies within a specific shock magnitude. Specifically, GDP and investment have slightly positively sloped curves, while

unemployment rates show much higher negative elasticities, especially in high-magnitude shocks.

Unemployment patterns show that shocks can have a lock-out effect, whereby people who are unemployed remain chronically out of work regardless of their skill level (figure 43). The key threshold is two years, which corresponds to the often-accepted definition of long-term unemployment. Although the reasons for that threshold go beyond the scope of this study, this would be consistent with a common view that beyond that threshold, workers' skills are likely to be considered obsolete by employers, while jobseekers are likely to lose hope and put less effort in trying to find a job.

The interpretation is similar when only oil-exporting countries are considered (figure 44). However, skilled unemployment is slightly more vulnerable than unskilled, which is not surprising because skilled workers are more closely connected with the oil sector.

As the scale of the y-axis is the same in all charts for easy comparison, the graphs show that the overall result in the region (figure 43) is driven mainly by oil exporters (figure 44).

Considering oil-importers only (figure 45), the results are broadly symmetric: countries benefit from negative oil shocks in all four dimensions, the elasticity of the macroeconomic effects is higher as the intensity of the shock rises, and the differences between skilled and unskilled labour are largely negligible.

However, in oil-importing countries, unskilled workers benefit more than skilled ones. This can also be interpreted under a trade perspective: oil importers benefit from lower oil prices, they export more and in so doing, they can absorb more unskilled workers relative to skilled ones, who would have comparatively less difficulty finding jobs anyway.

E. Concluding remarks

Overall, the results of a negative shock in oil prices are as expected: oil-importing countries benefit from a shock in oil prices, particularly Morocco, but also Jordan and Tunisia. In turn, oil-exporting countries lose, especially Saudi Arabia, but also Oman. However, the importers' gain is smaller than the exporters' loss.

The simulations show that the larger the shock, the more significant the consequences on GDP growth, total investment and skilled and unskilled unemployment rates. The sectoral implications are also clear. Sectors that are intensive in the use of oil, such as the metal industry, are positively affected, and vice versa. Larger shocks are associated with higher benefits from flexibility in the allocation of resources in the long run.

Oil-price shocks can induce higher unemployment, which can stick in the long run, particularly beyond a two-year timeframe. Given that oil exporters are intensive in capital and capital is associated with knowledge, when the oil sector is shocked, skilled labour fares worse than unskilled labour. In oil-importing countries, this effect works in the opposite direction. Given the fiscal policy of high subsidies and handouts in oil-exporting countries, the consequences of the negative shock in oil prices could potentially turn sociopolitical if those fiscal policies are terminated.

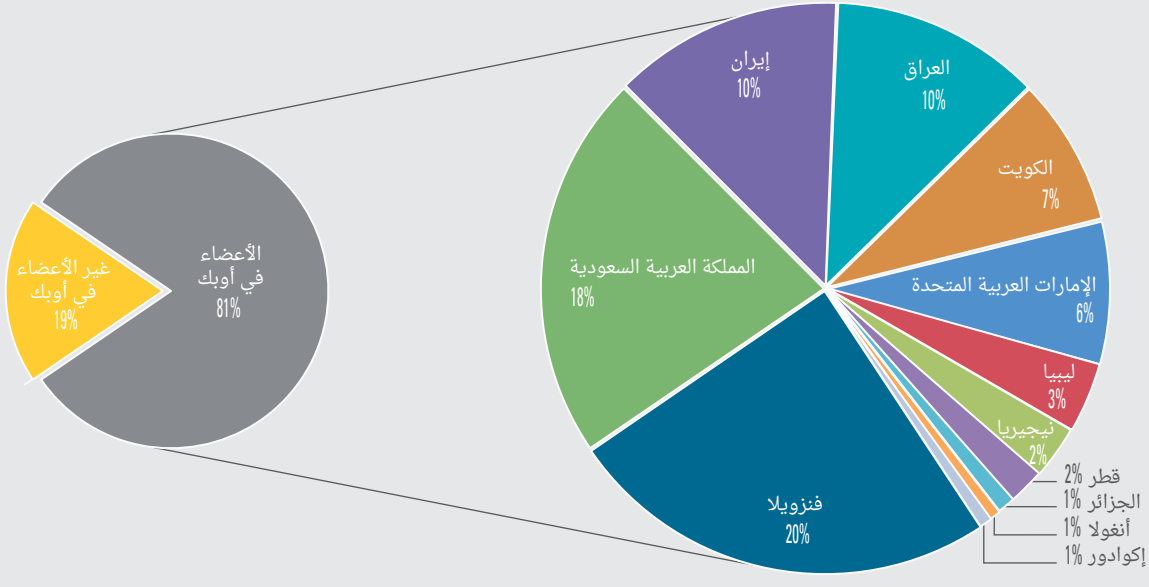
To address such potential threats, countries might turn to their SWFs. However, only Saudi Arabia has a sufficiently large buffer. Another option is debt, which is particularly appealing given the current context of

ultra-low interest rates. Yet, the current slump in oil prices presents a unique opportunity to undertake subsidy reforms, especially for oil importers, which may be the soundest option in the long run. Egypt, Morocco and Tunisia have moved in this direction. However, Kuwait has also started to implement subsidy reforms. It will be interesting to see if more oil exporters follow.

Annexes

I. Production and investment after a 10 per cent reduction in international oil prices

Crude oil reserves by the end of 2013



Source: ESCWA calculations, based on data in OPEC, 2014.

Table 1. Production by sector compared to the reference scenario after a 10 per cent reduction in international oil prices

	Saudi Arabia	Qatar	United Arab Emirates	Kuwait	Bahrain	Oman	Morocco	Egypt	Jordan	Tunisia	Rest of North Africa	Rest of Middle East
Agriculture	-4.0	0.0	-0.7	-5.9	0.0	-2.4	0.3	0.0	-1.8	-0.2	-4.2	-1.2
Food products	-2.6	-1.2	-0.6	-3.9	-2.4	-1.1	0.0	-0.3	-1.1	-0.4	-2.8	-1.7
Textile	2.2	0.0	1.1	0.0	0.9	0.0	-0.4	0.4	0.4	0.9	-3.0	3.9
Oil	-0.9	-2.4	-3.0	0.3	-2.3	-1.5	0.0	-2.1	0.0	-3.4	0.1	-3.4
Gas and mining	3.3	2.2	1.8	3.6	-0.2	4.4	-0.4	0.5	0.5	0.0	4.4	4.9
Chemicals products	9.0	2.9	0.6	6.5	-0.4	5.0	-1.2	0.0	-1.7	-0.2	2.0	5.6
Oil production	2.8	-1.5	-4.1	3.4	0.8	2.2	4.6	-0.2	1.8	-0.5	1.7	2.4
Metal	4.4	0.8	2.8	4.3	0.2	4.5	0.0	0.6	0.0	0.6	3.8	7.6

Electronic equipment	2.6	1.5	3.1	4.3	0.0	1.8	0.6	1.1	1.3	0.8	0.0	5.3
Machinery	6.6	1.3	1.6	5.4	0.0	4.6	0.3	0.0	0.0	2.5	4.1	5.9
Other transport equipment	3.0	0.6	1.6	2.8	0.0	0.0	0.0	-0.8	0.0	0.6	0.0	3.6
Other manufacture products	0.6	0.0	1.5	0.4	-0.7	1.1	0.0	0.2	-0.2	0.6	0.0	2.6
Construction	-5.4	-1.5	-0.6	-7.6	-1.6	-2.7	0.2	-0.1	0.0	-0.4	-4.1	-0.3
Transport	0.6	0.3	0.2	0.2	5.5	0.5	-0.2	0.0	0.6	0.2	0.4	5.6
Other services	0.4	0.5	0.3	-0.8	0.2	0.1	-0.1	0.3	0.2	0.0	-0.1	0.6

Source: ESCWA calculations.

Table 2. Investment by sector compared to the reference scenario after a 10 per cent reduction in international oil prices

	Saudi Arabia	Qatar	United Arab Emirate	Kuwait	Bahrain	Oman	Morocco	Egypt	Jordan	Tunisia	Rest of North Africa	Rest of Middle East
Agriculture	-24.1	-6.3	-1.3	-31.3	-5.0	-10.0	2.4	3.7	-12.8	3.0	-41.1	-11.5
Food products	-16.6	-6.5	0.0	-20.0	-6.3	0.0	0.5	0.0	-8.3	1.1	-31.5	-12.5
Textile	21.9	0.0	14.8	0.0	12.4	14.3	-2.3	5.7	2.7	11.5	-30.1	50.0
Oil	-28.8	-34.9	-47.7	-7.7	-32.2	-19.2	-100.0	-33.2	-100.0	-40.4	-29.3	-66.8
Gas and mining	31.4	15.8	15.0	26.7	3.5	44.5	-1.0	10.1	1.9	5.9	62.5	80.0
Chemicals products	81.5	13.8	4.7	46.7	0.6	36.2	-4.6	4.7	-13.0	3.3	26.0	78.8
Oil production	23.2	-11.0	-35.3	31.6	12.8	18.8	33.8	-1.6	14.0	1.9	7.9	25.0
Metal	34.8	2.9	20.0	34.9	6.4	32.4	0.0	12.1	2.9	9.5	43.4	120.8
Electronic equipment	21.2	5.5	25.4	40.7	10.6	22.7	2.2	12.0	10.8	14.5	10.5	77.8
Machinery	53.5	6.5	13.9	51.3	11.0	45.1	2.0	8.1	1.0	19.0	33.3	88.2
Other transport equipment	25.8	3.4	13.5	25.9	7.8	3.4	0.0	1.7	6.9	7.6	-2.3	35.7
Other manufacture products	5.4	-0.9	14.2	8.7	-2.9	14.9	0.4	4.3	-2.2	9.1	-2.1	37.2
Construction	-41.5	-6.5	-0.7	-42.3	-7.8	-7.8	0.5	1.3	0.7	1.3	-32.3	-10.4
Transport	50.0	0.4	3.8	8.9	59.1	11.4	-0.9	2.3	4.1	5.9	4.7	68.6
Other services	8.2	3.1	4.5	0.1	7.0	9.4	-0.8	6.8	2.1	4.5	4.4	9.9

Source: ESCWA calculations.

II. Sources of national statistical data

1. Algeria

a. Gross oil export revenues (table 4): Bank of Algeria, 2015;
b. GDP growth rate (table 5): National Office of Statistics of Algeria, 2013;
c. Consumer price inflation rate (table 5): Bank of Algeria, 2015;
d. Trade and current account balances (figure 8): Bank of Algeria, 2015;
e. Fiscal positions (figure 10): Ministry of Finance of Algeria, 2015.

2. Bahrain

a. Gross oil export revenues (table 4): Central Bank of Bahrain, 2015;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): Bahrain Open Data Portal. Available from www.data.gov.bh/;
d. Trade and current account balances (figure 8): Central Bank of Bahrain, 2015;
e. Fiscal positions (figure 10): Central Bank of Bahrain, 2014.

3. Comoros

a. GDP growth (table 5): Central Bank of the Comoros, 2013;
b. Consumer price inflation rate (table 5): Central Bank of the Comoros, 2013;
c. Trade and current account balances (figure 20): Central Bank of the Comoros, 2013;
d. Fiscal positions (figure 22): Central Bank of the Comoros, 2013.

4. Djibouti

a. GDP growth (table 5): Central Bank of Djibouti, 2013;
b. Consumer price inflation rate (table 5): Central Bank of Djibouti, 2013;
c. Trade and current account balances (figure 20): Central Bank of Djibouti, 2013;
d. Fiscal positions (figure 22): Central Bank of Djibouti, 2013.

5. Egypt

a. Gross oil export revenues (table 4): Central Bank of Egypt, 2015;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): Central Bank of Egypt, 2015;
d. Trade and current account balances (figure 12): Central Bank of Egypt, 2015;
e. Fiscal positions (figure 14): Central Bank of Egypt, 2015;
f. Unemployment rate (figure 31): Central Agency for Public Mobilization and Statistics of Egypt, 2014 and 2015.

6. Iraq

a. Gross oil export revenues (table 4): Central Bank of Iraq, 2010, 2011, 2012a and 2013;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): Central Bank of Iraq, 2012b;
d. Trade and current account balances (figure 12): Central Bank of Iraq, 2010, 2011, 2012a and 2013;
e. Fiscal positions (figure 14): Central Bank of Iraq, 2010, 2011, 2012a and 2013.

7. Jordan

a. GDP growth (table 5): ESCWA, 2015;
b. Consumer price inflation rate (table 5): Department of Statistics of Jordan, 2015b;
c. Trade and current account balances (figure 12): Department of Statistics of Jordan, 2015b;
d. Fiscal positions (figure 14): Ministry of Finance of Jordan, 2015;
e. Unemployment rate (figure 31): Department of Statistics of Jordan, 2014 and 2015a.

8. Kuwait

a. Gross oil export revenues (table 4): Central Bank of Kuwait, 2015;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): Central Bank of Kuwait, 2015;
d. Trade and current account balances (figure 8): Central Bank of Kuwait, 2015;
e. Fiscal positions (figure 10): Central Bank of Kuwait, 2015.

9. Lebanon

a. GDP growth (table 5): ESCWA, 2015;
b. Consumer price inflation rate (table 5): Central Administration of Statistics of Lebanon, 2013;
c. Trade and current account balances (figure 12): Banque du Liban, 2015;
d. Fiscal positions (figure 14): Ministry of Finance of Lebanon, 2015.

10. Libya

a. Gross oil export revenues (table 4): Central Bank of Libya, 2014
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): Central Bank of Libya, 2014;
d. Trade and current account balances (figure 16): Central Bank of Libya, 2014;
e. Fiscal positions (figure 18): Central Bank of Libya, 2014.

11. Mauritania

a. Gross oil export revenues (table 4): Central Bank of Mauritania, 2014a;
b. GDP growth (table 5): Central Bank of Mauritania, 2014b;
c. Consumer price inflation rate (table 5): Central Bank of Mauritania, 2014b;
d. Trade and current account balances (figure 20): Central Bank of Mauritania, 2014a;
e. Fiscal positions (figure 22): Central Bank of Mauritania, 2014b.

12. Morocco

a. Gross oil export revenues (table 4): Bank al-Maghrib, 2015;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): Bank al-Maghrib, 2015;
d. Trade and current account balances (figure 16): Bank al-Maghrib, 2015;
e. Fiscal positions (figure 18): Bank al-Maghrib, 2015;
f. Unemployment rate (figure 31): Haut-Commissariat au Plan, Morocco, 2014 and 2015.

13. Oman

a. Gross oil export revenues (table 4): Central Bank of Oman, 2014;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): National Centre for Statistics and Information of Oman, 2014a and 2014b;

d. Trade and current account balances (figure 8): Central Bank of Oman, 2014;
e. Fiscal positions (figure 10): Central Bank of Oman, 2014; and National Centre for Statistics and Information of Oman, 2014b.

14. Palestine

a. GDP growth (table 5): ESCWA, 2015;
b. Consumer price inflation rate (table 5): Palestine Monetary Authority, 2015;
c. Trade and current account balances (figure 12): Palestine Monetary Authority, 2015;
d. Fiscal positions (figure 14): Palestine Monetary Authority, 2015;
e. Unemployment rate (figure 31): Palestinian Central Bureau of Statistics, 2014.

15. Qatar

a. Gross oil export revenues (table 4): Ministry of Development Planning and Statistics, Qatar, 2015;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): Ministry of Development Planning and Statistics, Qatar, 2015;
d. Trade and current account balances (figure 8): Qatar Central Bank, 2015;
e. Fiscal positions (figure 10): Qatar Central Bank, 2015.

16. Saudi Arabia

a. Gross oil export revenues (table 4): Saudi Arabian Monetary Agency, 2015;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): Saudi Arabian Monetary Agency, 2015;
d. Trade and current account balances (figure 8): Saudi Arabian Monetary Agency, 2015;
e. Fiscal positions (figure 10): Saudi Arabian Monetary Agency, 2015.

17. Sudan

a. Gross oil export revenues (table 4): Central Bank of Sudan, 2014;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): Central Bank of Sudan, 2014;
d. Trade and current account balances (figure 20): Central Bank of Sudan, 2014;
e. Fiscal positions (figure 22): Central Bank of Sudan, 2014.

18. Syrian Arab Republic

a. GDP growth (table 5): UNRWA, 2015;
b. Consumer price inflation (table 5): Central Bureau of Statistics of the Syrian Arab Republic, 2015;
c. Trade and current account balances (figure 12): Central Bank of Syria, 2011;
d. Fiscal positions (figure 14): Central Bank of Syria, 2011.

19. Tunisia

a. Gross oil export revenues (table 4): National Institute of Statistics of Tunisia, 2014;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation (table 5): National Institute of Statistics of Tunisia, 2014;
d. Trade and current account balances (figure 16): Central Bank of Tunisia, 2015;
e. Fiscal positions (figure 18): Central Bank of Tunisia, 2015; and Ministry of Finance of Tunisia, 2015;
f. Unemployment rate (figure 31): National Institute of Statistics of Tunisia, 2015.

20. United Arab Emirates

a. Gross oil export revenues (table 4): Central Bank of the United Arab Emirates, 2012, 2013 and 2014;

b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation rate (table 5): National Bureau of Statistics of the United Arab Emirates, 2015;
d. Trade and current account balances (figure 8): Central Bank of the United Arab Emirates, 2012, 2013 and 2014;
e. Fiscal positions (figure 10): Central Bank of the United Arab Emirates, 2014.

21. Yemen

a. Gross oil export revenues (table 4): Central Bank of Yemen, 2015;
b. GDP growth (table 5): ESCWA, 2015;
c. Consumer price inflation (table 5): Central Bank of Yemen, 2015;
d. Trade and current account balances (figure 20): Central Bank of Yemen, 2015;
e. Fiscal positions (figure 22): Central Statistical Organization of Yemen, 2013.

Endnotes

Chapter I

1. United States Department of Commerce, Bureau of Economic Analysis, 2015.
2. TED spread is the spread between three-month LIBOR and three-month US Treasury Bill interest rates. TED spread is a measure of liquidity as it indicates a relative borrowing cost of private entities to the United States Treasury. Historically, it has stood around 50 basis points (0.5 percentage points). A higher TED spread implies a shortage of United States dollar liquidity in the private sector, as the funding cost of dollars in international money markets rises more than that of the Treasury.
3. European Commission, 2014.
4. ILO, 2015, p. 16.
5. For example, the issue of "zero-hours contract" in the United Kingdom. See Pyper and Dar, 2015.
6. WEF, 2014, p. 31.
7. Ibid.
8. Abu Dhabi Dialogue, 2014.
9. Kuwait News Agency, 2015.
10. UNHCR, 2015, p. 7; and 2014, p. 5.
11. IOM, 2014.
12. OPEC, 2014, tables 10.1 and 10.2.
13. IMF, 2015.
14. International Fertilizer Industry Association, 2014.
15. World Bank, 2015a.
16. Those banks are usually referred to "BIS reporting banks" and consist of major commercial banks engaged in international operations.

Chapter II

1. Sheikh, 2014.
2. UNDP in Somalia, 2015.
3. The Central Bank of Jordan lowered policy rates again in July 2015 by 0.25 percentage points.
4. Reuters, 2015a; and Times of Oman, 2015a.
5. Reuters, 2015b.
6. Regulation and Supervision Bureau of Abu Dhabi, 2014.
7. Ministry of Finance of Egypt, 2014; Ministry of Finance of Jordan, 2014; and Verme and el-Massnaoui, 2015.
8. Mohammad, 2015.
9. Times of Oman, 2015b.
10. Kuwait News Agency, 2015.
11. Qatar News Agency, 2015.
12. UNDP, 2014.
13. Ibid., p. 224. Arab States in the Human Development Report 2014 include Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Palestine, Oman, Qatar, Saudi Arabia, Somalia, the Sudan, Syria, Tunisia, the United Arab Emirates and Yemen.
14. WEF, 2014.
15. The original regional grouping used in the Global Gender Gap Report 2014 is the Middle East and North Africa, including a non-Arab country. In this chapter, regional average figures for Arab countries were recalculated, weighted by the population of each country, for the following countries: Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates and Yemen.
16. ESCWA calculations from data available in "Country Profile" in WEF, 2014.
17. WEF, 2014.
18. Ibid., pp. 10-11. Rankings by subindex.
19. IPU, 2014 and 2015.
20. IPU, 2011.
21. IPU, 2015.
22. Palestinian Central Bureau of Statistics, 2015.
23. National Institute of Statistics of Tunisia, 2015.
24. Central Department of Statistics and Information of Saudi Arabia, 2015.
25. Central Agency for Public Mobilization and Statistics of Egypt, 2015.
26. Department of Statistics of Jordan, 2015b.
27. Haut-Commissariat au Plan, Morocco, 2015.
28. Palestinian Central Bureau of Statistics, 2015.
29. Department of Statistics of Jordan, 2015b.
30. Central Department of Statistics and Information of Saudi Arabia, 2015.
31. National Institute of Statistics of Tunisia, 2015.
32. Alsheikh, 2015, pp. 8-9.
33. ESCWA, and others, 2015.

Chapter III

1. Rasche and Tatom, 1977.
2. Mork and Hall, 1979.
3. Hamilton, 1983.
4. See, for example, Burbidge and Harrison, 1984.
5. Mork, 1989.
6. Hooker, 1996. Granger causality is a statistical concept of causality that is based on prediction.
7. Hamilton, 1996.
8. Cuñado and de Gracia, 2003.
9. See, for example, Lee, and others, 1995; and Ferderer, 1996.
10. Hamilton, 1996.
11. The estimated amounts were based on the hypothetical oil price, actual oil prices and actual global demand for crude oil.
12. Abeysinghe, 2001.
13. Lizardo and Mollick, 2010.
14. Johnson, 2015.
15. Kilian, 2009.
16. Fattouh and el-Katir, 2012.
17. See chapter I of the present report for Arab crude oil production estimations and forecasts.
18. Beattie, 2014.
19. Central Bank of Kuwait, 2015, table 26; and Saudi Arabian Monetary Agency, 2015, table 2.
20. IMF, 2014, table 6.
21. Sovereign Wealth Fund Institute, 2015.
22. IMF, 2013.
23. Sdralevich, and others, 2014. The quoted figures cover the MENA region, which includes Iran and 19 Arab countries, namely Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, the Sudan, Syria, Tunisia, the United Arab Emirates and Yemen.
24. IEA, 2015.
25. Daragahi, 2015.
26. Although established in April 1995, the implementation of the oil-for-food programme started only in December 1996, after the signing of a memorandum of understanding between the United Nations and the Government of Iraq on 20 May 1996.
27. The California electricity crisis of 2000 followed a failed partial deregulation of the electricity market in the state in 1996. The energy crisis was characterized by a combination of extremely high prices and rolling blackouts. Price instability and spikes lasted from May 2000 to September 2001. Rolling blackouts began in June 2000 and recurred several times in the following twelve months.

28. Arezki and Blanchard, 2014.
29. United Nations, 2015.
30. IEA, 2014a; and 2014b.
31. Technological advancement has affected both the supply and demand side. Improvements in renewable energy and energy efficiency technologies lower demand for energy consumption, while innovations in drilling technologies decrease the cost of the extraction of offshore hydrocarbon resources, as observed in Brazil and Mexico, and allow exploration and extraction in ultra-deep offshore areas.
32. Raval and Hume, 2014.
33. Raval, 2015.
34. Sanchez, 2011.
35. Aydın and Acar, 2011.
36. Timilsina, 2013.
37. Within this context, the remaining Arab countries comprise Iraq, Jordan, Lebanon, Palestine, Syria and Yemen.
38. World Bank, 2013; Berument and Ceylan, 2005; and Feldkirchner and Korhonen, 2012.
39. World Bank, 2013; and Rasmussen and Roitman, 2011.
40. This hypothesis was adopted after the declaration by most GCC economic authorities that the decline in oil prices would not affect their public investment plans and that they would use their strategic reserves to finance their public deficits.

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Over the past few years, the Arab region has witnessed various events and developments, including political and social crises, armed conflict and a sharp drop in the global price of oil. Although some Arab countries have managed to remain resilient, the new price level of crude oil has inevitably affected the course of Arab socioeconomic development.

The Survey of Economic and Social Developments in the Arab Region 2014-2015, published under these challenging and uncertain socioeconomic circumstances, reaffirms the importance of cooperation and integration in the Arab region to ensure the efficient investment of human and financial resources in all sectors for sustainable development.

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