

Realities and Prospects in the Arab Region

Survey of Economic and Social Developments

2020-2021 - Summary

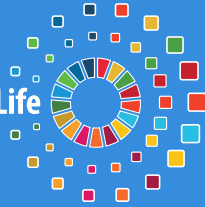


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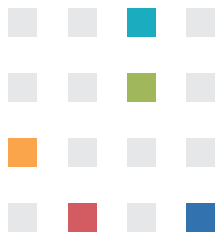
ESCWA, an innovative catalyst for a stable, just and flourishing Arab region

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Economic and Social Commission for Western Asia



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Key facts

The prospect of **peace**, especially in **Libya**, will have an extraordinary impact on war-torn countries and on neighbouring ones.



Nonetheless, clear disparities remain between **Arab countries**. For example, many middle-income countries (**MICs**) are lagging behind in **vaccinations**, which will affect the **tourism sector**.

The most significant rebound is expected in conflict-affected countries, which were also the most affected by the **COVID-19 pandemic**. Their **GDP** is expected to grow by **8.4 per cent in 2021** on average. Arab MICs will experience slower growth of **5 per cent in 2021**. Recovery in Arab least developed countries is expected to be somewhat sluggish, with **1.2 per cent growth in 2021**.



ESCWA is predicting an overall growth performance of **4.3 per cent in 2021** for the Arab region.

The good permeance of the **vaccination** campaign in the United States and most other developed countries, and in many Arab countries, is **positively** affecting **global economic activity** and raising the price of oil, thus boosting economic activity in all **Arab oil-exporting countries**. Gulf Cooperation Council countries are expected to increase their **GDP by 3.5 per cent in 2021**.



The **COVID-19 pandemic** has had an alarming effect on public **finance** and **debt sustainability**. In **Arab MICs**, the public deficit could reach **11 per cent of GDP**, and the debt-to-GDP ratio will near 90 per cent. Such increases are the result of extensive stimulus packages enacted in the region to tackle the effects of the pandemic.

If no international support is provided and no serious reforms are implemented, many **Arab countries** will not be able to honour their commitments, thus causing a major **debt crisis**.



The overall **unemployment** rate in the Arab region will remain at **11.3 per cent in 2021**. This is mostly owing to the large number of refugees, internally displaced persons and **young people** entering the **labour market**.

1. Global context

Following the deep recession of 2020, the global economy is expected to recover in 2021 with a projected growth of 4.7 per cent. Consumer price inflation is projected to remain low, but will increase slightly in the United States of America and Europe following the unprecedented fiscal stimulus enacted by Governments as a response to the COVID-19 pandemic. Globally, unemployment is expected to fall from 6.8 per cent in 2020 to 6.4 per cent in 2021, but will remain above the 2019 level of 5.8 per cent over the next few years. However, the magnitude of this recovery is conditioned on the successful rollout of COVID-19 vaccines that could facilitate the resumption of tourist activities. Nonetheless, there are significant risks to this outlook. In March 2021, Europe entered a new phase of lockdowns, and the roll out of vaccines is progressing slowly. Consequently, economic recovery is not expected before the second half of the year. In the United States, the new administration envisaged that all adults will be vaccinated by the end of May 2021.

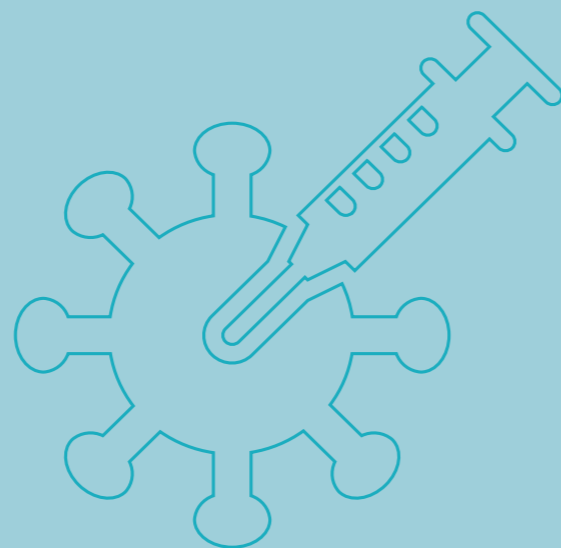


Table 1. Growth and inflation in the main regions of the world

	GDP		Inflation	
	2020	2021	2020	2021
World	-4.2	4.7	4.5	3.4
Developed economies	-5.6	4	0.9	1.4
United States	-3.9	3.4	1.3	1.9
European Union	-7.4	4.8	0.7	1.1
Economies in transition	-3.4	3.4	4.1	4.9
Russian Federation	-4	3	3.3	4.5
Developing economies	-2.4	5.6	9.8	6.3
Africa	-4.3	3.8	14.5	9
East and South Asia	-0.5	6.5	3.8	3.1
China	2.4	7.2	3.1	2.1
India	-5.7	7	8	6.6
Latin America and the Caribbean	-8	3.8	31.2	17.6
Least developed countries	-1.3	4.9	21.4	15.9

Source: ESCWA projections based on the World Economic Forecasting Model (WEFM). Available at www.un.org/development/desa/dpad/world-economic-forecasting-model-wefm-2018.html.

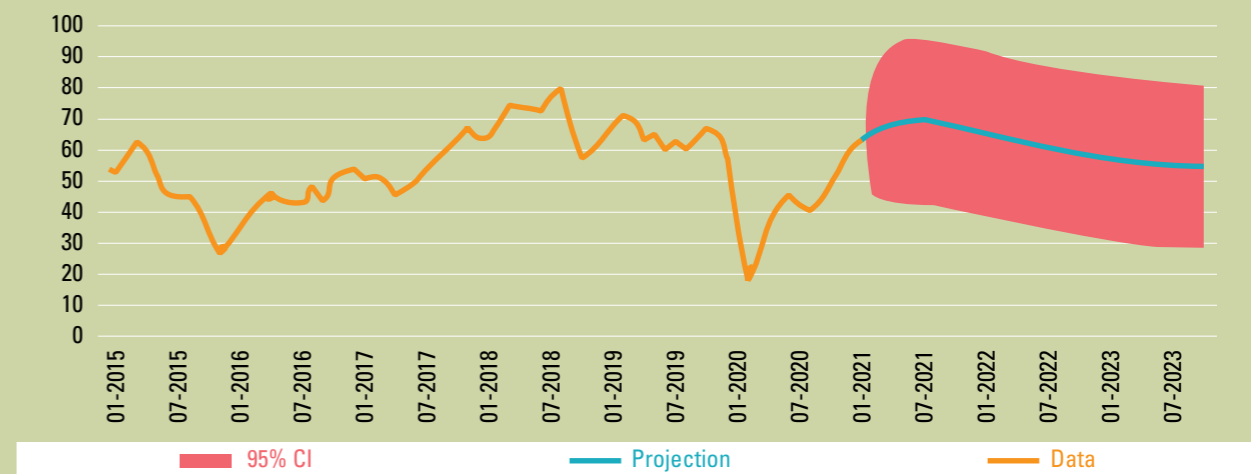
2. Predicted developments in oil, gas and phosphates

The recovery will have a significant impact on the commodity market. According to the latest estimates of the International Energy Association (February 2021), oil demand will increase by 5.4 mb/d in 2021, recovering around 60 per cent of the volume lost in 2020. This expected increase is reflected in the price of oil, whereby the price of the OPEC basket exceeded \$60 per barrel in February 2021 and was expected to reach \$65 per barrel in March 2021. If this trend continues, the budgets of Arab oil-exporting countries will be much better than previously predicted. In addition to that, OPEC+ reiterated its commitment to reducing the inventory that built up in 2020 owing to the price war between the Russian Federation and Saudi Arabia, stressing that the increase in production will be slow. However, the resurgence of oil prices has led to increases in shale oil production in Canada and the United States.

A similar outlook is expected for gas prices, given their strong link to oil prices, which are expected to stabilize then decrease. Phosphate prices rose significantly during the second half of 2020, and the price of diammonium phosphate (DAP) almost doubled between June 2020 and February 2021. This surge in commodity prices is driven by the increase in global liquidity. It will provide some relief for State budgets of commodity-exporting countries, but will also fuel inflation in 2021.

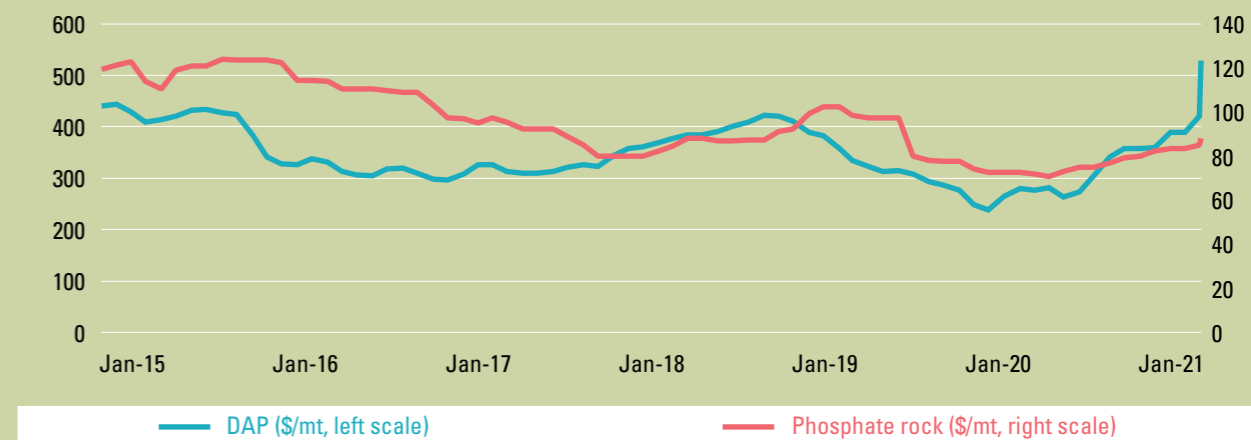


Figure 1. Projection of oil prices until 2023



Source: ESCWA calculations.

Figure 2. DAP and phosphate rock prices



Source: World Bank, Commodity Markets Database, 2021. Available at www.worldbank.org/en/research/commodity-markets.

3. Macroeconomic evolution in the Arab region

The macroeconomic outlook for the Arab region is assessed based on the following two scenarios: the baseline scenario with an average oil price of \$53 per barrel, and an alternate scenario where average oil price is expected to be at \$65 per barrel. The gross domestic product (GDP) of the Arab region is expected to grow by 4.3 per cent in 2021 for both scenarios.

The expected recovery in the oil market allows for a modest recovery in Gulf Cooperation Council (GCC) countries, as GDP growth could reach 3.5 per cent in 2021. If oil prices reach \$65 per barrel, growth could reach 3.6 per cent in 2021. However, recovery in the air transport and tourism sectors will take more time, since the COVID-19 global vaccination campaign will not be finalized before the end of 2021.

Arab middle-income countries (MICs) that were deeply affected by the pandemic in 2020 are expected to undergo a technical rebound in 2021. GDP growth is expected to reach 5 per cent in 2021 for the baseline scenario, and 4.8 per cent for the alternate scenario. This recovery is expected to affect all Arab MICs, except Lebanon where growth will remain negative at -4.6 per cent in 2021 for the baseline scenario. The improvement of the economic situation is conditioned by the formation of a new Government and the adoption and implementation of a reforms package supported by the International Monetary Fund (IMF) and other international donors. Morocco and Tunisia can expect a gradual recovery, and growth could reach 5.5 and 3.9 per cent in 2021, respectively, in both scenarios. These two countries are still affected by the global lockdown, and the low performance of the agriculture and tourism sectors. Algeria will benefit from the oil price rebound, and register an economic growth of 5.2 per cent in 2021 and 5.4 per cent for the alternate scenario, thanks to the increase in oil market prices. The rate of vaccine roll-out is still relatively slow in MICs, ranging between 4 per cent in Morocco and 0.26 per cent in Lebanon.

The economies of conflict-affected countries (CACs) are expected to grow by 8.4 per cent in 2021 for the baseline scenario, and by 8.5 per cent in 2021 for the alternate scenario. This performance is mainly driven by the peace prospect in Libya initiated in February 2021, which could possibly lead to stability in the country. For instance, Libya is expected to grow by more than 92 per cent in 2021. This striking performance would be driven by elevated oil prices.

Arab least developed countries (LDCs) are expected to grow by only 1.2 per cent in 2021 for both scenarios. Political stability and the socioeconomic situation are two major challenges for the region. In the Sudan, growth will stagnate at 1 per cent, while GDP in Djibouti is expected to grow to 4.5 per cent in 2021.

With the resumption of economic activity and the increase of commodity prices, inflation is expected to reach around 6 per cent in 2021 for both scenarios. Lebanon, Libya, the Sudan, the Syrian Arab Republic and Yemen will continue to witness double digit inflation in 2021, caused mainly by a depreciation of their national currencies, and in some cases by conflict and geo-political instability.



Table 2. Growth and inflation in the Arab region

	Baseline scenario (oil barrel at \$53)				Alternate scenario (oil barrel at \$65)			
	GDP		Inflation		GDP		Inflation	
	2020	2021	2020	2021	2020	2021	2020	2021
Total Arab countries	-6	4.3	8.2	5.8	-6	4.3	8.2	6
GCC countries	-4.6	3.5	1.1	2.2	-4.6	3.6	1.1	2.2
Bahrain	-5.4	2.4	-2.3	1.3	-5.4	3.8	-2.3	1.4
Kuwait	-5.6	4.9	1.9	2.7	-5.6	4.7	1.9	2.7
Oman	-6.4	2.7	-0.5	1.6	-6.4	2.6	-0.5	1.6
Qatar	-4.1	4.2	-2.4	0.2	-4.1	5	-2.4	0.2
Saudi Arabia	-4.1	3.2	3.6	3.1	-4.1	3.2	3.6	3.1
United Arab Emirates	-5.2	3.6	-1.6	1.5	-5.2	3.3	-1.6	1.5
Arab MICs	-5	5	8.2	5.6	-5	4.8	8.2	5.7
Algeria	-7.7	5.2	1.9	3.3	-7.7	5.4	1.9	3.3
Egypt	0.2	5.4	5.1	6.5	0.2	5.4	5.1	6.5
Jordan	-5.4	4.4	0.3	1	-5.4	4.4	0.3	1.1
Lebanon	-31.2	-4.6	74.1	20.9	-31.2	-6.6	74.1	22.5
Morocco	-7	5.5	0.7	1.1	-7	5.5	0.7	1.2
Tunisia	-8.8	3.9	5.1	4.1	-8.8	3.9	5.1	3.8
Conflict-affected countries	-16.8	8.4	5.3	5.9	-16.8	8.5	5.3	6
Iraq	-11.1	5.4	0.5	0.9	-11.1	5.5	0.5	0.9
Libya	-68.9	92.8	4.8	11.3	-68.9	92.4	4.8	11.4
State of Palestine	-7.9	3.3	-0.9	1.5	-7.9	3.3	-0.9	1.6
Syrian Arab Republic	-7.4	4.5	41.7	33.9	-7.4	4.5	41.7	34.2
Yemen	-5.2	-1.1	12.1	15.5	-5.2	-0.8	12.1	15.6
Arab LDCs	-3.2	1.2	124	65.1	-3.2	1.2	124	65.1
Comoros	-1.9	2.9	2.5	2.5	-1.9	2.9	2.5	2.5
Djibouti	-1	4.5	1.6	3	-1	4.5	1.6	3
Mauritania	-2.9	1.9	2.2	2.7	-2.9	1.9	2.2	2.8
Somalia	-3.7	2.7	3.9	2.7	-3.7	2.7	3.9	2.7
Sudan	-3.3	1	141	73.5	-3.3	1	141	73.5

Source: ESCWA projections based on WEFM.

4. Fiscal situation and debt in Arab countries

In 2021, Arab economies have more constrained fiscal space as a result of the stimulus packages enacted by several Governments in the region to mitigate the consequences of the pandemic, the significant increase in spending on health, and the unprecedented decline in oil prices for oil-exporting countries. The fiscal deficit in the Arab region is expected to increase to 11.2 per cent as a percentage of GDP in 2021, while the debt-to-GDP ratio is expected to increase to 67.9 per cent in 2021 for the baseline scenario. However, with higher oil prices, the fiscal deficit in the Arab region could be reduced to 9.8 per cent in 2021, driven by an increase in government revenues in Arab oil-exporting countries.

In GCC countries, the fiscal deficit will rise to 11.3 per cent in 2021 for the baseline scenario, driven mainly by an increase in government spending to finance the roll-out of vaccines, to service the debt accumulated in 2020, and to stimulate their economies after a year of deep recession. However, if the price of oil reaches \$65 per barrel, the fiscal deficit in 2021 could be reduced by the equivalent of 2 per cent of GDP and reach 9.2 per cent. For example, in 2021, Saudi Arabia is planning to resume its public capital investment projects. The fiscal deficit in Oman will rise to an unprecedented level of 25.7 per cent of GDP in 2021, while the debt-to-GDP ratio is expected to reach 111.6 per cent in 2021 for the baseline scenario. The fiscal deficit is expected to reach only 23.4 for the alternate scenario, while the debt-to-GDP ratio is expected to remain significantly high at around 109.3 per cent in 2021. This situation calls for urgent action to be taken in Oman, such as taxing the income of wealthy individuals as of January 2022, reducing subsidies on electricity and water before completely removing them by 2025, and expanding visa fee exemptions to numerous countries to attract tourism.

The economic recovery expected in Arab MICs will increase government revenues and stabilize the fiscal deficits at 9.3 per cent of GDP in 2021. This stabilization could be reinforced if the price of oil reaches \$65 per barrel. This result will be mainly driven by improvements in the fiscal balance in Algeria. However, debt levels are expected to remain elevated in Arab MICs, with a debt-to-GDP ratio exceeding 89 per cent in 2021, as many countries are resorting to borrowing to finance the roll-out of vaccines and to engage in infrastructure investments.

Arab CACs are expected to witness a deterioration in their fiscal position, driven mainly by a large deficit in Libya. However, the latter will benefit from the resumption of oil production after the ceasefire agreement, and is expected to increase its expenditure on infrastructure and reconstruction. In contrast, Arab LDCs will continue to suffer from high debt levels during the same period.

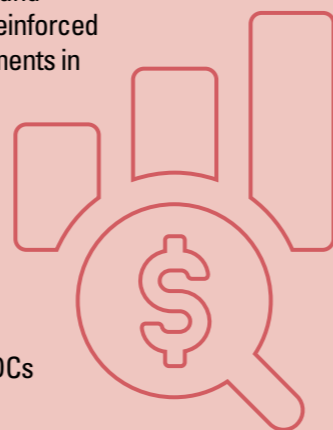


Table 3. Fiscal deficit and debt as a percentage of GDP in the Arab region

	Baseline scenario (oil barrel at \$53)				Alternate scenario (oil barrel at \$65)			
	Fiscal balance		Government debt		Fiscal balance		Government debt	
	2020	2021	2020	2021	2020	2021	2020	2021
Total Arab countries	-9.4	-11.2	64.1	67.9	-9.4	-9.8	64.1	66.6
GCC countries	-9.3	-11.3	39.7	47.1	-9.3	-9.2	39.4	45.4
Bahrain	-16	-16	126.3	138.6	-16	-15.2	126.3	135.7
Kuwait	-0.1	1.6	12.1	9.6	-0.1	1.6	12.1	9.6
Oman	-22.4	-25.7	89.9	111.6	-22.4	-23.4	89.9	109.3
Qatar	4.4	2.9	50.5	49.5	4.4	3	50.5	48.9
Saudi Arabia	-14.3	-16.3	38.5	52.3	-14.3	-13.3	38.5	49.3
United Arab Emirates	-1.3	-2.5	28	29.3	-1.3	-2	28	28.9
Arab MICs	-9.4	-9.3	89.8	89.9	-9.4	-8.9	89.8	89.1
Algeria	-18.2	-17.5	65.5	77.7	-18.2	-15.2	65.5	75.2
Egypt	-7.3	-7.7	85	82.3	-7.3	-7.7	85	82.2
Jordan	-7.9	-8.2	92.5	95.3	-7.9	-8.2	92.5	95.2
Lebanon	-52.6	-47.2	299.4	281.1	-52.6	-45.9	299.4	281.1
Morocco	-10	-8.4	82.9	85.3	-10	-8.5	82.9	85.2
Tunisia	-7.2	-7.7	84	84.5	-7.2	-7.6	84	84.2
Conflict-affected countries	-11.5	-10	64.1	58.9	-11.5	-10	64.1	58.7
Iraq	-0.8	-0.9	50	47.6	-0.8	0.2	50	46.3
Libya	-131	-76.7	N/A	N/A	-131	-76.5	N/A	N/A
State of Palestine	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Syrian Arab Republic	-11.5	-10	64.1	58.9	-11.5	-10	64.1	58.7
Yemen	-5.8	-6.2	67	69	-5.8	-5.9	67	68.4
Arab LDCs	-3.8	-6.1	236.7	229.1	-3.8	-6.1	236.7	229
Comoros	0.4	0.2	24.3	22.8	0.4	0.2	24.3	22.8
Djibouti	-5.7	-5.4	44.2	46.8	-5.7	-5.4	44.2	46.8
Mauritania	1.4	-0.1	69.4	66.1	1.4	-0.1	69.4	66
Somalia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sudan	-6.7	-7.7	259	251	-6.7	-7.7	259	259

Source: ESCWA projections based on WEFM.

5. Labour market and poverty

In 2021, the Arab region is still facing numerous social challenges, including growing poverty, increased unemployment, persisting gender inequalities and a large number of refugees and internally displaced persons.

The unemployment rate in the region is expected to decrease to 11.3 per cent in 2021. However, unemployment will remain high in countries facing political risks and instability, like Lebanon and Tunisia, in CACs and in several Arab LDCs.

The income poverty rate is expected to remain significantly high in many Arab countries in 2021. With the roll-out of vaccines and projected global recovery, tourism is expected to resume in MICs but poverty is expected to decline only slightly to 18.8 per cent in 2021. Poverty in CACs and Arab LDCs is not expected to decrease significantly in 2021, with a rate of 55.4 per cent and 41 per cent, respectively. Conflicts and displacement are a heavy burden on CACs, while LDCs are facing significant socioeconomic challenges and a decline in official aid.

The Arab region continues to host over 6 million refugees and more than 11 million internally displaced persons. The pandemic and associated repercussions in addition to socioeconomic challenges in host countries, especially Lebanon, have severely affected refugee communities. Over half of the 5.6 million Syrian refugees in Arab countries are now living in poverty. As for gender equality, the Arab region continues to have the highest gender gap in the world (around 40.05 per cent), aggravated by the pandemic and related lockdowns.

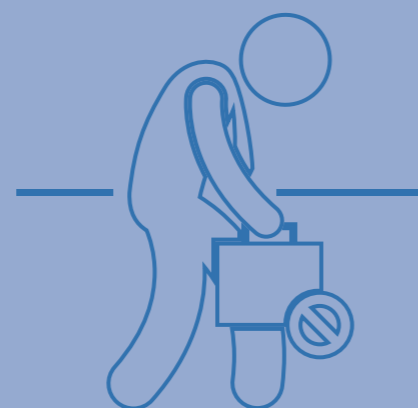


Table 4. Unemployment and poverty rates in the Arab region

	Unemployment rate		Headcount poverty rate (NPL)	
	2020	2021	2020	2021
Total Arab countries	12	11.3	8.9	8.8
GCC countries	4.5	4.2	N/A	N/A
Bahrain	3.6	2.1	N/A	N/A
Kuwait	0.9	0.8	N/A	N/A
Oman	1.4	0.4	N/A	N/A
Qatar	0.1	0.1	N/A	N/A
Saudi Arabia	7.4	7.2	N/A	N/A
United Arab Emirates	2.6	2.1	N/A	N/A
Arab MICs	12.8	12	20.9	18.8
Algeria	16.3	16	5.2	4.5
Egypt	8.5	8	31.1	28.5
Jordan	24.7	28.1	23.1	21.7
Lebanon	40	25.8	57.9	47.4
Morocco	10.5	10	4.3	3.4
Tunisia	18.7	18.3	19.1	17.2
Conflict-affected countries	15.3	14.6	55.6	55.4
Iraq	17.3	16.2	24.8	23
Libya	17.7	11	N/A	N/A
State of Palestine	28	27.7	36.2	35.7
Syrian Arab Republic	10.9	12.3	87.8	87.8
Yemen	12.1	12.7	81.7	83
Arab LDCs	16.4	16	40.1	41
Comoros	7.9	7.3	41.9	41.6
Djibouti	58.9	59.1	19.1	18.2
Mauritania	10.5	9.9	35.4	35.8
Somalia	11.5	11	N/A	N/A
Sudan	17.3	16.9	41	42

Source: ESCWA projections based on WEFM.



