

Realities and Prospects

Survey of Economic and Social Developments in the Arab Region

2020-2021



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Economic and Social Commission for Western Asia

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■ ■ ■ ■ Survey of Economic and Social Developments
■ ■ ■ ■ in the Arab Region
■ ■ ■ ■ **2020-2021**



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Preface

The *Survey of Economic and Social Developments in the Arab Region* is an annual flagship publication of the Economic and Social Commission for Western Asia (ESCWA). This publication is mandated by paragraph 173 of General Assembly [resolution 35/56](#); paragraphs 2 to 4 of [ESCWA resolution 270 \(XXIV\)](#); and paragraphs 1 and 2 of [ESCWA resolution 303 \(XXVII\)](#). The publication seeks to contribute to efforts by member States to reform economic institutions and develop and implement policies based on principles of good

governance as integral to economic planning and policymaking that supports inclusive and sustainable development. The 2020-2021 edition analyses the most recent socioeconomic developments from January 2020 to June 2021. The report has two key objectives under a set format: to analyse routinely monitored economic and social variables in the Arab region in a global context (chapters 1 to 3), and to focus on taxation and challenges and opportunities to raise tax revenue in the region (chapter 4).



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Executive summary

Two years after the outbreak of the COVID-19 pandemic, the global economy continues to face risks from a slow vaccine roll-out and fears of new waves and variants of the virus, the latest of which is the Omicron variant. These factors might affect the economic recovery realized in 2021. Prospects for 2022 and 2023 are still positive, with the global economy expected to grow by 4.1 per cent in 2022 and 4.2 per cent in 2023. This growth is projected to be unevenly distributed across different parts of the world, however. Developed countries that enacted generous fiscal and monetary stimuli and pursued fast vaccine roll-outs can expect relatively high growth rates over 2022 and 2023, while developing States with slower vaccine roll-outs, limited fiscal space and increasing risks of debt crises are likely to struggle with the repercussions of the pandemic in the short term.

Consumer price inflation is projected to remain elevated and reach 3.2 per cent in 2022 and 3.4 per cent in 2023 as a result of rising commodity prices, resurgence in demand and disrupted supply chains. By July 2021, the price of the Organization of Petroleum Exporting Countries (OPEC) basket exceeded \$75 per barrel while oil demand recovered to around 60 per cent of the volume lost in 2020. While an ESCWA model projects that the price of oil will maintain its July 2021 levels, oil demand is expected to return to pre-pandemic levels by the end of 2022.

In the Arab region, the hydrocarbon sector continues to be the primary source of public revenue, generating more than 50 per cent of revenue for most Arab oil-exporting countries. Diversification in the export portfolios of these countries fell behind in the last decade, making them more vulnerable to global commodity market shocks. This lack of diversification accompanies a huge increase in international transport costs and slow recovery in hydrocarbon markets. The situation underscores the urgency of moving diversification forward.

The macroeconomic outlook of the region is assessed based on two scenarios: a baseline scenario that assumes that the average oil price will be \$60 per barrel, and an alternate scenario that predicts that the average oil price will be \$80 per barrel, with expectations to increase further to \$100 per barrel. The economic recovery that started in 2021 with 4.1 per cent growth is expected to continue in 2022 and 2023. Regional gross domestic product (GDP) is anticipated to climb by 3.7 per cent in 2022 and 3.6 per cent in 2023 for the baseline scenario and 3.9 per cent in both years for the alternate scenario. This outlook comes with some risks associated with slow vaccination rates and fears of a new wave of the COVID-19 pandemic. The latest Omicron variant might affect growth rates in the Arab region and, if it spreads widely, GDP might grow at a slower pace in 2022 and 2023, at 2.4 and 3.2 per cent respectively. Consumer price inflation is predicted to decrease from 16 per cent in 2021 to 6 per cent in 2022 and 4 per cent in 2023 for both scenarios, caused by price adjustments.

The extent of economic recovery varies among Arab subregions and depends on the status of the pandemic, the speed of vaccine roll-outs, dependency on oil revenue, the importance of tourism receipts, remittance inflows and official development assistance. The resurgence in oil prices, improved global oil demand and the rapid roll-out of COVID-19 vaccinations are expected to be the three drivers of growth in 2022 and beyond in the Gulf Cooperation Council (GCC) countries. GDP is expected to grow by 3.6 per cent in 2022 and 2023 for the baseline scenario and by 3.9 per cent and 4.2 per cent, respectively, for the alternate scenario. Mounting fears from the new Omicron variant might affect growth prospects and this subregion is expected to grow by 1.8 per cent in 2022 and 3.2 per cent in 2023. Exports of the GCC countries are projected to increase by 7.2 per cent in 2022. The fiscal deficit is predicted to decline from 5.8 per cent in 2021 to 5 per cent in 2022 for the baseline scenario. These forecasts are driven mainly by larger

oil and gas returns and increases in tax revenue. If the price of oil reaches \$80 per barrel, however, the fiscal balance as a percentage of GDP is expected to reach a 0.8 per cent surplus in 2022 and 2.4 per cent in 2023.

Middle-income countries will benefit from increased demand for their exports and resumption of tourist inflows. GDP is expected to grow by 4.1 per cent in 2022 and 2.8 per cent in 2023 for both scenarios. This positive outlook and expected recovery will affect all countries in this category except Lebanon, which is going through one of its worst socioeconomic crises in its modern history. In 2021, the Lebanese economy contracted by 16.2 per cent and suffered from twin deficits (simultaneous current account and fiscal deficit), elevated public debt, hyperinflation, a loss of business confidence and pressure on the health-care system. Economic recovery in Lebanon in 2022-2023 is conditioned by the adoption and implementation of reforms. The outlook of this subregion depends on the status of the pandemic and might be affected by the new Omicron variant. With the spread of the new variant, GDP is expected to grow by 3.4 and 2.4 per cent in 2022 and 2023 respectively. Foreseen economic recovery in middle-income countries is expected to increase government revenue and stabilize fiscal deficits at around 4.9 per cent of GDP in 2022 for the baseline scenario and 3.4 per cent for the alternate scenario. Debt levels are expected to remain elevated, however, with a debt-to-GDP ratio around 82 per cent in 2022 for the baseline scenario and 80 per cent for the alternate scenario, as many countries are resorting to borrowing, mostly from domestic banks, to finance vaccines and engage in infrastructure investments.

Conflict-affected countries will continue to face fragile political conditions. GDP is expected to grow by 4.3 per cent in 2022 and 6.7 per cent in 2023 for the baseline scenario, and by 4.5 and 6.9 per cent, respectively, for the alternate scenario. This performance is mainly driven by the prospect for peace in Libya since 2021, the recovery in oil markets, increased oil prices and the resumption of oil exports. This outlook could be severely affected by the new Omicron variant, with GDP now expected to grow by only 2.8 per cent in 2022 and 6.4 per cent

in 2023. The trade balance is expected to continue to improve in 2022-2023 with the resumption of oil exports from Libya and the increase in exports from Iraq. A deterioration in the fiscal position of conflict-affected countries over 2022-2023 is anticipated, particularly in countries that will increase spending to finance reconstruction plans.

The socioeconomic situation in the least developed countries continues to be fragile. GDP is expected to grow by around 2 per cent in 2022 and 2.6 per cent in 2023 for both scenarios, driven by increases in remittances and foreign aid. The spread of the Omicron variant is expected to cause slower growth, at 1.7 and 2.6 per cent for 2022 and 2023 respectively. These countries suffer from limited fiscal capacity to procure vaccinations and to contain the pandemic, however.

As a whole, the Arab region continues to face significant socioeconomic challenges. Poverty is expected to decline from 26.94 per cent of the population in 2021 to 26.23 per cent in 2023, yet with differences across subregions. Lebanon and the Syrian Arab Republic will likely witness the largest increases in poverty rates. The region's unemployment rate continues to be among the highest in the world but is expected to decline to 10.7 per cent in 2023. The rate of youth unemployment, especially among females, is projected to remain the highest globally. Unemployment is anticipated to remain particularly acute in countries facing political and economic instability, such as Tunisia, where it may reach 17 per cent, and Lebanon, where it could touch 32 per cent in 2022. A talent erosion is possible, since 42 per cent of youth have considered emigrating to another country, and an average of 15 per cent are actively trying to emigrate. The highest rate is in Lebanon where around 77 per cent of youth are considering emigrating.

The region made a slight improvement in closing the gender gap in 2020, but at the current pace, it needs 142 years to reach gender parity. The COVID-19 pandemic threatens to reverse improvements in narrowing the gender health gap as many Arab women and girls have faced obstacles in reaching health resources since the start of lockdowns. In some countries, education still faces multiple challenges,

including unequal access, poor infrastructure and outdated learning methodologies. An estimated one in every five children, adolescents and youth in the region is not enrolled in school. This situation is more pronounced among girls, which will most likely widen the education gender gap. The pandemic has negatively affected education particularly in countries that resorted to online learning but suffer from poor Internet access and conflicts or instability.

Social protection systems in the region continue to face severe shortcomings, limiting coverage and effectiveness, particularly in countries suffering from constrained fiscal space and persistent political instability. Only 35.1 per cent of the Arab population is covered by at least one social protection benefit, compared to 46.9 per cent on average worldwide.

Total revenue, as a share of GDP, has declined in the region over the past decade and a half. In 2020, the average is lower than that of emerging and developing economies overall. This trend has been further exacerbated by the COVID-19 pandemic. Oil and gas revenue declined significantly while many countries suffered from fiscal pressures from economic contraction and increased spending to limit the economic repercussions of the pandemic and roll-out vaccination.

Sources of revenue differ widely across countries. Oil and gas revenue constitutes the main source of revenue in GCC countries. Their taxation systems rely mainly on corporate income taxes and, more recently, value added tax or customs and excise taxes. In contrast, middle-income countries depend mostly on taxing goods and services, which imposes a heavier burden on the poor and the middle class than on the rich. Even though several middle-income countries have undertaken tax reforms over the last decade, their ratio of tax revenue to GDP remains low, highlighting inefficiencies in their tax systems. Improving tax efficiency to the average level of the Organisation for Economic Co-operation and Development (OECD) would increase revenue as much as 45 per cent in some countries. The conflict-affected and least developed countries have low tax-to-GDP rates reflecting their development challenges. This highlights their reliance on foreign

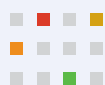
grants as the main source of revenue, particularly in the least developed countries. Wealth taxes constitute a negligible share of total tax revenue in the region despite its high concentration of wealth among the top 1 per cent of people.

Analysing tax buoyancy indicates that GDP growth in low- and middle-income countries does not generate proportional growth in revenue. This can be attributed to weak tax administration and tax leakages. Rethinking tax policy is important given the scale of leakages. Tax policies need to address tax abuses such as tax evasion, avoidance, non-compliance, arbitrage, tax planning, tax dodging and tax competition. Controlling cross-border tax evasion and tax avoidance requires legislative and policy reforms.

Governments need to pursue tax reforms they initiated in the past. Qualitative reforms should make tax systems fairer and more progressive, and administrative procedures simpler and more transparent for better tax compliance. Reforms may include redesigning tax brackets, rationalizing exemptions, introducing wealth or property taxes and improving tax data. At the regional and international levels, enhanced cross-border tax cooperation is essential for countries to coordinate tax incentives, review treaties and reinforce tax transparency.



The global economy continues to face risks from fears of variants of the virus, the latest of which is the Omicron variant



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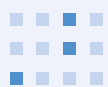
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Abbreviations and explanatory notes

BTU	British thermal unit
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
GCC	Gulf Cooperation Council
GDP	Gross domestic product
ILO	International Labour Organization
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
TED	US Treasury bills plus eurodollar futures contracts
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe

The following subregional groupings are used in this report. They are defined by a combination of per capita income levels, geographical proximity, and similarities in economic and social characteristics and conditions:

- Gulf Cooperation Council (GCC) countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
- Middle-income countries: Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia.
- Conflict-affected countries: Iraq, Libya, State of Palestine, the Syrian Arab Republic and Yemen.
- Least developed countries: Comoros, Djibouti, Mauritania, Somalia and Sudan.



Prospects for the global
recovery remain bright

Growth in 2022 and 2023
will be unevenly
distributed

Shift in global demand towards
processed goods

Acceleration of
decarbonization
in developed economies

The outlook for natural
gas and phosphates is
more positive



1. Global context and implications for the Arab region

Key messages



Prospects for the global recovery remain bright despite the risks of a slowing vaccine roll-out and new waves of COVID-19.



Growth in 2022 and 2023, however, will be unevenly distributed. Richer regions of the world will benefit from generous fiscal stimulus packages and fast vaccine roll-outs while the global South will lag behind.



The pandemic reshaped global production chains with clear winners – China and emerging Asia – and losers – Africa, the Middle East and Latin America. Recovery in the hydrocarbons trade has been slower than the resurgence in industrial production, indicating the shift in global demand towards processed goods and the acceleration of decarbonization in developed economies.



The pandemic has shifted transportation patterns, slowing demand for oil in the midterm. The outlook for natural gas and phosphates is more positive in line with the substitution of oil and coal in the energy sector and recovery in industrial production.



With an undiversified export portfolio, Arab countries are more vulnerable to external shocks than other countries. COVID-19 exposed this vulnerability. Expanding export diversity is a necessity in coming years.

A. Global context

Following the deep recession of 2020 and the 2021 rebound, global growth is projected to reach 4.1 per cent in 2022 and 4.2 per cent in 2023. These bright prospects will be largely driven by the quick recovery of the major economies, which have been able to vaccinate large parts of their populations. Around 72 per cent of the population of the United States of America and 71 per cent of people in the European Union have received at least one dose of COVID-19 vaccine, while in China, around 85 per cent of the population has been inoculated as of December 2021, although

this is changing rapidly. Growth in the United States could reach 3.2 per cent in 2022 and 2.5 in 2023 given a rapid vaccination campaign and a planned increase in fiscal stimulus. The Chinese economy will profit from greater global demand to generate growth performance of 5.8 per cent in 2022 and 7.1 per cent in 2023. The European Union will see its economies growing by 3.8 per cent in 2022 and 3.7 per cent in 2023. The emergence of the new Omicron variant of COVID-19 may affect these prospects, however the severity of this new variant is yet to be assessed.

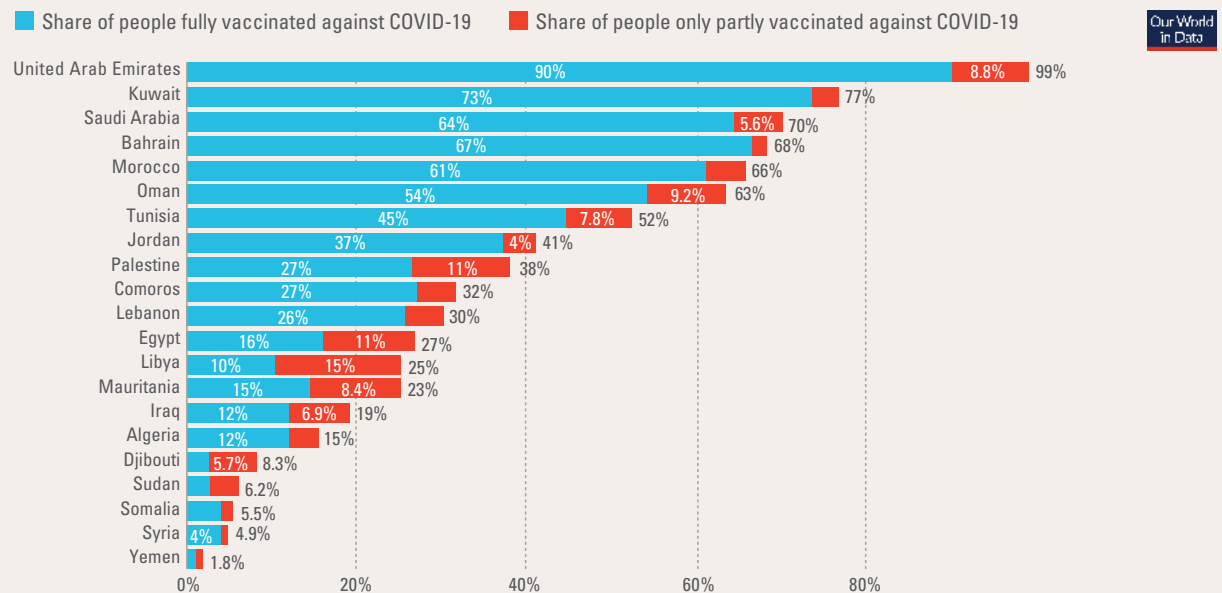
Box 1.1 Progress on the global vaccination campaign

The controversy surrounding COVID-19 vaccination is making headlines all over the world. A number of companies and governments have announced strict vaccination policies requiring people to get vaccinated to keep their jobs, travel, go to the movies, dine in a restaurant or attend indoor events. Such a strategy can persuade some of the unvaccinated to get their shots. But it also raises issues around human rights and civil liberties. This has fuelled an anti-vaccine faction drawing members from across society, including some doctors and health-care providers.

The Universal Declaration of Human Rights clearly underlines every person's right to be protected from harm, and in this case, many consider vaccination to be harmful to their bodies, despite the overwhelming evidence that the vaccines are relatively safe. Civil liberties are accorded under national laws that link freedom of choice to the obligation to avoid causing harm to others, through virus transmission as a pertinent example. This debate is delaying vaccination progress in many developed countries, though vaccination rates are relatively high.

The Arab region has been somewhat spared from this controversy. GCC countries have among the world's most well-vaccinated populations. As of September 2021, the United Arab Emirates scores a solid first place with a share of 99 per cent, followed by Kuwait at 77 per cent, and Saudi Arabia and Bahrain at 70 and 68 per cent, respectively. Morocco tops the middle-income countries of the region with a share of 66 per cent, followed by Tunisia and Jordan at 52 and 41 per cent, respectively. The least developed and conflict-affected countries have limited access to vaccines due to the lack of finance and insecurity. Seven such countries have a vaccination rate of less than 20 per cent. Five are at less than 10 per cent with Yemen taking last place at 1.8 per cent. Therefore, vaccination in the Arab region is not hindered by debates on freedom of choice but by the unavailability of vaccines in most developing countries.

Shares of people vaccinated against COVID-19, 11 December 2021



Source: Our World in Data.

Note: Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.

Vaccination in developing countries is much slower. Around 75 per cent of people have been vaccinated in South America, 59 per cent in India and only 12 per cent in Africa as of September 2021. Such a slow roll-out in poorer and populous regions raises concerns about whether the pandemic will be over soon. More cases mean more virus mutations and greater probability that vaccine-immune variants will develop somewhere. In addition, developing economies have less fiscal space to provide stimulus for affected businesses, slowing potential recovery. These circumstances, coupled with dependence on slowly recovering tourism in many developing countries, makes their prospects grimmer than in developed countries. Real GDP growth in 2022 is expected to reach 3.7 per cent in Africa, 3.3 per cent in Latin America and the Caribbean, and 3.8 per cent in Western Asia compared to 4.1 per cent globally. Prospects for 2023 are brighter for Africa, which will benefit from a global resources boom, with expected growth at 4.8 per cent. Growth in Latin America and the Caribbean is expected to reach 3.5 per cent and in Western Asia 3.2 per cent, far less than the world

average of 4.2 per cent. The lack of adequate fiscal stimulus and slower vaccination will likely deepen the development gap between poorer and richer regions of the world.

Prospects for 2023 are brighter for Africa



Growth expected to reach

► **3.5%** in Latin America and the Caribbean

► **3.2%** in Western Asia

Table 1.1 Growth and inflation in the main regions of the world

	Real GDP growth			Inflation		
	2021	2022	2023	2021	2022	2023
World	5.4	4.1	4.2	3.8	3.2	3.4
Developed economies	5	3.4	3.2	2.0	2.1	2.6
United States of America	6.2	3.2	2.5	2.4	2.1	2.8
Japan	3.3	2.2	2.9	0.1	0.5	1.3
European Union	4.1	3.8	3.7	2.1	2.5	2.7
United Kingdom of Great Britain and Northern Ireland	5.1	5.5	4.7	1.1	1.1	1.2
Russian Federation	3	3	2.9	4.6	4.2	4.5
Developing economies	6.1	5	5.6	6.5	4.8	4.5
Arab Countries	4.1	3.7	3.6	15.5	5.7	3.7
Africa	3.5	3.7	4.8	18.0	7.9	5.5
China	8.2	5.8	7.1	1.2	2.5	3.1
India	7.5	10.1	5.4	5.5	4.5	4.1
Western Asia	3.7	3.8	3.2	8.3	5.9	4.4
Latin America and the Caribbean	4.3	3.3	3.5	14.5	8.9	7.6
South America	4.1	3.1	3.4	11.9	10.8	9.3
Brazil	3	2.4	2.9	5.0	4.3	4.3
Mexico and Central America	4.7	3.6	3.8	20.4	5.1	4.1
Least developed countries	4	5	3.8	32.2	9.3	4.5
World trade	9.5	5.7	3.8			
World output growth with PPP weights	5.5	4.4	4.4			

Source: ESCWA projections based on the World Economic Forecasting Model 2021.

Consumer price inflation increased slightly in 2021 through resurgent demand and large monetary and fiscal interventions in the biggest economies. Inflation will also be driven by supply side bottlenecks in production chains battered during the pandemic. These will not be able to satisfy growing demand, leading to a dramatic surge in the prices of different commodities (e.g., natural gas in Europe, coal and food) and services (e.g., transport costs, see box 1.2). Inflation will stay elevated for 2022 but remain under control as unemployment is projected

to stay at an elevated level and given possible correction in financial and real estate markets. The inflation rate is expected to reach 3.2 per cent globally, 2.1 per cent in the United States and 2.5 per cent in the European Union. Rising commodity prices, surging global demand and supply chain disruptions will continue to exert upward pressure on inflation.

In the developing economies, inflation is expected to fall back to 5 per cent in 2022 and 5.6 per cent in 2023 from 6.3 per cent in 2021. The

risk of debt crises can add downward pressure on exchange rates, which will increase inflation expectations. To prevent this, the governments of developing countries will need to proactively manage exchange rates. On the other hand, increased import demand is relatively unlikely, which mitigates demand for foreign currency and pressures on exchange rates.

The COVID-19 pandemic hit global investment in 2020. To curb the negative impact of widespread uncertainty, central banks around the world lowered interest rates. This situation persisted in 2021 in the developed countries as low interest rates failed to stimulate demand and increased inflation, both in the European Union and the United States. In July 2021, the European Central Bank approved its new monetary strategy with a 2 per cent symmetric inflation target over the medium term, indicating that positive and negative deviation of inflation from the target would be equally undesirable. It also included the costs of owner-occupied housing in the Harmonised Index of Consumer Prices, an inflation measure. This suggests that the bank will accept moderate periods of inflation above its target to support demand and investment. In contrast, the Federal



July 2021

The European Central Bank approved its new **monetary strategy** with a **2%** **symmetric inflation target** over the medium term

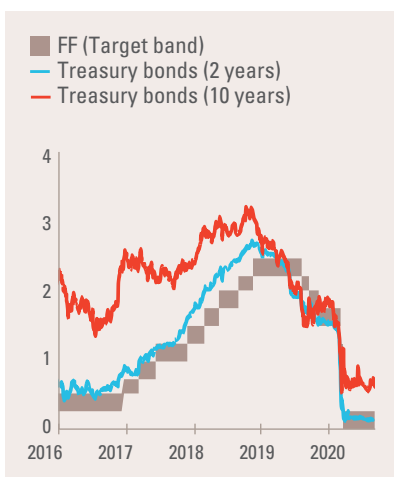
Low interest rates in developed economies are here to stay over **2022** and **2023**



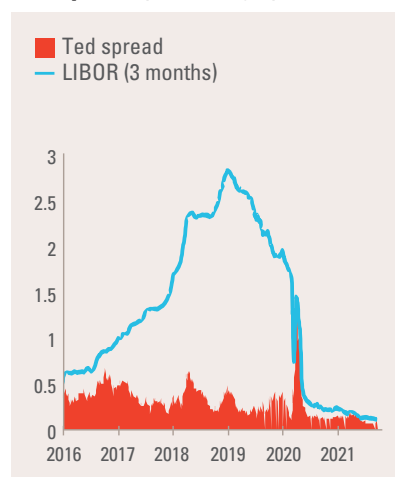
Reserve Bank in the United States took a hawkish stand by raising its expectations of inflation and bringing forward its interest rate hike schedule. Nevertheless, a strong bond-buying programme continues and accelerating inflation is considered temporary. All in all, low interest rates in developed economies are here to stay over 2022 and 2023.

Figure 1.1 Interest rates: dollar and euro

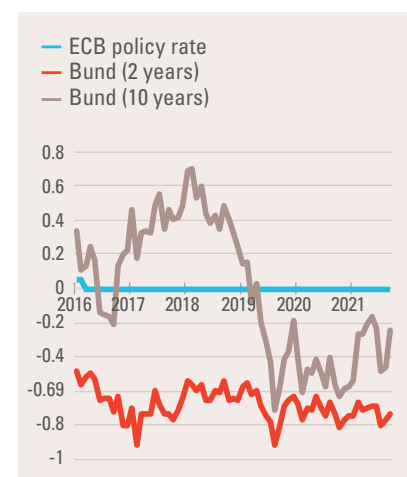
A. Dollar (percentage per annum)



B. Dollar three-month LIBOR and TED spread (percentage per annum)



C. Euro (percentage per annum)



Source: ESCWA calculations based on the Board of Governors of the Federal Reserve System *Open market operations*; ICE Benchmark Administration *3-Month London Interbank Offered Rate*; Federal Reserve Bank of St. Louis; Federal Reserve Bank of St. Louis; and the Deutsche Bundesbank databases.

The story is different for the growing number of emerging markets, in which central banks have started to raise interest rates amid fears of soaring inflation. In 2021, central banks in Brazil, Mexico and the Russian Federation hiked policy rates. The Czech Republic and Hungary were the first countries in Europe to do so. Inflation in Turkey went out of control at 17.5 per cent in 2021; an unconventional monetary policy is unlikely to tame it over 2022 or 2023. While interest rates will probably remain at relatively low levels in developed countries, emerging economies, with less trust from international investors, will need to increase policy rates to curb inflation and control the depreciation of national currencies.

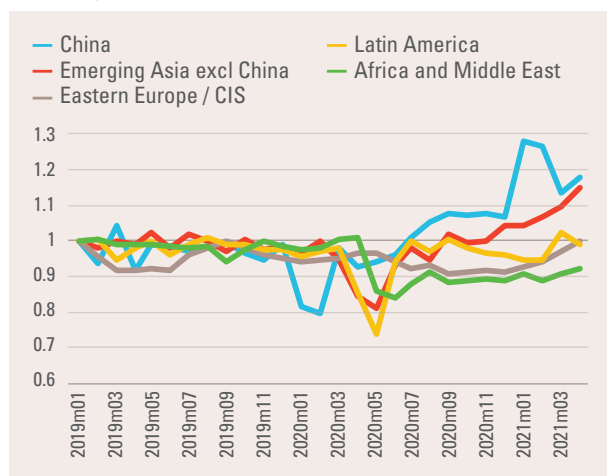
The COVID-19 crisis elevated unemployment all over the world but only the developed countries could provide an adequate social safety net. Full or partial lockdown measures affected 2.7 billion workers or 81 per cent of people employed globally. The International Labour Organization (ILO) estimates total working-hour losses at 10.7 per cent during the first three quarters of 2020, representing \$3.5 trillion in lost labour income, equivalent to about 5.5 per cent of global output in 2019. Both the European Union and United States provided various forms of support to their workforces, such as new or extended short-term work schemes, furlough schemes,

unemployment benefits and compensation schemes for the self-employed. Employees in developing countries were affected disproportionately as many have fewer opportunities to work remotely. In addition, labour-intensive services sectors, such as tourism, catering, leisure, personal care and retail industries, which are relatively more important in developing countries, were significantly affected. Furthermore, a large part of the affected workforce in developing countries works informally. They experienced a sudden loss of income without any compensation or assistance from public budgets.

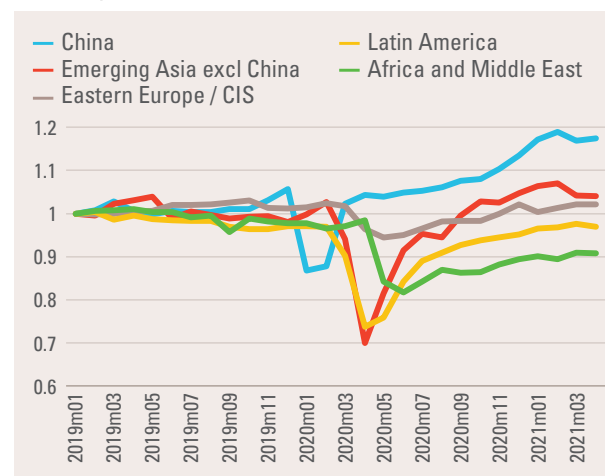
These patterns will shape recovery in 2022 and beyond. Workers in developed countries covered by social safety nets will return to their jobs as soon as the pandemic ends, although they may switch sectors or work modalities, leading to labour shortages in some labour-intensive industries with low wages such as in the hospitality or care sectors. Those who lost income without compensation in the developing world, however, are likely to leave the workforce permanently or for prolonged periods. In addition, many small, informal businesses in tourism, catering, restaurants, retail and personal care were permanently destroyed by recurring lockdowns. It will take them several years to raise capital, restart businesses and regain revenue.

Figure 1.2 Merchandise trade (January 2019=1)

A. Exports of merchandise
(January 2019 = 1)



B. Production-weighted industrial production volume
(January 2019 = 1)



Source: ESCWA calculations based on the CPB World Trade Monitor.

In 2022, global trade will continue its strong recovery. While global merchandise trade reached a record peak with strong growth momentum by April 2021, this trend will continue due to high demand for durable goods. The same is true for industrial production, with global volume exceeding the level in January 2019 by 4 per cent by April 2021. The benefits of revived international trade are unevenly distributed around the world, however. For example, by April 2021, merchandise exports from China and its industrial production were 18 per cent higher than pre-pandemic levels in January 2019. Exports from emerging Asian countries were 15 per cent higher while industrial production exceeded January 2019 levels by 4 per cent. These trends will likely continue in 2022 and 2023, causing further divergence between Southeast Asia and other regions.

The trade performance of countries in Africa, the Commonwealth of Independent States, Latin America and the Caribbean and the Arab countries was at the other side of the spectrum. In April 2021, their exports and industrial production were 8 per cent and 10 per cent lower, respectively, than before the pandemic. These countries failed to benefit from the revival of the global economy due to export structures concentrated on crude

oil and commodities, sectors that have not fully recovered. As the pandemic caused shifts in global production chains and triggered actions to improve efficiency, the movement in global trade towards more advanced durable goods should continue over 2022, halting the revival of demand for fuel and raw materials. Further increases in both industrial production and merchandise trade in China and emerging Asian economies should be expected, while the recovery of exporters of natural resources is likely to be delayed for some time.

The outlook for global tourism remains highly uncertain. Travel restrictions are still in place and international tourism has been largely replaced by local tourism. In the first half of 2021, the number of global international tourism arrivals was 88 per cent smaller than in the first half of 2019. Asia and Pacific was hit hardest with a 97 per cent decline. The number in the Middle East was 82 per cent lower than in the first quarter of 2019, largely due to less stringent restrictions than in other regions of the world.¹ The reopening of global tourism in 2022 is highly dependent on vaccination coverage. While in China, Europe and the United States there are reasons to be optimistic, Africa's weak vaccination coverage will significantly hamper its revival and economic recovery.



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B. Natural resource commodities

1. Oil

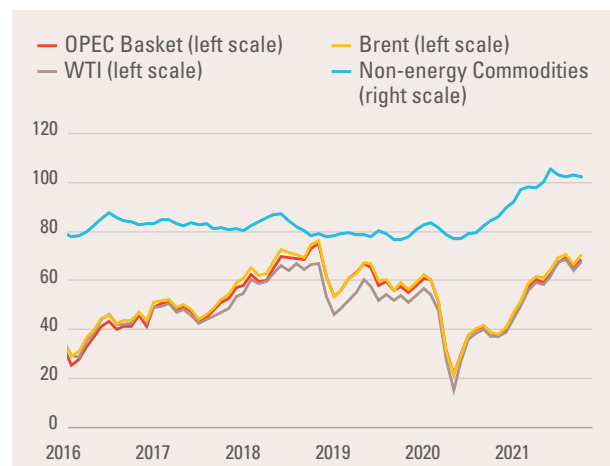
The overall economic recovery has had a significant impact on commodity markets. According to the latest estimates of the International Energy Association, by mid-2021, oil demand recovered only around 60 per cent of the volume lost in 2020. Further recovery is expected in 2022. The increase was reflected in the price of the OPEC basket, which exceeded \$75 per barrel by July 2021, and reached \$81 per barrel on 25 November before falling back to \$71 by 30 November 2021 as a result of the spread of the new Omicron variant. If oil prices resume their upward trend in 2022, it is expected to stay at this level throughout 2022. If this constant upward trend in oil prices continues, the budgets of Arab oil-exporting countries will fare much better than previously predicted. In addition, OPEC+ reiterated its commitment to reducing inventory built up in 2020 during the price war between the Russian Federation and Saudi Arabia, stressing that the increase in production will be slow.

The price of oil remained relatively stable over 2021 amid the gradual easing of accumulated

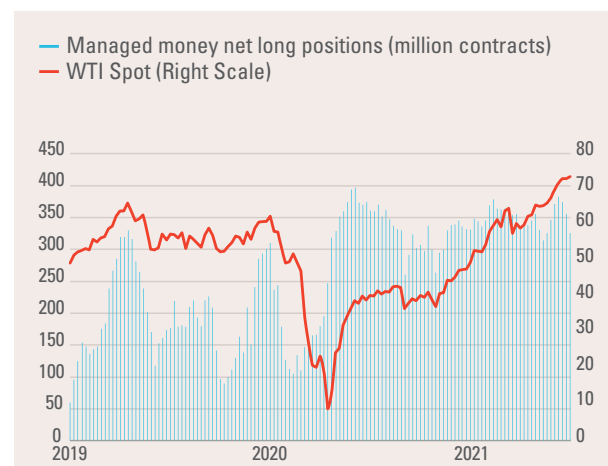
inventories.² An ESCWA model projects that the price will slightly increase to \$74 per barrel and \$76 per barrel in 2022 and 2023, respectively. As oil prices have returned to pre-pandemic levels, however, shale oil activities have resumed in Canada and the United States. Projects by Petrobras in Brazil were postponed due to COVID-19 regulations, but four floating production system vessels are expected to resume operations by 2022, boosting production by 300,000 barrels per day. The Energy Information Administration expects that oil production in the Russian Federation in 2022 will return to 2019 levels, following the end of the OPEC+ agreement.³ In April 2021 OPEC+ agreed to gradually increase production, including the reversal of Saudi Arabia's voluntary production cut of 1 million barrels per day. OPEC countries are expected to increase production over 2022, even though sanctions imposed on Iran and Venezuela will remain in place over the next few years. If these sanctions are lifted, the supply of oil should increase, stabilizing prices.

Figure 1.3 Oil prices, 2015-2021

A. Crude oil prices and commodity indices

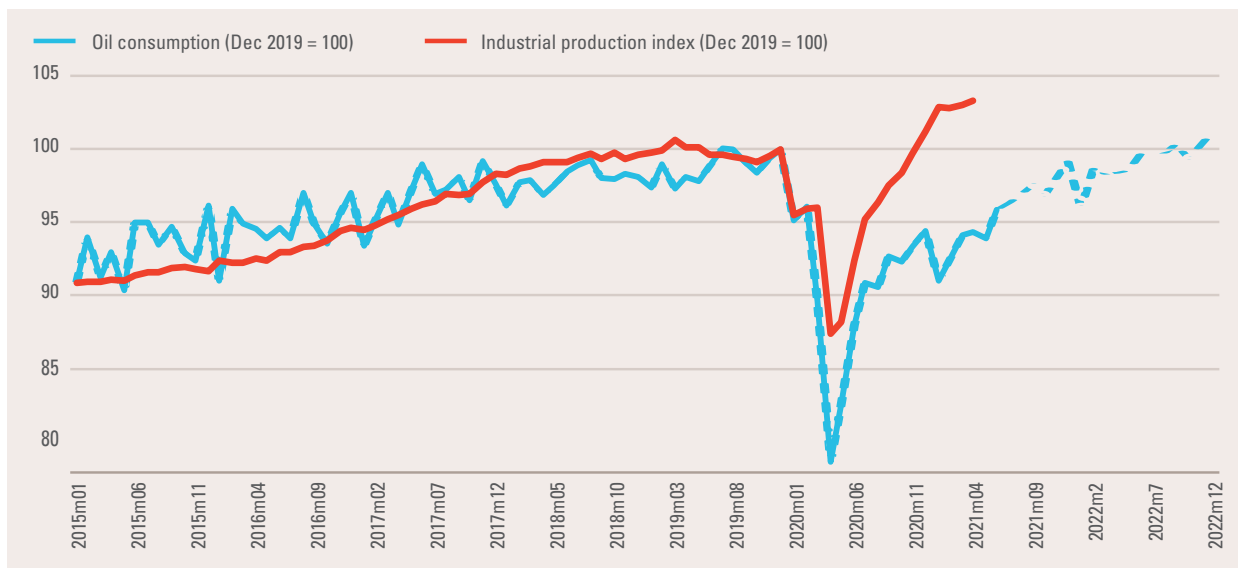


B. Oil future market: net speculative positions



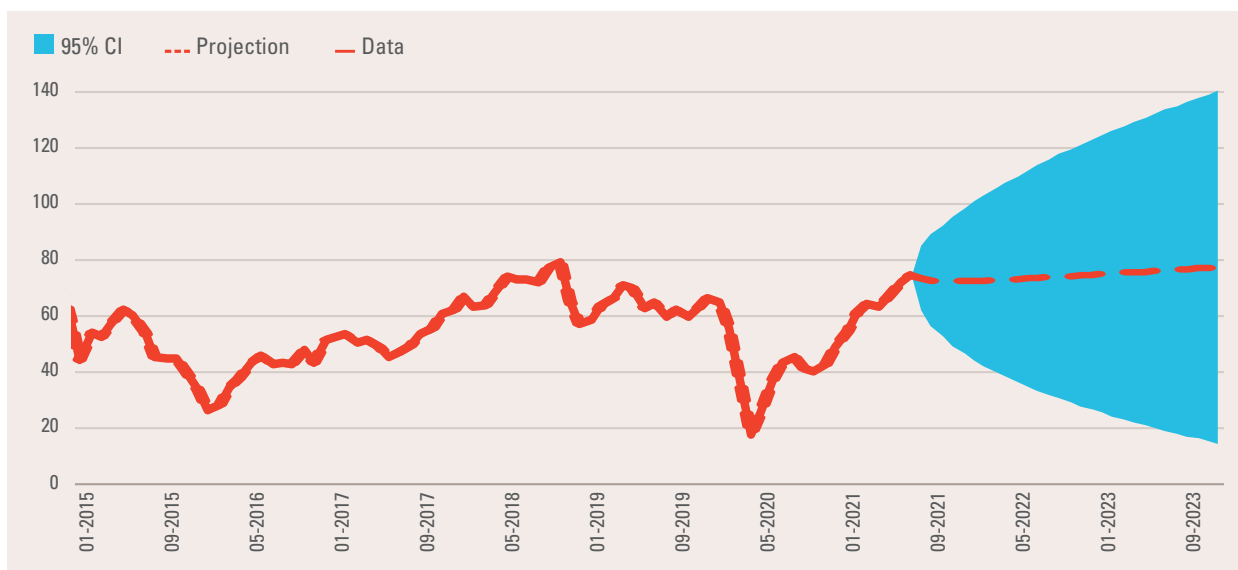
Source: ESCWA calculations based on the World Bank Commodity prices database; the Commodities Future Trading Commission's *Commitments of Traders, Disaggregated Futures Only Reports*; and the Energy Information Administration databases.

Figure 1.4 Decoupling industrial production and oil consumption



Source: ESCWA calculations.

Figure 1.5 Projection of oil prices until 2023



Source: ESCWA calculations.

While the decoupling of global GDP and oil consumption is visible in data over a long time, current developments in global oil demand along with data on industrial production suggest that this current moment is different. While over previous years and recessions oil consumption was less

volatile than industrial production indices, in 2020, the plunge in oil demand was deeper than changes in industrial activities. Furthermore, oil production did not recover as quickly as the industrial sector. While this is to some extent linked to the nature of the current recession, as citizens all over the world

were forced to stay at home and limit their mobility, there are some signs that this is a persistent paradigm shift and that there will not be a return to the pre-pandemic world. A survey of executives by McKinsey & Co. found that 15 per cent expected some of their employees to work from home for two days or more after the pandemic is over.⁴ On the other side of the labour market, expectations are even higher. A survey by PwC found that 55 per cent of employees would prefer to work from home for at least three days per week after the pandemic recedes.⁵ These are just two studies but trends are similar worldwide. Employees who can do their work remotely prefer to save time and money on commuting. Business travel is also likely to decrease significantly. In a study by Oliver Wyman, 43 per cent of respondents declared that they will travel less after COVID-19 diminishes.⁶ While there is no expectation or possibility that all conferences, meetings and seminars will move online, it is quite

unlikely that companies will resist huge savings from moving some meetings to the Internet.

Similar shifts are visible in tourism. The pandemic has forced people to explore their neighbourhoods, which may shift travel patterns in the medium and long term. The World Tourism Organization expects a rebound in international tourism after 2024⁷ but domestic tourism is on the rise. Means of transport have also changed, with a shift to individual cars observed in surveys.⁸ While this may mean less travel by plane, which would cause some fall in global oil demand, it also translates into greater use of cars over trains or buses, which will work in the other direction. Nevertheless, projections of global oil demand remain uncertain and risks are shifted downwards. The pandemic only accelerated trends to decrease oil consumption and shift towards renewable energy sources.

2. Natural gas and phosphates

Natural gas is another important hydrocarbon for the Arab region. Algeria, Egypt, Libya, Qatar and the United Arab Emirates are members of the Gas Exporting Countries Forum, which not only collectively controls nearly 70 per cent of the world's natural gas reserves but also accounts for over 40 per cent of global production. The fall in gas demand in 2020 was much lower than for oil, equal to just 1.9 per cent or 75 billion cubic meters. According to the International Energy Agency, this is attributed mostly to the exceptionally mild winter in the Northern Hemisphere in 2020 and not to the pandemic, as natural gas is not used in transportation. Midterm projections for gas demand are more favourable than for oil, with demand set to reach 4,300 billion cubic meters in 2024, 7 per cent more than the pre-COVID-19 level. Growth is fuelled by two factors with similar influence – an increase in industrial demand in line with global recovery and the substitution of natural gas for coal and oil in the energy sector. While the first factor is subject to significant downward risk posed by the emergence of new virus variants and slow vaccination campaigns, the latter is to a large

extent independent of the pandemic. Such growth is inconsistent with global net-zero emissions scenarios by 2070, let alone 2050 as is on the table in some countries, so the risks skew downwards.⁹

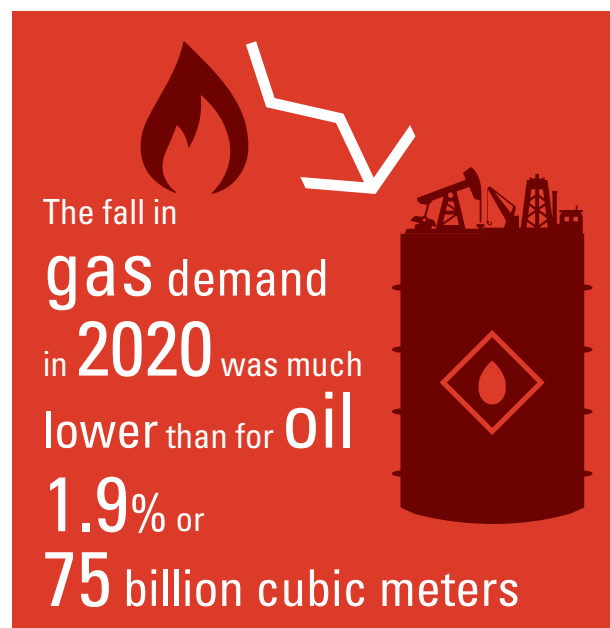
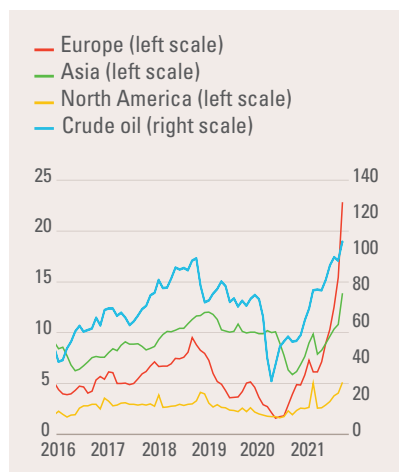
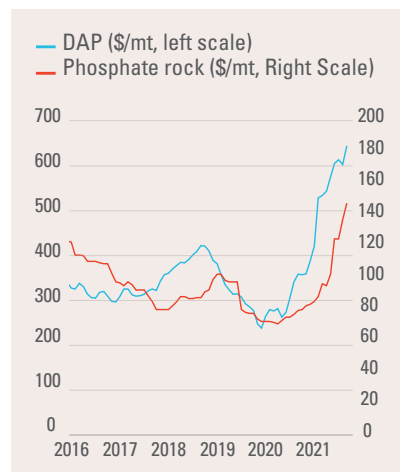


Figure 1.6 Natural gas prices, and phosphate prices and exports

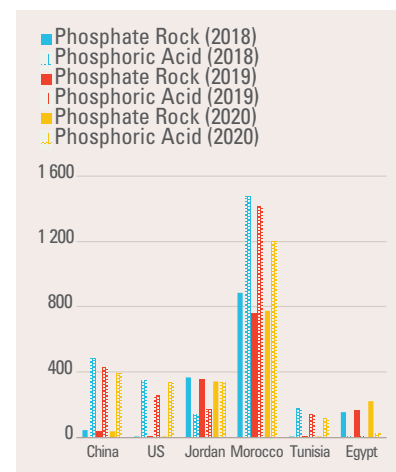
A. Natural gas spot prices
(dollars)



B. Price of phosphate rock and diammonium phosphate



C. Phosphate exports: selected countries
(millions of dollars)



Source: ESCWA calculations based on the World Bank Commodity prices database and the International Trade Centre Trade Map.

Production is projected to keep up with demand through new capacities in the Russia Federation and the Middle East. The former is set to increase production by 18 per cent from the pre-pandemic level, driven by new export projects such as the Power of Siberia pipeline and two liquid natural gas plants. Both are designed to boost exports to Europe. The capacities of Azerbaijan and Turkmenistan are also projected to increase, feeding European demand. In the Middle East, a 9 per cent increase in gas production is projected, mostly due to the development of Qatari and Iran offshore fields (North Field and South Pars) to supply the scheduled expansion of liquid natural gas capacity. This is complemented by increased capacity in the southern Mediterranean region and Saudi Arabia. Africa, Asia and the Pacific, and Central and South America will also increase their capacity, by 7-10 per cent, although their significance as suppliers is very limited. Europe is the only region with a production decline of 8 per cent due to the depletion of reserves and closure of gas fields.¹⁰

Overall, the outlook for gas markets in the medium term is positive, as rising industrial production and the shift to gas in electricity production should increase demand. Planned projects to increase capacity and develop the liquid natural gas trade will lead to

greater supply, however. Prices should stabilize in the medium run. Spot prices in Europe increased in June 2021 to levels unobserved since 2014, exceeding \$10 per million metric BTUs. In Asia and the United States, growth was less spectacular, although prices had already reached pre-pandemic levels in mid-2021. The evolution of prices in the medium term largely depends on the weather (e.g., an exceptionally cold spring in Europe led to a surge in prices there) and the resumption of industrial production following the pandemic. In the long run, the decarbonization of the global economy should drive demand for natural gas and prices downwards.

While 2020 saw a fall in prices and global demand for phosphates, 2021 reversed this trend with a massive surge in global commodities prices. Phosphate rock and diammonium phosphate were no exception, with 67 per cent and 122 per cent prices increases, to \$125 and \$605 per megatonne, respectively, between June 2020 and June 2021. Surging prices were driven by increasing global liquidity and demand, and rising prices for inputs such as ammonia, natural gas and sulphur. The trade disruption caused by countervailing duty orders issued by the US Department of Commerce against Russian and Moroccan producers played some role too as did delays in capacity expansion

caused by lockdowns in many producing countries. According to the World Bank Commodity Market Outlook, prices should recede in 2022, following the moderation of demand and development of production capacity.¹¹ In particular, the expansion of Morocco's Jorf Lasfar facility, scheduled to start operations in 2022; the establishment of companies for phosphate production in Egypt's El-

Wadi El-Gedid governorate; and the development of the Wa'ad Al Shamal Minerals Industrial City in Saudi Arabia should increase global phosphate production capacity. High prices of phosphates will provide some relief for the state budgets of commodity-exporting countries over 2022 and 2023 but will also translate into surges in food prices and upward risks for global inflation rates.

C. Financial and trade linkages to the Arab region

Globally, massive fiscal and monetary stimulus injected huge liquidity in the financial system and allowed stock markets to rebound in 2021 from the deep slump caused by COVID-19. These increases should continue over 2022 and 2023. The stimulus lowered borrowing costs and averted a large wave of bankruptcies. But there are concerns about the sustainability of this rebound and the emergence of so-called zombie firms (Banerjee and others, 2021).¹²

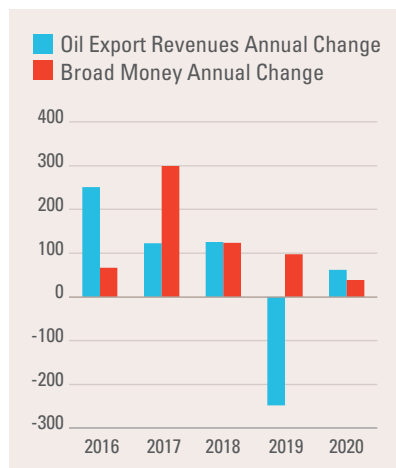
The performance of the GCC stock markets was less impressive than European or US exchanges in 2020 and the first half of 2021. By mid-2021, only the Saudi Tadawul All Share Index and the Abu Dhabi Index had managed to rise significantly, while other GCC markets barely kept their values. Between the end of 2019 and mid-July 2021, they rose by 29 per cent and 39 per cent, respectively. Other GCC stock exchanges performed less impressively, with Bahrain losing 2 per cent, Dubai and Kuwait 1 per cent each, Oman gaining 2 per cent and Qatar rising by 3 per cent. For comparison, the S&P500 rose by 35 per cent, the German DAX by 16 per cent and the French CAC40 by 9 per cent. The comparative weakness of GCC markets results from their asset structure, which is centred on hydrocarbon industries. As recovery in this sector is slower and subject to significant downward risks, the valuation of companies is lower than on markets in Europe and the United States, which have concentrations of companies in technology and manufacturing. Over the next few years, GCC stock market indices should gradually improve in line with increasing global oil

demand and prices. In November 2020, Kuwait was reclassified by the MSCI as an emerging market, moving from a frontier markets group. This should lure foreign investors and aid the recovery of Gulf financial markets.

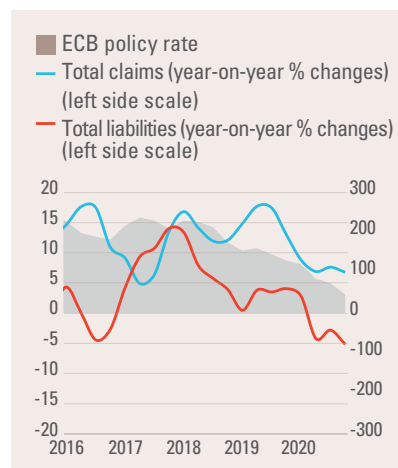
The performance of stock markets in Arab middle-income countries was disappointing. Jordan's ASE was the star performer with 18 per cent growth. Egypt's EGX30 lagged behind with a 24 per cent loss between the end of 2019 and mid-2021. Morocco's MASI index was at the same level while Tunisia's TUNINDEX rose by 2 per cent. The global injection of liquidity barely transferred to changes in stock prices in Arab markets as financial interlinkages are relatively weak. In Egypt, the fall in stock prices can be attributed to the Central Bank of Egypt's action against the chairperson of the Commercial International Bank, which affected other blue-chip stocks. The Commercial International Bank alone accounted for more than half of the free fall. Increased costs of risks and provisioning rates as well as political instability in Tunisia have significantly hampered recovery on the Moroccan and Tunisian stock exchanges. On the other hand, the massive monetary stimulus did not create artificial surges in stock prices that can spur financial crisis if sentiment suddenly changes. Stock indices in Arab countries may be much closer to the real economy than share prices in developed countries. As for GCC indices, those in the middle-income countries should further improve in 2022 and 2023 if political risks are managed.

Figure 1.7 Global financial linkages in the Arab region

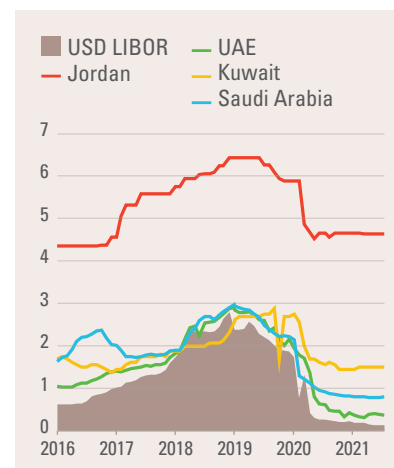
A. Financial asset growth and oil export revenue: GCC countries
(billions of dollars)



B. Bank for International Settlements reporting banks' outstanding claims and liabilities



C. Three-month money market rates and dollar three-month LIBOR (percentage per year)




Source: ESCWA calculations based on national statistical sources; the Arab Monetary Fund Markets database on performance, stock market capitalization and financial markets; and the Bank for International Settlements database on locational banking statistics database.

The financing costs of Arab countries over 2020 and the beginning of 2021 were lower than in previous years but remained significantly higher than the USD LIBOR, owing to less significant liquidity support from Arab central banks (figure 1.7C). The spread between Jordan's JODIBOR and the USD LIBOR was slightly elevated at 4.5 per cent, up from roughly 4 per cent before the pandemic. The spread between interest rates in GCC countries and the USD LIBOR widened from 0.2-0.3 per cent to 0.5 per cent in Saudi Arabia and to almost 1.5 per cent in Kuwait. In line with the rate increase expected in the United States in 2022 as well as increased global oil prices, these spreads as well as interest rates should return to pre-pandemic levels. Improvements in the net investment position of Gulf countries observed in 2021 after the pandemic-related slump should continue over 2022 and 2023.

In 2021, crisis in Lebanon, the long-standing financial capital of the region, continued. It is already clear that banks there will not be able to fully repay their depositors. The only question is the size of the haircut and who will be affected. This crisis affects the development and recovery of the Syrian Arab Republic, as its citizens lost savings deposited in Lebanese banks. But it is

unlikely to affect other countries less financially connected to Lebanon.

Nevertheless, banks in the region remain overexposed to government debt and increasing fiscal needs caused by the pandemic will exacerbate this risk in 2022 and 2023. In Bahrain, Egypt, Jordan and Tunisia, domestic banks cover



Banks remain overexposed to government debt and increasing fiscal needs caused by the pandemic will exacerbate this risk in 2022 and 2023

more than 50 per cent of public gross financing needs, which crowds out private sector credit needed to recover from the recession. The main challenge for banks in Gulf countries is low interest rates, which decrease their profitability amid likely smaller tourist receipts and stagnant real estate markets. On the other hand, investments ahead of the Dubai Expo 2020 and Qatar World Cup 2022 should positively affect growth prospects in 2022 and 2023. All in all, the profitability of banks in the GCC countries is likely to deteriorate in the next two years but with limited risks for the stability of financial systems.

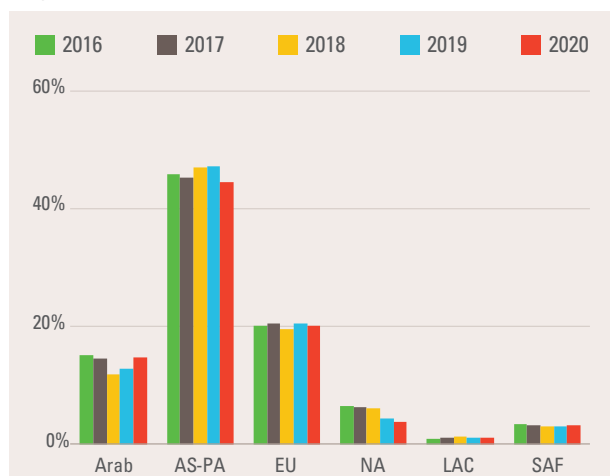
Exports from Arab countries remain relatively homogenous given the huge importance of hydrocarbons and phosphates. The share of hydrocarbon revenue in total export revenue exceeds 50 per cent in almost all GCC countries (except Bahrain) and in Algeria, Iraq, Libya and Yemen. Arab conflict-affected countries are very dependent on hydrocarbon revenue; developments in oil and phosphates markets will largely shape revival. Among Arab middle-income countries, exports are relatively more diverse with smaller shares of hydrocarbons and phosphates in Jordan and Morocco. The export diversification index¹³ is lower in general for Arab middle-income countries

than for the GCC countries, except Algeria, which is characterized by abundant hydrocarbons reserves, and the United Arab Emirates. Conflict-affected oil exporters – Iraq, Libya and Yemen – have very undiversified export portfolios. In the State of Palestine and Syrian Arab Republic, exports are more diversified than in the GCC countries and slightly less diversified than in the majority of Arab middle-income countries. Arab least developed states, except for Djibouti, have even less diversified exports than the GCC oil exporters. For Mauritania, iron ore is the main export. The Sudan exports mainly gold.

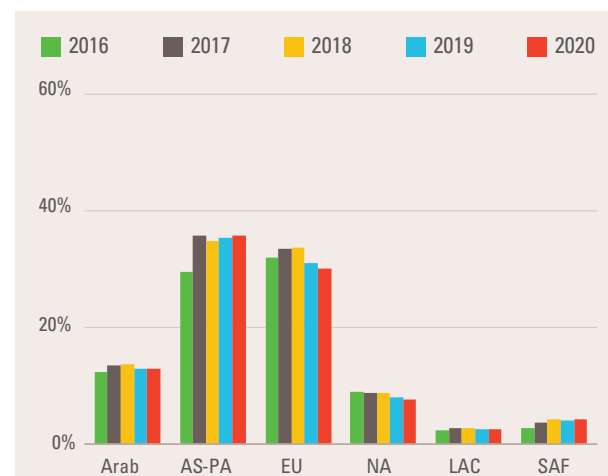
In the last decade, export diversification has declined in most Arab countries. This renders them more vulnerable to global shocks on commodity markets, especially Comoros, Jordan and Mauritania, where the export diversification index rose by more than 10 per cent. Somalia managed to decrease its export diversification index but is the only Arab country with a substantial positive change. Improvements in other countries, namely, Bahrain, Morocco, Oman, Tunisia and Yemen, were relatively minor. The geographical distribution of the main trading partners of Arab countries should remain over 2022 and 2023 as no new trade agreements are expected.

Figure 1.8 Global trade linkages in the Arab region

A. Regional destinations of Arab exports (percentage of gross total values)



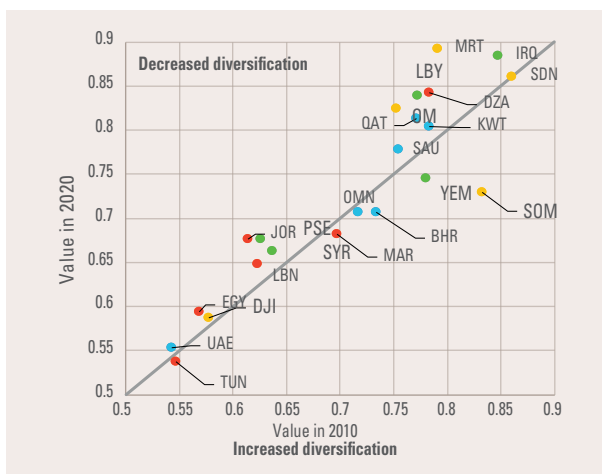
B. Regional sources of Arab imports (percentage of gross total values)



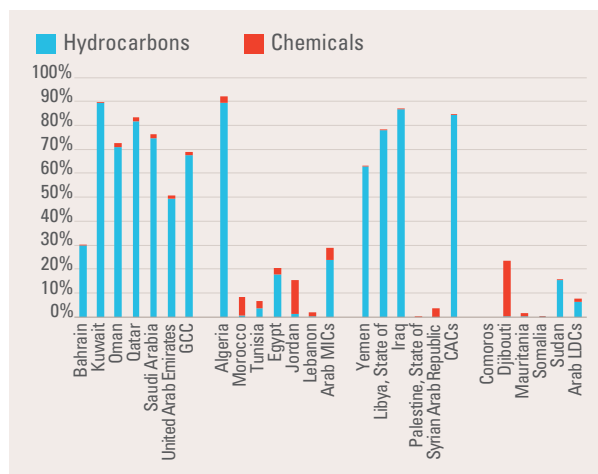
Source: ESCWA calculations based on IMF Direction of Trade Statistics.

Figure 1.9 The concentration of trade in Arab countries

A. The export diversification index of Arab countries



B. The share of hydrocarbons and chemicals in total exports of Arab countries



Source: ESCWA calculations based on UNCTAD.Stat and the International Trade Centre Trade Map.

A lack of diversification paired with huge increases in international transport costs and developments on the oil market will shape recovery in the Arab countries over the next couple of years. Rising international transport

costs result from the dramatic shortage in container shipping and disruptions in global trade chains. This is likely to affect import patterns, increasing prices of imported goods and causing shifts towards domestically produced substitutes.

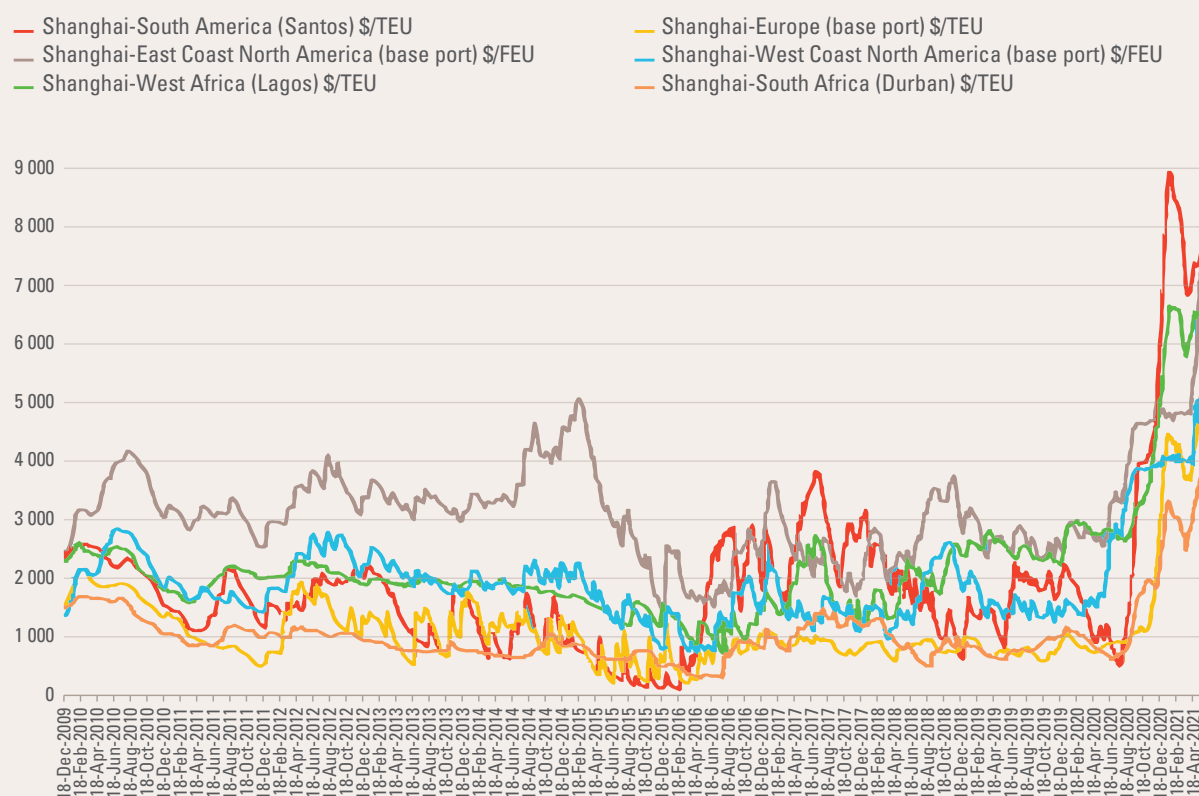


Box 1.2 Increased international transport costs and impacts on the Arab region

COVID-19 has resulted in many measures to contain the spread of the pandemic, from social distancing to lockdowns. These had various effects on the mobility of people and transport of goods, in close interaction with evolving consumption and production patterns. Particular and unprecedented effects on maritime freight rates were one result (first figure). The cost of shipping one standard 20-foot container from Shanghai to Brazil, for example, was five times higher in July 2021 than the average over the last 12 years.

The Arab region has not been immune to these effects. The Shanghai Container Freight Index from Shanghai to Dubai increased by 176 per cent and from Shanghai to the Mediterranean ports by 400 per cent between October 2020 and June 2021 (second figure).

Shanghai Containerized Freight Index, weekly spot rates, December 2009 to July 2021

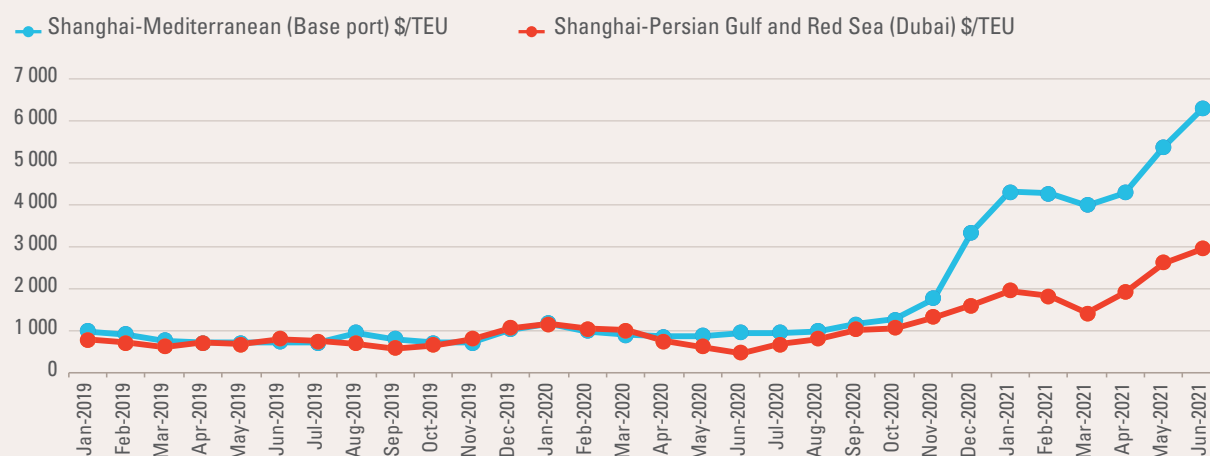


Source: UNCTAD, based on data provided by Clarksons Research.

A combination of factors may explain this fluctuation in freight rates, including, but not limited to, the lessening of lockdown measures and varying speeds of recovery worldwide, the shortage of empty containers and container ships, and delays due to congestion in key ports and shipping nodes. Some competition authorities suspect capacity management measures taken by carriers and their alliances.^a Analysis of these factors and their effects on imports of goods and consumer prices, globally and by region, was presented at the UNCTAD Review of Maritime Transport 2021.

Effects of surging freight rates are expected to be amplified in most low- and middle-income countries in the Arab region, especially those suffering from conflict and economic and financial crises. Some countries have adopted special measures to alleviate effects on consumer prices. The customs authority in Lebanon is still using the official exchange rate, which is far below the black market exchange rate, to calculate the value of customs fees on imported goods. In Jordan, customs authorities have put a ceiling on the freight rate to calculate customs fees on imported goods. Both measures slightly alleviate the impact of increases, according to Mr. Elie Zakhour, President of the International Chamber of Navigation in Beirut. It would be interesting to monitor how long these unconventional subsidy measures can be maintained.

Evolution of Shanghai Containerized Freight Index spot rates from Shanghai to Arab ports



Source: UNCTAD/ESCWA calculations based on data from Clarksons Research.

^a China-Britain Business Council, Why has shipping become so expensive, CCBC News, 2021.

D. Concluding remarks

In 2022, the global post-pandemic recovery will progress. Some emerging post-pandemic trends will continue, including the uneven distribution of growth. Developed countries that enacted generous fiscal and monetary stimuli and pursued fast vaccine roll-outs can expect relatively high growth rates over 2022 and 2023. Developing States with slower vaccination are likely to struggle with subsequent COVID-19 waves and a flood of bankruptcies among businesses unprotected by governments. A second trend comes from the shift in transportation patterns, which subdued demand for oil. This poses risks for oil exporters and creates opportunities for producers of industrial goods. A third issue is the widening gap in financing costs between developed countries with low interest rates and emerging markets.

The Arab region faces several challenges. First, the diversification of economies is more urgent than ever before. If countries do not react quickly to negative trends in global oil demand, they may find it impossible not only to develop but even to maintain their level of consumption. Second, as the gap in financing costs expands, governments of middle-income countries should either find ways to move into the developed economies group and benefit from the confidence of international investors or reduce their reliance on domestic banking systems. Third, as the pandemic has hit the least developed and conflict-affected States more than GCC or middle-income countries, there is a need for intraregional solidarity to share benefits and support resurgence across the region.



2021 was the beginning of **economic recovery** for the **Arab region**

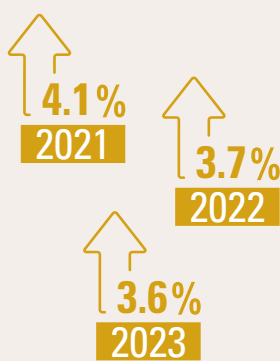
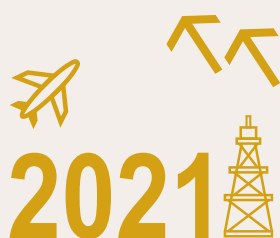
It will take **until 2022** for **regional GDP** to return to **pre-pandemic levels**

The **Arab region** is expected to **grow** by **3.7** per cent in **2022** and **3.6** per cent in **2023**

Many countries are expected to have **more constrained fiscal space** in **2022**

A **debt-to-GDP ratio** of around **61** per cent is projected based on an estimated **oil price** of **\$60** per barrel

2. Regional socioeconomic trends



Key messages

2021 was the beginning of economic recovery for the Arab region. Higher oil prices and increased demand for petroleum products, resumption of tourist activities and improvement in remittances and aid inflows are expected to drive growth. It will take until 2022 for regional GDP to return to pre-pandemic levels.

Following estimated 4.1 per cent growth in 2021, the Arab region is expected to grow by 3.7 per cent in 2022 and 3.6 per cent in 2023. Some risks to this outlook come from slow vaccination rates and fears of a new wave of COVID-19, with the latest Omicron variant expected to lead to slower growth, at 2.4 in 2022 and 3.2 per cent in 2023.

Economic recovery varies across subregions. It will take some countries up to 2023 to return to their pre-pandemic GDP levels. Following generous stimulus packages to contain fallout from the pandemic, many countries are expected to have more constrained fiscal space in 2022. The fiscal balance in the region is expected to show a deficit of around 6 per cent of GDP. A debt-to-GDP ratio of around 61 per cent is projected based on an estimated oil price of \$60 per barrel.

A. Overview of Arab subregions

Almost two years after the first case of COVID-19 in the Arab countries, the region continues to suffer from the raging pandemic and its substantial socioeconomic repercussions. Even though the rate of increase in positive cases fell in the middle of 2021, the total number of cases in the region by the end of September 2021 exceeded 9 million.¹⁴ There are mounting fears of a new wave of the pandemic with new variants spreading into 2022, the latest of which is the Omicron variant, which was first detected in November 2021. While most GCC countries and Morocco rapidly rolled-out vaccines, other countries in the region still have a high number of positive cases and shortages in medical supplies and personnel. They are mainly relying on international cooperation and global platforms, like COVAX, to administer the vaccine, at a slow pace.

Vaccination is expected to contain the virus and put economies on the road to recovery. A year after the economic slowdown of 2020, marked by increased indebtedness, the outlook for 2022 looks more optimistic. There are hopes that the global economy will continue a recovery that started in 2021 through increased demand for commodities and the resumption of tourist activities.

The following assessment of the Arab region's macroeconomic outlook draws on two scenarios. A baseline scenario predicts that vaccine roll-outs remain slow and that many countries will enforce partial lockdowns to contain the spread of new variants. This scenario assumes the average oil price will be \$60 per barrel. An alternate scenario predicts that vaccine roll-outs will progress steadily and demand for oil will pick up globally. This scenario assumes that the average oil price will be \$80 per barrel with expectations to increase to \$100 per barrel. In February 2021, the price of an OPEC oil barrel exceeded \$61 and reached around \$75 at the beginning of July 2021. Regional GDP is expected to grow by 3.7 per cent in 2022 and 3.6 per cent in 2023 for the baseline scenario and 3.9 per cent for both years for the alternate scenario, after an estimated growth of 4.1 per cent in 2021. The latest Omicron

variant could affect this outlook and, if it spreads widely, GDP might grow at a slower pace in 2022 and 2023, at 2.4 and 3.2 per cent respectively.

The extent of economic recovery varies among Arab subregions and depends on the status of the pandemic, the speed of vaccination, dependency on oil revenue, the importance of tourism receipts, and the levels of remittance inflows and official development assistance. Trade increased significantly in 2021, although it remained below 2019 levels. With the global economy poised for recovery, exports from the Arab region have increased for both oil-exporting and oil-importing countries. In 2022, oil-exporting countries will benefit from increased global demand and higher oil prices, while oil importers will benefit from the recovery of the European economies and an expected resumption of tourist inflows, which started in the second half of 2021. Growth in conflict-affected countries will be driven by reconstruction efforts while the least developed countries are not expected to see significant growth given limited inflows of aid.

Consumer price inflation in the Arab region is forecast to decrease from around 16 per cent in 2021 to 6 per cent in 2022 and 4 per cent in 2023 for both scenarios. This decline is caused by an adjustment following increased commodity prices, depreciation of the national currencies of several countries, fiscal policies in some countries and macroeconomic instability in others over the last couple of years.

An improved fiscal position in the GCC countries, which started in 2021 with the recovery in oil markets, will persevere in 2022 and strengthen the fiscal position of the region. The regional fiscal deficit is expected to remain around 6 per cent of GDP during 2022-2023 and the debt-to-GDP ratio around 61 per cent for the baseline scenario. With higher oil prices, the fiscal deficit could fall to 1.6 per cent of GDP in 2022 and 1.4 per cent in 2023, driven by increased government revenue in oil-exporting countries. The debt-to-GDP ratio is expected to decrease to 56 per cent and 53 per cent, respectively.

Table 2.1 GDP and inflation in the Arab subregions, 2020-2022

A. Real GDP growth rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Total Arab countries	4.1	3.7	3.6	4.1	3.9	3.9
GCC countries	3.9	3.6	3.6	3.9	3.9	4.2
Middle-income countries	3.8	4.1	2.8	3.8	4.1	2.8
Conflict-affected countries	8.3	4.3	6.7	8.3	4.5	6.9
Least developed countries	0.7	2.1	2.6	0.7	2.0	2.5

B. Consumer inflation rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Total Arab countries	15.5	5.7	3.7	15.5	5.8	3.9
GCC countries	2.5	2.4	3.0	2.5	2.4	3.1
Middle-income countries	13.1	8.8	4.2	13.1	9.0	4.4
Conflict-affected countries	7.5	7.2	4.9	7.5	7.4	5.1
Least developed countries	272.7	29.7	8.6	272.7	29.8	8.7

Source: ESCWA projections based on the World Economic Forecasting Model for 2021.

Table 2.2 Fiscal deficit and debt as a percentage of GDP in the Arab region

	Baseline scenario (oil barrel at \$60)						Alternate scenario (oil barrel at \$80, expected to increase to \$100)					
	Fiscal balance			Government debt			Fiscal balance			Government debt		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Total Arab countries	-5.9	-5.6	-5.9	62.0	61.2	60.9	-5.9	-1.6	-1.4	62.0	56.1	52.7
GCC countries	-5.8	-5.0	-4.6	44.2	45.5	46.3	-5.8	0.8	1.7	44.2	38.3	34.2
Middle-income countries	-5.4	-4.9	-5.0	85.9	82.3	80.7	-5.4	-3.4	-3.4	85.9	80.3	78.0
Conflict-affected countries	-10.4	-12.7	-17.2	55.7	53.5	50.5	-10.4	-9.0	-12.5	55.7	49.8	44.4
Least developed countries	-1.3	-2.5	-2.9	146.9	139.5	143.6	-1.3	-2.5	-2.9	146.9	139.5	143.5

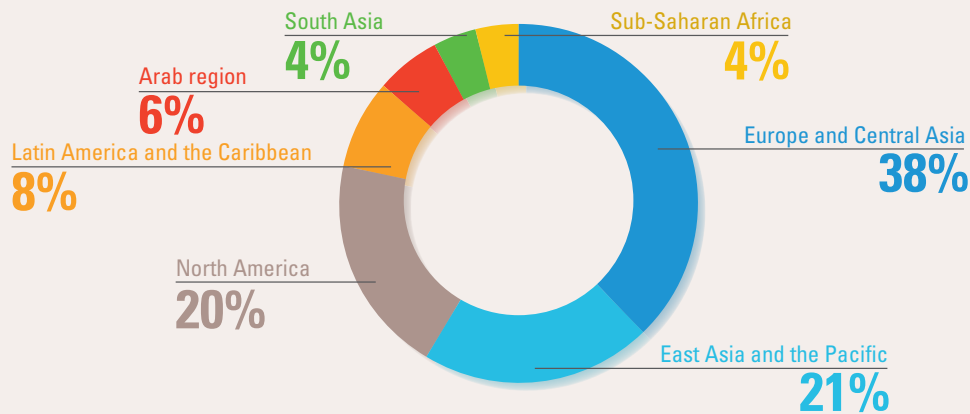
Source: ESCWA projections based on the World Economic Forecasting Model.

Box 2.1 The 2021 SDR allocation is an opportunity for the region

On 23 August 2021, the International Monetary Fund (IMF) announced the largest allocation of special drawing rights (SDRs) in its history. A total of \$650 billion is available for 190 countries around the world to support economic recovery and build resilience after the pandemic.

The share of SDRs received by each country depends on their quota with the IMF. While developed countries can access 60 per cent of the new SDR allocation, Arab countries have access to \$37.3 billion in additional reserves, around 6 per cent of the total allocation. The Arab region needs around \$462 billion for fiscal support to match the global average of 22 per cent of GDP.

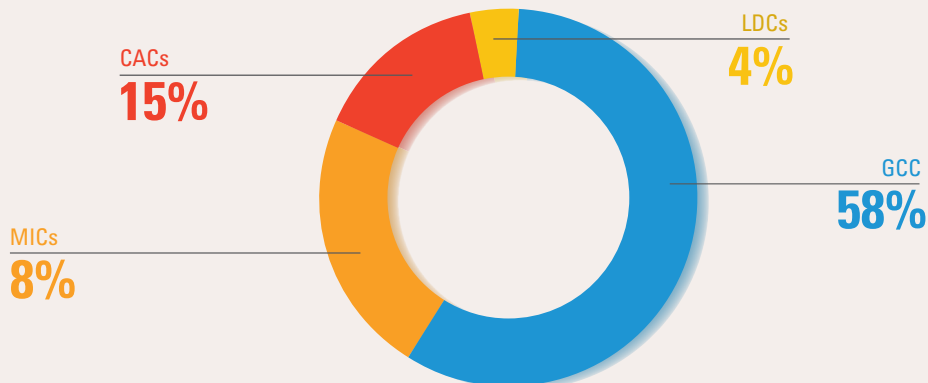
Regional shares of the 2021 SDR allocation



Source: United Nations Economic and Social Commission for Western Asia, Policy Brief, “Special Drawing Rights and Arab Countries: Financing for Development in the Era of COVID-19 and Beyond”. E/ESCWA/CL3.SEP/2021/POLICY BRIEF.1

The GCC countries have access to 58 per cent of the regional allocation. Other Arab countries, namely, middle-income, conflict-affected and least developed countries, with limited fiscal space and high indebtedness have access to 42 per cent of the total allocation.

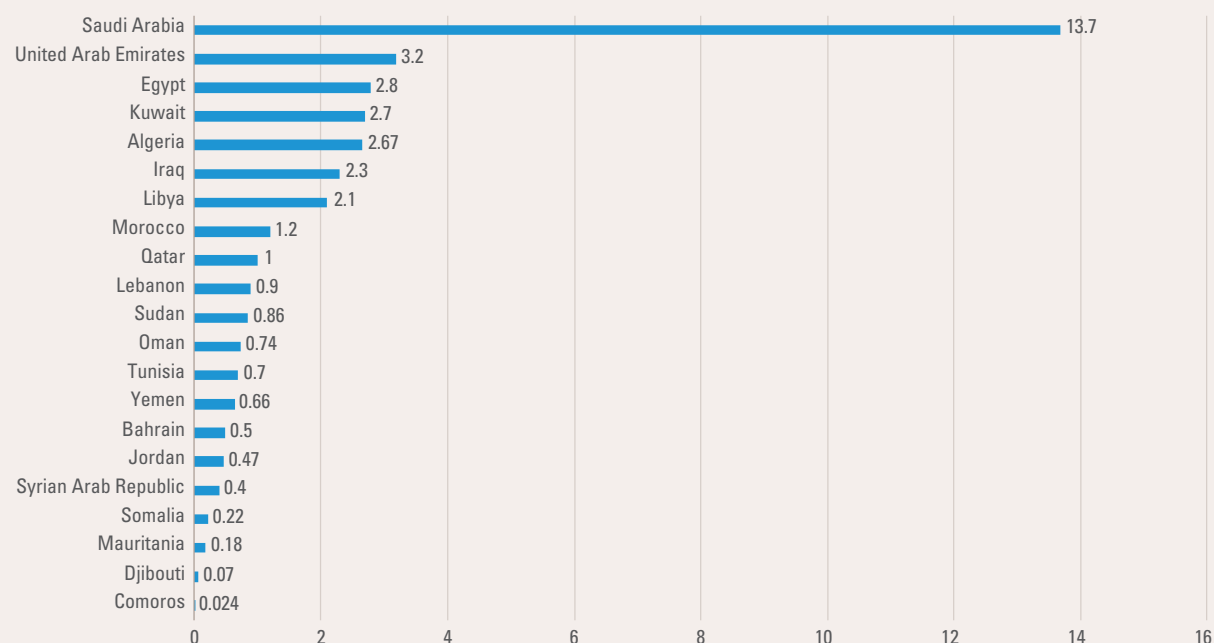
Subregional shares in the new SDR allocation (as a percentage of the Arab region's allocations)



Saudi Arabia will receive the lion's share, around 37 per cent of the regional allocation, followed by the United Arab Emirates (9 per cent) and Algeria, Egypt and Kuwait (7 per cent each). The share of countries facing significant economic and political constraints is disproportionate to the volume of the support needed. Lebanon has access to \$865 million, Tunisia around \$700 million, the Syrian Arab Republic around \$390 million and Yemen around \$660 million. The State of Palestine does not have any access to SDRs.

The new allocation falls short on financing needs in many middle-income countries. Egypt, for example, needs around \$140 billion financing to cover fiscal deficits, debt repayments and amortization; the new allocation accounts for 2 per cent of required financing. It accounts for 9 per cent in Tunisia, 7 per cent in Jordan and 6 per cent in Morocco.

Arab countries' shares in the new SDR allocation (billions of dollars)



The new SDR allocation offers Arab countries an opportunity to acquire liquidity and partially close the financing gap. It also offers scope to enhance regional solidarity. Countries with adequate international reserves should channel unused SDR reserves to countries that are most in need. Another option is to pool unused regional SDRs and channel them to regional development banks or funds to support regional development and reconstruction.

Source: ESCWA, Special Drawing Rights and Arab Countries: Financing for Development in the Era of COVID-19 and Beyond, 2021.

B. Gulf Cooperation Council countries

The resurgence in oil prices since the second half of 2020 is expected to drive growth in GCC countries in 2022 and beyond. Improved global oil demand and extended oil production cuts by Saudi Arabia, supported by OPEC+ members and major oil exporters, kept oil prices in 2021 closer to their 2019 levels. This development was braced by the rapid roll-out of COVID-19 vaccinations starting in January 2021 for most GCC countries. Bahrain, Qatar and the United Arab Emirates have ranked among countries with the highest testing per capita worldwide and lead the way in vaccination rates.

GCC countries have mobilized around \$195 billion since 2020 for stimulus packages to lessen the economic impacts of COVID-19.¹⁵ These packages along with strict lockdown measures and increased spending on health care contributed to recovery. Following 3.9 per cent GDP growth in 2021, this group of countries will grow by 3.6 per cent in 2022 and 2023 for the baseline scenario and by 3.9 per cent and 4.2 per cent, respectively, for the alternate scenario. With the increasing fears from the new Omicron variant, this outlook might be revised and GDP for this subregion is expected to grow by 1.8 per cent in 2022 and 3.2 per cent in 2023.

Several countries adopted fiscal reforms that have affected consumer price inflation in 2021 and potentially beyond. Inflation is expected to remain close to its 2021 levels, reaching 2.4 per cent in 2022 and around 3 per cent in 2023 for both scenarios. This would be driven by higher oil prices and higher inflation rates in countries introducing value added taxes or revising their value added tax rates.

GDP in Kuwait is expected to grow by 3.6 per cent in 2022 and 3.1 per cent in 2023 for the baseline scenario and by 4.2 per cent and 4.5 per cent for the alternate scenario as the Government begins implementing Kuwait Vision 2035. (with the spread of the Omicron variant, the economy is expected to grow at 1.8 per cent in 2022 and 2.3 per cent in 2023). The strategy aims to transform and diversify the economy and

achieve sustainable development. Kuwait's recovery follows sluggish growth in 2021 where the economy grew by 0.7 per cent, constrained by strict lockdown measures and persistent restrictions on travel that significantly affected non-oil sectors. Non-oil revenue declined from 34 per cent as a share of non-oil GDP in 2019 to 27 per cent in 2021.¹⁶ It will likely take till 2023 for GDP to reach its 2018 levels. In 2022, inflation is expected to reach 2.4 per cent for both scenarios and to increase to 4.7 per cent in 2023 for the baseline scenario and 4.8 per cent for the alternate scenario.

The United Arab Emirates was among the first countries to reopen its economy after massive lockdowns. In total, the Government has adopted 17 policy measures allocating around \$77 billion – the largest package among Arab countries – to lessen the economic and social repercussions of COVID-19 and stimulate a quick economic recovery. These packages along with a recovery in oil prices, the reopening of the economy, enormous efforts to track and contain the pandemic and the roll-out of vaccines will have a positive impact on economic growth. The economy is expected to grow by 4.5 per cent in 2022 and 3.2 per cent in 2023 for the baseline scenario

► GCC countries
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► United Arab Emirates
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and by 4.2 per cent and 3 per cent, respectively, for the alternate scenario. (GDP is expected to grow by 1.3 per cent in 2022 and 3.2 per cent in 2023 with the spread of the new Omicron variant). This outlook is mainly driven by increased spending for Expo 2020 in Dubai, which was rescheduled for October 2021 to March 2022. The United Arab Emirates is also making investments to support commitments to reduce carbon dioxide emissions. It authorized a \$1.5 billion investment by the Japanese firm Marubeni to develop a combined-cycle gas-turbine power plant in Fujairah that is projected to reduce emissions by 3 million tons over the next 25 years.

Inflation in the United Arab Emirates is expected to reach 2.7 per cent in 2022, driven mainly by increased demand associated with hosting Dubai Expo 2020. This event is expected to increase prices of residential rents and spur demand for food and clothing. In 2023, prices are expected to adjust and inflation to decrease to 1.9 per cent.

The recovery in the oil market had a positive impact on Saudi Arabia in 2021, where GDP grew by more than 3 per cent. This growth is expected to persist, with the economy forecasted to grow by 2.2 per cent in 2022 and 3.9 per cent in 2023 for the baseline scenario and by 2.5 per cent and 4.5 per cent, respectively, for the alternate scenario. (1.0 and 3.5

per cent respectively with the spread of the Omicron variant). This positive outlook is driven mainly by increased oil revenue; the resumption of religious tourism; investments in services, particularly large investments in the tourism and entertainment industries; and increased investments in sustainable and environmental projects as part of Saudi Vision 2030. The last includes the \$800 million industrial gas complex in Jubail built by Air Products, a US company. It is slated for completion by 2023.

Inflation in Saudi Arabia was 3 per cent in 2021, mainly due to an increase in the value added tax rate from 5-15 per cent. In 2022, prices are expected to adjust and inflation to decrease to around 2.1 per cent for both scenarios.

In Bahrain, GDP is expected to climb by 2.6 per cent in 2022 and 2.3 per cent in 2023 for the baseline scenario and by 3.4 per cent and 3.1 per cent, respectively, for the alternate scenario. (1.4 and 1.6 per cent respectively with the spread of the Omicron variant). This growth is driven by investments in the services sector, particularly hotels and restaurants, health care and the digital economy. Inflation is expected to reach 2 per cent in 2022 and 2.6 per cent in 2023 for the baseline scenario and 2.2 and 2.9 per cent, respectively, for the alternate scenario, driven mainly by higher oil prices.



Oman was the most affected country in terms of GDP loss from the pandemic. In 2021, Oman embarked on its Oman Vision 2040 plan, which should have a positive impact on growth in 2023 and beyond. GDP is expected to expand by 3.9 per cent in 2022 and 3.7 per cent in 2023 for the baseline scenario and by 4.5 per cent and 5.3 per cent, respectively, for the alternate scenario. (3.5 and 2.6 per cent respectively with the spread of the Omicron variant). The introduction of a 5 per cent value added tax in 2021 will have an impact on inflation, which is forecast to reach 3.6 per cent in 2022 and 4 per cent in 2023 for the baseline scenario and 3.8 per cent and 4.3 per cent, respectively, for the alternate scenario.

In Qatar, GDP is projected to grow by 6.7 per cent in 2022 and 3.7 per cent in 2023 for the baseline scenario and by 8.3 per cent and 4.7 per cent, respectively, for the alternate scenario, driven by a resurgence in gas production and Qatar's role as host of the World Cup 2022. (5 and 2.9 per cent respectively with the spread of the Omicron variant). This positive outlook benefits from the Al-Ula Declaration, which put an end to the economic blockade of Qatar and will likely have a positive impact on future economic and social development. Inflation is forecasted to reach 2.4 per cent in 2022 and 4.5 per cent in 2023 for the baseline scenario and 2.6 per cent and 4.8 per cent, respectively, for the alternate scenario, driven by higher demand associated with World Cup events.

Table 2.3 GDP and inflation in GCC countries, 2020-2022

A. Real GDP growth rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Bahrain	3.1	2.6	2.3	3.1	3.4	3.1
Kuwait	0.7	3.6	3.1	0.7	4.2	4.5
Oman	2.8	3.9	3.7	2.8	4.5	5.3
Qatar	4.6	6.7	3.7	4.6	8.3	4.7
Saudi Arabia	3.2	2.2	3.9	3.2	2.5	4.5
United Arab Emirates	6.1	4.5	3.2	6.1	4.2	3.0
GCC countries	3.9	3.6	3.6	3.9	3.9	4.2

B. Consumer inflation rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Bahrain	0.8	2.0	2.6	0.8	2.2	2.9
Kuwait	2.6	2.4	4.7	2.6	2.4	4.8
Oman	2.9	3.6	4.0	2.9	3.8	4.3
Qatar	1.2	2.4	4.5	1.2	2.6	4.8
Saudi Arabia	3.0	2.1	2.9	3.0	2.1	3.0
United Arab Emirates	2.3	2.7	1.9	2.3	2.7	1.9
GCC countries	2.5	2.4	3.0	2.5	2.4	3.1

Source: ESCWA projections based on the World Economic Forecasting Model for 2021.

Table 2.4 Real export and import growth rate in the Arab region, 2020-2022

	Exports			Imports		
	2021	2022	2023	2021	2022	2023
Total Arab countries	10.1	7.1	4.2	8.9	5.8	3.2
Bahrain	8.5	4.6	3.8	9.2	2.9	2.9
Kuwait	10.3	5.4	4.3	10.3	3.3	1.9
Oman	10.6	5.0	3.6	8.0	5.3	3.8
Qatar	8.9	9.3	4.1	19.1	17.5	1.5
Saudi Arabia	9.0	5.1	3.8	10.1	2.7	3.2
United Arab Emirates	10.5	8.7	4.3	11.2	9.4	4.4
GCC countries	9.8	7.2	4.1	11.1	7.0	3.5

Source: Based on data from the United Nations Statistics Division and national sources.

GCC exports are projected to increase by 7.2 per cent in 2022 and 4.1 per cent in 2023 and will be equally distributed among member States. The projected surge in imports is similar, at 7 per cent in 2022 and 3.5 per cent in 2023, due to the World Cup boosting demand. The trade outlook predicts that this subregion will continue to be a net exporter, and that countries in Asia and the Pacific will remain the main trading partners.

The fiscal deficit in GCC countries is expected to decline from 5.8 per cent in 2021 to 5 per cent in 2022 and 4.6 per cent in 2023 for the baseline scenario, driven mainly by increased oil prices, higher demand for oil products and increased tax revenue. If the price of oil reaches \$80 per barrel, however, the fiscal balance as a percentage of GDP could attain a 0.8 per cent surplus in 2022 and 1.7 per cent in 2023. In parallel, governments will continue their expansionary policies to stimulate their economies, finance vaccines, service the debt accumulated in 2020 and invest in new plans. Government debt will increase slightly to 46 per cent of GDP for 2022-2023 for the baseline scenario. It is expected to decrease to 38 per cent in 2022 and 34 per cent in 2023 for the alternate scenario.

Saudi Arabia is planning to resume its public capital investment projects. This increase in spending will be partially offset by larger tax revenue from raising value added tax rates from 5 to 15 per cent and by higher oil prices since 2021. The fiscal deficit is

expected to decrease from 7.8 per cent in 2021 to 7.1 per cent in 2022 and 6.4 per cent in 2023 for the baseline scenario. If the price of oil reaches \$80 per barrel, then the fiscal balance is expected to show a 1.8 per cent and 3.3 per cent surplus in 2022 and 2023, respectively. Continuing the expansionary fiscal policy of the last couple of years, government debt is predicted to increase for the baseline scenario, up from 44.7 per cent in 2021 to 49.5 per cent in 2022 and 52.7 per cent in 2023. This debt ratio is expected to decrease to 36.2 per cent and 30.4 per cent for 2022 and 2023, respectively, for the alternate scenario.

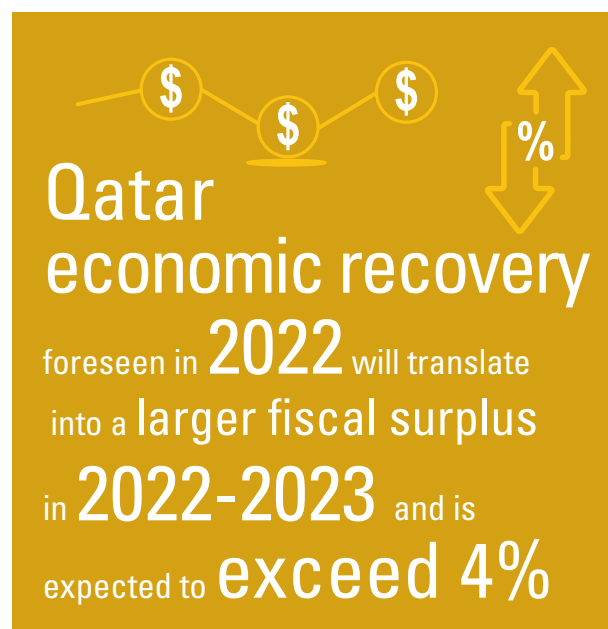
In Oman, the fiscal deficit will decline to 7.7 per cent in 2022 and 6.8 per cent in 2023, while the debt-to-GDP ratio is expected to increase to 90.9 per cent in 2022 and 91.1 per cent in 2023 for the baseline scenario. This significant increase is due to increased spending on projects under Oman Vision 40. With higher oil prices, the fiscal deficit is projected to decline further, to 2.1 per cent and 1.5 per cent in 2022 and 2023, respectively, while the debt-to-GDP ratio is expected to remain significantly high at around 82 per cent in 2022. This situation calls for urgent action, such as taxing the income of wealthy individuals, reducing subsidies on electricity and water before completely removing them by 2025, and expanding visa fee exemptions to numerous countries to attract tourism.

In Bahrain, the fiscal deficit will likely remain sizeable at around 9.8 per cent of GDP in 2022 and 9.2

per cent in 2023 for the baseline scenario and 8 per cent and 7.3 per cent, respectively, for the alternate scenario. Debt is expected to increase further as the Government resorts to more borrowing to finance vaccines, service debt accumulated during the pandemic and stimulate the economy after a year of deep recession. Debt is expected to increase from 130.4 per cent of GDP in 2021 to 134.7 per cent in 2022 and 137.7 per cent in 2023 for the baseline scenario. It will remain unchanged at around 130 per cent for 2022-2023 for the alternate scenario.

Increased spending on infrastructure and expansion projects for Dubai Expo 2020 were financed by larger oil and tax revenues in the United Arab Emirates. The fiscal deficit as a percentage of GDP is expected to reach 1.3 per cent in 2022-2023 for the baseline scenario. The situation will improve further if oil prices reach \$80 per barrel, in which case the fiscal deficit will almost balance in 2022-2023. The debt-to-GDP level is expected to drop slowly for both scenarios and to reach 31 per cent of GDP in 2023 for the baseline scenario and 28.6 per cent for the alternate scenario.

Economic recovery foreseen in Qatar in 2022 will translate into a larger fiscal surplus in 2022-2023 for both scenarios and is expected to exceed 4 per cent. This fiscal improvement will be reflected in government debt levels, which are expected to decline from 46.1 per cent in 2021 to 38 per cent in 2022 and 31.7 per cent in 2023 for the baseline scenario, and to reach 36.2 and 29.4 per cent in 2022 and 2023, respectively, for the alternate



scenario. Qatar is also considering the possibility of introducing a 5 per cent value added tax.

In Kuwait, the recovery in the oil market in addition to introducing a value added in line with other GCC countries will have a positive impact on the fiscal balance. The deficit will decrease from 5.9 per cent of GDP in 2021 to around 4.7 per cent in 2022 and 3.8 per cent in 2023 for the baseline scenario with similar projections for the alternate scenario. The debt-to-GDP ratio is expected to increase by 3 percentage points to 30.1 per cent of GDP in 2022 to cover financing needs for economic recovery.

Table 2.5 Fiscal deficit and debt as a percentage of GDP in the Arab region

	Baseline scenario (oil barrel at \$60)						Alternate scenario (oil barrel at \$80, expected to increase to \$100)					
	Fiscal balance			Government debt			Fiscal balance			Government debt		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Bahrain	-11.1	-9.8	-9.2	130.4	134.7	137.7	-11.1	-8.0	-7.3	130.4	130.1	130.2
Kuwait	-5.9	-4.7	-3.8	27.2	30.1	32.1	-5.9	-4.8	-3.9	27.2	30.1	31.8
Oman	-8.9	-7.7	-6.8	89.5	90.9	91.1	-8.9	-2.1	-1.5	89.5	81.6	75.7
Qatar	3.6	4.0	3.9	46.1	38.0	31.7	3.6	4.3	4.2	46.1	36.2	29.4
Saudi Arabia	-7.8	-7.1	-6.4	44.7	49.5	52.7	-7.8	1.8	3.3	44.7	36.2	30.4
United Arab Emirates	-1.8	-1.3	-1.4	32.3	31.4	31.0	-1.8	-0.3	-0.3	32.3	30.0	28.6
GCC countries	-5.8	-5.0	-4.6	44.2	45.5	46.3	-5.8	0.8	1.7	44.2	38.3	34.2

Source: ESCWA projections based on the World Economic Forecasting Model for 2021.

C. Middle-income countries

The economic rebound in Arab middle-income countries in 2021 is expected to continue in 2022 and 2023. Following 3.8 per cent growth in 2021, the region is projected to grow by 4.1 per cent in 2022 and 2.8 per cent in 2023 for both scenarios. This recovery will be mainly driven by resumed trade with Europe, the main export destination for these countries, and tourism, expected to pick up during 2022. Low vaccination rates in this subregion pose some uncertainties, however. Morocco had fully vaccinated more than 51 per cent of its population by the end of September 2021. But shares elsewhere ranged between only 5.6 per cent in Egypt and 33 per cent in Tunisia.¹⁷ The outlook of this subregion depends on the status of the pandemic and might be affected by the new Omicron variant. With the spread of the new variant, GDP is expected to grow by 3.4 and 2.4 per cent in 2022 and 2023 respectively.

A positive outlook and expected recovery apply to all middle-income countries except Lebanon, which is going through one of its worst socioeconomic crises in its modern history. In 2021, the economy contracted by 16.2 per cent while the national currency has lost more than eight times its value since October 2019. Multiple exchange rate systems are emerging: the official rate to settle loans of LBP1,507 per dollar, the official rate used by banks of LBP3,900 per dollar, the official rate announced by the central bank in its newly established platform for imports of LBP12,000 per dollar, and the black-market rate of over LBP22,000 per dollar by mid-July 2021. Foreign exchange reserves have decreased significantly, and inflation rates are still very high at 128 per cent in 2021. Banks are imposing unregulated capital controls on deposits and are not authorizing any external transfers. Depositors are suffering from an unofficial haircut with small account holders being the most impacted. Further, the country is still recovering from the impact of the Beirut port explosion on 4 August 2020. It caused many deaths and casualties, and

destroyed a big part of the city with a significant loss of physical assets.

Lebanon continues to suffer from twin deficits, elevated public debt estimated at around 308 per cent of GDP in 2021, a loss of business confidence and pressure on the health-care system. Lacking sustainable solutions, the Government continues to draw from its foreign currency reserves and recently from required reserves at the central bank to finance electricity and subsidies of fuel, food and medical equipment, without any concrete plan for rationalization. Any potential solution is conditioned by the adoption and implementation of a reform package by the newly formed Government, supported by the IMF and other international donors. Amid these conditions, the Lebanese economy is expected to grow by more than 10 per cent in 2022 and more than 6.7 per cent in 2023 for both scenarios (6.9 and 3.5 per cent respectively with the spread of the Omicron variant).

Morocco will have a gradual recovery. GDP is expected to expand by 3.4 per cent in 2022 and 3 per cent in 2023 for the baseline and by 3 per cent and 2.5 per cent, respectively, for the alternate scenario (2.6 per cent in 2022 and 2023 with the spread of the Omicron variant). The growing automotive sector is driving growth in addition to expectations of productive agricultural seasons and a good touristic year as travel restrictions ease. Inflation rates are not expected to increase significantly for the baseline scenario, reaching 1.6 per cent in 2023 and a bit more to 1.8 per cent for the alternate scenario.

Following sluggish growth in 2021, Tunisia is projected to grow by around 2.7 per cent in 2022 and 2.2 per cent in 2023 for the baseline and alternate scenarios (2.4 and 1.8 per cent respectively with the spread of the Omicron variant). Economic recovery in Tunisia's main trading partners – namely, the countries of the European Union – is expected to drive growth in 2022 through increased demand for manufactured goods and inflows of tourists. Political instability and slow implementation of a

reform agenda increase uncertainty and pose some risks for recovery, however. Inflation is expected to decrease from 5 per cent in 2021 to around 4.4 per cent in 2022 for the baseline scenario and 4.7 per cent for the alternate scenario.

In 2022, growth in Egypt will continue to a projected 4.5 per cent for the baseline scenario and 4.3 per cent for the alternate scenarios (4.1 per cent with the spread of the Omicron variant). This positive outlook is driven by growth in manufacturing, increased public investment, construction of mega-projects, and recovery in gas extractives and tourism. In 2023, the economy is expected to grow by 2.3 per cent and 2 per cent for the baseline and alternate scenarios, respectively (2.2 per cent with the spread of the Omicron variant). Inflation is anticipated to remain elevated at around 6.8 per cent in 2022 and 5.5 per cent in 2023 for the baseline scenario and 7.1 per cent and 5.7 per cent, respectively, for the alternate scenario.

Jordan is predicted to grow by 2.7 per cent during 2022-2023 under the baseline scenario and by 2.4 per cent under the alternate scenario (2.2 and 2.5 per cent for 2022 and 2023 respectively with the spread of the Omicron variant). This foreseen recovery is driven mainly by relaxing travel restrictions to facilitate the revival of tourism. Jordan continues to face regional challenges from ongoing instability in the neighbouring Syrian Arab Republic, however, and continues hosting a large number of refugees. These challenges pose some risks to economic recovery, which is further weighed down by domestic political instability. Inflation is expected to remain low at 1.5 per cent rate in 2022 and around 1.9 per cent in 2023 for the baseline scenario and 1.7 per cent and 2 per cent, respectively, for the alternate scenario.

Algeria will benefit from the rebound in international oil prices, with predicted economic growth of 3.2 per cent in 2022 and 3.5 per cent in 2023 for the baseline scenario and 4 per cent and 4.5 per cent, respectively, for the alternate scenario (2.4 and 2.9 per cent respectively with the spread of the Omicron variant). Inflation is expected to decrease from 3.8 per cent in 2021 to reach 3.2 per cent in 2022 and 2.1 per cent for 2023

for the baseline scenario and 3.3 per cent and 2.3 per cent, respectively, for the alternate scenario.

Middle-income countries are expected to see an improved trade balance as exports are projected to grow by 6.9 per cent in 2022 and 5 per cent in 2023, driven by the resurgence of phosphate exports from Egypt and Jordan and oil from Algeria. The sudden increase in the competitiveness of Lebanon with the rapid devaluation of its currency and huge fall in dollar-denominated wages will lead exports to increase by 7.8 per cent in 2021 and 11.3 per cent in 2022. Imports in middle-income countries are predicted to increase at a much smaller pace of 3.1 per cent in 2022 and 2.1 per cent in 2023. European countries are forecasted to continue to be the main trading partners with over half of total exports.

Foreseen economic recovery in the middle-income countries is expected to increase government revenue and stabilize fiscal deficits at around 4.9 per cent of GDP in 2022 for the baseline scenario and 3.4 per cent for the alternate scenario. Debt levels are expected to remain elevated, however, with a debt-to-GDP ratio of around 82 per cent in 2022 for the baseline scenario and 80 per cent for the alternate scenario. Many countries are resorting to borrowing, mostly from domestic banks, to finance vaccines and infrastructure.

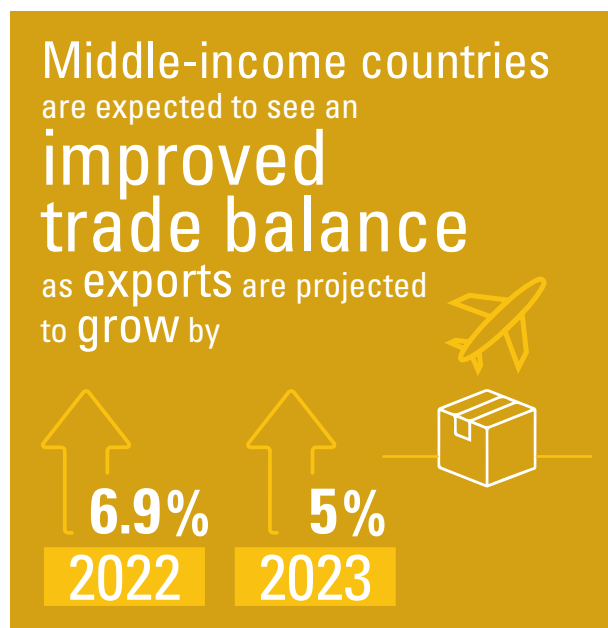


Table 2.6 GDP and inflation in Arab middle-income countries, 2017-2021

A. Real GDP growth rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Algeria	4.1	3.2	3.5	4.1	4.0	4.5
Morocco	3.8	3.4	3.0	3.8	3.0	2.5
Tunisia	0.3	2.7	2.2	0.3	2.6	2.1
Egypt	5.6	4.5	2.3	5.6	4.3	2.0
Jordan	2.1	2.7	2.7	2.1	2.4	2.4
Lebanon	-16.2	10.1	6.7	-16.2	10.2	6.9
Arab middle-income countries	3.8	4.1	2.8	3.8	4.1	2.8

B. Consumer inflation rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Algeria	3.8	3.2	2.1	3.8	3.3	2.3
Morocco	1.1	1.2	1.6	1.1	1.4	1.8
Tunisia	5.0	4.4	4.5	5.0	4.7	4.8
Egypt	6.4	6.8	5.5	6.4	7.1	5.7
Jordan	1.2	1.5	1.9	1.2	1.7	2.0
Lebanon	128.0	65.0	8.6	128.0	65.6	9.0
Arab middle-income countries	13.1	8.8	4.2	13.1	9.0	4.4

Source: ESCWA projections based on the World Economic Forecasting Model for 2021.

Table 2.7 Real export and import growth rates in the Arab region, 2020-2022

	Exports			Imports		
	2021	2022	2023	2021	2022	2023
Total Arab countries	10.1	7.1	4.2	8.9	5.8	3.2
Algeria	7.0	5.7	3.2	5.4	1.7	1.5
Morocco	5.9	5.2	3.4	2.9	1.7	1.1
Tunisia	5.0	7.8	4.5	4.3	6.0	4.0
Egypt	8.9	7.1	6.0	6.3	3.2	1.7
Jordan	8.4	8.8	3.8	3.7	2.7	1.8
Lebanon	7.1	11.1	10.8	-4.1	28.0	22.0
Arab middle-income countries	7.5	6.9	5.0	4.8	3.2	2.1

Source: Based on data of the United Nations Statistics Division and national sources.

All middle-income countries will likely see improvement in their fiscal balance. Due to the oil market recovery and larger demand, Algeria's fiscal deficit is projected

to decrease from 7.4 per cent in 2021 to 7.1 per cent in 2022 and 2023 for the baseline scenario. If the average price of oil increases to \$80 per barrel, the deficit is

expected to decrease to 0.6 per cent in 2022 and 0.4 per cent in 2023. The debt-to-GDP ratio is expected to rise from 64.7 per cent in 2021 to 67.7 per cent in 2022 and 70.6 per cent in 2023 for the baseline scenario. With high oil prices, the debt level could decline to 57.3 per cent and 53.5 per cent, respectively.

Economic recovery in Morocco in 2022 is expected to increase tax revenue and improve the fiscal position. The fiscal deficit could contract to around 3.8 per cent in 2022 and 3.7 per cent in 2023 for both scenarios. The debt-to-GDP ratio is expected to remain unchanged for 2022-2023 at around 82 per cent.

In Tunisia, the fiscal deficit is expected to decline to 4 per cent in 2022 and 3.5 per cent in 2023 for the baseline scenario and to 3.7 per cent and 3.2 per cent, respectively, for the alternate scenario. Debt as a percentage of GDP is expected to decline to 82 per cent in 2022 and 80.2 per cent in 2023 for the baseline scenario and to 81.3 per cent and 79.1 per cent, respectively, for the alternate scenario. The World Bank approved a \$300 million loan for Tunisia to finance its COVID-19 Social Protection Emergency Response Project while discussions with the IMF are ongoing for a \$4 billion loan for economic support.

Jordan's fiscal deficit is predicted to decrease to 4.6 per cent in 2022 and around 4 per cent in 2023 for both scenarios. The debt-to-GDP ratio will remain

unchanged at around 88 per cent for both years and both scenarios, signalling the need for debt consolidation.

In Egypt, the fiscal deficit is expected to decline to 5 per cent in 2022-2023 for both scenarios, and the debt-to-GDP ratio is anticipated to decrease slightly to 79.6 per cent and 78.5 per cent in 2022 and 2023, respectively. This improvement in the debt position reflects Egypt's commitment to its IMF support programme and announced reforms.

Lebanon's fiscal deficit is expected to decrease from 13.1 per cent in 2021 to 7 per cent in 2022 and 4.5 per cent in 2023 for the baseline scenario. Higher oil prices in the alternate scenario could increase the fiscal deficit to 22.5 per cent in 2022 and 31 per cent in 2023, conditioned on the Government continuing to subsidize electricity and fuel. In terms of debt, Lebanon is expected to borrow from the World Bank and IMF to finance its safety net programme and support economic recovery, pending structural reforms. The debt-to-GDP ratio is expected to decrease, however, to 216.3 per cent in 2022 and 168.9 per cent in 2023 for the baseline scenario and 228.9 per cent and 200.1 per cent, respectively, for the alternate scenario. This results from the sharp decrease in GDP, which has a denominator impact on the ratio.

Table 2.8 Fiscal deficit and debt as a percentage of GDP in the Arab region

	Baseline scenario (oil barrel at \$60)						Alternate scenario (oil barrel at \$80, expected to increase to \$100)					
	Fiscal balance			Government debt			Fiscal balance			Government debt		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Algeria	-7.4	-7.1	-7.1	64.7	67.7	70.6	-7.4	-0.6	-0.4	64.7	57.3	53.5
Morocco	-4.8	-3.8	-3.7	81.8	81.6	81.6	-4.8	-3.9	-3.7	81.8	81.6	82.0
Tunisia	-5.4	-4.0	-3.5	84.3	82.1	80.2	-5.4	-3.7	-3.2	84.3	81.3	79.1
Egypt	-5.8	-5.0	-5.1	82.7	79.6	78.5	-5.8	-5.0	-5.0	82.7	79.3	78.3
Jordan	-5.3	-4.6	-4.0	86.3	87.7	87.6	-5.3	-4.6	-3.9	86.3	87.6	87.6
Lebanon	-13.1	-7.0	-4.5	308.3	216.3	165.9	-13.1	-21.5	-31.0	308.3	228.9	200.1
Arab middle-income countries	-5.4	-4.9	-5.0	85.9	82.3	80.7	-5.4	-3.4	-3.4	85.9	80.3	78.0

Source: ESCWA projections based on the World Economic Forecasting Model.

D. Conflict-affected countries

Persistent fragile political conditions continue in conflict-affected countries. Following 8.3 per cent growth in 2021, the economies of these countries are expected to grow by 4.3 per cent in 2022 and 6.7 per cent in 2023 for the baseline scenario, and by 4.5 per cent and 6.9 per cent, respectively, for the alternate scenario. This performance is mainly driven by the peace process in Libya initiated in 2021, which has led to some stability in the country, recovery in oil markets, increased oil prices and the resumption of oil exports. Libya is expected to grow by more than 6 per cent in 2022 and 7.9 per cent in 2023 for the baseline scenario and by 5.5 per cent and 7.3 per cent, respectively, for the alternate scenarios. This outlook could be severely affected by the new Omicron variant, with GDP of this subregion now expected to grow by only 2.8 per cent in 2022 and 6.4 per cent in 2023.

Iraq should continue its recovery from the pandemic and the unprecedented decline in oil prices. GDP is expected to grow by 4.8 per cent in 2022 and 6.8 per cent in 2023 for the baseline scenario. Higher oil prices are forecasted to drive growth further, to 5.1 per cent and 7.2 per cent, respectively (3.5 and 6.5 per cent respectively with the spread of the Omicron variant). Implementation of the economic reform plan announced by the government in October 2020 in addition to recovery in hydrocarbon markets and investments in reconstruction since 2021 are the main drivers of growth. Geopolitical instability and slow vaccination rates pose risks to this outlook. By the end of September 2021, Iraq's share of people fully vaccinated against COVID-19 was around 7 per cent.¹⁸

In the State of Palestine, GDP will likely grow by 2.7 per cent in 2022 and 2.8 in 2023 for the baseline scenario and by 2.4 per cent and 2.3 per cent, respectively, for the alternate scenario (2.1 and 3 per cent respectively with the spread of the Omicron variant). Recurrent conflict and

hostilities may affect this outlook, however. The Syrian Arab Republic has growth expectations of 2.2 per cent in 2022 and 5 per cent in 2023 for the baseline scenario and by 1.3 per cent and 4 per cent, respectively, for the alternate scenario (0 and 5 per cent respectively with the spread of the Omicron variant). Expected moderate growth in 2022 is the result of the Caesar Syria Civilian Protection Act, which has put sanctions on the Government since June 2020. Repercussions from the Act became more concrete in 2021 and will limit international rebuilding efforts and generate negative fallout on the country as a whole in 2022.

In Yemen, the economy is expected to have sluggish 1 per cent growth in 2022 followed by 8.4 per cent growth in 2023 for the baseline scenario or 2.4 per cent and 9.7 per cent, respectively, for the alternate scenario (0.6 and 7.6 per cent respectively with the spread of the Omicron variant). Yemen's fragility is aggravated by fragmented institutions and recurrent humanitarian emergencies. Its outlook is affected by the recovery of neighbouring GCC countries

Persistent fragile
political conditions
continue in

conflict-affected
countries



Iraq should continue its
recovery from the
pandemic and the unprecedented
decline in oil prices



and the inflow of aid for economic development and reconstruction.

The Syrian Arab Republic and Yemen will continue to witness double digit inflation in 2022 and 2023, caused mainly by a depreciation of national currencies, conflict and geo-political instability. Inflation is expected to touch 20 per cent in the Syrian Arab Republic and 18 per cent in Yemen in 2022 for both scenarios. In Iraq, Libya and the State of Palestine, inflation is not predicted to exceed 5.2 per cent in 2022-2023 for both scenarios.

The trade balance for conflict-affected countries is expected to continue improving in 2022-2023 with the resumption of oil exports from Libya and increased exports from Iraq. Exports for conflict-affected countries are expected to grow by 6.7 per cent in 2022 and 4.2 per cent in 2023 while imports will grow by 5.2 per cent and 3.8 per cent, respectively. Countries in Asia and the Pacific are expected to remain the main trading partners of Iraq, while European countries will continue to be the main trading partners of Libya. The Syrian Arab Republic and Yemen trade mainly with other Arab countries.

Table 2.9 GDP and inflation in Arab conflict-affected countries, 2017-2021

A. Real GDP growth rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Yemen	-1.1	1.0	8.4	-1.1	2.4	9.7
Libya	90.9	6.0	7.9	90.9	5.5	7.3
Iraq	5.2	4.8	6.8	5.2	5.1	7.2
State of Palestine	5.1	2.7	2.8	5.1	2.4	2.3
Syrian Arab Republic	2.1	2.2	5.0	2.1	1.3	4.0
Arab conflict-affected countries	8.3	4.3	6.7	8.3	4.5	6.9

B. Consumer inflation rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Yemen	15.5	17.7	12.0	15.5	18.1	12.4
Libya	4.6	5.0	5.2	4.6	5.1	5.4
Iraq	4.2	4.7	2.6	4.2	4.8	2.7
State of Palestine	1.2	2.8	3.9	1.2	3.0	4.0
Syrian Arab Republic	33.7	19.6	15.7	33.7	20.4	16.5
Arab conflict-affected countries	7.5	7.2	4.9	7.5	7.4	5.1

Source: ESCWA projections based on the World Economic Forecasting Model for 2021.

Table 2.10 Real export and import growth rate in the Arab region, 2020-2022

	Exports			Imports		
	2021	2022	2023	2021	2022	2023
Total Arab countries	10.1	7.1	4.2	8.9	5.8	3.2
Yemen	9.0	0.3	-0.5	9.5	16.8	7.4
Libya	74.2	7.5	3.0	11.9	5.3	5.7
Iraq	11.5	6.6	4.4	11.5	6.6	4.4
State of Palestine	7.3	5.0	4.6	7.3	5.0	4.6
Syrian Arab Republic	9.2	7.6	5.2	9.2	7.6	5.2
Arab conflict-affected countries	18.5	6.7	4.2	6.5	5.2	3.8

Source: Data from the United Nations Statistics Division and national sources.

Table 2.11 Fiscal deficit and debt as a percentage of GDP in the Arab region

	Baseline scenario (oil barrel at \$60)						Alternate scenario (oil barrel at \$80, expected to increase to \$100)					
	Fiscal balance			Government debt			Fiscal balance			Government debt		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Yemen	-2.8	-2.8	-2.7	74.4	70.4	61.0	-2.8	-1.6	-1.3	74.4	66.9	56.0
Libya	-39.6	-40.9	-42.8	NA	NA	NA	-39.6	-36.5	-38.3	NA	NA	NA
Iraq	-2.2	-1.9	-2.5	56.5	54.2	51.4	-2.2	0.7	0.4	56.5	50.1	44.6
State of Palestine	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Syrian Arab Republic	-5.4	-5.6	-5.5	24.7	25.8	27.1	-5.4	-5.7	-5.7	24.7	25.8	27.5
Arab conflict-affected countries	-10.4	-12.7	-17.2	55.7	53.5	50.5	-10.4	-9.0	-12.5	55.7	49.8	44.4

Source: ESCWA projections based on the World Economic Forecasting Model.

A deterioration in the fiscal position of conflict-affected countries is foreseen over 2022-2023 mainly due to Libya's declining fiscal position. Following the ceasefire agreement, the Government is expected to embark on massive reconstruction that will boost spending and deepen the fiscal deficit to 40.9 per cent in 2022 and 42.8 per cent in 2023 for the baseline scenario. With higher oil prices, government spending will be offset by higher

oil revenue. The fiscal deficit would decrease to 36.5 per cent in 2022.

The recovery in hydrocarbon markets is expected to have a positive impact on the fiscal balance of Iraq, particularly if oil increases to \$80 per barrel. With higher oil prices, the fiscal balance will record a 0.7 per cent surplus in 2022 and 0.4 per cent surplus in 2023. The debt-to-GDP ratio will

decline to 50.1 per cent in 2022 and 44.4 per cent in 2023.

In the Syrian Arab Republic, the fiscal deficit is not expected to change significantly, remaining at an average of 5.6 per cent during the 2022-2023 period for both scenarios. The debt-to-GDP ratio will increase to more than 27 per cent in 2023 to

finance reconstruction projects. In Yemen, the deficit is expected to decrease to 2.8 per cent in 2022 and 2.7 per cent in 2023 for the baseline scenario and to 1.6 per cent and 1.2 per cent, respectively, for the alternate scenario. The debt-to-GDP ratio will decline to 61 per cent in 2023 for the baseline scenario and 56 per cent for the alternate scenario.

E. Least developed countries

The socioeconomic situation in the least developed countries continues to be fragile. Limited fiscal capacity to procure vaccinations is expected to slow economic recovery as it affects the inflow of tourists. The expected global economic recovery is likely to reach these countries only as aid inflows resume during 2022-2023. Remittances are expected to rise in 2022 based on improved economic performance in remittance-sending countries. Following sluggish 0.7 per cent growth in 2021, GDP is projected to grow by around 2 per cent in 2022 and 2.6 per cent in 2023 for both scenarios. The spread of the Omicron variant is expected to cause slower growth, at 1.7 and 2.6 per cent for 2022 and 2023 respectively.

In the Sudan, which has the largest economy among the least developed countries, growth of 1.9 per cent in 2022 and 2.5 per cent in 2023 is predicted for the baseline scenario, reaching 1.8 per cent and 2.4 per cent, respectively, for the alternate scenario (1.6 and 2.5 per cent respectively with the spread of the Omicron variant). Inflation rates are expected to remain very high, around 31.5 per cent in 2022 and 9.1 per cent in 2023 for both scenarios, resulting from depreciation of the national currency.

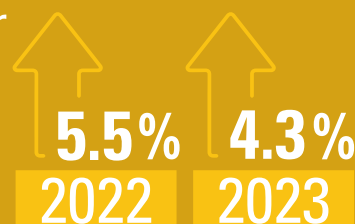
Djibouti may be the best performer with 5.5 per cent expected growth in 2022 and around 4.3 per cent in 2023 for both scenarios (4.4 and 4.7 per

cent respectively with the spread of the Omicron variant). Mauritania is expected to grow by 3.8 per cent in 2022 and 5.3 per cent in 2023 for the baseline scenario and by 3.6 per cent and 5.2 per cent, respectively, for the alternate scenario (1.9 and 5.1 per cent respectively with the spread of the Omicron variant). In Comoros, the economy is predicted to grow by 3.5 per cent in 2022 and 3.7 per cent in 2023, driven mainly by a significant inflow of remittances that offsets declines in tourist receipts (3.3 and 3.7 per cent respectively with the spread of the Omicron variant). Somalia

Limited capacity to procure
vaccinations
is expected to slow
economic recovery



Djibouti may be the best
performer
with
expected
growth



is expected to grow by 3 per cent in 2022 and 2.1 per cent in 2023 for both scenarios (even with the spread of the Omicron variant).

Inflation rates are anticipated to remain low in 2022-2023 in these countries, except for the Sudan. Rates will likely range between 2.9 per cent in Comoros and Djibouti in 2022 and 6.2 per cent in Mauritania in 2023.

The least developed countries are expected to continue to be net importers in 2022-2023. Exports

are predicted to grow by 4.9 per cent in 2022 and 4.1 per cent in 2023. Imports will rise by 3.9 per cent and 3.7 per cent, respectively. Consequently, current account balances should improve, driven by the global surge in demand and escalating commodity prices. Improvement will be delayed until late 2022, however, as these countries will need more time to rebuild their economies and productive capacities. Other Arab countries are expected to remain the main destinations for exports from the least developed countries.

Table 2.12 GDP and inflation in Arab least developed countries, 2017-2021

A. Real GDP growth rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Comoros	2.0	3.5	3.7	2.0	3.5	3.7
Djibouti	5.0	5.5	4.3	5.0	5.5	4.4
Mauritania	4.4	3.8	5.3	4.4	3.6	5.2
Somalia	-0.5	3.0	2.1	-0.5	3.0	2.1
Sudan	0.5	1.9	2.5	0.5	1.8	2.4
Arab least developed countries	0.7	2.1	2.6	0.7	2.0	2.5

B. Consumer inflation rate (percentage per year)						
	Baseline scenario (oil barrel at \$60)			Alternate scenario (oil barrel at \$80, expected to increase to \$100)		
	2021	2022	2023	2021	2022	2023
Comoros	2.4	2.9	1.7	2.4	3.0	1.8
Djibouti	2.7	2.9	1.6	2.7	3.0	1.6
Mauritania	2.7	4.1	5.9	2.7	4.4	6.2
Somalia	4.0	5.1	2.3	4.0	5.2	2.3
Sudan	291.3	31.5	9.1	291.3	31.6	9.1
Arab least developed countries	272.7	29.7	8.6	272.7	29.8	8.7

Source: ESCWA projections based on the World Economic Forecasting Model for 2021.

Table 2.13 Real export and import growth rates in the Arab region, 2020-2022

	Exports			Imports		
	2021	2022	2023	2021	2022	2023
Total Arab countries	10.1	7.1	4.2	8.9	5.8	3.2
Comoros	7.2	4.1	2.3	4.5	3.2	2.7
Djibouti	4.3	2.7	1.5	2.3	1.8	2.8
Mauritania	7.3	6.7	6.3	7.3	6.7	6.3
Somalia	7.4	5.1	4.1	7.4	5.1	4.1
Sudan	4.4	6.2	5.7	4.4	6.2	5.7
Arab least developed countries	4.5	4.9	4.1	5.1	3.9	3.7

Source: Based on data from the United Nations Statistics Division and national sources.

Table 2.14 Fiscal deficit and debt as a percentage of GDP in the Arab region

	Baseline scenario (oil barrel at \$60)						Alternate scenario (oil barrel at \$80, expected to increase to \$100)					
	Fiscal balance			Government debt			Fiscal balance			Government debt		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Comoros	-2.6	-2.3	-2.2	29.7	30.4	31.0	-2.6	-2.4	-2.2	29.7	30.4	30.9
Djibouti	-3.9	-4.2	-4.9	43.5	44.4	46.3	-3.9	-4.2	-4.9	43.5	44.3	46.2
Mauritania	3.6	3.9	4.2	56.5	48.8	40.2	3.6	4.0	4.2	56.5	48.6	39.9
Somalia	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Sudan	-7.5	-7.4	-7.0	153.2	145.6	150.0	-7.5	-7.4	-7.0	153.2	145.5	149.9
Arab least developed countries	-1.3	-2.5	-2.9	146.9	139.5	143.6	-1.3	-2.5	-2.9	146.9	139.5	143.5

Source: ESCWA projections based on the World Economic Forecasting Model.

The least developed countries continue to suffer from constrained budgets and high reliance on foreign aid. The Sudan struggles with unsustainable debt levels. The debt-to-GDP ratio is expected to decline from 153 per cent in 2021 to 146 per cent in 2022 and then to increase to 150 per cent in 2023 for both scenarios, signalling an urgent need for debt consolidation. The removal of the 2020 sanctions imposed on the Sudan offered an opportunity to access World Bank

and IMF programmes. In March 2021, the IMF undertook a preliminary assessment of the Sudan and acknowledged its eligibility for assistance under the Enhanced Heavily Indebted Poor Countries Initiative.¹⁹

In Mauritania, debt is expected to decrease to 49 per cent in 2022 and to 40 per cent in 2023 for both scenarios. In other least developed countries, debt levels are not expected to change

significantly and to remain within controllable levels. In March 2021, Somalia received IMF approval for \$970,000 under the Enhanced Heavily

Indebted Poor Countries Initiative. Mauritania received approval for \$23.8 million under the Extended Credit Facility.²⁰

F. Concluding remarks

The 2022-2023 economic outlook for the Arab region is positive in general but depends on the state of the pandemic and the global economic recovery. Slow vaccination rates in some countries and fears of a new wave of COVID-19 increase uncertainty even as recovery in oil markets and the opening up of most developed countries are likely to drive growth.

Oil-exporting countries would benefit from higher oil prices and global economic growth with picked-

up demand for petroleum products. Middle-income countries require a return to travel and tourism, economic recovery in developed economies and increased demand for products, and an inflow of foreign direct investment. Recovery in countries in conflict and the least developed countries would largely depend on the improved fiscal position of donor countries and the resumption of aid.





Poverty increased across the Arab region in 2021

The region has a **low labour force** participation rate caused mainly by the **limited participation of women**

In **2021**, the region's **total unemployment rate**, at **11.8** per cent, remained the **highest** among world regions

Education

in many countries
confronts multiple challenges

Only **35.1** per cent of people are covered by **at least one social protection benefit**, compared to **46.9** per cent on average globally

3

3. Social developments and gender dynamics

Key messages



Poverty increased across the Arab region in 2021. Based on national poverty lines, 26.94 per cent of people were poor, a share expected to decrease slightly to 26.23 per cent in 2023.



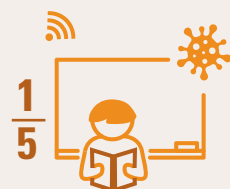
Even though the Arab region made a slight improvement in closing the gender gap in 2020, at current rates of change the region needs 142 years to reach gender parity.



The region has a low labour force participation rate caused mainly by the limited participation of women. An erosion of talent could occur, since 42 per cent of youth have considered emigrating to another country.



In 2021, the region's total unemployment rate, at 11.8 per cent, remained the highest among world regions. The region has the highest rate of youth unemployment, more so among females. Even though the total unemployment rate is projected to decline to 10.7 per cent by 2023, the rate is expected to remain high in countries facing political and economic instability.



Education in many countries confronts multiple challenges: unequal access, poor infrastructure and outdated learning methodologies. An estimated one in every five children, adolescents and youth is not enrolled in school. The pandemic has imposed additional barriers to learning in countries that resorted to online education despite poor Internet access.



Social protection systems are plagued by severe shortcomings. Coverage and effectiveness are limited, particularly in countries with constrained fiscal space and persistent political instability. Only 35.1 per cent of people are covered by at least one social protection benefit, compared to 46.9 per cent on average globally.

The Arab region has witnessed a sharp rise in social, economic and political instability in the last decade. Anaemic long-term growth, high unemployment among women and youth, and low productivity were concerns even before

the pandemic. Occupation, conflict and political instability have caused widespread human suffering and strong economic impacts on the region's poor and middle class.

A. Poverty

Across the region, based on national poverty lines, poverty continued rising in 2021. The poverty headcount ratio reached 26.94 per cent of the population amid the deepening COVID-19 crisis and economic weaknesses in several States, including Lebanon (box 3.1) and the Syrian Arab Republic, and to a lesser degree the Sudan and Yemen. Poverty levels and trends have diverged dramatically, however, among different countries. In middle-income countries, poverty stagnated in 2021 at 18.4 per cent. In the least developed countries, poverty dropped from 50.83 per cent in 2020 to 40.89 per cent in 2021. It jumped markedly in the conflict-affected countries, from 23.34 per cent to 36.16 per cent, respectively.

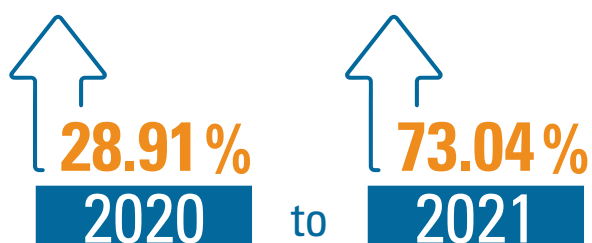
Countries particularly afflicted by poverty included Lebanon, where the poverty rate rose from 28.91 per cent in 2020 to 73.04 per cent in 2021, and the Syrian Arab Republic, with the poverty rate climbing from 11.03 per cent to 63.24 per cent, respectively. On the opposite end of the spectrum,

Algeria saw its poverty rate fall from 6.12 per cent to 3.26 per cent, Morocco from 7.43 per cent to 2.65 per cent, and Iraq from 14.4 per cent to 12.43 per cent, respectively. These patterns suggest that selected country groups moved further apart in 2020-2021 in terms of income deprivation.

Projections for 2022-2023 are positive across most Arab States, indicating that the regional poverty rate will fall to 26.67 per cent and 26.23 per cent in 2022 and 2023, respectively. In the middle-income countries, poverty will likely fall to 17.74 per cent and 17.31 per cent, and in the least developed countries to 40.65 per cent and 40.16 per cent, respectively. In the conflict-affected countries, the poverty rate is expected to increase from 36.16 per cent to 36.46 per cent, respectively. This is due to the Syrian Arab Republic, where poverty is projected to reach 65.53 per cent in 2022 before retreating to 64.62 per cent in 2023. It is the only Arab State where poverty is projected to rise between 2021 and 2022.

Poverty rate

► Lebanon



► Syrian Arab Republic

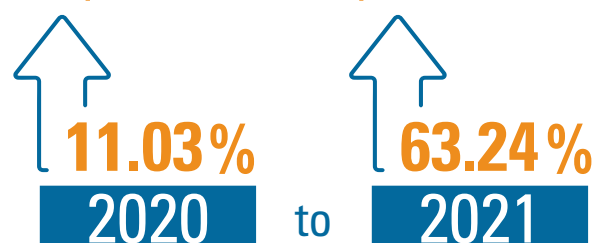


Table 3.1 Projected headcount poverty rate (percentage, national poverty lines)

Country	2010	2021	2022	2023
Algeria	6.12	3.26	3.04	2.85
Comoros	47.20	39.99	39.58	39.13
Djibouti	50.12	18.87	18.53	18.42
Egypt	25.20	28.62	27.90	27.31
Iraq	14.40	12.43	12.06	11.57
Jordan	14.40	15.18	14.74	14.31
Lebanon	28.91	73.04	66.39	65.79
Mauritania	39.16	28.32	27.72	27.11
Morocco	7.43	2.65	2.42	2.20
Somalia	72.77	68.94	68.49	67.96
State of Palestine	25.70	29.34	28.46	27.69
Sudan	44.45	32.52	32.34	31.82
Syrian Arab Republic	11.03	63.24	65.53	64.62
Tunisia	20.50	15.82	15.37	14.93
Yemen	45.77	53.14	52.78	51.17
Arab countries	24.55	26.94	26.67	26.23
Arab middle-income countries	17.24	18.38	17.74	17.31
Arab conflict-affected countries	23.34	36.16	36.46	35.73
Arab least developed countries	50.83	40.89	40.65	40.16

Source: ESCWA projections.



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Box 3.1 Poverty has grown severe in Lebanon by all measures

In Lebanon in 2021, over 73 per cent of people lived below the national income poverty line. Despite various initiatives to reduce poverty, it rose from 29 per cent in 2019 to 55 per cent in 2020 on the back of the severe decline in economic activity, devaluation of incomes and savings because of inflation, capital controls and most recently the reduction of subsidies for necessities. Poverty is projected to abate slightly, to just under two-thirds of the population in 2022-2023, unless robust poverty alleviation measures are taken.

The simultaneous crises afflicting Lebanon have included political instability, rising crime, shortages of necessities, an energy and water crisis, and COVID-19 with its associated pressures on health, education and employment. These crises have jointly spurred deprivations in health care, medicines, services and utilities, education, employment, housing and household assets. From a multidimensional poverty perspective, households can be classified as poor if they are deprived in one or more of these aspects or extremely poor if they are deprived in two or more. Households without electricity, for example, are not only deprived on this indicator but may be classified as multidimensionally poor, regardless of their financial capacity to subscribe to a private electricity provider.

Lebanon's multidimensional poverty rate^a doubled from 42 per cent of the total population in 2019 to 82 per cent in 2021, affecting nearly 4 million people or 1 million households. Extreme multidimensional poverty affected 40 per cent of the poor in 2021, equivalent to 34 per cent (1.65 million) of the population at large. The most prevalent dimensions of poverty were deprivations in health care (30 per cent contribution), public utilities (21 per cent), employment and income (18 per cent) and education (14 per cent). For instance, 52 per cent of households were unable to obtain medicines, 54 per cent went without electricity, 13 per cent lacked employment opportunities and over 73 per cent were in income poverty. In some Lebanese regions, including Akkar, Baalbek-Hermel and Nabatieh, extreme multidimensional poverty rates approached or exceeded 50 per cent, far surpassing the national average of 34 per cent.

The failure to tackle multidimensional poverty has been detrimental for people who are already poor as well as those who are vulnerable to poverty and even people in the middle class over the past two years. ESCWA recommends several policy responses in the short and medium terms, including:

- Establish a national solidarity fund as part of an immediate response to alleviate the suffering of the Lebanese people, the humanitarian crisis and poverty in the short term. This fund can be financed from both local and foreign sources.
- Develop plans to increase electricity capacity, while working on modernizing transmission and distribution networks and restructuring tariffs so that they reflect the real cost of production, towards ensuring that electricity reaches all Lebanese, especially the vulnerable.
- Develop a national rescue plan to advance the private sector and support micro-, small and medium enterprises to create new decent jobs, and reduce unemployment and job informality.

^a The Lebanese Multidimensional Poverty Index consists of six dimensions and 20 indicators. A household is classified as living in multidimensional poverty if it is deprived in one or more dimensions, and in extreme multidimensional poverty if it is deprived in two or more dimensions. Each dimension has several indicators.



B. Gender equality

Based on the Global Gender Gap Index,²¹ the region made a slight improvement of 0.68 per cent towards closing the gender gap in 2020. Given a high current gap of 39.37 per cent, however, the region will not reach gender equality for another 142 years.

The region has the largest share of the worst-performing countries on the index. The Syrian Arab Republic at a rank of 152, Iraq at 154 and Yemen at 155 were among the top five worst-performing countries. The best performer in the region remained the United Arab Emirates at a rank of 72, with a significant 6.1 per cent improvement since 2019. Tunisia ranked second regionally but this was not due to an improvement in its performance but to declines in the scores of Algeria, Kuwait and Qatar. In addition to the United Arab Emirates, only Egypt with a rank of 129, Jordan at 131 and Lebanon at 132 had a notable improvement in their ranking albeit with only a slight increase in their scores.²²

Gender equality

in the region

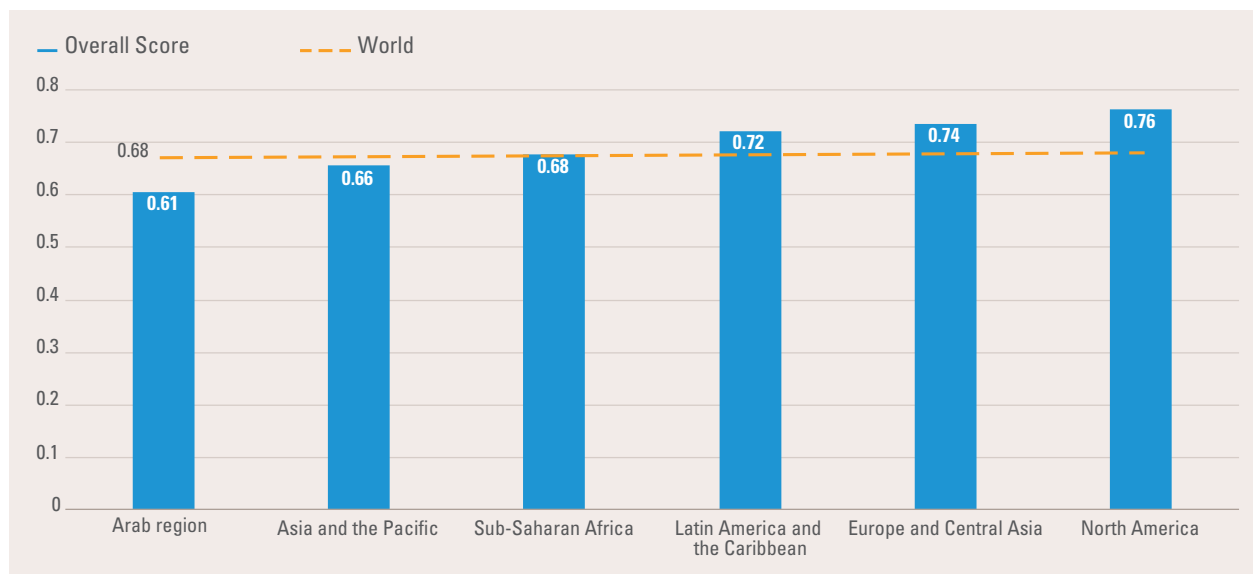
will not be reached before

142 years = 



The region has the **largest share** of the **worst-performing** countries

Figure 3.1 Global Gender Gap Index scores by region, 2020.



Source: ESCWA calculations based on the World Economic Forum Global Gender Gap Index 2021.

Note: Regional average scores were weighted by population using population data from the World Bank's World Development Indicators online database.

1. Health gender gap

In terms of health and survival, no Arab country has achieved full gender parity but most have closed at least 95 per cent of their gender gap. The region has a high number of early marriages of girls under 18 and accounts for almost 25 per cent of all

cases of female genital mutilation worldwide.²³ The pandemic has imposed new challenges as many women and girls have faced obstacles in reaching health resources since lockdowns began.

2. Education gender gap

Bahrain, Jordan, Kuwait and Qatar are on the edge of closing their educational attainment gender gap. Only Mauritania and some conflict-affected countries, notably Iraq and Yemen, are far from any progress on gender equality in education. These countries face cultural obstacles and humanitarian situations

that can widen gaps and reverse progress. In Yemen, the illiteracy rate among women is higher than in any other country in the region. Instead of going to school, many girls are pushed into early marriage, a violation of their rights that deprives them of education and locks them in a cycle of poverty.

3. Gender discrimination in the labour market

The narrowing of the education gender gap in the region is not reflected in more and better employment opportunities for women. Labour markets are still characterized by institutional discrimination against women regardless of education attained. The lack of access to financial assets, including bank accounts, and a wide income gender gap are other constraints on women's economic opportunities.

Male labour force participation was estimated at 70.7 per cent in 2021, slightly below the world average at 72.14 per cent. The region's female labour force participation rate, however, is the lowest in the world at 19.9 per cent (figure 3.2), compared to a world average of 46.1 per cent. In Algeria, Egypt and Jordan, the female labour force participation rate is below 20 per cent. In Iraq and Yemen, the rate falls under 10 per cent.

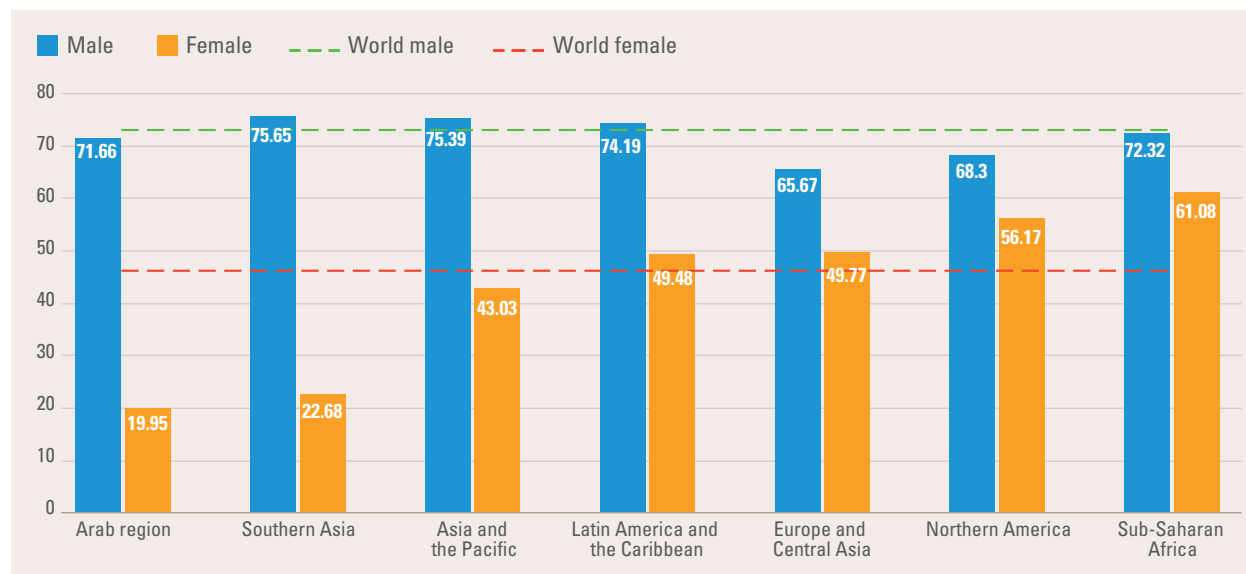


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Beyond low labour force participation rates, women face a higher risk of unemployment. The female unemployment rate reached 21.7 per cent in 2021, the highest share in the world and far above the global average of 6.36 per cent (figure 3.3).

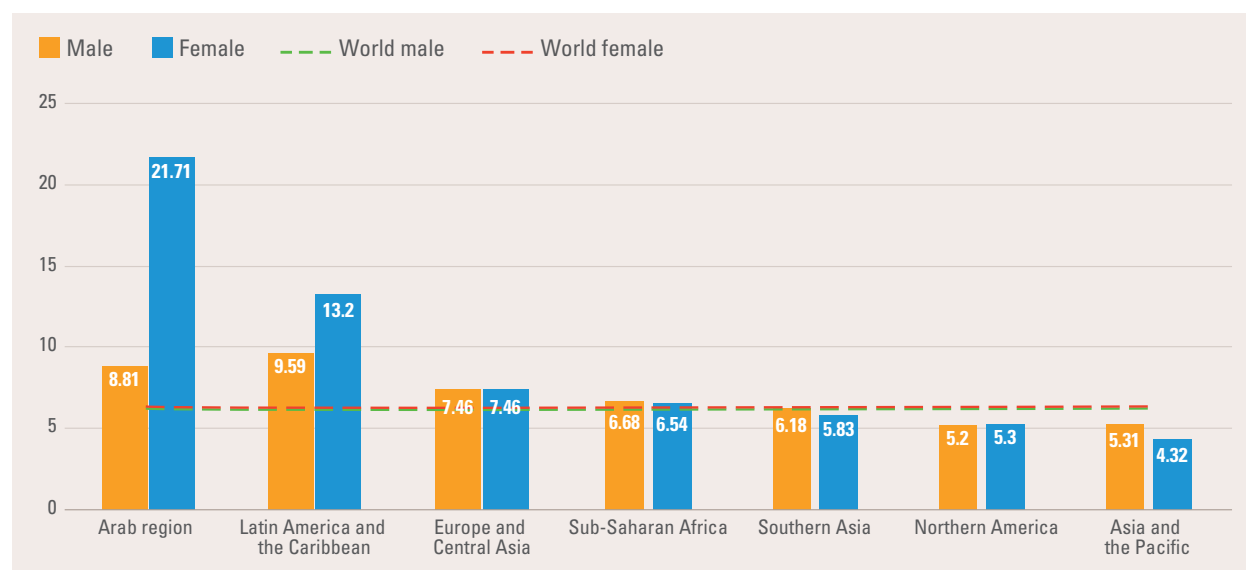
In many Arab countries, females earn on average less than 25 per cent of what men earn. In Saudi Arabia, women earn 24 per cent; in Egypt, 22 per cent, and in Yemen, 7 per cent. Cultural barriers that short-circuit women's economic opportunities include early marriage, with one in five girls in the region marrying before age 18.²⁴

Figure 3.2 Female and male labour force participation rates, regional averages, 2021



Source: ILO modelled estimates, November 2020.

Figure 3.3 Female and male unemployment rates, regional averages, 2021



Source: ILO modelled estimates, November 2020.

4. Women's political participation

Women's political participation remains marginal even as the percentage of women in parliaments has edged upward in the last decade. In 2021, a female Prime Minister was appointed in Tunisia, a first in the region. Political empowerment overall is considered the weakest in the world, however, with the region closing only around 10 per cent of the gender gap. Women make up around 19.45 per cent of parliamentarians in the region, below

the world average of 25.5 per cent. The regional average has increased by 0.75 per cent since 2020. In 11 Arab countries, women's representation in parliament does not exceed 20 per cent, and in 4 countries, it is below 5 per cent. Sociocultural barriers, gender-specific roles and perceptions of the political scene as an unsavoury place for women all limit their involvement.

Table 3.2 Women in national parliaments

Country	As of February 2019				As of June 2021			
	Lower or single house				Lower or single house			
	Last election	Number of parliamentary seats	Number of women parliamentarians	Percentage of women	Last election	Number of parliamentary seats	Number of women parliamentarians	Percentage of women
Algeria^a	June 2017	462	119	25.76	May 2017	462	120	25.97
Bahrain	December 2018	40	6	15	November 2018	40	6	15
Comoros	January 2015	33	2	6.06	January 2020	24	4	16.67
Djibouti^a	February 2018	65	17	26.15	February 2018	65	17	26.15
Egypt	October 2015	596	89	14.93	October 2020	591	162	27.41
Iraq^a	May 2018	329	83	25.22	May 2018	329	87	26.44
Jordan^a	September 2016	130	20	15.38	November 2020	130	15	11.54
Kuwait	November 2016	65	3	4.61	December 2020	65	1	1.54
Lebanon	May 2018	128	6	4.69	May 2018	128	6	4.69
Libya	June 2014	188	30	15.96	June 2014	188	30	15.96
Mauritania	September 2018	153	31	20.30	September 2018	153	31	20.3
Morocco^a	October 2016	395	81	20.51	October 2016	395	81	20.51
Oman	October 2015	85	1	1.18	October 2019	86	2	2.33
Qatar	June 2016	41	4	9.76	June 2016	41	4	9.76
Saudi Arabia	December 2016	151	30	19.87	October 2020	151	30	19.87
State of Palestine	-	-	-	-	-	-	-	-
Sudan^a	April 2015	481	133	27.70	-	-	-	-
Syrian Arab Republic	April 2016	250	33	13.20	July 2020	250	28	11.2
Tunisia^a	October 2014	217	78	35.9	October 2019	217	57	26.27
United Arab Emirates	October 2015	40	9	22.5	October 2019	40	20	50
Yemen	April 2003	301	1	0.30	April 2003	301	1	0.3

Source: Inter-Parliamentary Union Database 2021.

^a Represents the country that has a quota in the electoral system as reserved number of seats for women in the parliament.

The latest election results changed country rankings in terms of women's political participation. Tunisia's elections decreased its share of women parliamentarians from 35.94 per cent to 24.8 per cent, even with a constitutionally mandated electoral gender quota. Women comprised only 14.5 per cent of candidates in the 2019 elections.²⁵ Elections in the United Arab Emirates raised the share of women parliamentarians from 22.5 per cent to 50 per cent after a new quota set by presidential decree. The

2020 elections in Egypt increased the number of female parliamentarians from 89 to 162, raising their share of parliamentary seats to 27.41 per cent. This gave Egypt the second highest level of female political representation in the region after the United Arab Emirates. Saudi Arabia's 2020 elections resulted in no changes in the 30 seats held by women in the lower/single house; the share remained at 19.9 per cent. Yemen has the lowest rank in the region as women are completely absent from political life.

C. Labour market dynamics

The pandemic may have permanently altered the labour market. During lockdowns, remote working, e-commerce and automation reshaped ways of working. In tandem, according to the ILO, 3.5 per cent of working hours worldwide were lost in 2021. This number was worse in the Arab region, at 4.5 per cent or nearly 6.4 million hours in total.²⁶ Sectors at risk during lockdowns in 2020, like services and accommodation, have the biggest

shares of employment losses. A vast portion of employment losses in 2021 came from a rise in inactivity rather than a pure rise in unemployment. Inactivity increased in the region as total labour force participation declined from 47.8 per cent in 2019 to 46.9 per cent in 2021. This reduction indicates how the COVID-19 crisis pushed people out of the labour market in parallel with a 0.7 per cent decrease in unemployment.

1. Labour force participation

The region's low labour force participation rate mainly results from women's limited participation. The rate might remain low or even decrease given a potential talent erosion with 42 per cent of youth

having considered emigrating to another country. An average of 15 per cent are actively trying to emigrate. This share varies from 77 per cent of youth in Lebanon to only 13 per cent in the GCC countries.²⁷

2. Unemployment

The region's total unemployment rate continued to be the highest in the world in 2021 at 12.5 per cent.²⁸ Projections expect the rate to slightly decrease to 12.3 per cent in 2022 and 12.1 per cent in 2023 (table 3.3) but this decline results only from economic recovery after the pandemic. It is not an improvement for the rate to return to the challenging level persisting for more than a decade. Unemployment is expected to remain high in many conflict-affected and least developed countries,

and in countries facing political and economic instability such as Lebanon and Tunisia. The spread of the new Omicron variant might affect growth prospects and increase rates of unemployment across the region. The unemployment rate is expected to increase to 13.3 per cent in 2022 and 13.7 per cent in 2023.

In Tunisia, the unemployment rate is estimated to slightly decrease to 17.9 per cent in 2021 and 17.2 per

cent in 2022 (18.9 per cent in 2022 with the spread of the new Omicron variant). Ongoing political instability may slow recovery from the 3.1 per cent increase during the pandemic, however, making it difficult to return to the lower rates in effect before COVID-19.

In Lebanon, the estimated unemployment rate is expected to increase from 37.9 per cent in 2020 to 43.5 per cent in 2021 and then to fall to 28 per cent in 2023. These rates are very high. Before the pandemic and other recent shocks in the country, the unemployment rate had not crossed 12 per cent for a decade. In 2020, the middle-income group shrunk from 57-40 per cent, GDP growth declined by 37.1 per cent and currency depreciation reached 129 per cent.²⁹ These factors, political instability and the Syrian war and refugee crisis will likely keep unemployment high and increase the size of the informal sector.

Among the conflict-affected countries, the Syrian Arab Republic is expected to have a higher unemployment rate in 2021, reaching 11.7 per cent, and then increasing to 14.1 per cent in 2023 to a level similar to the one prior to the pandemic (15.2 per cent in 2023 with the spread of the new Omicron variant). Fallout from conflict has pushed the share of large enterprises in the private sector from 24 per cent in 2009 to 16 per cent in 2017 and propelled a huge increase in the share of informal small and medium enterprises.³⁰ The Syrian Arab Republic ranked at 143 of 190 countries on the World Bank's Doing Business Index 2020. This rank is only based on data from government-controlled areas where firms have lost employees, suffered physical damage, and struggle with poor infrastructure and a lack of financial services.³¹ Damage to physical capital, weak economic performance, a widening trade deficit, capital flight, external displacement and economic sanctions all pose vast challenges to the Syrian economy in 2020 and 2021. Higher unemployment in the next two years, especially among youth, is likely.

In Jordan, the economic shock from the pandemic pushed the economy into a fragile state. The unemployment rate, increasing for the past six years, reached a new peak in 2020. It fell slightly by 1.6 per cent to 25 per cent in 2021 and is expected

to drop to 20.6 per cent in 2023 (it is expected to increase to 23.3 per cent in 2023 with the spread of the new Omicron variant). Unemployment in Jordan is considered very high, especially among youth; it has some of the highest rates among all Arab middle-income countries. A considerable decrease in unemployment is the result of government measures to support the economy, including two social protection programmes. Concessional loans for small and medium enterprises have been critical to retain workers. Other measures include tax payment flexibility and support for informal workers and vulnerable households.

At the start of the pandemic, Morocco's Ministry of Employment and Professional Integration declared that thousands of companies had stopped operating, resulting in thousands of workers being laid off or becoming inactive. After more than a decade of a stable labour market, the unemployment rate experienced a sharp increase to 11.9 per cent in 2020. It is estimated to remain at 11 per cent in 2021 and 2022 before a slight decrease to 10.3 per cent in 2023 (11.6 per cent for 2022 and 2023 with the spread of the new Omicron variant). To mitigate adverse economic shocks in the labour market, the Government has launched a series of initiatives supporting vulnerable households and enterprises



with a combination of loans, repayment plans and other forms of aid. Part of the recovery plan includes social security measures, especially in the tourism sector, to alleviate shocks borne by workers most affected by the crisis.

Qatar, known for its low unemployment rate, has witnessed a slight fluctuation due to the crisis. The rate is estimated to increase from 0.1 per cent in 2021 to 0.2 per cent in 2023. Qatar took many actions and passed several laws to support the transition

to a more skilled and productive workforce, a key objective of its National Vision 2030. Major changes include eliminating the requirement for migrant workers to obtain their employers' permission to change jobs. Qatar also became the first country in the region to adopt a non-discriminatory minimum wage. These new laws, coupled with the removal of exit permit requirements earlier this year, effectively dismantle the *kafala* sponsorship system and mark the beginning of a new era for the Qatari labour market.

Table 3.3 ESCWA unemployment rate projection, 2021-2023

	2021	2022	2023
Total Arab countries	12.5	12.3	12.1
Bahrain	1.9	1.0	0.3
Kuwait	1.9	2.5	3.0
Oman	4.6	5.7	6.7
Qatar	0.1	0.1	0.2
Saudi Arabia	12.3	11.5	10.9
United Arab Emirates	1.7	1.7	1.7
GCC countries	7.1	6.8	6.6
Algeria	17.4	18.8	19.8
Egypt	7.3	6.9	6.7
Jordan	25.0	21.9	20.6
Lebanon	43.5	32.0	15.7
Morocco	11.0	10.7	10.2
Tunisia	17.9	17.2	16.6
Arab middle-income countries	12.7	12.1	11.5
Iraq	19.4	20.3	21.0
Libya	18.5	18.1	17.7
State of Palestine	26.2	26.5	26.9
Syrian Arab Republic	11.7	13.4	14.0
Yemen	12.5	11.9	11.6
Conflict-affected countries	16.2	16.7	16.9
Comoros	6.9	7	7.1
Djibouti	25.9	25.9	25.8
Mauritania	9.8	10	9.9
Somalia	13	12.8	12.7
Sudan	16.4	16.6	17.1
Arab least developed countries	15.3	15.4	15.7

Source: ESCWA projections based on the World Economic Forecasting Model.

D. Education

Prior to the pandemic, more than 16 million children were out of school in the region.³² While the gender gap in educational attainment has narrowed, multiple challenges remain related to unequal access and infrastructure, poor teaching quality, and outdated learning and teaching methods.³³ The number of children out of school has significantly increased due to conflicts. A generation of refugees and internally displaced people are unable to access education for reasons including discrimination and a lack of official documents.

One in every five children, adolescents and youth in the region is not enrolled in school. Moreover, among children out of school, there is a significant gender gap. Girls never expected to enrol comprise up to 50 per cent of out-of-school girls compared to 28 per cent among boys.³⁴ Countries with the highest out-of-school rates tend to be among the poorest, such as Djibouti at 41 per cent and the Sudan at 44 per cent.³⁵

According to ILO estimates, before the pandemic, around 21.7 million Arab youth, or 29.7 per cent of people aged 15-24, were not in education, employment or training. They included 15.1 million young women and 6.6 million young men. These numbers add to the challenges that Arab youth face in entering the job market, where structural obstacles are already a barrier to decent jobs. The youth unemployment rate is the highest in the world, even more so among young women.

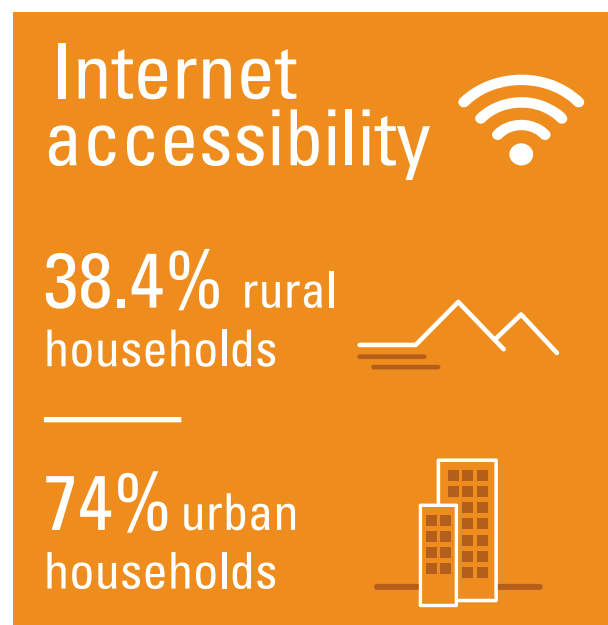
The pandemic caused a global education crisis affecting many learners and teachers; about half of students globally were affected in 2020 by a full or partial closure of schools. Greater risks and challenges to education in many countries will come from the additional 100 million students who will fall below the minimum proficiency level.³⁶ More than 1 billion children risk falling behind due to school closures.³⁷

The negative impacts of the pandemic on education have been severe in the Arab region. Schools in most countries saw 40 or more weeks of full closure.

Only three countries, Morocco, Qatar and the United Arab Emirates, have considered vaccinating teachers as a top priority.³⁸ While many countries shifted to online learning after closing schools, an estimated 100 million students were out of school at the start of the pandemic in the Arab region.³⁹

The shift to home schooling and online learning led to new inequalities given disparities in online access. Students in low-income families, refugees and especially female students faced several challenges to accessing good education, even as these groups already had higher dropout rates.⁴⁰ The gap in quality education is likely to widen between high-income countries and those that are less developed.

Prior to the pandemic, nearly 350 million people in the region had no Internet access. Only 58.9 per cent of households had Internet at home, and only 52.8 per cent had a home computer.⁴¹ These percentages differ greatly among population groups. On average, only 38.4 per cent of rural households have Internet compared to 74 per cent of urban households. Among women, 47.3 per cent have access to the internet compared to 61.3 per cent of men.



Shares of individuals using the Internet vary significantly. In the GCC countries, the percentage is above 90 per cent and is almost 100 per cent in

Bahrain, Qatar and the United Arab Emirates. In most of the least developed countries, the share falls below 30 per cent. In Somalia, it is only 2 per cent.

E. Social protection

In recent decades, social protection systems in the region have suffered severe shortcomings, constraining their potential benefits. Although a significant share of countries has established social security schemes, coverage and effectiveness remain limited. Historically, Arab countries have relied on subsidies and public sector employment as the substructure of social protection systems.⁴² Among the main challenges to social protection are limited fiscal space and persistent political instability.

Most social insurance systems include plans for the elderly, disabled individuals and survivors, and protect against employment injury.⁴³ Some countries offer maternity and unemployment benefits. Some provide free or low-cost health care, although health insurance plays a significant role in most countries.⁴⁴

According to the ILO Social Security Inquiry Database (table 3.4), the most common social benefit is coverage of employees in the event of a work injury. This reaches 46.2 per cent of the region's population, and is the only benefit where coverage is above the world average of 35.6 per cent. Remaining social plans fall behind world averages, with only 37.2 per cent of

people above retirement age receiving a pension compared to 77.5 per cent globally. Only 15 per cent of people in the region with severe disabilities receive benefits compared to 33.3 per cent globally.

Coverage by at least one social protection benefit applies to only 35.1 per cent of people in the region compared to a world average of 46.9 per cent. Despite high unemployment rates in many Arab countries, only 7 per cent of men receive unemployment benefits. Such coverage is rarely available to women. Only 31.6 per cent of mothers receive maternity benefits compared to 44.9 per cent in the rest of the world, indicating structural discrimination in the region's labour markets. Informal workers, who account for 64 per cent of total employment in the region,⁴⁵ lack any form of social insurance or social benefits. This burden is disproportionately borne by female workers who comprise 61.8 per cent of informal employment.

The fact that only a small group of countries in the region covers or partially covers maternity and risks such as unemployment or sickness⁴⁶ is a major concern, undercutting adequate protection for vulnerable individuals in particular.

Table 3.4 Proportion of the population covered by social protection floors or systems in the Arab region and the world in 2020 (percentage)

	Arab region	World
Employed and covered in the event of a work injury	46.2	35.4
Persons above retirement age receiving a pension	37.2	77.5
Population covered by at least one social protection benefit	35.1	46.9
Mothers with newborns receiving maternity benefits	31.6	44.9
Vulnerable persons covered by social assistance	24.1	28.9
Children/households receiving child/family cash benefits	20.5	26.4
Persons with severe disabilities collecting disability social protection benefits	15	33.5

Source: ILO Social Security Inquiry Database.



The Arab region's **total revenue as a share of GDP** has **declined** over the past decade and half

Prevailing **tax schemes** include **personal income tax, corporate income tax, taxes on goods and services**

Middle-income countries have implemented **tax reforms** over the last decade

Improving efficiency, to the average level of the OECD, would **boost revenue**

Rethinking Arab tax policy is important given the **scale of tax revenue leakages and abuses** such as tax evasion

4. Taxation in the Arab region: challenges and opportunities for mobilizing revenue

Key messages



The Arab region's total revenue as a share of GDP has declined over the past decade and half, a trend exacerbated by the pandemic in 2020.



Sources of revenue differ widely across the region, but countries mainly rely on indirect taxes that impose greater burdens on the poor and middle class than on the rich. Prevailing tax schemes include personal income tax, corporate income tax, taxes on goods and services such as value added taxes, and other sales taxes.



Middle-income countries, which rely mostly on taxation for public revenue, have implemented tax reforms over the last decade. Yet their ratio of tax revenue to GDP remains low, highlighting inefficiencies in their tax systems. Improving efficiency, to the average level of the OECD, would boost revenue by as much as 45 per cent over what is currently collected in some countries.



Rethinking Arab tax policy is important given the scale of tax revenue leakages and abuses such as tax evasion, trade misinvoicing and tax avoidance.

A. Introduction

Taxation is central to public finance and domestic resource mobilization, and, in turn, to providing public goods and services. Taxes help achieve the Sustainable Development Goals (SDGs), increase equity and support the social compact. Over the last decade, the need to finance deficits has compelled Arab countries to introduce tax reforms. Although most are a step forward, they have not yielded enough in terms of better performance in raising revenue, or improved equity and progressivity.⁴⁷ To further examine the challenges and opportunities of tax reforms, this chapter analyses those enacted between 2010 and 2020, including policy measures to mitigate the impact of COVID-19. The chapter considers some major underlying constraints that contribute to underperformance, such as the large share of informal economic activities, widespread tax evasion and tax avoidance, corruption and illicit cross-border transactions.

The chapter presents an overall view of the performance of government revenue, tax revenue and their composition, and analyses factors influencing overall tax buoyancy. It assesses reforms for performance and impact on equity and efficiency in raising tax revenue. The chapter also examines the causes, conduits and types of tax leakages and abuses, including those arising from tax evasion/avoidance, and estimates the scale of



corporate tax losses associated with base erosion and profit shifting. It presents key findings and policy recommendations at the national, regional and international levels. These are geared towards rethinking taxation in the region and improving fairness, efficiency, equity and effectiveness, in line with the Addis Ababa Action Agenda on Financing for Development.

B. Public revenue: where does the region stand?

1. Total revenue in the Arab region versus other regions

The total revenue of the Arab region, as a share of GDP, was 31 per cent in 2019. Within the region, wide variations in the share are largely due to differences in natural resources and income

levels. The share in middle-income countries was about 25 per cent; in the GCC countries it was 32 per cent; and in the least developed countries it was 11 per cent.

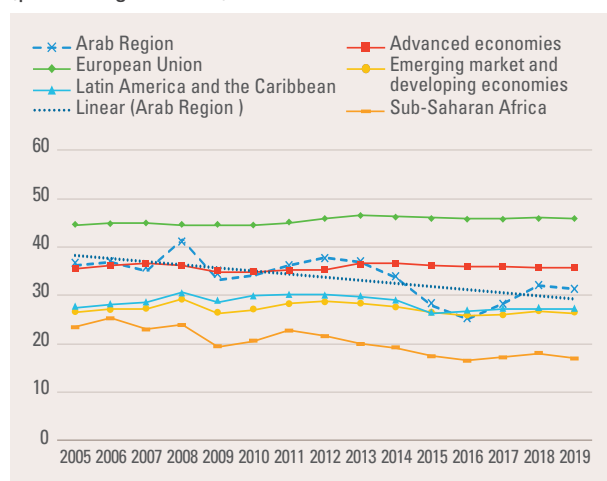
Since the global economic slowdown in 2008, the region has been hit by several economic and political shocks that have adversely affected economic growth and revenue mobilization. Public revenue, as a share of GDP, dropped from a peak of 42 per cent in 2008 to 31 per cent in 2019. Trends in revenue in the GCC countries, which are strongly associated with changes in international oil prices,⁴⁸ are a key driver of the decline in the region's aggregate public revenue. The share of revenue to GDP in the GCC countries was 46 per cent in 2008, dropping to 32 per cent in 2019. For the least developed countries, the share has fallen from 20 per cent in 2008 to 11 per cent in 2019. Conflict-affected countries have experienced significant losses of revenue in the past decade and a half as well. Public revenue in the middle-income countries, which rely mainly on taxation, has declined from 26 per cent of GDP in 2008 to 25 per cent in 2019. Middle-income country performance on revenue mobilization is lower than that of emerging market and developing

economies, where the ratio has hovered around 27 per cent over the last decade.

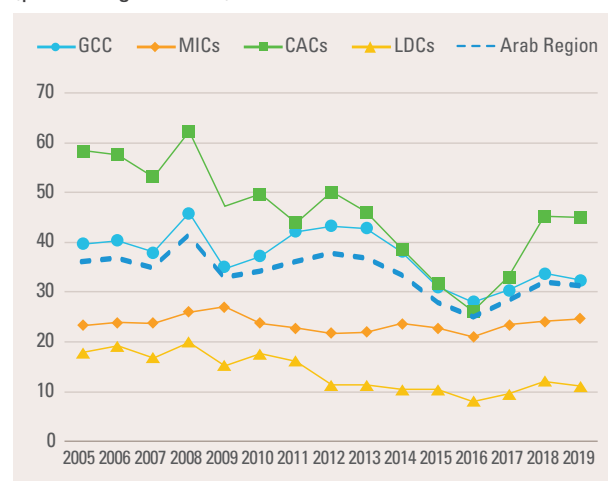
The adverse economic impacts of COVID-19 have resulted in further loss of revenue (figure 4.2), approaching nearly \$150 billion for the region. As a share of GDP, revenue fell to 28 per cent in 2020. Most governments across the region have announced tax relief measures to support individual taxpayers and business that find themselves in a difficult financial situation. These measures, which include tax exemptions, deferment of tax collection, and the waiver or reduction of customs duties, have resulted in reduced government revenue. Egypt, for instance, increased personal deductions and reduced the tax burden on transactions executed on the Egyptian Stock Exchange with the aim of promoting investments and stimulating economic activity. Morocco introduced tax exemptions for individuals who lost their jobs because of the crisis (table A.4).

Figure 4.1 Trends in total revenue

A. Total revenue across regions in the world
(percentage of GDP)



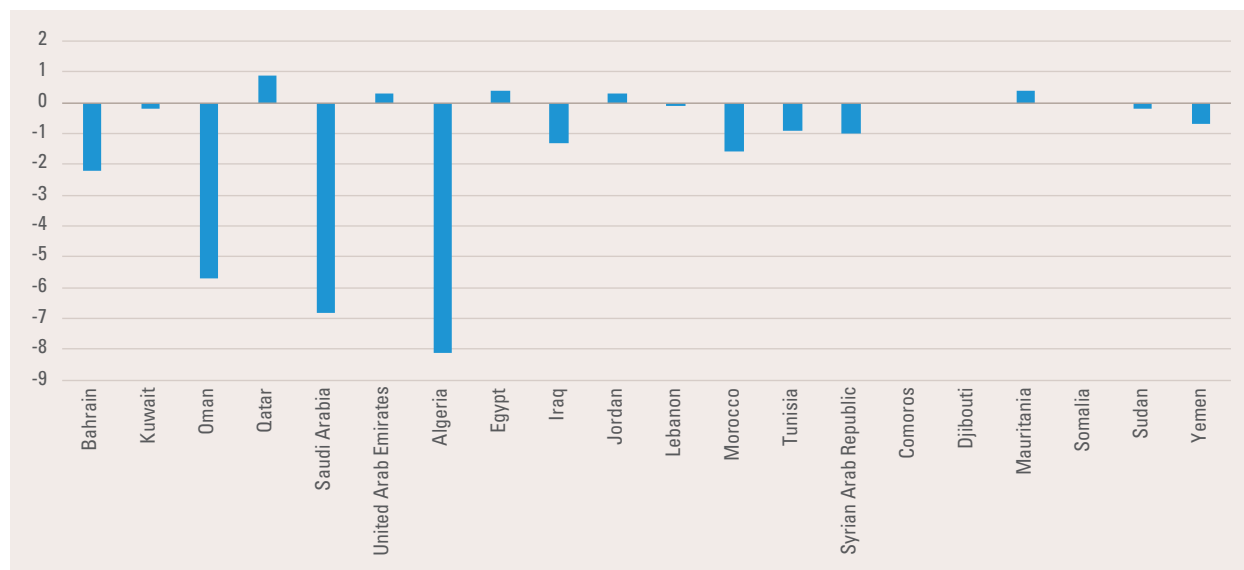
B. Total revenue in the Arab region and subregions
(percentage of GDP)



Source: ESCWA calculation, based on national and IMF data.

Note: Regional and subregional aggregates are weighted averages. The averages exclude Somalia, the State of Palestine and the Syrian Arab Republic due to the unavailability of data. The classification of emerging market and developing economies follows that of the IMF World Economic Outlook.

Figure 4.2 Loss of revenue due to the adverse impact of COVID-19 as a percentage of GDP (percentage point difference between 2019 and 2020)



Source: Based on World Economic Forecasting Model forecasts.

2. Sources of revenue differ widely within the region

Sources of revenue differ widely across countries.

Oil and gas revenue constitutes the main source in the GCC countries. In recent years, the contribution of tax revenue has increased in several countries, including Bahrain, Kuwait, Oman and Saudi Arabia (figure 4.3A), for two reasons. First, several countries have introduced value added or customs and excise taxes. Second, a significant decline in oil revenue due to low oil prices since 2014 has increased the share of tax revenue.

Middle-income countries rely mainly on taxes and excise for public revenue, except for Algeria, which is highly reliant on the oil sector (figure 4.3B). Lebanon, Morocco and Tunisia are relatively good performers, mobilizing more than three-quarters of their revenue from taxes. In recent years, Egypt and Morocco have increased customs duties or used mechanisms such as the privatization of public investments.

Taxes and foreign grants constitute a large source of revenue for the least developed countries. The share of taxes in total revenue increased in several

countries from 2010-2019, including Comoros, Mauritania and the Sudan.

Among other countries in the region, Iraq, Libya and Yemen are highly reliant on oil sector revenue.

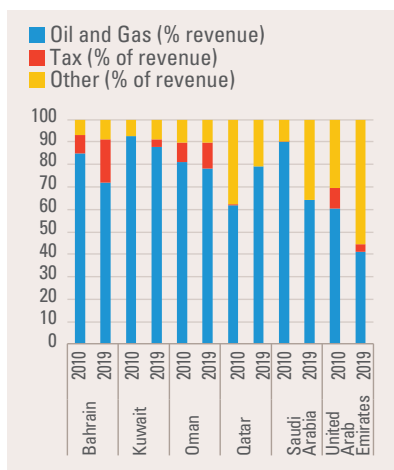
Taxes and foreign grants
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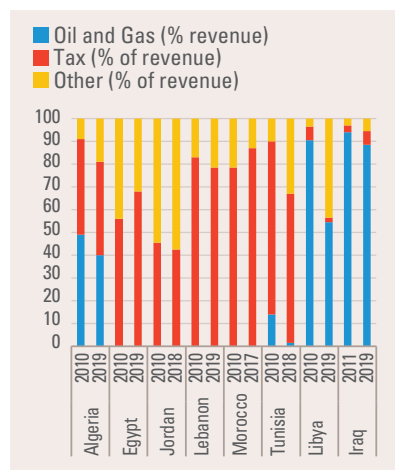


Figure 4.3 Composition of revenue in the Arab region (percentage of total revenue)

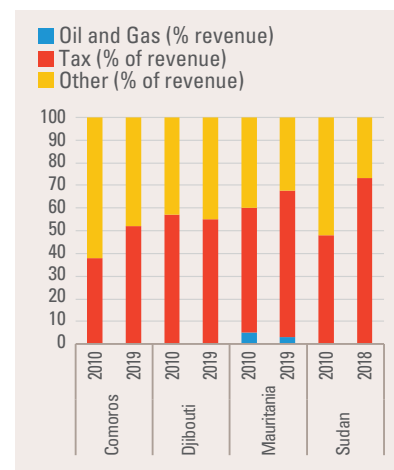
A. GCC countries



B. Middle-income countries



C. Least developed countries



Source: ESCWA calculation based on national and IMF data.

Note: The components of other revenues are country specific.

3. Taxes remain low as a share of GDP across the region

The region's tax revenue as a share of GDP⁴⁹ was 8 per cent in 2019 (figure 4.4). The share varied from 1 per cent in the United Arab Emirates to 25 per cent in Tunisia but the regional average has been steady at around 8 per cent since 2010. For the middle-income countries, taxes constituted nearly 19 per cent of GDP in 2019 compared to 7 per cent in the least developed countries, 4 per cent in the GCC countries and 1.5 per cent in conflict-affected countries.

The middle-income countries, while relying mainly on taxes for public revenue, have witnessed a steady decline in their tax-to-GDP ratio between 2009 and 2016. This is due to the global economic slowdown combined with conflicts in the region. They have introduced tax reforms to increase tax revenue during the last five years, which explains the slightly rising trend in taxes to GDP between 2016 and 2020. Median tax-to-GDP ratios remained low, however, at around 16 per cent in 2019 compared to 25 per cent in the world's developed countries and 18 per cent in the world's middle-income countries.⁵⁰

The GCC countries have not historically imposed taxes on individuals and goods and services, which

explains their low tax-to-GDP ratio. Their taxation systems mainly rely on corporate income taxes. Since the 2014 plunge in oil prices, they have pursued fiscal policy reforms mainly focused on introducing taxes on goods and services, such as value added and excise taxes, as part of efforts to diversify the revenue base and improve revenue collection.

The low ratio of taxes to GDP in the least developed and conflict-affected countries reflects their development challenges.

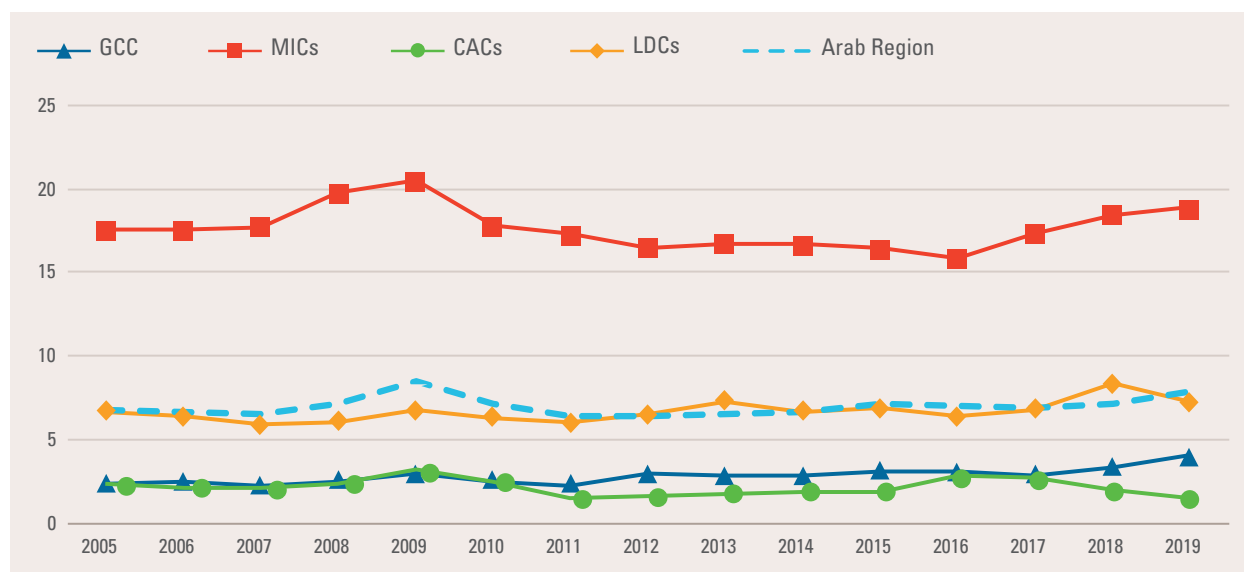
Taxes on goods and services constitute the major share of tax revenue in the middle-income countries (figure 4.5). The contribution of income tax (personal and corporate) is low for most middle-income and least developed countries. There have been efforts recently to mobilize higher revenue from income tax reforms in several countries. But the share of income tax in total taxes reaches 20 per cent at most, except in Tunisia, where the share was around 30 per cent in 2019.

The high share of taxes from goods and services indicates regressive taxation since the burden of indirect taxes is more on the poor and middle class

than the rich.⁵¹ Additionally, implementation of value added taxes entails multiple tax exemptions and rates, which often reduce equity.⁵² The rationale for exemptions is generally not clear and not targeted towards lessening the tax burden on low-income taxpayers. In some cases, value added

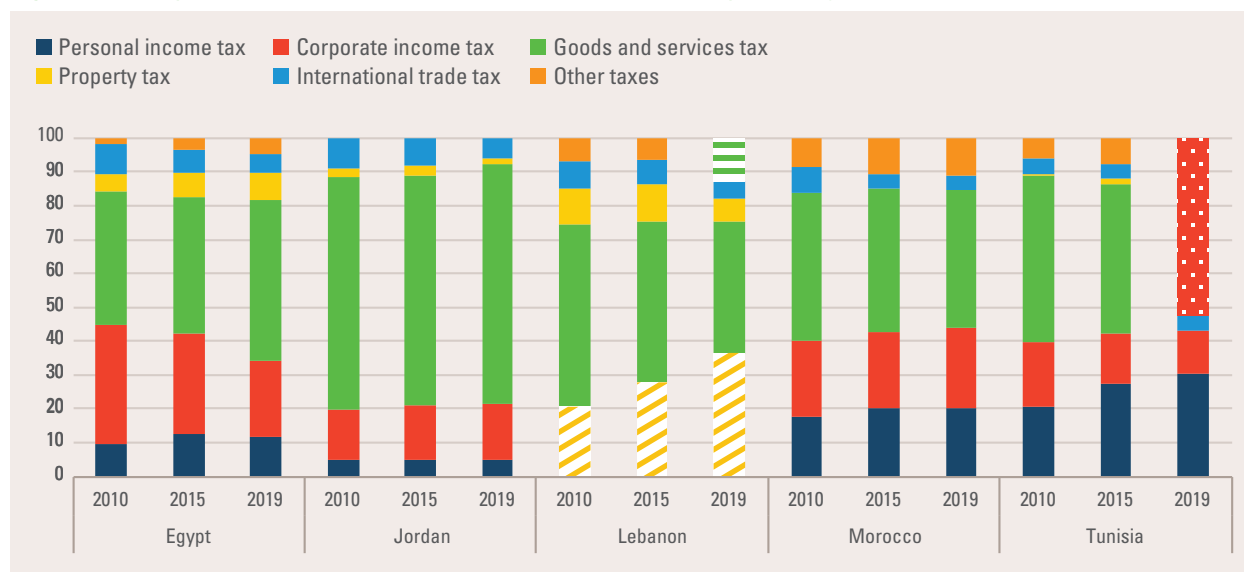
tax exemptions are granted for luxury items not consumed by taxpayers at the bottom end of the income distribution. For example, in Lebanon in 2019, value added tax exemptions applied to the sales of yachts, other boats and pleasure craft with a length of more than 15 meters.

Figure 4.4 Trends in tax revenue within the Arab region (percentage of GDP)



Source: Based on World Economic Forecasting Model forecasts.

Figure 4.5 Composition of tax revenue in middle-income countries (percentage share)



Source: ESCWA calculation based on national and IMF data.

Note: For Algeria, the red-dotted pattern includes goods and services, property and other tax revenue. For Lebanon, the purple pattern represents revenue from direct taxes, and the green pattern includes property and other tax revenue. For Tunisia, revenue from goods and services taxes includes value added tax revenue, consumption duties and other indirect taxes.

Wealth taxes constitute a negligible share of total tax revenue, despite a high concentration of wealth among the top 1 per cent of people in the region.⁵³

Globally, taxes on property are around 7 per cent of total tax revenue, much higher than the share in several Arab countries (figure 4.5).

4. Economic growth, public revenue and tax buoyancy

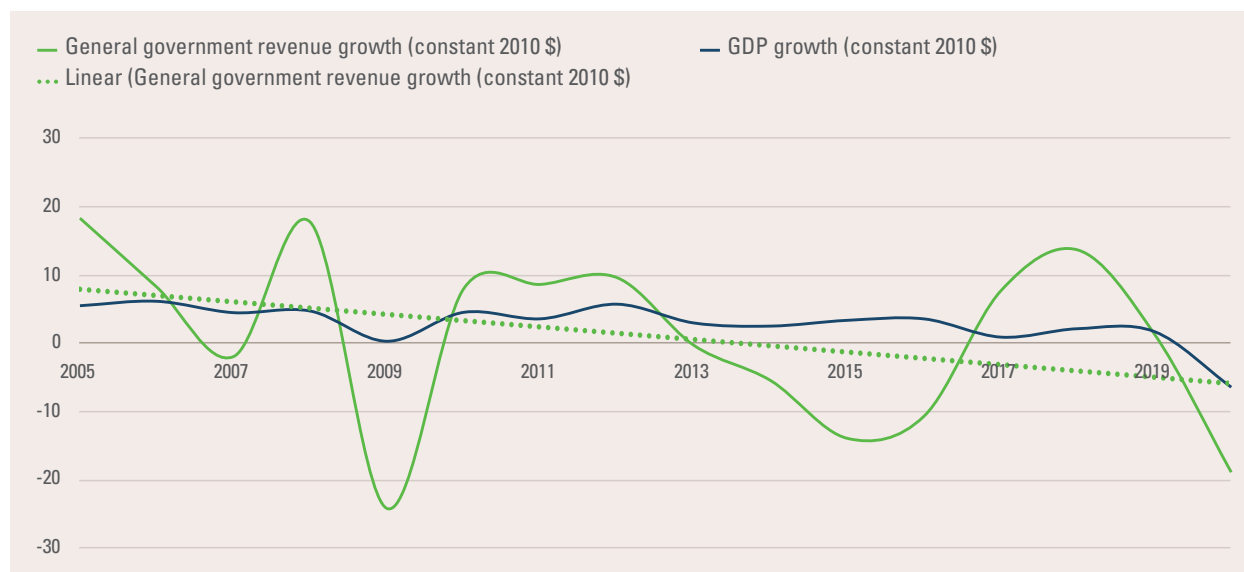
The Arab region has been hit by several economic and political shocks in the past decade, starting with the global economic slowdown in 2008. These constrained economic growth, which in turn reduced government revenue. Figure 4.6 tracks economic growth and revenue, showing an overall linear declining trend during the last decade and a half.

The performance of the region, on average, is mainly driven by GCC economies that are vulnerable to international oil prices and global markets. The strongly negative downturn in revenue in 2009 resulted from the oil price plunge that year, although international oil prices recovered quickly. During 2014–2017, outputs and revenue growth declined mainly due to the long-lasting adverse effect of the 2014 oil price drop. Growth had not recovered by 2018–2019, after which the pandemic imposed significant losses.⁵⁴ Conflicts have added other pressures. Overall, a decade of declining growth could make recovery from COVID-19 fallout even more challenging. The region has lost significant revenue, from oil revenue in the oil-rich countries to tax revenue that would have been generated if pre-2008 trends had remained.

An analysis of Arab low- and middle-income countries shows that most have long-run tax buoyancy amounting to less than one (including Egypt, Libya, Sudan and Yemen).⁵⁵ This essentially implies that growth in GDP does not yield proportionate growth in revenue. The configuration of economic activities, weak tax administration and tax leakages can be reasons for such a phenomenon. The current economic structure indicates stagnating shares of GDP from agriculture and manufacturing, and an expanding services sector with a high concentration of low value added activities,⁵⁶ which limits taxation capacities. Another underlying challenge is the high prevalence of informal economic activities, which are not part of the tax base. Since most informal economic activity compromises low-skilled labour, much of the tax lost due to it comes from high-net-worth individuals and hard-to-tax professional services.⁵⁷ Variations in tax buoyancy are evident across countries. Algeria and Morocco have a tax buoyancy that is greater than one, indicating that revenue is more responsive to economic growth on average over a longer time.

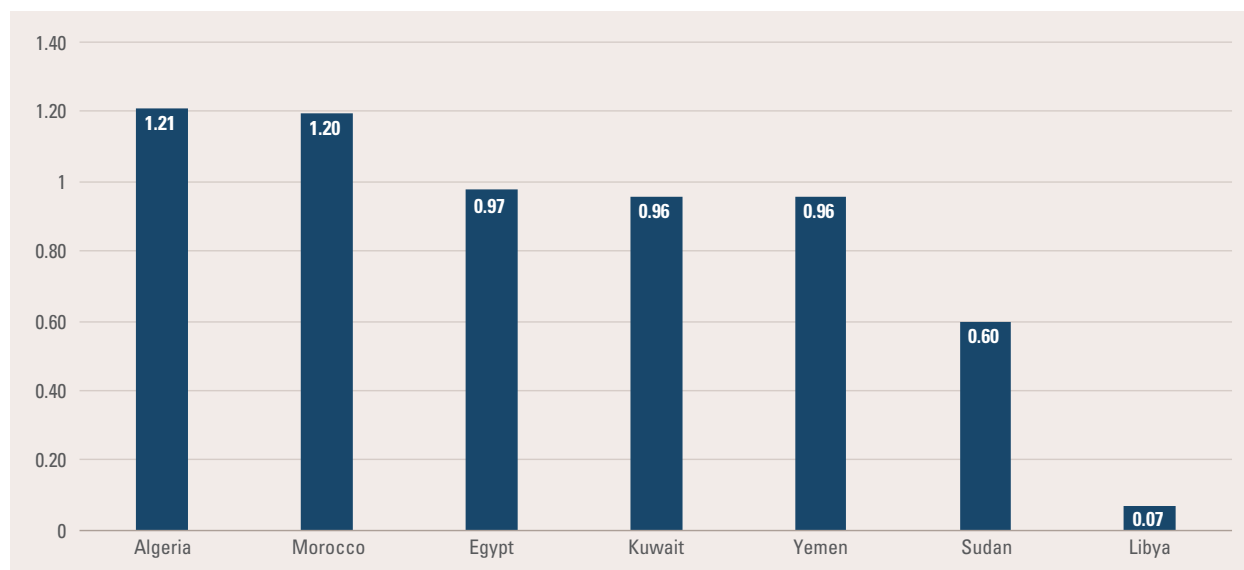


Figure 4.6 Growth of GDP and public revenue in the Arab region



Source: ESCWA calculation based on data from the IMF World Economic Outlook.

Figure 4.7 Long-run tax buoyancy in Arab countries



Source: Dudine and Jalles, 2017.

5. Determinants of tax revenue

Tax revenue mobilization improves with higher social investments in better public services.

Based on data from 1990 to 2018, covering 49 countries, ESCWA analysed determinants of tax revenue mobilization through a fixed effect

panel regression.⁵⁸ The estimates suggested that tax collection tends to be higher in countries with higher “social investment”, implying better public service provision of health care, housing and education (table A.5). This is quite intuitive,

since ensuring people's rights and meeting their aspirations through quality public services and social investments tend to reinforce the willingness to pay taxes. On the contrary, the failure of the State to provide basic rights due to a lack of or inefficient public spending on social areas is often associated with higher incidence of tax evasion leading to lower tax revenue.⁵⁹

A revenue rule alone does not tend to improve revenue. On the contrary, it generally reduces tax revenue as reflected by the negative coefficient on the revenue rule. A focus on raising revenue through increasing the tax rate or tax base may lead to resentment or higher tax evasion unless these reforms are accompanied by trust-building

measures through quality public service provision. The estimates also showed that balanced budget and debt rules do not have any significant impact on tax revenue. The same is true of expenditure rules. Cutting public expenditures does not help economic growth in economies with a negative output gap, which adversely affects revenue generation.

Given these preliminary findings, setting medium-term frameworks for revenue mobilization and tax reforms may not be sufficient to improve tax collection. These measures need to be accompanied by quality public services that reinforce trust in government and create buy in among taxpayers along with a willingness to consider tax reform proposals.⁶⁰

C. Tax regimes: how efficient are recent tax reforms?

Tax systems differ widely. For middle-income and least developed countries, which rely on taxes as their main source of public revenue, taxation includes personal income taxes, corporate income taxes, taxes on goods and services such as value added taxes or other sales taxes (figure 4.8). GCC countries do not currently have a personal income tax system but do have corporate income taxes enforced mainly on the oil sector. Some have recently introduced value added and excise taxes. Figure 4.8 shows tax rates reflecting diverse tax systems across the region in 2020. The top tier personal income tax varies between 15-40 per cent across countries, while the standard value added tax is between 5-20 per cent. The standard corporate income tax rate is between 10-26 per cent. The top tier rate – which applies to banks and financial institutions in Jordan; credit institutions, leasing companies and insurance companies in Morocco; telecommunications companies, franchises and monopoly companies in the State of Palestine; banks, insurance and telecommunication companies in Tunisia; and certain foreign companies in Kuwait – is between 20-50 per cent. The corporate income tax rate

on the oil sector in the GCC countries is between 35-85 per cent. Such high variation in tax rates raises questions about the equity and efficiency of tax systems as discussed in subsequent sections.

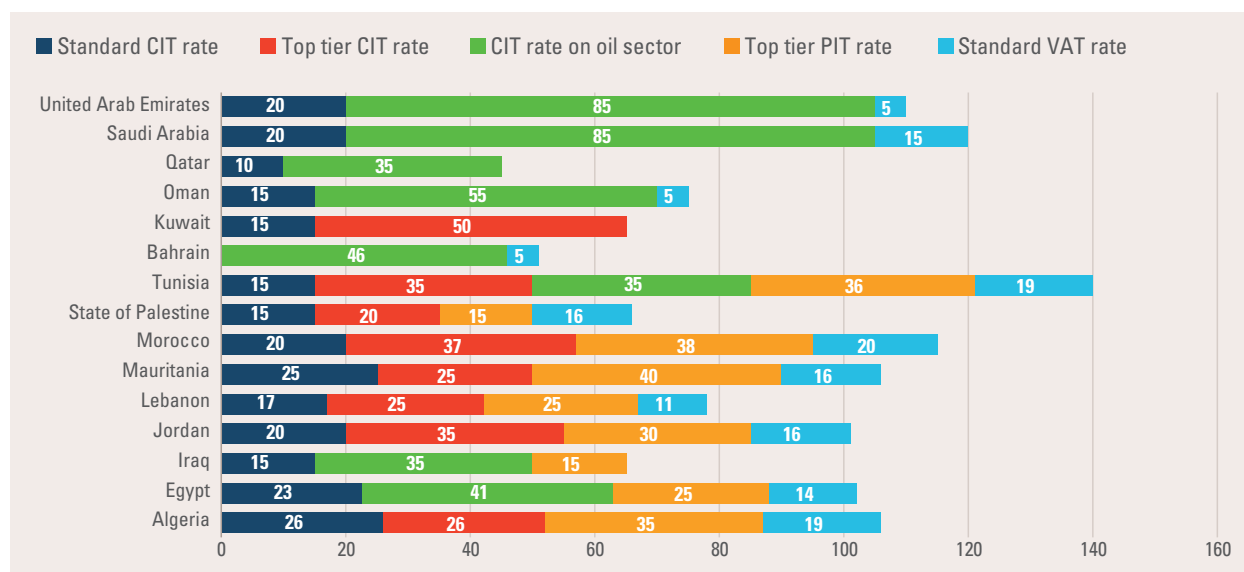
Top tier personal
income tax varies between

15-40%
across countries



Standard value added tax
is between 5-20%

Figure 4.8 Tax rates across the Arab region, 2020-2021 (percentage)



Source: ESCWA compilation from finance ministries, official gazettes and relevant tax authorities of respective countries.

Note: For Morocco, the standard corporate income tax rates, which apply to all sectors unless they are subject to another rate, are 10 per cent, 20 per cent or 31 per cent, depending on net profits realized; this figure shows the median standard rate of 20 per cent. In Saudi Arabia and the United Arab Emirates, the 85 per cent corporate income tax rate that applies to the oil sector is the highest applicable rate.

1. Middle-income and least developed countries encounter challenges in improving progressivity and efficiency

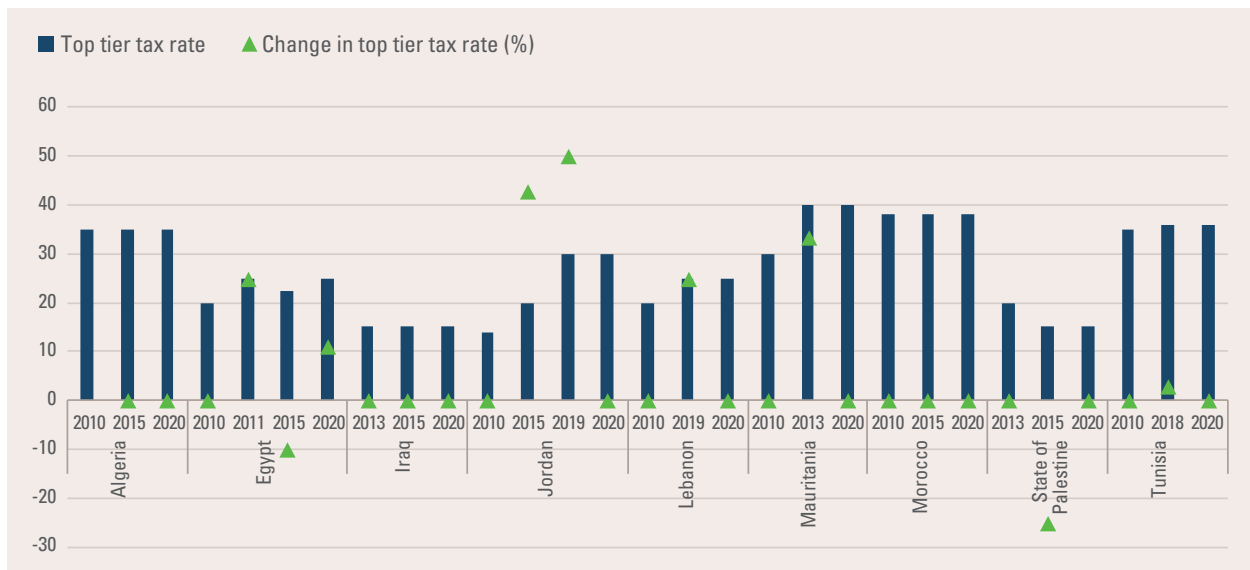
The following section examines the main tax reforms in middle-income and least developed countries in 2010-2020. It looks at reforms related to personal and corporate income taxes as well as dividends, capital gains, interest and property taxes, reforms in goods and services taxes, value added tax efficiency calculation and potential revenue gains from improved efficiency, and reforms in customs duties and excise taxes. Tables A.1 to A.4 provide a snapshot of reforms, including tax relief measures during COVID-19.

Personal income tax reforms, 2010-2020

Personal income tax reforms in several countries have involved modifying both tax rates and the tax base by changing tax thresholds. Top tier tax rates increased in several countries from 2010-2020 (figure 4.9). Egypt, Jordan, Lebanon and Mauritania

introduced a new top tier income threshold with a higher tax rate.⁶¹ The ratio of top tier tax thresholds to per capita income went up in Egypt, Jordan and Lebanon, which suggests that reforms were targeted at increasing tax collection from high-income earners (figure 4.10). In several countries, the ratio of the bottom threshold of the personal income tax to per capita income decreased, which can bring low-income earners within the tax net albeit at the lowest rate. This was the case in Algeria, Iraq, Jordan, Lebanon and Morocco. Reducing or eliminating exemptions, allowances and deductions granted to individuals, including certain capital gains as taxable at the personal income tax scale, have been other reforms to expand the tax base. Additional measures to improve revenue mobilization from individual income include a social solidarity contribution/tax, such as in Egypt, Jordan, Morocco and Tunisia (table A.1).

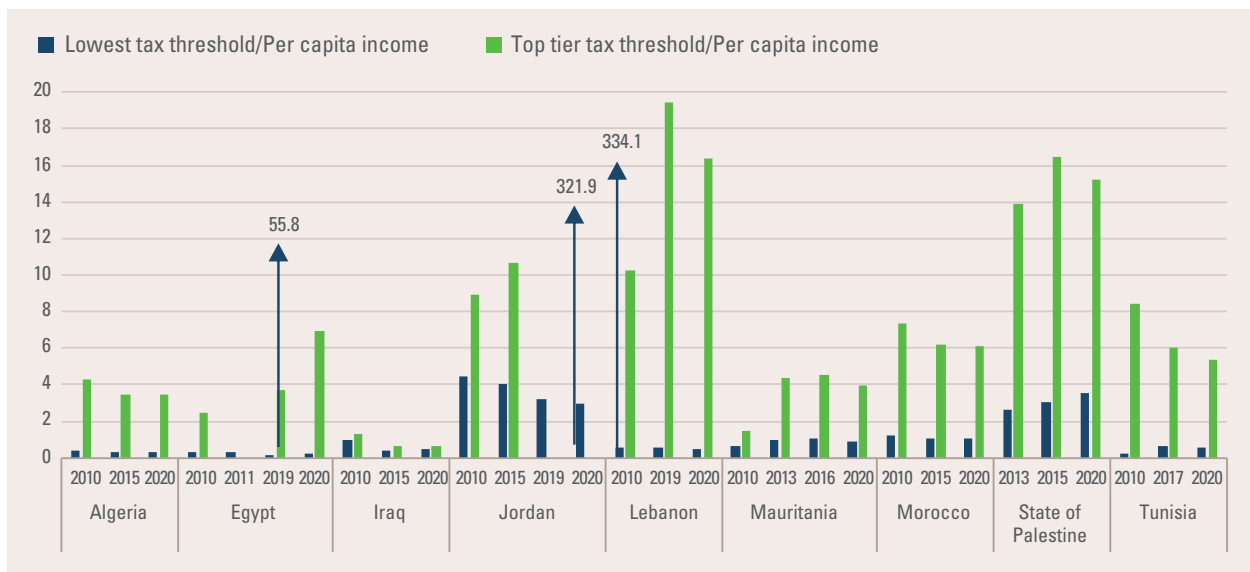
Figure 4.9 Reforms in top tier personal income tax rates and the percentage change over time



Source: ESCWA compilation from finance ministries, official gazettes and relevant tax authorities of respective countries.

Note: The years refer to when reforms took place.

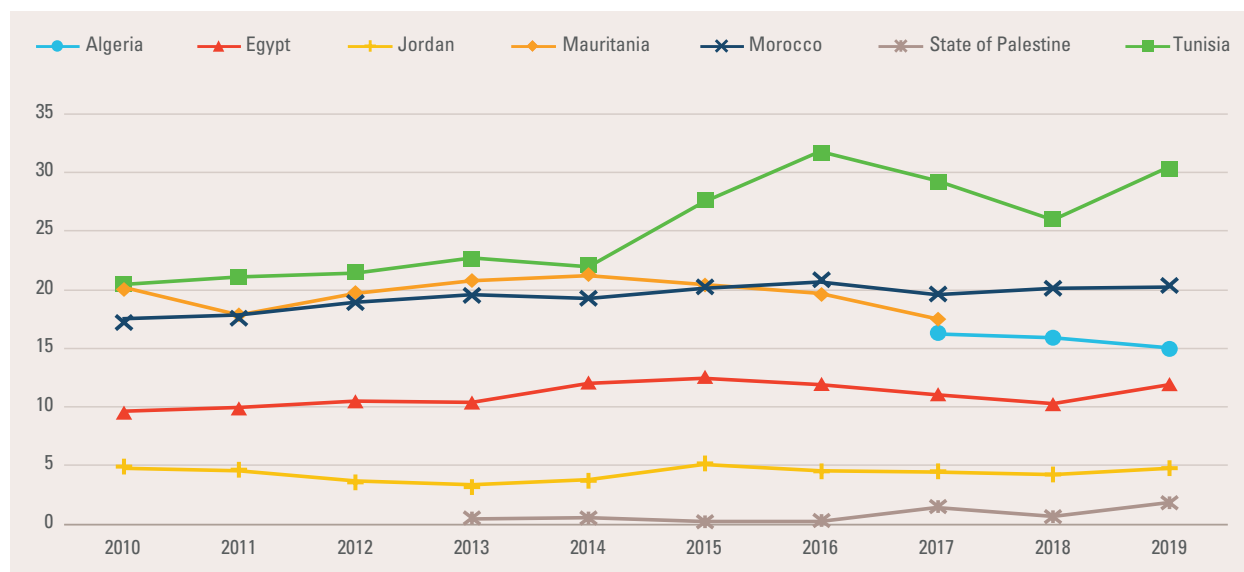
Figure 4.10 Lowest and highest individual income tax thresholds as a ratio of per capita income



Source: ESCWA compilation from finance ministries, official gazettes and relevant tax authorities of respective countries.

Note: The years refer to when reforms took place.

Figure 4.11 Lowest and highest individual income tax thresholds as a ratio of per capita income



Source: ESCWA compilation from ministries of finance, official gazettes and relevant tax authorities of respective countries.

Despite several reforms, personal income tax, as a share of total tax revenue, shows no significant improvement for most countries over the past decade (figure 4.11). Tunisia is an exception given a considerable increase in its personal income tax revenue. But the overall pattern raises questions on the effectiveness of tax reforms, including the cost of tax expenditures, tax non-compliance and tax evasion. While tax expenditures are an important fiscal policy tool to ensure social equity and welfare, they often hamper tax revenue collection. A study on Morocco found that tax expenditures constituted 3.8 per cent of GDP in 2014, a significant cost.⁶² Most countries do not have a standardized way of measuring tax expenditures and do not account for costs in budgets or annual reports. The absence of prior planning for tax expenditures and implementation costs as part of the budget makes it difficult to define total expected tax revenue. Tax evasion and avoidance are discussed later in more detail.

4.12A and 4.12B). Reforms include the general rate,⁶³ top tier rate and/or specific rate. A national contribution tax was imposed in Jordan and Morocco. Rates were revised upward in certain sectors previously subject to the standard rate in Jordan, Morocco and Tunisia. Companies in certain zones or sectors that used to benefit from reduced rates became subject to the standard rate in Egypt, Jordan and Tunisia. There were also measures to expand the tax base through the cancellation of exemptions. For instance, Morocco cancelled the full corporate income tax exemption granted to income from agricultural farms at all income levels in 2014. A similar measure was taken in Jordan in 2019. Morocco suspended the five-year exemption granted to export companies in 2020.

Quite surprisingly, the share of corporate income tax in total tax revenue does not show improvement for most countries, which raises concerns about reform effectiveness (figure 4.13).

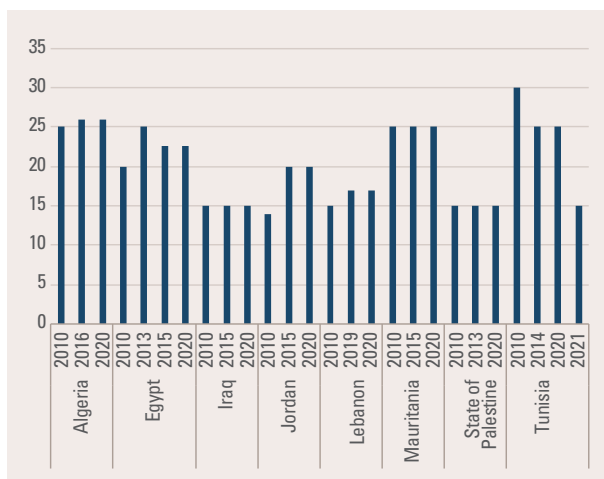
Corporate income tax reforms, 2010-2020

Several countries have revised corporate income tax rates and bases during 2010-2020 (figures

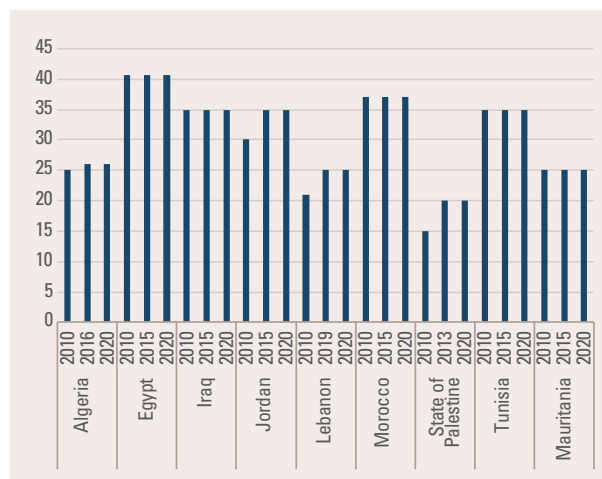
Taxes on dividends, capital gains, interest payments or other earnings increased in Algeria, Egypt, Lebanon, Morocco and Tunisia (table A.1). No recent property tax reforms were reported.

Figure 4.12 Corporate income tax rates across the middle-income and least developed countries

A. General tier CIT rate

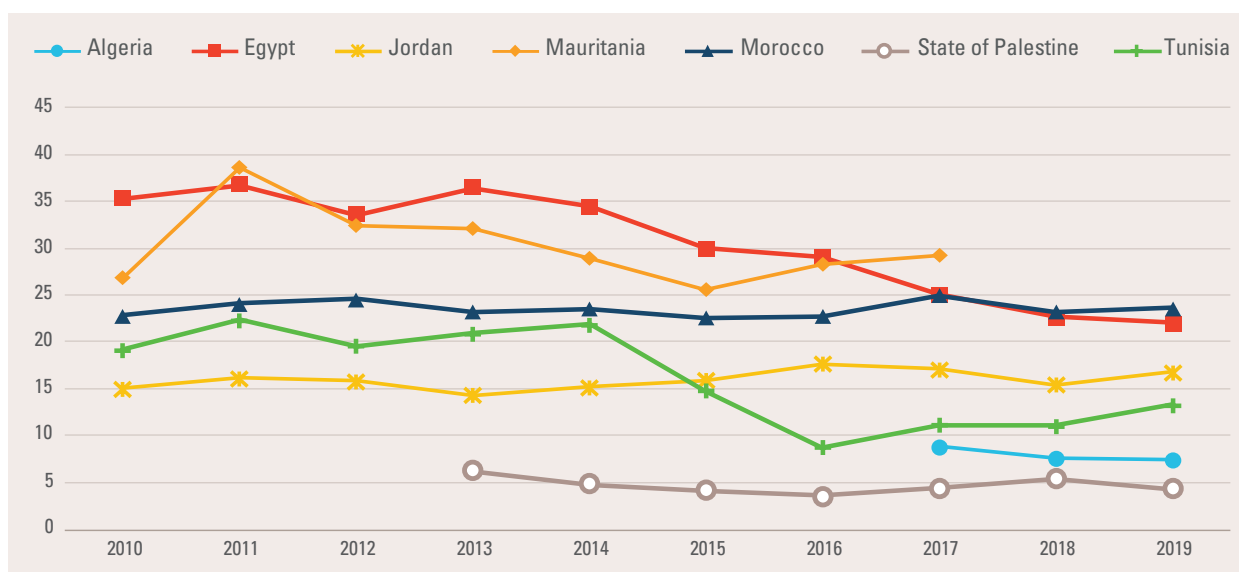


B. Top tier CIT rate



Source: ESCWA compilation from ministries of finance, official gazettes and relevant tax authorities of respective countries.

Figure 4.13 Corporate income tax revenue (percentage of total tax revenue)



Source: ESCWA compilation from finance ministries, official gazettes and relevant tax authorities of respective countries.

Goods and services tax reforms, 2010-2020

Goods and services taxes represent the major source of tax revenue for most Arab middle-income and least developed countries. Except for Iraq and Jordan, most have a value added tax, with Egypt being the latest to adopt one in 2016. Jordan

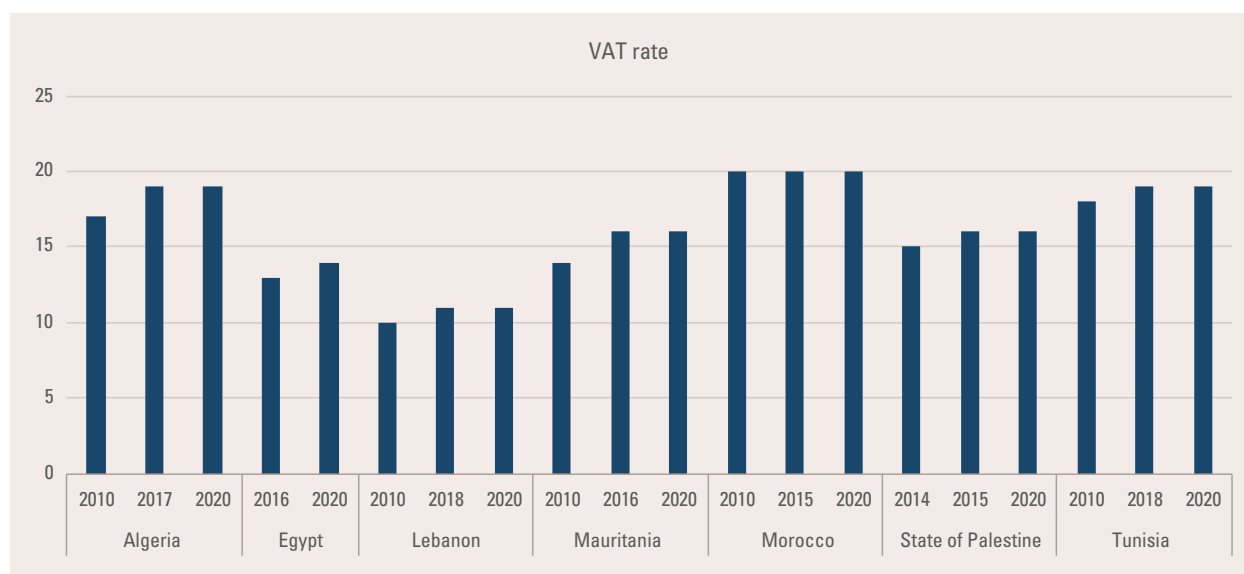
remains the only middle-income country with a goods and services tax system. Iraq has no law for a goods and services tax. The standard value added tax rate across the region currently ranges from 11 per cent in Lebanon to 20 per cent in Morocco. Over the past 10 years, increasing the value added tax rate has been a major tax reform measure in

Algeria, Egypt, Lebanon, Mauritania, Morocco, the State of Palestine and Tunisia (figure 4.14).

The performance of reforms to goods and services taxes is mixed. In Egypt, the share of goods and services taxes in total tax revenue has increased

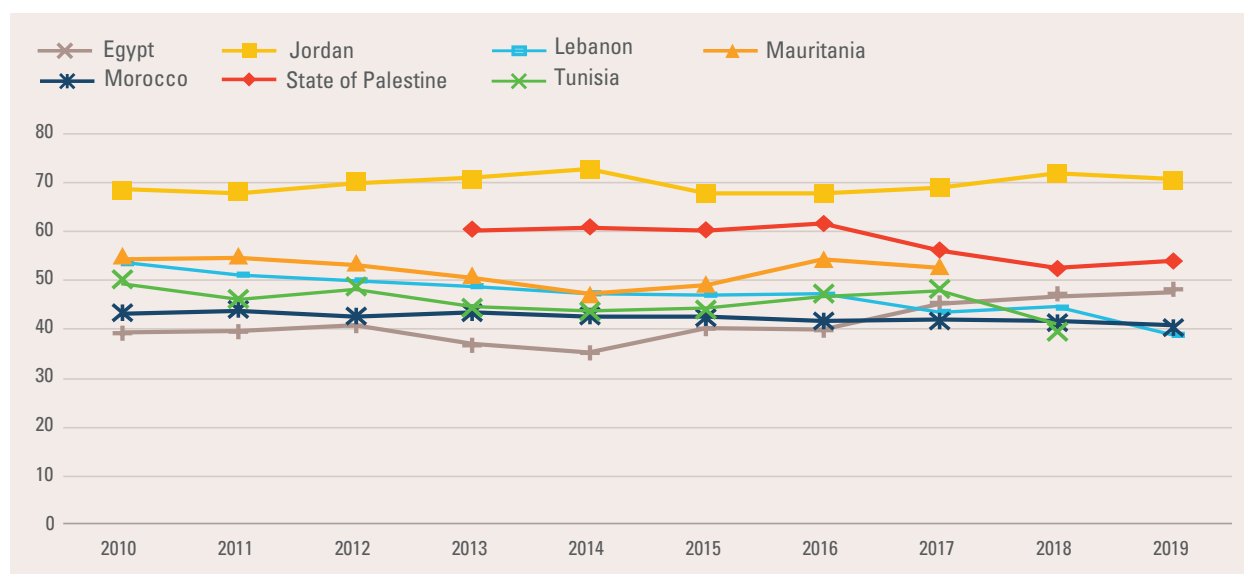
(figure 4.15). In Lebanon and Tunisia, the share is declining despite an increased value added tax rate. Such trends suggest that increasing the rate and expanding the value added tax base have not been efficient, possibly due to underlying factors such as weak tax administration and tax leakages.

Figure 4.14 Increase in the value added tax rate for several middle-income and least developed countries



Source: ESCWA compilation from finance ministries, official gazettes and relevant tax authorities of respective countries.

Figure 4.15 Goods and services tax revenue (percentage of total tax revenue)



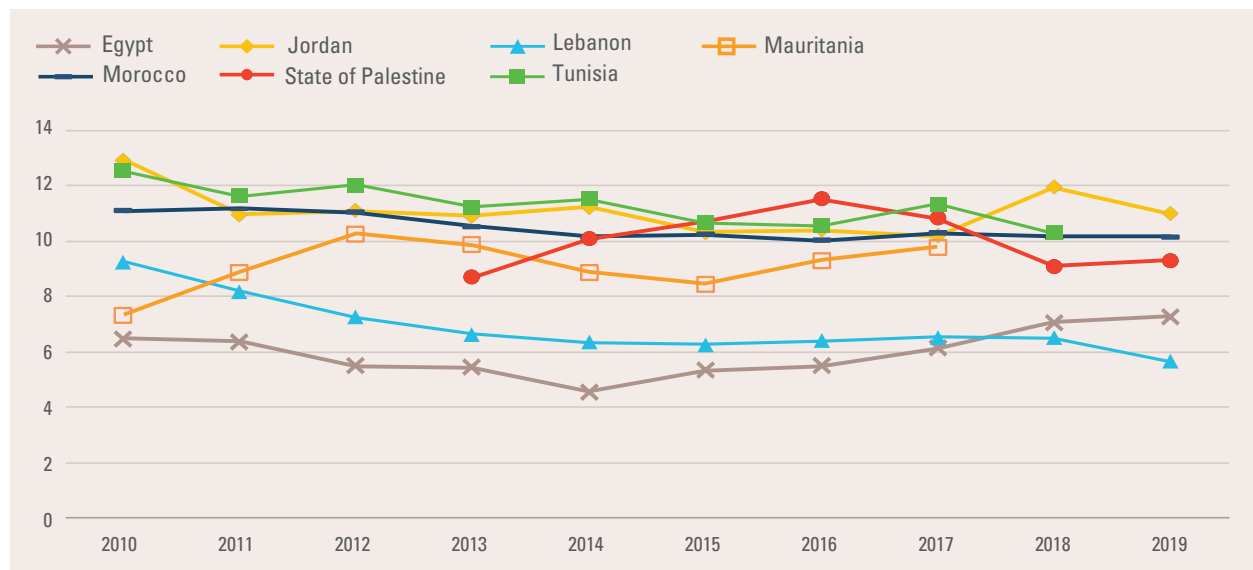
Source: ESCWA compilation from finance ministries, official gazettes and relevant tax authorities of respective countries.

Efficiency of the value added tax and revenue mobilization potential

Goods and services tax revenue, as a share of total consumption, has not improved in most countries. Egypt is an exception in showing clear progress

in mobilizing revenue from goods and services. In Lebanon and Tunisia, shares declined despite increases in value added tax rates (figure 4.16). Value added tax efficiency is calculated for selected countries to assess performance against global benchmarks, such as the OECD.

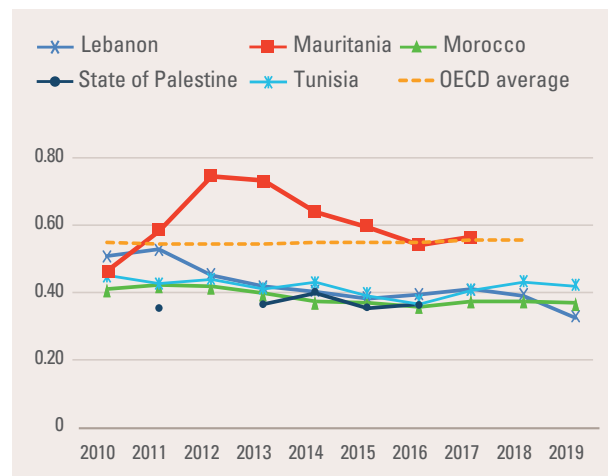
Figure 4.16 Mobilization of general goods and services taxes (goods and services tax revenue as a share of total consumption)



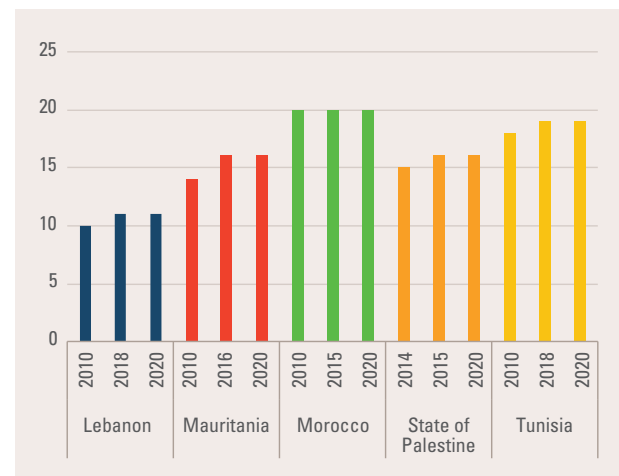
Source: ESCWA calculation, based on data from finance ministries and the IMF.

Figure 4.17 Higher value added tax rates are not enough to improve tax efficiency

A. Value added tax efficiency in selected Arab countries and compared to the OECD average



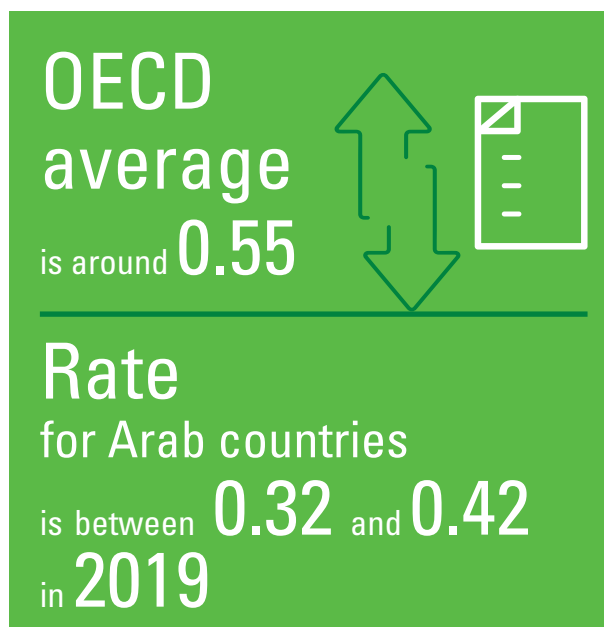
B. Value added tax rates in countries and their increase over time



Source: ESCWA calculations based on data from finance ministries, the IMF and the OECD.

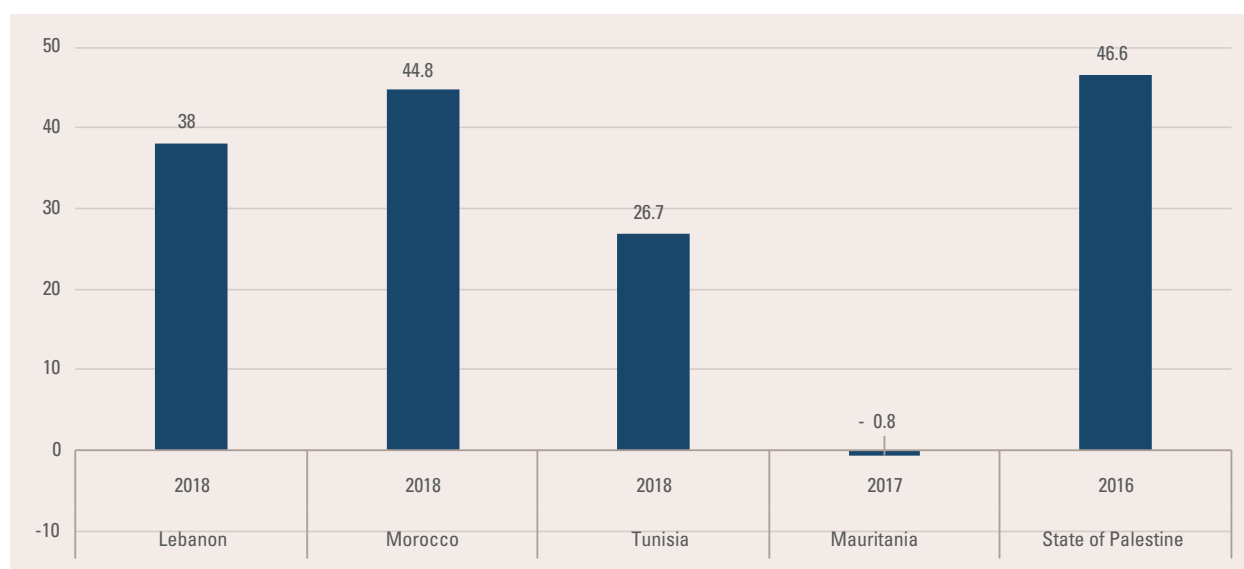
Value added tax efficiency indicates the efficiency of tax administration. It is the difference between actual and potential revenue obtained by applying the standard value added tax rate to the consumption base, and reflects tax leakages due to reduced rates, exemptions or tax evasion. The tax base for the value added tax is usually proxied by “final consumption expenditure” as widely suggested in the literature.⁶⁴ A reduced value added tax rate can be justified for products used by low-income earners but exemptions often distort equity and erode the tax base.

A study of value added tax efficiency in five Arab States suggests lower efficiency compared to global benchmarks such as the OECD average. While the OECD average is around 0.55, the rate for Arab countries varied between 0.32 and 0.42 in 2019. Mauritania shows efficiency at par with the OECD (figure 4.17A).⁶⁵ Countries with higher rates do not necessarily achieve greater efficiency, and countries that increased their rates have not automatically improve efficiency (figures 4.17A and 4.17B). Most literature highlights two important factors affecting tax efficiency. The first is the “policy gap” arising from tax policy choices such as different reduced rates and exemptions.



The second is the “compliance gap” in taxpayer compliance. Improving efficiency, as part of efforts to increase tax revenue mobilization, requires taking measures beyond increasing the tax rate, such as rationalizing exemptions, strengthening tax administration and enforcing laws to curb tax evasion, informality and non-compliance.

Figure 4.18 Potential value added tax revenue gains from improved efficiency (percentage increase from actual collections)



Source: ESCWA calculations based on data from finance ministries, the IMF and the OECD.

Improving tax performance and efficiency, potentially to the average OECD value added tax efficiency level, would lead to higher revenue for several States. Attaining the OECD average level could boost revenue by about 27 per cent in Tunisia, 38 per cent in Lebanon, 45 per cent in Morocco and 47 per cent in the State of Palestine (figure 4.18).

Customs duties and excise tax reforms, 2010-2020

In recent years, several countries, particularly middle-income countries, have increased import duties to raise revenue and encourage local production by making imported goods less competitive. Algeria,

Egypt, Iraq, Lebanon, Morocco and Tunisia have taken such measures.

Tobacco products, alcoholic beverages, some petroleum products and lubricants are subject to excise taxes. In Algeria in 2020, reforms included the introduction of a tax on e-cigarettes and liquids used in them and a gradual tax on sweetened non-alcoholic drinks according to their sugar content, previously subject to a single tax. Reforms in Egypt in 2020 consisted of increasing excise taxes on cigarettes and other tobacco products and introducing a new excise tax on heated cigarettes.⁶⁶

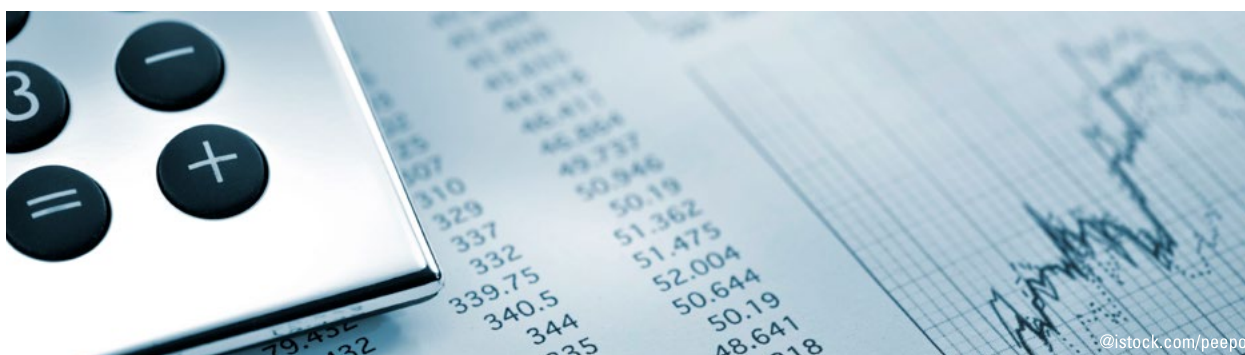
2. Social consequences of tax reforms in the middle-income and least developed countries

High reliance on taxes from goods and services, expansion of the tax base by bringing in low-income earners, a lack of property tax reforms and greater tax burdens on the middle class indicate challenges in improving tax fairness and progressivity in several countries. Evidence on value added tax implementation suggests that multiple tax exemptions and rates often reduce equity and burden the poor and middle class more than the richest groups.⁶⁷ With inequality a key challenge in achieving the SDGs, current taxation systems appear to play a role in driving gaps.⁶⁸

Current tax systems and recent reforms have not reduced inequality in the region.⁶⁹ Limitations include widespread tax evasion that often benefits the rich and companies, corruption leading to a lack of

transparency in the tax system, unequal distribution of the tax burden, limited focus on a wealth tax, inefficient tax collection leading to lower state revenue and lost spending on quality public services.

Implementing tax reforms has not been easy for most countries. Several governments have faced resentment and protests where tax reforms are perceived as unjust and not meeting aspirations for fair taxation and quality public services. Public protests have put pressure on governments to revoke planned tax measures, as in Lebanon in 2019, and Jordan and Tunisia in 2018. Communicating tax reforms to the public is important for buy-in, especially the middle class, which bears the highest burden of taxes. Delivering better public services and orchestrating fair reforms are critical for progress.

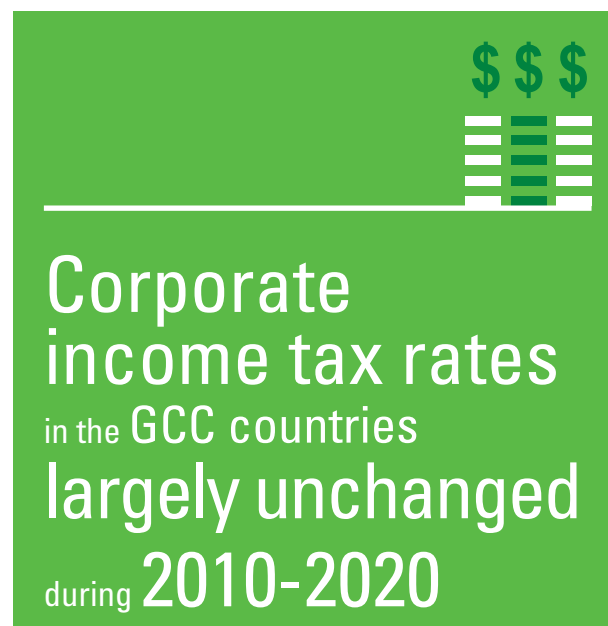


3. GCC countries confront challenges in diversifying tax revenue

This section reviews the main tax reforms in GCC countries over 2010-2020. It looks at reforms in corporate income, value added and excise taxes. Personal income and property taxes are not used in the GCC countries, while dividend, capital gains and interest taxes might apply in very limited circumstances. Tables A.1 to A.4 provide a snapshot of tax reforms and tax relief measures during COVID-19.

Corporate income tax reforms, 2010-2020

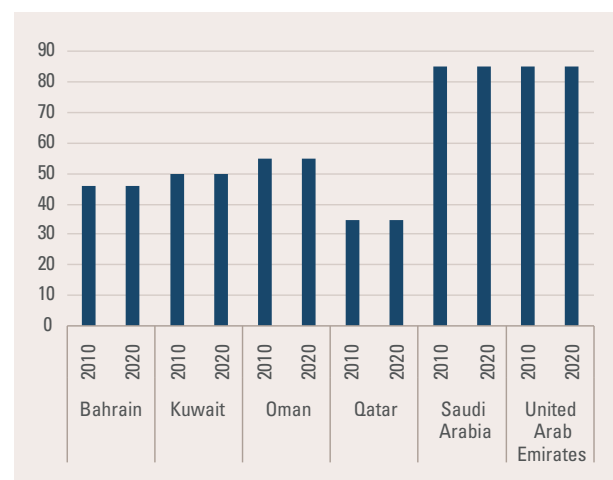
Corporate income tax rates in the GCC countries remained largely unchanged during 2010-2020. There are wide variations in top tier corporate tax rates implemented on the oil sector, with few recent changes (figure 4.19A). Qatar included petrochemical industries in the highest tax bracket after previously taxing them at the standard rate of 10 per cent. The lowest corporate tax rates were also unchanged for most countries, except Oman. Some rates are below the proposed global minimum effective rate of 15 per cent



(figure 4.19B). In 2017, Oman increased the lowest rate from 12 to 15 per cent and cancelled the exemption granted to companies with profits below OMR 30,000.

Figure 4.19 Corporate income tax rates in the GCC countries have remained largely unchanged during 2010-2020

A. Top rates



B. Lowest rates



Source: ESCWA compilation from finance ministries, official gazettes and relevant tax authorities of respective countries.

Value added and excise tax reforms

Several GCC countries introduced value added taxes as part of fiscal reforms and revenue diversification strategies, under a common agreement. Saudi Arabia and the United Arab Emirates initiated value added taxes in 2018, Bahrain in 2019 and Oman in 2021. In 2020, Saudi Arabia increased its tax from 5 per cent to 15 per cent. Data on value added tax revenue are not available for analysis as of the end of 2020.

Recent tax reforms in the GCC countries included introducing excise taxes on goods deemed harmful to health. In 2017, Bahrain, Saudi Arabia and the United Arab Emirates launched excise taxes on soft drinks at a 50 per cent rate as well as on tobacco products and energy drinks at a 100 per cent rate. In 2019, Qatar and Oman introduced excise taxes on the same goods, subject to the same rates, in addition to a 100 per

cent excise tax on special goods (alcohol and pork). Saudi Arabia and the United Arab Emirates introduced additional excise taxes on sweetened beverages at a rate of 50 per cent in 2019 and on electronic smoking devices and tools and liquids used in such tools at a rate of 100 per cent in 2020.

Over the past few years, the GCC countries have emphasized taxes as part of fiscal policy reforms, seeking to diversify the tax base to improve revenue collection. They focus on taxing goods and services, however, since income and property taxes⁷⁰ are yet not part of the tax system. In general, taxes on capital gains are very limited with exemptions in several cases. Dividend earnings are largely exempt from tax except in a few cases. Tax evasion and leakages reduce opportunities for improving tax collection from corporations as discussed in the following section. Revenue diversification remains a key challenge.

D. Tax revenue leakages: unresolved and uncounted?

The Arab region has long sought ways to improve the fairness, transparency, efficiency and effectiveness of tax systems. **In today's "pandemic of inequality", these principles are compromised by multiple tax abuses** that are illegal, such as tax evasion and trade misinvoicing, or immoral, through tax avoidance. These abuses permeate all kinds of taxes (direct and indirect), structures (progressive or regressive) and jurisdictions (developed and developing).⁷¹ Tax abuses by individuals (nationals or residents) and firms (public or state-owned, private, domestic or multinational) are undermining fiscal space and the autonomy of Arab tax systems.

Not all taxes are equal as each cultivates its own leakages. For example, indirect trade taxes known for their fast revenue creation may provoke counterfeit and carousel trade. Raising tariffs and other equivalent fiscal charges can stimulate tax fraud and trade misinvoicing, syphoning off potential public revenue. Excise and other border taxes may

score high on equity but not when set higher than in adjacent jurisdictions or when they discount enforcement capacity, which gives incentives for smuggling and contraband, making these taxes less than ideal for domestic resource mobilization.

Consumption taxes favoured for their low enforcement cost can be regressive and adversely affect equity. These taxes lose their appeal once the reality of tax evasion is factored in,⁷² unless exemptions are enacted to shield the most vulnerable. Tax exemptions, however, make such taxes less transparent, create incentives for tax non-compliance and raise enforcement costs. Value added taxes can be quick revenue raisers but come with equity costs in settings with large informality. Taxes on high income may score high on equity but are not necessarily efficient in terms of compliance and enforcement, given that a high marginal tax on top income earners may prompt them to shield or shift their wealth to reduce tax liability.

An optimal tax policy considers the dynamics of a host of elasticities and behavioural choices that are in a continuous state of flux and interact under market imperfections. These imperfections are not always visible as tax abuses remain off the radar and ahead of the curve in sophistication and use of technology. Nevertheless, tax

systems continue to be judged for their fairness, transparency and efficiency but not on **their ability to detect tax leakages that permeate through them**. In practice, the most admirable tax structures on paper are of little value if they are inefficiently administered or if enforcement costs are higher than yields from higher compliance.⁷³

1. Tax abuses remain ahead of tax enforcement and transparency

Tax policy should account for enforcement costs.

Most developed countries with wealth taxes have repealed them. Today, only three OECD members apply wealth taxes.⁷⁴ Where they have been applied, they rarely raised much revenue and were accompanied by a wave of capital flight.⁷⁵ Experience shows the limitations of enforcing a static wealth tax in today's environment of high capital mobility, tax havens and secret financial transactions.⁷⁶ Even property taxes, considered more efficient since they are tied to specific locations, need to factor in enforcement costs (cadastres and asset evaluations) to ensure the buoyancy of property taxation.⁷⁷

The disconnection between tax design and enforcement is attributed to factor mobility and digitization.

In digitized settings, tax abuses are not easily spotted or quantified, and governments are unable to determine their tax base with a high degree of certainty. Tax administrations that lack accurate information to evaluate incomes, capital, consumption and wealth whenever they are generated or shifted to other tax jurisdictions find difficulties in enforcement. In such cases, tax revenue leaks out of national systems, forcing countries to offset the losses by

raising distortionary taxes on an already narrow tax base. Clearly, outright tax increases are no solution amid factor mobility and in settings that suffer from a narrow tax base and high informality. When a country with a narrow tax base attempts to raise taxes indistinctly, taxable income reported may drop.⁷⁸

Better tax enforcement is contingent on the ability to measure the social costs of taxation.

These include enacting, administering and collecting the tax, and, more importantly, deadweight losses caused by taxpayers seeking to reduce tax liability by resorting to tax arbitrage and tax evasion/avoidance. If these costs are not factored into tax policy formulation, enforcement can come at a price exceeding the deadweight losses of tax evasion/avoidance or the marginal yields from any given increase in compliance. The United States, for example, spends \$1 trillion annually on enforcement, yet the United States Treasury forgoes less than half of this amount in unreported taxes.⁷⁹ Such information is critical for policymakers to determine if it is efficient to raise an additional dollar by increasing tax rates, rationalizing tax incentives or reducing social costs by upgrading tax collection capacities to reduce deadweight losses.

2. Tax abuses and tax expenditures: who are they serving, the formal or informal sector?

Some seemingly inefficient tax systems might be a rational response to enforcement difficulties driven by the lack of tax information on both formal and informal activity. Countries with high informal activity tend to see their public revenue at 5-10 percentage points of GDP lower than their counterparts where the informal sector accounts for less than a quarter

of GDP.⁸⁰ Equally, when a high share of the population is in precarious work or self-employed, countries tend to see low tax-to-GDP ratios.⁸¹

A distinction should be made between tax evasion and informality. Tax evasion should not be synonymous or attributed to informal activity. Categorizing informal

workers as part of a tax-evading “shadow economy” is both harmful and misleading.⁸² Informal activities may be legal but not subject to taxes because of their small size or because they are hard to tax and escape measurement in official statistics.⁸³ In some cases, informality may be widespread but not perceived as such, seen simply as another way of doing business.⁸⁴ Reducing informality is a key consideration for tax policy but as taxes discourage formalization, informal firms seldom join the formal economy. Instead, the focus should be on ensuring that formal productive capacities do not themselves shift into informality. Some argue that when the formal sector grows, informality diminishes. One way of achieving this is by curbing tax evasion/avoidance in the formal sector.

The formal sector continues to be the centre of attention as it poses a triple challenge for tax design.

On one hand, policymakers seek to combat tax abuses such as tax evasion, avoidance, non-compliance, tax arbitrage and tax competition. On the other hand, they provide generous tax incentives to attract foreign private investments, given that effective tax rates affect the location of reported profits and real investments of multinational corporations. Many countries are confronted with the paradox of fighting the tax base erosion consequences of profit shifting while enacting excessive tax incentives without fully appreciating their revenue implications.⁸⁵ In a third dimension, policymakers seek to ensure that domestic tax-complying firms have a level playing field when it comes to taxation. This helps avoid distorted competition and incentives to slip into informality or shift profits to other low-tax jurisdictions. In Tunisia, the corporate tax burden falls on domestic producing firms while export offshore firms benefit from a tax wedge⁸⁶ that strips the country of 2 per cent of GDP in revenue.⁸⁷ In Morocco, tax exemptions amounted to \$3.5 billion in forgone public revenue in 2016⁸⁸ (the IMF puts this amount at 4 per cent of GDP in 2015).⁸⁹

Tax evasion is pervasive in the formal sector.

Accounting for tax evasion is key to optimal tax design.⁹⁰ Tax evasion by high-net-worth individuals and white-collar worker in a variety of professional services, such as doctors, lawyers, accountants and bankers, has corrosive impacts on the tax base and tax fairness. Here, it is not statutory rates that make

tax systems regressive but rather tax abuse. In fact, tax systems seeking high progressivity for high-net-worth individuals but without adequate enforcement end up seeing their tax base erode.⁹¹ In Egypt and Tunisia, nearly 64 per cent and 70 per cent of personal income tax revenue in 2018 accrued from domestic payroll salaries subject to a withholding tax.⁹² But only 2 per cent of personal income tax revenue in Egypt came from professional income. In Tunisia, 50 per cent of liberal professionals, namely lawyers, do not comply with their tax obligations.⁹³ In Jordan, self-employed professionals contribute little to the tax base (0.27 per cent of GDP), and the number of taxpayers has fallen at times, pointing to the challenges of taxing professional service providers.⁹⁴ In Morocco, taxes withheld from salaries represent 70 per cent of total income, while those from occupational incomes account for just 11 per cent.⁹⁵

Optimizing revenue generation from corporate taxation is a critical factor for tax policy.⁹⁶

Corporations evade taxation by employing different strategies, including shifting profits by routing fees and royalties on intangibles through low-tax jurisdictions, exploiting gaps through treaty shopping and aggressive tax planning, tax arbitrage to evade taxing capital income, and manipulating transfer pricing through the irregular application of

Reducing informality is a
key consideration
for tax policy



Corporations
evade taxation by
employing different
strategies



the arms-length principle. Companies also dodge taxes by dividing themselves into smaller entities to shift between tax brackets and their corresponding tax liability, changing the identities of their legal

owners to evade taxation, and receiving deductions in high-tax jurisdictions by borrowing there to lend to their affiliates in low-tax jurisdictions.

3. The scale of tax evasion and revenue leakage in the Arab region

The formal sector must be the focus of analysis of tax abuse (evasion/avoidance). The estimates speak for themselves. Between \$8.7 trillion and \$36 trillion of private wealth is hidden in tax havens.⁹⁷ Ten per cent of the world's GDP is held in untaxed offshore assets, while \$1.3 trillion in annual profits from multinational corporations is shifted to a small number of tax havens,⁹⁸ causing \$500 billion to \$600 billion in direct and indirect corporate tax revenue losses.⁹⁹ Losses to low-income countries reach \$200 billion¹⁰⁰ or a quarter of the estimated annual SDG financing gap

in developing countries.¹⁰¹ This sum is more than the combined output of Jordan, Morocco and Tunisia in 2019. Further, \$8.8 trillion is lost to trade-based misinvoicing, including \$77.5 billion in the Arab region.¹⁰²

Corporate taxation is a source of tax revenue leakages. Governments lose significant revenue from tax abuses, including in the Arab region (box 4.1). This is symptomatic of an international tax order under stress due to systemic gaps in the global tax rulebook.

Box 4.1 Corporate tax abuse and tax leakages in the Arab region

The methodologies of the Tax Justice Network and Cobham and Jansky (2018) shaped a quantification of the revenue impacts of corporate tax abuse in the Arab region. Two high-frequency data sets were employed, the Government Revenue Database (GRD) and the IMF Government Finance Statistics, to establish a range for losses.

The exercise illustrated that middle-income economies with a diversified tax base (Egypt, Jordan, Morocco and Tunisia) on average account for half of the region's annual tax revenue losses due to corporate tax abuse. This is equivalent to 16 per cent of the Arab region's entire expenditures on health and nearly 11 per cent of its education budgets in 2017, respectively.^a To provide a comparative assessment, the corporate tax losses in OECD country-by-country reporting are regenerated (panel C). Tax losses are comparable with those reported by the OECD. Egypt on average loses \$2.1 billion in corporate tax revenue (similar to the OECD results); Jordan loses \$100 million on average (compared to \$87 million based on OECD reporting).

The findings show that the region witnessed significant tax leakages over the past decade (panel B), in line with several investigative reports on corporate tax evasion. For example, according to the Jordanian Government, tax evasion costs the treasury between \$100 million and \$200 million a year.^b In Lebanon, annual corporate income tax evasion is on the order of \$400 million to \$450 million.^c Oxfam estimates that Morocco loses \$2.5 billion annually due to tax evasion.^d Tax evasion in Tunisia is estimated at \$540 million per year.^e

^aThe combined health expenditure of the Arab region amounted to \$74 billion in 2017. However, Saudi Arabia alone accounts for nearly 40 per cent of this figure. As such, health expenditures in the region (excluding Saudi Arabia) amounted to \$46 billion in 2017, based on figures from the Arab Monetary Fund.

^bOCCRP, 2020.

^cBlominvest Bank, 2017.

^dwww.lavieeco.com/economie/evasion-fiscale-le-maroc-bien-pare-pour-quitter-la-liste-grise-debut-janvier/.

^e<https://africanmanager.com/tunisie-levasion-fiscale-estimee-a-15-milliard-de-dinars-par-an-selon-un-expert/>.

Countries no longer have the luxury of designing tax policy in isolation¹⁰³ or combating tax abuses along the lines of international and national policymaking. Traditional geographical boundaries no longer define a country's potential tax base. In globalized settings, economies can "attract and tax: foreign financial and direct capital, foreign consumers, foreign workers, foreign individuals".¹⁰⁴ The League of Arab States

has yet to match the level of regional integration required to combat tax abusive practices with those advanced in other regions. There is no dedicated body uniquely poised to address cooperation in fiscal and tax matters, be it to combat tax abuse, tax competition or base erosion, or to regionally recalibrate tax and investment treaties with the new world tax order in the making.

4. A new world tax order: implications for the Arab region

Digitization has allowed digital service providers to profit from sales without having a physical presence in jurisdictions where consumption takes place. Countries can be left with no taxing rights over these profits as income from sales is taxed where multinational corporations are headquartered.¹⁰⁵ The broader problem of taxing rights, however, is not limited to digital services. The growing use of intra-group payments for both intellectual property and debt repayment means that an increasing share of global corporate profits can be moved out of jurisdictions. The G20 and OECD are advancing a two-pillar global tax reform package with far-reaching implications for Arab economies.

Pillar one of the proposed reforms seeks to assign new taxation rights by relocating a portion of global corporate profits based on a profit allocation rule to market countries. The proposal would replace the current system, where corporations are taxed

on their physical presence based on the permanent establishment definition, which has often been exploited to relocate a substantial portion of profits to tax havens. Under the new approach, multinational corporations would be taxed on a consolidated unitary basis under an agreed formula apportionment that allocates a certain threshold of the "residual profits" among countries where sales take place.

The apportionment would apply to 20 per cent of residual profits (over 10 per cent of pre-tax profits).¹⁰⁶ In essence, the proposed reforms under negotiation are intended to redistribute taxable profits and ensure that digital multinational corporations pay a fair share in corporate taxes.¹⁰⁷ In 2018, 60 of the largest multinationals, including Amazon, Netflix and General Motors, paid no taxes despite reporting global profits of some \$80 billion.¹⁰⁸ The OECD estimates that reforms under this first pillar may generate additional tax revenues of \$125 billion per year.¹⁰⁹



A preliminary evaluation of these reforms indicates that the inclusion of employment and sales in the apportionment would lead to a substantial increase in the taxing rights of developing countries.¹¹⁰

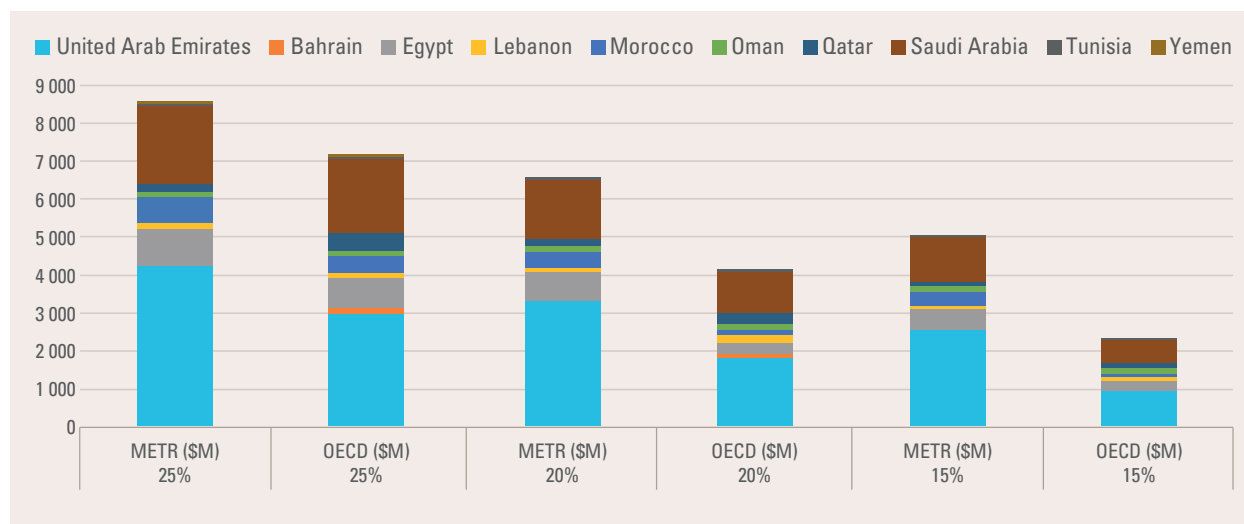
The effects of formula apportionment on Arab countries remain sensitive to weights that the negotiations would assign to factors used for apportioning residual profits (assets, sales, payroll, employment, etc.). According to the IMF, oil rich Arab countries and investment hubs (Algeria, Bahrain, Oman and Qatar) would be net losers, irrespective of whether the asset or employment factor is employed for apportioning profits. Oil poor economies (Egypt, Jordan, Morocco and Tunisia) stand to gain from an apportionment based on employment. The main losers would be investment hubs but revenue losses may be nominal as profits there are likely to be taxed marginally if at all.¹¹¹

Pillar two introduces a new global anti-base erosion tax (GloBE)¹¹² to address tax competition, so where pillar one is intended to relocate taxing rights, pillar two seeks to make profit shifting less attractive for MNCs by allowing home countries to tax the undertaxed profits in market countries up to a minimum effective tax rate of 15 per cent.¹¹³ If a company books profits in a low-tax jurisdiction or haven, the tax authority of the countries where the company operates would have the right to collect taxes up to the difference between

the tax rates in the market country and the global minimum tax, thereby removing the incentive to conceal and shift profits. Under the GloBE, however, the home country retains priority in collecting undertaxed profits, and only after that would countries where the multinational operates be able to collect whatever undertaxed profits remain. An alternate proposal advanced by a group of scholars,¹¹⁴ known as METR, overcomes this asymmetry by treating headquarters and host countries equally in the redistribution of undertaxed profits, which would instead be apportioned according to the share of the multinational's economic activity in each country.

Up until mid-2021, the negotiations showed that the G7 compromise renders lower benefits for the Arab region than the METR¹¹⁵ with revenue gains ranging between \$2 billion and \$8 billion annually when the GloBE and the METR are evaluated at minimum effective tax rates of 15 per cent, 20 per cent and 25 per cent (figure 4.20).¹¹⁶ Arab countries that provide tax incentives may see them undercut if they lower the effective tax rate, thereby giving other States the right to top up the missing tax. Low corporate tax jurisdictions that do not adjust their tax systems could see potential tax revenue flow out to other jurisdictions.¹¹⁷ More broadly, national legislative changes may be required to reflect the implications of reforms under pillar two on tax incentives and tax treaties.

Figure 4.20 Revenue gains from a global minimum corporate tax rate for ESCWA members, millions of dollars, OECD and METR proposals at different rates



Source: Cobham, A., T. Faccio, J. Garcia-Bernardo, and others (2021). "A Practical Proposal to End Corporate Tax Abuse: METR, A Minimum Effective Tax Rate For Multinationals". IES Working Paper 8/2021. Available at <https://ies.fsv.cuni.cz/sci/publication/show/id/6412/lang/en>.

E. Key findings

1. **In the Arab region, total revenue as a share of GDP has declined over the past decade and half from 42 per cent in 2008 to 28 per cent in 2020.** For the middle-income countries of the region, the share was about 24 per cent of GDP in 2020. Middle-income country performance on revenue mobilization has remained lower than that of emerging market and developing economies, or that of Latin America and the Caribbean region over the past decade.
2. **The declining trend in total revenue has been exacerbated by the pandemic.** COVID-19 generated significant negative impacts on revenue, including oil and gas revenue in the GCC countries, and compounded fiscal pressures in all countries. Several countries introduced tax reforms to mitigate the adverse effects of the crisis. The estimated loss in total revenue is as high as 8 per cent of GDP in Algeria.
3. **Sources of revenue differ widely across countries.** For the GCC countries, the main source is the oil and gas sector with only a recent focus on taxation through the introduction of value added and excise taxes. The share of oil and gas in total revenue was 64 per cent in 2019 in Saudi Arabia. In middle-income countries, public revenue is mainly collected from taxes, with the share in total revenue ranging from 41 per cent in Algeria to 79 per cent in Lebanon in 2019. In Morocco, the share was as high as 87 per cent in 2017 based on the most recent data.
4. **Tax revenue, as a share of GDP in the region, has hovered around 8 per cent since 2010.** This ratio masks wide variations among countries as taxes in middle-income countries constituted 19 per cent of GDP in 2019, compared to 7 per cent in the least developed countries and 1.5 per cent in conflict-affected countries. Middle-income countries, which rely mostly on taxation for public revenue, have enacted tax reforms over the last decade, including related to personal income, corporate income, and goods and services taxes. Their median tax-to-GDP ratio remains low, however, at around 16 per cent in 2019 compared to 25 per cent in Europe and the world's developed countries and around 18 per cent in the world's middle-income countries.
5. **Overall, the tax system in the region heavily relies on indirect taxes that impose greater burdens on the poor and middle class than on the rich.** Income taxes out of total tax revenue remain low; wealth taxes are almost negligible. These patterns show the prevalence of more regressive taxation despite recent reforms. Moving towards more progressive taxation remains a challenge.
6. **Recent tax reforms increasing tax rates and expanding tax bases** have not yielded improved tax revenue.
 - Personal income and corporate income taxes, as a share of total taxes, exhibited no significant improvement for most countries over the last decade. No property tax reforms were introduced and the share of these taxes in total taxes remained low.
 - The performance of revenue mobilization through goods and services taxes remained mixed. Some countries witnessed an increase in the share in total tax revenue but others did not, seeing declining or no significant improvement over the last 10 years.
 - Value added tax efficiency remained low, varying between 0.32 and 0.42 compared to global benchmarks, such as the OECD average of 0.55. Furthermore, value added tax declined for most countries over the last decade, even for those that increased rates. Efficiency was not necessarily higher for countries with high rates.
 - The GCC countries have pursued recent tax reforms to diversify tax bases and improve revenue collection. They have mainly focused on indirect taxes through the introduction of value added and excise taxes. Available data do not provide enough evidence to assess the efficiency and fairness of their tax systems.

7. **Improving tax efficiency to the average OECD level would increase revenue by as much as 45 per cent in some countries.** Raising tax collection is not just dependent on tax reforms alone but social investments in quality public services. This builds trust in governments and creates buy-in among taxpayers so they are more willing to consider tax reform proposals.
8. **Taxation is in a state of flux. For the first time in decades, global tax rules are being redrawn to reallocate taxation and thwart tax competition.** As governments improve tax systems towards post-pandemic recovery, rooting out factors undermining domestic resource mobilization is a priority. This requires ending perpetual revenue leakages from tax abuses, tax expenditures and tax-motivated illicit finance, and attending to incentives driving informality.
9. **Rethinking Arab tax policy is important given the scale of tax revenue leakages.** Ten per cent of the world's GDP is parked untaxed in offshore assets with an additional \$1.3 trillion lost annually to corporate tax abuse. Under these conditions, tax authorities are unable to fully estimate their tax base or secure a steady stream of tax revenue, let alone identify the impact of any given tax policy reform with certainty. Overall:
 - Tax abuses undermine the integrity of Arab tax systems. They take various forms (tax evasion, avoidance, non-compliance, arbitrage, tax planning, dodging and tax competition) and intensities (\$7.5 billion in annual revenue lost due to corporate tax abuse) under increased conditions of digitization and capital mobility.
- Tax abuse in the formal sector poses a triple jeopardy for tax policy design. As corporations seek to reduce their tax footprint, policymakers enact tax incentives to attract multinational corporations while domestic firms are left to seek ways to level the tax playing field.
 - Tax exemptions need to be consistent, quantified, reviewed and conditional on achieving defined development targets.
10. **The Arab region's domestic resource mobilization performance and narrow tax base come not from differences in statutory tax rates as much as from:**
 - The social and deadweight costs of tax enforcement.
 - Tax leakages caused by high-net-worth individuals, professional service providers and corporate tax abuses by multinationals seeking to reduce tax liability.
 - Tax incentives that remain largely unaccounted for and ineffective in unfavourable investment climates.
 - Less than ideal cooperation on tax transparency.
 - The influence of tax competition (a one-point reduction in global corporate taxes reduces a country's corporate tax base by 3.7 per cent on average) and its offsetting impacts on tax incentives (a 10 per cent tax incentive is associated with shifting 15 per cent of corporate profits).

F. Policy recommendations

Governments across the region have implemented recent tax reforms but more is needed to make tax systems fairer and more progressive, and administrative procedures simpler and more transparent for better tax compliance.

In addition, controlling cross-border tax evasion and tax avoidance requires a number of legislative and policy reforms following a review of tax and investment treaties to re-establish tax rights, redefine permanent establishment requirements, define digital

presence and reconcile tax liabilities. Taxation of extractive industries should be reassessed, based on options such as royalties, windfall taxes on profits, withholding taxes, corporate income taxes, production sharing agreements, tariffs and licensing fees. Another consideration is how to effectively tax capital gains and reduce overlapping deductibles.

Policy recommendations presented here cover the national, regional and international levels. They are not “one size fits all” across countries, given the diversity of capacity in tax administration and enforcement. It is critical to ensure that marginal yields from compliance remain higher than the social cost of taxation and associated deadweight losses. Even the most admirable tax structures on paper are of little value if enforcement costs exceed revenue collected.

At the national level

- Redesign tax brackets and rationalize tax exemptions to improve equity and efficiency in taxation.
- Quantify tax expenditures and their impacts on development targets.
- Tap niche financial market products and investors, such as capital gains, dividend and interest income taxes and foreign exchange transaction taxes.
- Rethink the design and enforcement of property or wealth taxes to improve equity.
- Strengthen tax administration and enhance transparency for ensuring tax compliance.
- Improve tax data and its availability for policy analysis towards better monitoring the socioeconomic consequences of tax reforms.

Cross-border tax cooperation at the regional level

- Develop a regional cooperation mechanism to coordinate tax incentives, review tax treaties and forge cooperation on the taxation of digital products and corporate tax bases.
- Increase regional cooperation in fighting corruption and trade and tax-based abuses.

- Establish a regional Arab Financing and Tax Justice Forum as a dedicated platform to coordinate positions on international and regional tax matters.

Cross-border tax cooperation at the international level

- Reinvigorate international cooperation by Arab countries to reinforce tax transparency.
- Engage effectively in the global tax negotiations within the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting and consider amendments introduced to the UN Model Tax Convention.
- Reform national legislative and juridical frameworks of taxation in line with global tax reforms when necessary.

In an era of digitization and increased capital mobility, there are limits to what any given tax instrument or reform may achieve in terms of revenue. Since national tax reforms are no longer just national, the Arab region does not have the luxury of designing and enforcing tax systems in isolation, or setting tax incentives, deductibles, expenditures or unsynchronized statutory tax rates that bring about harmful tax competition, tax arbitrage and a plethora of other tax problems.

Digitization brings opportunities to improve transparency. It also challenges tax policy design, especially in identifying the tax base. National tax reforms should recognize that geographical borders alone no longer define a country's potential tax base or limit policy decisions on tax matters. Arab countries may also broaden the tax base by including foreign labour and capital, within regional and international tax cooperation agreements.

Annex

Table A.1 Recent tax measures related to personal income taxes and capital gains/dividends/interest income taxes

	Personal income tax											Capital gains/dividends/ interest income taxes			
	Increasing top tier personal income tax rate	Decreasing top tier personal income tax rate	Increasing bottom tier personal income tax rate	Decreasing bottom tier personal income tax rate	Increasing top tier income bracket	Decreasing top tier income bracket	Increasing bottom tier income bracket	Decreasing bottom tier income bracket	Introducing additional intermediate personal income tax brackets (increasing the number of brackets)	Reducing or eliminating certain exemptions, allowances and deductions	Introducing a social solidarity contribution/tax on individual income	Increasing the tax on certain capital gains	Increasing the tax on dividend earning	Increasing the tax on interest payments	Introducing taxes on previously exempted capital gains, dividends or interest payments
Algeria												x	x		
Egypt	x			x	x		x		x		x		x		x
Jordan	x			x	x			x	x	x	x				x
Lebanon	x				x							x		x	
Morocco										x	x		x		
Tunisia	x		x				x				x	x	x		
Iraq						x		x							
State of Palestine					x		x								
Mauritania	x				x		x								
Bahrain															
Kuwait															
Oman															
Qatar															
Saudi Arabia															
United Arab Emirates															

Notes: In Egypt, a tax was introduced on dividend earnings. In Jordan, a tax was introduced on interest payments earned by individuals. There is no information on Libya, Somalia, the Sudan, the Syrian Arab Republic or Yemen. A blank cell implies no reforms undertaken during the period.

Table A.2 Recent tax measures related to corporate income taxes

	Increasing general corporate income tax rate	Reducing general corporate income tax rate	Increasing top tier corporate income tax rate	Increasing specific corporate income tax rates	Imposing a higher corporate income tax rate on companies previously subject to the standard rate	Cancellation of some corporate income tax exemptions and/or reductions	Introducing a social solidarity contribution/tax on corporations
Algeria	x						
Egypt		x				x	
Jordan	x		x		x	x	x
Lebanon	x		x				
Morocco				x	x	x	x
Tunisia		x			x	x	
Iraq							
State of Palestine							
Mauritania							
Bahrain							
Kuwait							
Oman	x					x	
Qatar					x		
Saudi Arabia							
United Arab Emirates							

Notes: There is no information on Libya, Somalia, the Sudan, the Syrian Arab Republic or Yemen. A blank cell implies no reforms undertaken during the period.

Table A.3 Recent tax measures related to value added taxes, customs duties and excise taxes

	Value added tax			Customs duties	Excise tax
	Value added tax implemented before 2010	Introduced value added tax between 2010-2020	Increased the value added tax rate	Increased customs duties for certain items or introduced higher customs duty rates	Introduced excise taxes between 2010-2020 ^a
Algeria	x		x	x	
Egypt		x	x		x
Jordan					
Lebanon	x		x	x	
Morocco	x			x	
Tunisia	x		x	x	
Iraq				x	
State of Palestine	x				
Mauritania	x		x		
Bahrain		x			x
Kuwait					
Oman		x		x	x
Qatar					x
Saudi Arabia		x	x		x
United Arab Emirates		x		x	x

Note: ^a Algeria, Jordan, Lebanon, Mauritania and Morocco implemented excise taxes as of 2010. There is no information on Libya, Somalia, the Sudan, the Syrian Arab Republic or Yemen. A blank cell implies no reforms were undertaken during the period, except for excise taxes, where it implies information is not available.

Table A.4 COVID-19 tax relief policy responses in the Arab region

Policy measure	Summary of policy measure	Countries
Tax exemption/reduction/deferment for individuals	Governments announced relief for taxpayers in a difficult financial situation. They may request a repayment schedule for their tax debts . In some cases, the government applied tax exemptions for specified income levels (e.g., Algeria exempted net income less than or equal to 30,000 DA from income tax starting in June).	Algeria, Libya, Mauritania, Morocco, State of Palestine, Tunisia
Tax exemption/reduction/deferment for small and medium enterprises	Policy commitments made by governments to defer tax payment for a certain period for small and medium enterprises.	Algeria, Bahrain, Comoros, Egypt, Iraq, Jordan, Lebanon, Morocco, Oman, Qatar, United Arab Emirates
Tax exemption/reduction/deferment for large enterprises	Exempting hard-hit sectors (e.g., tourism and hotels) from paying levies for a specific period. This sometimes includes an allowance for companies to pay income taxes in more than one instalment with no penalties .	Algeria, Bahrain, Comoros, Egypt, Iraq, Jordan, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, State of Palestine, Tunisia, United Arab Emirates
Waiver/reduction of customs duties for individuals	At the customs level, the government reduces stamp duties on transactions and allows some waivers/exemptions from customs duties (medicine and essential goods) for individuals.	Egypt, Kuwait, Mauritania, Saudi Arabia, Tunisia
Waiver/reduction of customs duties for small, medium and large enterprises	For businesses, procedures were simplified to help clear goods at a reduced customs duties and taxes level , especially for basic goods and medicine. Governments reduced port tariffs , and some granted free terminal handling charges . Iraq postponed collection of all customs duties for some materials if the importer is the Ministry of Agriculture or a provincial health department, and any government agency due to the emergency. In the United Arab Emirates, the governor of Dubai reduced fees for submitting customs documents .	Algeria, Comoros, Djibouti, Mauritania, Oman, Qatar, United Arab Emirates

Source: United Nations, 2020 (COVID-19 Stimulus Tracker).

Table A.5 Fixed effect estimates: Determinants of tax revenue mobilization (N=49; i=29)

	Ln (tax revenue)
Ln (GDP)	0.375 (13.11)**
Ln (social investment)	0.588 (22.62)**
Governance (control of corruption index)	0.000 (0.01)
Fiscal rule (expenditure): 0;1	0.095 (0.60)
Fiscal rule (revenue): 0;1	-1.014 (2.23)*
Fiscal rule (budget balance): 0;1	-0.048 (1.75)
Fiscal rule (debt): 0;1	0.048 (1.62)
Interaction of social investment and fiscal rule on expenditure	-0.003 (0.45)
Interaction of social investment and fiscal rule on revenue	0.038 (2.09)*
_cons	0.881 (3.28)**
R ²	0.96
N	803

Note: * p<0.05; ** p<0.01; t-statistics in parenthesis.

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23. United Nations, n.d.
24. UNFPA, n.d.
25. IPU (Women in parliament 1995-2020).
26. ILO – % Working hours lost due to COVID-19 crisis – ILO modelled estimates – Annual.
27. ASDA'A BCW Arab Youth Survey 2020.
28. ESCWA projections based on the World Economic Forecasting Model. Note that the comparison was based on ILO modelled estimates for the other world regions.
29. Ibid.
30. ESCWA, 2020.
31. Ibid.
32. Calculated by UNESCO based on data from UNESCO, 2018b.
33. ESCWA, 2020, SDG 4 on education (Arab Sustainable Development Report).
34. ESCWA, 2020, figure 79 (gender report).
35. UNESCO, 2018.
36. UNESCO, 2021 (disruption to recovery).
37. UNICEF, 2020.
38. UNESCO 2021 (prioritize teachers).

39. ESCWA, 2020 (young people).
40. Ibid.
41. ITU, 2021.
42. ESCWA, 2017 (changes in public expenditure).
43. United Nations, 2020. (social protection).
44. ESCWA, 2019 (social protection).
45. ESCWA, 2020 (job creation).
46. United Nations, 2020 (social protection).
47. See ESCWA, 2017, 2019.
48. ESCWA, 2019.
49. This value excludes Somalia, the State of Palestine and the Syrian Arab Republic due to a lack of data.
50. United Nations, 2021.
51. Sarangi, Bhanumurthy and Abu-Ismael, 2015.
52. ESCWA, 2017.
53. Alvaredo, Assouad and Piketty, 2018.
54. United Nations, 2020.
55. See Dudine and Jalles, 2017. The finding resonates with previous finding of ESCWA, 2017; Sarangi and El-Ahmadieh, 2017.
56. ESCWA, 2017.
57. Kangave and others, 2018.
58. In finalizing the fixed effect estimates for the panel regression, we considered factors that influence tax collection such as “social investments” (proxied by expenditure on health, education and housing); the performance score on control of corruption (as a measure of economic governance); and different fiscal rules (binary variable) including an expenditure rule, a revenue rule, a debt rule and a budget balance rule, and their interacted binary variables with social investments.
59. ANND, 2017.
60. ESCWA, 2019.
61. Some Arab States such as the State of Palestine increased the highest threshold relating to the top tier personal income tax.
62. Kassim and Mansour, 2017.
63. The general (or standard) corporate income tax rate applies to all corporations unless these are specifically subject to a reduced or higher corporate income tax rate.
64. See OECD, 2020; Cevik, and others, 2019; Keen, 2013.
65. In OECD 2020, the same data variables are used to obtain the value added tax efficiency as the ones used by this paper, making efficiencies for selected Arab countries and the OECD average comparable.
66. IMF, 2021.
67. ESCWA, 2017.
68. ANND, 2017.
69. ANND, 2017; ESCWA, 2017; ESCWA, 2019; ESCWA and Economic Research Forum, 2019.
70. In some countries, taxes are imposed under “municipal taxes” that might be levied on the rental value of the property or as fees on property registration.
71. Tax evasion refers to the illegal and intentional practice of hiding tax liability from tax authorities, whereas tax avoidance falls in a grey area as not all acts of tax avoidance are entirely illegal or fall within the ambit of illegality but are no doubt immoral and unethical.
72. Buehn and Schneider, 2012.
73. Jaber and Al-Riyahi, 2014.
74. See the Best Citizenships “List of Countries with Wealth Tax” as of 11 December 2020. Available at <https://best-citizenships.com/2020/12/11/list-of-countries-with-wealth-tax/#:~:text=Wealth%20tax%20is%20imposed%20on,renewed%20interest%20in%20wealth%20taxes>.
75. Keen, 2013.
76. Gros, 2020.
77. IMF, 2013.
78. Besley and Persson, 2014.

79. Fichtner and Feldman, 2013.
80. World Bank, 2020.
81. Kleven, Khan and Kaul, 2016.
82. Rogan, 2019.
83. Sandmo, 2015.
84. Cortellese, 2015.
85. Tax incentives seek to influence a foreign investment decision by affecting its relative cost or by altering the risks attached to it. Evidently, the impact of tax incentives is more immediate than introducing reforms to correct deficiencies in the investment climate.
86. OECD, 2017.
87. Mansour, Mitra, Sdravovich and others, 2015.
88. OECD, 2017.
89. Mansour, Mitra, Sdravovich and others, 2015.
90. Economides, Philippopoulos and Rizo, 2019.
91. Ebrill, Mackenzie, Shome and others, 1987.
92. OECD, n.d.
93. OECD, 2017.
94. OECD, 2018.
95. ESEC, 2012, "Le système fiscal marocain : développement économique et cohésion sociale". 2013a, "Avis sur les soins de santé de base".
96. Rao, 2014.
97. Damgaard, Elkjaer and Johannesen, 2018.
98. Alecci, 2021.
99. FACTI, 2021.
100. Shaxson, 2019.
101. Doumbia and Lauridsen, 2019.
102. United Nations, 2019.
103. Bird and Wilkie, 2013.
104. Tanzi, 2008.
105. Committee of Experts on International Cooperation in Tax Matters, 2020.
106. FACTI, 2021.
107. Giles, 2020.
108. Stiglitz, 2019.
109. OECD, 2020 (tax challenges).
110. Cobham, Faccio and Fitzgerald, 2019.
111. Ibid.
112. OECD, 2019, p. 26.
113. Agarwalla and Nagappan, 2021.
114. Picciotto, Faccio, Kadet and others, 2021.
115. The METR estimates draw on the same sources of estimating the GLoBe, namely, OECD data published in 2020 but from reporting for 2016. Frustratingly, the data are both the best and latest available and also five years out of date.
116. Cobham, Faccio, Garcia-Bernardo and others, 2021.
117. Mahalingham, 2020.



The present study shows that the economic recovery that started in 2021 with 4.1 per cent growth for the Arab region is expected to continue at 3.7 per cent in 2022 and 3.6 per cent in 2023 for the baseline scenario, and 3.9 per cent in both years for the alternate scenario. The extent of economic recovery varies among Arab subregions and depends on the course of the pandemic, the speed of vaccination, dependency on oil revenues, tourism receipts, and levels of remittance inflows and official development assistance. For the Arab region as a whole, poverty is expected to decline from 26.94 per cent of the population in 2021 to 26.23 per cent in 2023, based on national poverty lines. The region made a slight improvement in closing the gender gap in 2020 but at the current pace of change needs 142 years to reach gender parity. Social protection systems in the region face severe shortcomings in coverage and effectiveness, particularly in countries with limited fiscal space and persistent political instability.

Arab governments need to pursue tax reforms they initiated a while ago. Qualitative reforms should make tax systems fairer and more progressive, with simpler and more transparent administrative procedures for better tax compliance. At the national level, reforms should include redesigning tax brackets, rationalizing exemptions, introducing wealth or property taxes, and improving tax data. At the regional and international levels, enhanced cross-border tax cooperation is critical to coordinate tax incentives, review treaties and reinforce tax transparency.

