Survey of Economic and Social Developments in the Arab Region

2018-2019
Summary

UNITED NATIONS
الاسكوا
ESCWA

Shared Prosperity Dignified Life

E/ESCWA/EDID/2019/1/Summary

Economic and Social Commission for Western Asia (ESCWA)

Summary of the Survey of Economic and Social Developments in the Arab Region

2018-2019
Summary

UNITED NATIONS
Beirut

E-mail: publications-escwa@un.org; website: www.escwa.un.org

United Nations publication issued by ESCWA.

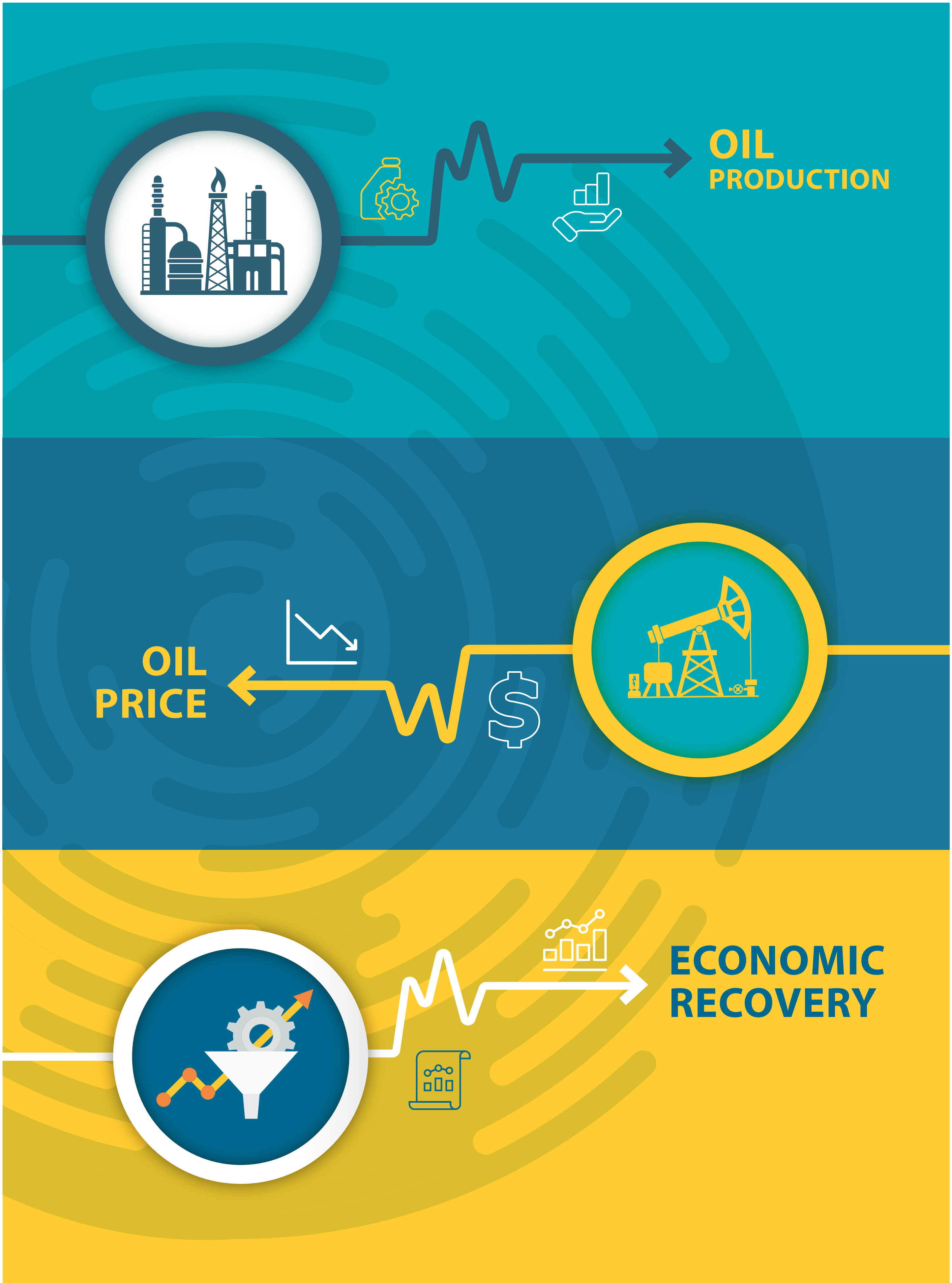
Distr.
LIMITED
E/ESCWA/EDID/2019/1/Summary
12 September 2019
ORIGINAL: ENGLISH
19-00971

Summary

In 2018, the Arab region experienced a recovery, with a growth rate of 2.6 per cent compared with 1.7 per cent the previous year. This recovery was largely driven by hydrocarbon sector-led growth, oil exporters benefitting from higher oil prices, and a substantial increase in oil export revenues, especially for Gulf Cooperation Council countries. The region's oil importers, to varying degrees between subregions and countries, further contributed to overall regional growth through a series of policy reforms and fiscal adjustment efforts.

However, despite the growth momentum in 2018, the Arab region continues to manage uncertainties in moving towards inclusive and sustainable growth. Geopolitical tensions persist, exacerbated by several ongoing intra-regional diplomatic rifts and armed conflict. Moreover, as the United States of America and other advanced economies drive higher global interest rates, the Arab region is likely to witness tighter credit conditions and fiscal vulnerabilities. The volatility of oil prices, coupled with United States sanctions against Iranian crude oil exports, has complicated the capacity to balance between fiscal consolidation, private sector development, diversification and external imbalances in the growth equation. Reflecting these mixed risks and opportunities, regional growth is anticipated to continue with a real gross domestic product (GDP) growth rate of 2.9 per cent for 2019 and 3.8 per cent for 2020.

Contents


OIL
PRODUCTION
OIL
PRICE
ECONOMIC
RECOVERY

1. Global Context

Global economic growth continued expanding at a steady pace of 3.0 per cent in 2018; it is expected to slow down to 2.7 per cent in 2019. This growth was mainly driven by a fiscally-induced acceleration in the United States of America, which partly offset relatively stagnant growth in some other large countries. Meanwhile, developing countries appeared to experience a mixed growth trajectory, potentially attributed to trade disputes, oil price fluctuations and escalated financial stress and volatility. Persistent geopolitical tensions also amplified ongoing challenges in some conflict-affected countries. Such heterogeneous dynamics, which vary between regions and countries, pose challenges to ensuring a multilateral, cooperative and integrated global policymaking process aimed at achieving inclusive, equitable and sustainable development.

In developed countries, the average growth rate in 2018 registered at 2.2 per cent, a slight decline from 2.3 per cent in the previous year. This rapid economic expansion was observed in the United States, which experienced a 2.9 per cent growth rate in 2018, while other major advanced economies such as the European Union and Japan recorded a sluggish growth of 1.9 per cent and 0.8 per cent, respectively, compared with 2.4 per cent and 1.9 per cent in 2017. Despite these mixed growth trajectories, the unemployment rate in developed countries dropped from 5.8 per cent to 5.4 per cent over the period 2017-2018, resulting in historical lows.[1] However, the improved labour market situation was unequally beneficial across various segments of the population, with increases in income disparity and a lack of qualified workers.[2]

The inflation rate of developed economies showed an upward trend to around 2 per cent in 2018, an increase from 1.7 per cent in 2017. This rise in inflationary pressures was associated with the decision of the United States Federal Reserve to raise the interest rate on four occasions to reach the target rate of 2.5 per cent in 2018. These interest rate hikes triggered a sharp tightening of global liquidity conditions, even though no further hikes are expected in the coming months.[3] Japan continued its quantitative and qualitative monetary easing (QQME) policy in 2018 to maintain its low short-term interest rate. In late 2018, the European Central Bank ended its historic bond-buying operation that was aimed at stimulating the Eurozone's economy. The Bank of England raised the interest rate to 0.75 per cent in August 2018, which is expected to remain unchanged until Brexit is resolved.

Economic growth in developing countries was contained at 4.3 per cent in 2018. China, the principal driver of global growth, was estimated to register a growth performance of 6.6 per cent in 2018, representing a 0.2 percentage point decrease from the 2017 level. This was mainly attributed to the ongoing trade dispute between China and the United States. Consequently, India has now taken on the role of the world's economic powerhouse.[4] Moreover, many commodity exporters, particularly oil-exporting countries, continued a gradual recovery and substantially benefitted from higher oil prices, except Iran and Venezuela that face severe United States sanctions. Iran registered an economic contraction of 1 per cent, while Venezuela experienced its worst economic crisis,[5] resulting in an economic contraction of 15 per cent in 2018.

Table 1. Growth and inflation: world and regional averages, 2016-2020 (Percentage)

Country/subregion	Real GDP growth rate					Consumer price inflation rate				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Arab region	2.8	1.7	2.6	2.9	3.8	5.3	6.7	6.2	4.1	3.5
World	2.5	3.1	3.0	2.7	2.9	n/a	n/a	n/a	n/a	n/a
Developed countries	1.7	2.3	2.2	1.8	1.9	0.7	1.7	2.0	2.2	2.1
United States	1.6	2.2	2.9	2.3	2.1	1.3	2.1	2.5	2.5	2.4
European Union	2.0	2.4	1.9	1.5	1.8	0.3	1.7	1.9	2.1	2.1
Japan	1.0	1.9	0.8	0.8	1.2	-0.1	0.5	1.2	1.4	1.5
Economies in transition	0.4	2.0	2.7	2.1	2.3	7.8	5.1	4.0	4.9	4.3
Developing countries	3.9	4.4	4.3	4.1	4.5	5.2	4.4	5.2	5.1	4.4
Africa	1.6	2.6	2.7	3.1	3.7	13.3	14.4	11.1	8.5	7.2
East/South Asia	6.1	6.1	5.8	5.4	5.5	2.6	2.3	3.5	4.1	3.6
Latin America and the Caribbean	-1.3	1.1	0.8	1.2	2.3	9.8	6.1	6.7	6.7	5.3

Sources: Data for the Arab region are calculated by the Economic and Social Commission for Western Asia (ESCWA) based on national statistical sources. Others are based on DESA, World Economic Situation and Prospects 2019.

Following the trade dispute between China and the United States, global trade growth slowed by 1.5 percentage point to 3.8 per cent in 2018. The impact of the trade dispute varied by country and sector. In the United States, industries using steel as a major production input and agricultural sectors exporting soybean and corn were negatively affected by higher tariffs. In China, exports of machinery and electronic products to the United States were significantly constrained. Higher tariffs on certain products also affected developing countries. For instance, importers in the United States and China were obliged to look for cheaper substitutes, which provided opportunities to exporters in developing countries, especially Brazil for agricultural products, Mexico for motor vehicles, and Malaysia for electronic integrated circuits, copper waste and scrap. Nonetheless, the recent slowdown in global trade is likely to continue if the trade dispute remains unresolved.

The global issuance of leveraged loans[6] marginally clouded growth performance in 2018. Moreover, debt levels in developing countries continued to rise in 2018. In many African countries, for instance, external bond issuances increased to support revenue mobilization. Those African countries gained considerably from Chinese loans and investment in this regard.[7] However, such fund flows, amounting to $143.3 billion,[8] has resulted in Africa being significantly indebted to China. In this context, many parts of the African continent are substantially exposed to debt sustainability concerns.

2. Natural Resource Commodities

A. Oil

In line with the expansion of the global economy in 2018, global oil demand reached 99.2 million barrels per day (b/d), an increase of $1.3 million b/d from 2017. The stronger oil demand was accompanied by increased economic activities in developed countries, particularly the United States. Oil demand in the United States, the world's largest oil consumer, rose by 2.2 per cent to 20.7 million b/d in 2018. Furthermore, oil demand in developing economies (non-OECD countries) surged by 2 per cent to 51.4 million b/d: 70 per cent of this increase stemmed from China and India whose demand grew by 0.5 million b/d and 0.2 million b/d, respectively. The recent upward trend in oil demand is anticipated to continue in 2019, reaching 100.5 million b/d.

The 2018 global oil supply was estimated at 97.5 million b/d, a 2.1 per cent increase from the previous year. The United States has emerged as the world's largest oil producer since 2017 and has continued to dominate growth in global supply with an estimated oil production of 15.5 million b/d in 2018, a 16.6 per cent increase from the year before. According to the Energy Information Administration of the United States, the country's production of shale oil accounted for 59 per cent of total oil output.[9] In the coming years, the United States will continue to lead the way in global oil output growth, accounting for 70 per cent of the increase in global production capacity.[10]

Another critical factor affecting oil market dynamics was the Organization of Petroleum Exporting Countries (OPEC) agreement to cut oil production, which contributed to rebalancing the 2018 global oil market. For instance, significant output reduction was observed in countries under sanctions, namely Iran and Venezuela, which registered a consolidated oil output cut in 2018 of nearly 0.3 million b/d and 0.6 million b/d, respectively. In contrast, Libya and Nigeria, the countries exempted from the OPEC cut deal, were able to raise their oil supply to around 1 million b/d and 1.7 million b/d, respectively. Notably, Saudi Arabia increased its oil output by 0.35 million b/d to 10.3 million b/d in 2018 to compensate for lower Iranian supplies, despite significantly influencing the OPEC reduction agreement. As a result, OPEC rebalancing outcomes were somewhat restrained since no substantial changes in OPEC production volume were reported in 2018.[11] Despite the observed trade-offs in oil production between OPEC countries, a reduction of 0.3 million b/d from non-OPEC countries largely contributed to the oil market's ongoing rebalancing efforts. Mexico, for instance, reduced oil output to 2.08 million b/d from 2.23 million b/d over the period 2017-2018, largely owing to a natural depletion in oil fields and the delayed development of new oil fields.

The upcoming OPEC meeting to be held in June 2019 is likely to consider the impact of eight Iran oil sanction waivers issued by the United States,[12] which could significantly shape the direction of the 2019 oil market. Assuming no radical change in the current waiver list and in recent United States sanctions on the State-run oil company in Venezuela,[13] the OPEC+ (OPEC and 10 non-OPEC countries) is expected to lower oil supply by 1.2 million b/d until June 2019.

Table 2. OPEC oil market rebalancing efforts since 2016

28 September 2016	Saudi Arabia held an informal meeting with 12 OPEC members in Algeria to discuss oil production cuts to between 32.5 million b/d and 33 million b/d for the first time since 2008, although oil production increased to 33.4 million b/d in September 2016.
30 November 2016	At the meeting in Austria, OPEC decided to cut oil production to 32.5 million b/d.
10 December 2016	The Declaration of Cooperation was established by OPEC and 11 non-OPEC producers, including Russia. They decided to implement a production adjustment of 1.2 million b/d, effective from 1 January 2017.
25 May 2017	Equatorial Guinea became a full member of OPEC. The second joint OPEC-Non-OPEC Producing Countries' Ministerial Meeting agreed to extend the production adjustment for another nine months commencing on 1 July 2017.
30 November 2017	The third joint OPEC-Non-OPEC Producing Countries' Ministerial Meeting decided to amend the Declaration of Cooperation.
22 June 2018	The Republic of the Congo became the seventh African country with full membership of OPEC.
6 December 2018	Participants at the175th Meeting of the OPEC Conference took note of an announcement by Qatar to withdraw from OPEC in January 2019. OPEC and non-OPEC countries agreed on a production adjustment to cut oil production by 1.2 million b/d for an initial period of six months, effective January 2019.
12 February 2019	OPEC reported a sharp reduction in its oil production, mainly owing to cuts in oil production in Saudi Arabia and a decline in oil-exports from Venezuela.

Sources: ESCWA elaboration based of OPEC press releases.

The price of oil fluctuated significantly in 2018. For the first three quarters of the year, the oil price increased by $12.5 per barrel from $66.8 to $79.4, largely owing to a collapse in Venezuelan oil production and unexpected outages in Canada and Libya. During the fourth quarter, it plummeted to $56.9 per barrel, partly due to oil supply uncertainty that was intensified by sanctions on Iran. Until April 2019, the price of oil constantly rebounded, now trading at around $64 per barrel. Such price rebounding was associated with oil supply control resulting from the December 2018 production cut deal by OPEC+. Oil price is expected to slightly decrease by the end of 2019 to between $58 and $63 per barrel.

The Arab region was estimated to have produced nearly 25.1 million b/d of crude oil in 2018, a significant increase from 24.4 million b/d recorded in 2017. At the subregional level, Gulf Cooperation Council (GCC), Mashreq and Maghreb countries produced 17.9 million b/d, 5.1 million b/d and 2 million b/d, respectively, each of which can be translated into a 3.0 per cent, 0.6 per cent and 7.1 per cent increase, respectively, over the period 2017-2018. In contrast, the Arab least developed countries (LDCs) suffered from a production drop of 2.7 per cent to 115,000 b/d in 2018. All four oil giants in the region, namely Iraq, Kuwait, Saudi Arabia and the United Arab Emirates, raised their oil output by 0.1 per cent, 1.4 per cent, 3.5 per cent and 0.6 per cent, respectively. Libya who was exempt from the OPEC cut deal, faced unexpected outages in mid-June 2018, followed by skyrocketing oil production in the latter half of the year, reaching almost 1 million b/d on average in 2018. Overall, adjusting between the regional oil producing performance and the global oil price evolution throughout 2018 allowed the Arab region to benefit from the substantial increase in gross oil export revenues from $432.3 billion to $552.2 billion over the period 2017-2018.

B. Natural gas and phosphate

Natural gas is another important hydrocarbon sector for the Arab region. Algeria, Egypt,[14] Libya, Qatar and the United Arab Emirates are members of the Gas Exporting Countries Forum (GECF), which not only collectively controls nearly 70 per cent of natural gas reserves but also accounts for over 40 per cent of global production. Over the past few years, the strategic importance of natural gas for many Arab countries has increased as global demand for natural gas grows: it is forecast to increase by 1.6 per cent in the future.[15] Such constant growth in demand for natural gas is further supported by the collective need of all countries to improve environmental sustainability in both residential and industrial sectors.

China is driving such demand and became the world's largest natural gas importer by the fourth quarter of 2018.[16] The United States, the world's top natural gas producer, has substantially benefitted from improvements in shale gas technology, which accounts for more than 40 per cent of global production growth, but still remains a net-importer due to higher levels of domestic consumption. As a result, the benchmark price in 2018 constantly increased and peaked in November at $8.3 per million metric British thermal units (MMBtu) in Europe and $4.1 MMBtu in the United States; however, since then, both started falling as supplies from the United States to Australia flooded the market. Arab natural gas exporters should therefore focus on benefiting from growing demand, especially in Asia, while effectively responding to short-term import diversification efforts by European consumers. This may explain the decision by Qatar to leave OPEC in line with its future energy strategy of pivoting towards natural gas.[17]

Regarding food security challenges in the Arab region, the indispensability of phosphate for agricultural productivity should be well recognized. The region has the largest phosphate reserves in the world. According to the International Fertilizer Association, the global consumption of phosphorus nutrients for fertilizers was 45.1 million tons in 2018, up from 44.2 million tons in 2017. It is expected to constantly increase by 0.8 per cent and 1.8 per cent over the next two years, respectively.[18] Despite growing demand, prices for major fertilizers remained relatively flat through the first three quarters of 2018, but began to rise thereafter. For example, the price of diammonium phosphate (DAP) increased by about 10 per cent, from $465 to $521 per metric tons over the period December 2017 – December 2018.

In response to this demand and price movement, the fertilizer industry in the Arab region has significantly invested in improved phosphate capacity, including expanding a fertilizer plant in Jorf Lasfar in Morocco, a leading exporter globally; and strengthening production of phosphate-based products in Egypt and Saudi Arabia. Furthermore, in Jordan, DAP production substantially increased by nearly 67 per cent from 380,000 to 630,000 tons over the period 2017-2018. In contrast, Tunisian phosphate production declined over the same period as a result of social tension.

3. Regional Socioeconomic Trends

A. Overview

The Arab region was estimated to experience a recovery with a growth rate of 2.6 per cent in 2018, up from 1.7 per cent in 2017. This was largely attributed to hydrocarbon sector-led growth in the region's oil-exporting countries, as oil prices continued to consistently increase through the first three quarters of 2018. The economies of oil importing countries in the region were also expected to expand, partly because of a series of policy reforms and fiscal adjustments. Nonetheless, geopolitical tensions and high levels of public debt continued to weigh heavy on their mid-term perspectives. These negative factors further amplified politically-driven economic challenges in fragile economies, including persistent refugee crises, conflicts and political instability, shaky investor confidence, and weak private sector development. Reflecting these mixed risks and opportunities, the region has an estimated real GDP growth rate of 2.9 per cent for 2019 and of 3.8 per cent for 2020. It should however be noted that these forecast figures are subject to future revision, as official national accounts have been unavailable for some conflict-affected countries for several years, given that estimating the economic cost of conflict in those countries is difficult.

B. Gulf Cooperation Council countries

Mainly supported by higher oil prices, coupled with a 2.7 per cent increase in oil production over the period 2017-2018, GCC countries significantly recovered the pace of economic growth, reaching 2.4 per cent in 2018 following a 0.2 per cent contraction in 2017. The recovery momentum also took advantage of boosts in non-oil activity, in line with planned public investment projects such as the FIFA 2022 World Cup in Qatar and Expo 2020 in the United Arab Emirates. Furthermore, a substantial increase in oil export revenues improved external balances and resumed foreign exchange reserves accumulation in the subregion. Such improvements were also supported by the recent issuance by GCC countries of sovereign debt worth around $30 billion, and by active involvement in global financial markets, such as the inclusion of Saudi Arabia in the MSCI Emerging Markets Index.[19]

In 2019, the current growth trajectory is anticipated to continue, with a real GDP growth of 2.7 per cent. This is largely based on the assumption that current public investment projects will continue; the ongoing positive impact of oil prices on investment confidence is expected to manifest itself towards the end of 2019; economic recovery is accompanied by mild inflationary pressure, reinforced by the introduction of a unified value-added tax that is likely to fuel consumer inflation in most GCC countries; and some visible payoff from recent fiscal reforms is integrated into economic activities and translated to provide fiscal space. In the longer-term, however, a potential downside risk cannot be ruled out since structural transformation efforts supported by a series of fiscal measures may weaken because of favourable oil market developments. A delay (or failure) of effective economic diversification would cloud such positive prospects, adding greater uncertainty to future oil prices.

Table 3. Real GDP growth rate in the Arab region, 2016-2020 (Percentage)

Country/subregion	2016	2017	2018[a]	2019[b]	2020[c]
Bahrain	3.5	3.8	3.1	2.1	3.1
Kuwait	2.9	-3.5	1.2	3.2	4.4
Oman	5.4	-0.3	2.9	2.1	3.5
Qatar	2.1	1.6	2.6	2.9	3.1
Saudi Arabia	1.7	-0.9	2.2	2.1	3.1
United Arab Emirates	3.0	0.8	2.8	3.5	3.4
GCC countries	2.4	-0.2	2.4	2.7	3.3
Egypt	4.3	4.2	5.2	5.2	4.7
Iraq	13.8	-3.8	-0.9	2.3	6.2
Jordan	2.0	2.0	1.9	2.3	4.1
Lebanon	1.6	0.6	0.9	1.7	2.4
State of Palestine	4.7	3.1	0.7	0.5	1.8
Syrian Arab Republic[d]	-2.5	-1.5	10.1	11.3	8.5
Mashreq	6.1	1.4	3.2	4.2	5.0
Algeria	3.3	1.4	2.7	2.2	2.8
Libya[e]	-16.1	70.8	11.0	1.5	4.0
Morocco	1.1	4.1	3.0	2.9	3.9
Tunisia	1.0	2.0	2.5	3.4	3.6
Maghreb	0.2	10.1	3.7	2.5	3.4
Comoros	2.2	3.0	3.7	3.8	5.0
Djibouti	9.1	7.0	6.8	6.7	4.8
Mauritania	1.8	3.5	3.2	5.1	6.9
Somalia	4.4	2.3	3.3	3.9	3.6
Sudan	4.8	4.5	-2.0	-1.1	4.3
Yemen	-14.8	-10.0	0.8	1.9	6.3
Arab LDCs	-0.9	0.3	-0.6	0.3	4.9
Total Arab region	2.8	1.7	2.6	2.9	3.8

Source: ESCWA estimates based on national statistical sources, unless otherwise indicated.

[a] GDP growth figures for Egypt, Iraq, Morocco, the State of Palestine, Qatar, Saudi Arabia, Tunisia, the United Arab Emirates and Yemen are based on national statistical sources, while those of other countries are based on DESA, World Economic Situation and Prospects 2019.

[b] GDP growth figures for Morocco, the State of Palestine, Qatar and the United Arab Emirates are based on national preliminary projections, while those of other countries are based on DESA, World Economic Situation and Prospects 2019.

[c] GDP growth figure for Qatar is based on national forecasts, while those of other countries are based on DESA, World Economic Situation and Prospects 2019.

[d] GDP growth figures for 2016-2017 in the Syrian Arab Republic are based on estimations by the National Agenda for the Future of Syria Programme (NAFS) of ESCWA, while figures for 2018, 2019 and 2020 are based on DESA, World Economic Situation and Prospects 2019.

[e] GDP growth figures for the period 2016-2020 are based on DESA, World Economic Situation and Prospects 2019.

C. Mashreq countries

20. Growth in Mashreq countries averaged an estimated 3.2 per cent in 2018, an increase from 1.4 per cent in 2017. This substantial improvement in aggregate demand growth was mostly driven by strong growth in Egypt, the largest country in the subregion, with a 1 percentage point increase to 5.2 per cent in 2018. In Egypt, various economic indicators associated with tourism, natural gas activity, remittances and international reserves appeared strong, which may have further contributed, together with continual policy reforms, to an upgrade of the country's sovereign rating in late 2018. The Syrian Arab Republic was also fairly strong in terms of economic expansion, with a GDP growth rate of 10.1 per cent in 2018 as reconstruction efforts began and Syrian expatriates returned, thus boosting private consumption levels. On the other hand, economic activities in Iraq were not strong enough to turn into positive growth from its economic contraction of 3.8 per cent in 2017, and thus registered a contraction of around 0.9 per cent in 2018. This was mainly due to persistent political instability; however, its economic condition will gradually improve, supported by greater gross oil-export revenue.

Economic activities in Jordan and Lebanon remained subdued in 2018, with real GDP growth at 1.9 per cent and 0.9 per cent, respectively. These two economies continue to be constrained by conflicts in neighbouring countries[20] and related internal political instability. Intraregional trade was somewhat stagnant partly because of their geopolitical characteristics, and workers' remittances and foreign investments were not favourable in 2018, especially in Lebanon. Nonetheless, the recent acceleration of economic reconstruction activities in the Syrian Arab Republic will positively impact these economies in the midterm. The State of Palestine suffered greatly from the Israeli occupation and associated policies and practices, including restrictions on donor fund transfers, resulting in its economy contracting by 2.4 percentage points over the period 2017-2018. Most Mashreq economies will continue to be affected by external uncertainties and socioeconomic situations in neighbouring countries. The subregion's average growth for 2019 is projected to register 4.2 per cent.

D. Maghreb countries

Maghreb economies underwent an economic slowdown with an average growth rate of 3.7 per cent in 2018, a substantial drop from the 10.1 per cent recorded in 2017. However, this weighted averaged figure might have distorted the real growth performance given that the subregion's growth is heavily influenced by Libya, especially with the current military escalation, whose growth rate decreased by an estimated 59.8 percentage points from 70.8 per cent. Real GDP growth rate, excluding Libya, is estimated at 2.5 per cent in 2018, which is a slight improvement from 2.1 per cent the year before. This revised growth trend implies that Maghreb countries have largely sustained their economic growth in recent years.

As expected, economic performance at the country level showed mixed results. The Algerian economy increased its public spending by largely relying on monetary financing. As a result, economic activities were strong and showed a doubling growth rate (1.4 per cent in 2017 compared with 2.7 per cent in 2018). Such growth momentum will continue in the years to come and will greatly benefit from higher gas production as new fields come on stream. Morocco and Tunisia experienced modest agricultural production in 2018 that boosted domestic demand expansion, with growth rates of 3 per cent[21] and 2.5 per cent, respectively. These two economies are expected to be further supported by increased growth in the tourism sector in 2019.

E. Arab least developed countries

The Arab LDCs experienced an average economic contraction of 0.6 per cent in 2018, but this is expected to turn into a positive growth rate of 0.3 per cent in 2019. The 2018 negative growth figure was largely the result of underperformance in the Sudan and Yemen. The steep depreciation of the Yemeni currency in mid-2018, coupled with persistent double-digit hyperinflation, weighed heavily on domestic demand expansion despite a rise in oil exports. Similarly, the Sudanese economy continued to struggle against devaluations of the Sudanese pound. This economic situation was aggravated by strong inflationary pressures (63.3 per cent) and serious balance of payment constraints. These downside risks were translated into dampened private consumption and deterred investment. As a result, the Sudanese economy is facing serious unrest and political crisis triggered by growing economic hardships.

The other four countries in the subregion, namely the Comoros, Djibouti, Mauritania and Somalia, had relatively stable economic environments. In the Comoros, agriculture and infrastructure sectors drove economic expansion, which converted into an economic growth rate of 3.7 per cent in 2018, compared with 3 per cent in 2017. Djibouti and Mauritania were estimated to roughly maintain their growth patterns in 2018. Ongoing construction of a free-trade zone, a desalination plant and road infrastructure was conducive to positive economic activities in Djibouti, while the Mauritanian economy benefited from mining sector development and other commodity exporting activities. Somalia registered an increased growth rate by 1 percentage point in 2018, mainly due to the expansion of the telecommunications, construction and service sectors. Such economic performances in the subregion partly benefitted from a number of global-level trade facilitation initiatives for LDCs, including the Bali Package and the duty-free and quota-free market access initiative under the World Trade Organization.

F. Prices and inflation

The average annual consumer price inflation for 2018 in the Arab region was estimated at 6.2 per cent, slightly down from 6.7 per cent the year before. However, this figure may not accurately reflect regional price dynamics as inflation trends vary significantly by subregion and country. Inflationary pressures in GCC countries appeared strong, especially in Saudi Arabia, whose inflation rate was 2.5 per cent in 2018, following a deflation of 0.9 per cent in 2017. This inflationary pressure was partly attributed to the recent implementation of a value-added tax, which might have had knock-on effects on household spending power. Inflation in conflict-affected countries, including the Sudan and Yemen, continued with double-digit hyperinflation, while the Syrian Arab Republic experienced a substantial drop by 13.8 percentage points over the period 2017-2018. More diversified dynamics can be observed in Mashreq countries. Tax reforms and rising energy prices resulted in higher prices in Jordan and Lebanon; while Egypt continued to face strong inflationary pressures, although somewhat contained, with an inflation rate of 14.4 per cent in 2018.[22]

In 2019, the Arab region's inflation trajectory is expected to edge down to 4.1 per cent, and a lower trend is envisaged in the midterm. Such an outlook is largely driven by the assumption that a number of single-occasion inflationary factors (such as a one-time effect from an energy subsidy cut) will fade over time. Against a backdrop of heterogeneous factors affecting the price structure across countries, inflationary pressures in the region are expected to ease towards the end of 2019, with a forecast consumer price inflation rate of 1.9 per cent for GCC countries (down from

2 per cent in 2018); 3.4 per cent for Maghreb countries (down from 4.5 per cent in 2018); 6.9 per cent for Mashreq countries (down from 8.6 per cent in 2018); and 16 per cent for the Arab LDCs (down from 43.2 per cent in 2018).

G. Exchange rates

The macroeconomic situation is highly diverse across countries in the Arab region, especially with respect to political stability and dependence on volatile oil revenues. Consequently, Arab countries have implemented different exchange-rate arrangements. Sixteen Arab countries currently operate a soft currency peg, Djibouti implements a hard peg, and Egypt and Somalia maintain a floating arrangement. Algeria and the Syrian Arab Republic have other managed arrangements that do not correspond to any of those categories, and include arrangements that are characterized by frequent shifts in policies. The State of Palestine does not have its own currency and transactions are carried out using other countries' legal tender, notably the dollar, the euro, the Israeli shekel and the Jordanian dinar.

Of the 16 Arab countries that operate a soft peg, 11 implement a conventional pegged arrangement. These countries formally (de jure) peg their currency at a fixed rate to another currency or a basket of currencies, such as the currencies of major trading or financial partners, with corresponding weights to reflect the geographic distribution of trade, services or capital flows. Seven Arab countries (Iraq, Jordan and all GCC countries except Kuwait) use the dollar as their currency anchor. The Comoros fixes the exchange rate of its Comorian franc against the euro, whereas Kuwait, Libya and Morocco use basket currency anchors. Monetary authorities defend the fixed parity through sales or purchases of foreign exchange in the market or use indirect measures, such as interest rate policy, foreign exchange regulations or interventions by other public institutions, to sustain the target rate. However, there is no irrevocable commitment to maintain parity with a currency, which is what makes it a soft peg.

Lebanon, the Sudan and Yemen have a stabilized soft peg. Under these arrangements, the spot market exchange rate remains within a margin of two per cent or less for at least six months but is not floating. Meanwhile, Mauritania, Morocco and Tunisia operate crawl-like arrangements: the rate of change is generally greater than in the case of a stabilized arrangement, but the exchange rate is also not floating. Egypt and Somalia have floating exchange rates. Under these arrangements, the exchange rate is largely determined by the market and there is no ascertainable or predictable path for the rate. The authorities may intervene in the foreign exchange market to moderate the rate of change or to prevent undue fluctuations; however, these steps are not meant to target or defend a specific level of the exchange rate.

H. Social dynamics and employment

The employment situation in the Arab region was bleak in 2018. Labour force participation rates remained the lowest worldwide and were uneven between males and females. Female labour force participation rates remained low at 21 per cent[23] compared with 74 per cent[24] for men in 2018, while female unemployment rates reached 18.7 per cent compared with 7.5 per cent for men. Political crises and persistent conflicts in countries such as Iraq, Libya, the State of Palestine, Somalia, the Syrian Arab Republic and Yemen continued to impede labour market development in the region. Youth unemployment fluctuated at alarming rates in 2018, hitting 26.1 per cent after reaching its highest peak in 2012 at 27.3 per cent.[25]

The main problems facing youth employment include skills mismatch, cultural resistance to certain jobs in some countries, more attractive incentives in the public sector than the private sector, rigid employment regulations, and unattractive business environments.

In terms of gender equality indicators, the Arab region recorded no significant progress from last year. It continued to rank last globally with a 40 per cent gender gap, according to the 2018 Global Gender Gap Report.[26] Furthermore, based on Inter Parliamentary Union data as at January 2019, the Arab region has an average of 19 per cent of women in the lower or single house compared with a world average of 24.3 per cent. This constitutes a slight increase in the regional average from 2017 (18.3 per cent), but the region ranks penultimately compared with other regions in terms of women's representation in national parliaments. As for upper house or senate representation, the Arab region recorded a regional average of 12.5 per cent compared with a world average of 24.1 per cent as at January 2019. Tunisia preserves its position at the top of the chart in the region with 35.9 per cent of women parliamentarians owing to its well-established quota system.[27]

4. Policy Developments

Throughout 2018 and up to the first quarter of 2019, a tighter monetary stance with rising financial costs for the Arab region was observed. Central banks increased their policy rates in tandem with the ongoing cycle of United States interest rate hikes. This normalization effort associated with fast United States dollar appreciation has raised the cost of international financing, with many Arab countries using debt issuance for deficit financing purposes, thereby increasing fiscal vulnerabilities in the region. Coupled with persistent monetary policy challenges, most Arab countries continue to run fiscal deficits despite extensive austerity measures. These efforts include the recent implementation of a unified GCC-wide value-added tax, an introduction of a series of subsidy reforms and revenue mobilization, and the removal of various tax exemptions.

Many Arab countries have already initiated energy subsidy reforms and will continue such efforts in the future, especially if the fiscal deficit remains high. These reforms are conducted within the scope of fiscal consolidation, but their effects will spread over the economy as a whole. They will generate some adjustment costs in terms of growth, employment and comparative advantage. There are also differentiated implications on gender when exploring sectoral employment implications. Such matters need to be addressed by policymakers and taken into consideration when designing appropriate actions to mitigate them.

Arguably, reducing energy subsidies will generate a fiscal space for Arab Governments. If the ‘saved’ amounts are directed in full to the reduction of the fiscal deficit, fiscal sustainability could be enhanced but such a policy direction will not necessarily improve macroeconomic variables such as economic growth and job creation. If the saved amount could either be transferred to households as a lump-sum transfer or used to fund additional public investment programmes, energy subsidy reform could have a greater impact on sustainable economic growth. Furthermore, Arab policymakers should consider how to mitigate the effect of such reform, including by diversifying the national energy mix, while increasing the share of renewable energy; establishing sustainable demand-side management systems for domestic energy use; re-prioritizing structural economic diversification; implementing large-scale energy efficiency retrofit programmes across all economic sectors; ensuring the effective enforcement of energy efficiency performance standards and regulations; and increasing the take-up of off-grid systems, while enhancing regional energy trade.

5. Prospects

Overall, the growth perspective in the Arab region remains linked to geopolitical uncertainties, which are further exacerbated by a number of ongoing intra-regional diplomatic rifts and armed conflict. In addition to those political challenges, higher global interest rates, driven by the United States and other advanced economies, seriously tighten credit conditions and increase fiscal vulnerabilities in the Arab region. The high volatility of oil prices, coupled with United States sanctions against Iranian crude oil exports, has complicated the capacity to balance between fiscal consolidation, private sector development, diversification and external imbalances in the growth equation. Reflecting these mixed risks and opportunities, regional growth is anticipated to continue with a real GDP growth rate of 2.9 per cent for 2019 and 3.8 per cent for 2020.

Notwithstanding the daunting challenges for Arab policymakers, the region shows development potential, especially in digital technologies and innovation. Leveraging the region’s energy potential and taking advantage of technological innovation will be critical to promoting value addition, industrial growth and employment. Moreover, the inclusiveness of such growth can be enhanced through measures to promote digital technology-based financial inclusion by facilitating access to financial services for unbanked and underserved social groups. The Arab region, with its 400 million inhabitants including many educated young people, natural resources and a privileged geographical position, has a strong chance of becoming a digital economy powerhouse with technologies aimed at achieving structural transformation and sustainable development.

Endnotes

1. In 2018, unemployment rates were 2.7 per cent in Japan, 3.9 per cent in the United States, 4.7 per cent in New Zealand, 5.5 per cent in Australia, 5.9 per cent in Canada, and 7 per cent in the European Union. See United Nations, Department of Economic and Social Affairs (DESA), World Economic Situation and Prospects 2019 (New York, 2019).
2. While unemployment rates in Germany, Japan and the United States have reached at their lowest level in decades, enterprises in those countries reported that a lack of qualified workers constrained their production levels. For instance, in the United States, limited capacity in rail and trucking delivery transport significantly increased freight transportation prices. See DESA, World Economic Situation and Prospects 2019.
3. This expectation is based on the Federal Reserve’s announcement in March 2019.
4. The Indian economy continued its radical expansion with an estimated growth rate of 7.2 per cent in 2018, primarily driven by an increase in private consumption and investment growth.
5. The economic crisis was exacerbated by United States financial and legal restriction on individuals, entities and the country’s State-owned oil company aligned with the current regime.
6. A leveraged loan is a type of loan that is extended to companies or individuals that already have considerable amounts of debt and/or a poor credit history.
7. From 2000 to 2014, the Chinese Government, banks and contractors issued $86.3 billion worth of loans to African governments and State-owned enterprises. See China Africa Research Initiative, “Data: Chinese loans to Africa” (accessed on 10 March 2019).

8. These loans are largely classified as non-official development aid, such as export credits, suppliers' credits and commercial loans.
9. The shale industry has been building its competitiveness by continuing to improve its technical innovation and productivity, which helped the United States become the swing producer in the oil market.
10. International Energy Agency (IEA), Oil 2019: Analysis and Forecasts to 2024, Market Report Series (Paris, 2019).
11. OPEC's total oil production volume recorded at 39.5 million b/d in both 2017 and 2018. See OPEC, "Monthly oil market report - April 2019" (2019).
12. In November 2018, the United States issued eight waivers lasting 180 days to importers of Iranian oil, namely China, Greece, India, Italy, Japan, South Korea, Taiwan and Turkey.
13. In January 2019, the United States Government announced sanctions to freeze the assets of the Venezuelan State-run oil company PDVSA (Petróleos de Venezuela), which used to ship around 0.5 million b/d to the United States, equivalent to 41 per cent of total Venezuelan oil exports.
14. Egypt has completed and operated natural gas development projects and is expected to become a net natural gas exporter in 2019.
15. IEA, Gas 2018: Analysis and Forecasts to 2023: Executive Summary, Market Report Series (Paris, 2019).
16. In the beginning of the fourth quarter of 2018, China imported 72.1 million tons, far exceeding Japanese imports of 6.53 million tons. Data for China is based on the General Administration of Customs, "China's major imports by quantity and value, October 2018 (in CNY)" (accessed on 10 March 2019). Data for Japan is from the Ministry of Finance, "Trade statistics", 13 March 2019.
17. As part of its energy plan, Qatar invested $10 billion in a project with ExxonMobil, which is expected to produce 16 million tons of natural gas per year. The facility, located in Texas, the United States, is expected to start exporting in 2024. See ExxonMobil, "ExxonMobil, Qatar Petroleum to proceed with Golden Pass LNG export project", 5 February 2019.
18. International Fertilizer Association (IFA), "Short-term fertilizer outlook 2018-2019", paper presented at IFA Strategic Forum, Beijing, November 2018.
19. The Index captures large and mid-cap representation across 24 emerging markets. See MSCI, "MSCI Emerging Markets Index (USD)", 29 March 2019.
20. The United Nations High Commissioner for Refugees (UNHCR)'s data show that refugees in Jordan and Lebanon accounted for about 7 and 16 per cent of their respective populations as of 2017. See UNHCR, Global Trends: Forced Displacement in 2017 (Geneva, 2018).
21. Despite other positive factors affecting economic expansion, a slower phosphate production was observed in Morocco, resulting in a slowdown of economic activities from 4.1 per cent in 2017 to 3 per cent in 2018.
22. This reflected the effects of pass-through of the exchange rate and import prices to domestic inflation, coupled with price increases caused by fuel subsidy cuts and a value-added tax.
23. World Bank, "Labor force participation rate, female (% of female population ages 15+) (modeled ILO estimate)", World Development Indicators Database (accessed on 10 March 2019).
24. World Bank, "Labor force participation rate, male (% of male population ages 15+) (modeled ILO estimate)", World Development Indicators Database (accessed on 10 March 2019).
25. World Bank, "Unemployment, youth total (% of total labor force ages 15-24) (modeled ILO estimate)", World Development Indicators Database (accessed on 10 March 2019).
26. World Economic Forum, The Global Gender Gap Report 2018 (Geneva, 2018).
27. Inter-Parliamentary Union (IPU), "Women in national parliaments: world classification" (accessed on 10 March 2019).

The 2018-2019 Survey estimates that the Arab region experienced an economic recovery with a growth rate of 2.3 per cent in 2018, up from 1.7 per cent the year before. This recovery was largely attributed to growth led by the hydrocarbon sector among the region's oil-exporting countries, particularly Gulf Cooperation Council (GCC) countries which underwent a sizeable increase in oil production and associated export revenues. In contrast, the oil-import dependent countries oil imports remained highly vulnerable to rises in global fuel prices. Their current account deficits further worsened and public debt increased, limiting their fiscal policy space. In recent years, the energy subsidy system has placed considerable burdens on government revenues.

This Survey examines the macroeconomic implications of energy subsidy system reforms, with the case study of two countries: Tunisia (an oil importer) and Saudi Arabia (an oil exporter). The results based show that reducing energy subsidies generates fiscal space for governments to maneuver. If the amounts "saved" by eliminating or reducing subsidies are totally directed to the reduction of fiscal deficit, fiscal sustainability could be enhanced but economic growth and job creation will be negatively affected. In assessing the reform options that promote an inclusive and sustainable development, a number of policy implications are discussed.

ISBN 978-92-1-128409-6

9 789211 284096

19-00971