The Summary of the Survey of Economic and Social Developments in the Economic and Social Commission for Western Asia Region[1], 2012-2013

Summary

The average growth rate in gross domestic product (GDP) in real term of the Arab region is estimated to be 4.6 percent for 2012, compared to 2.4 per cent in 2011. The recovery in the sub-region of Maghreb, particularly of Libya, contributed to the region's growth as well as the consistent growth in Gulf Cooperation Council (GCC) countries. For 2013, the average real GDP growth rate of the region is projected at 4.2 percent for 2013. The GDP growth rate on average is likely to taper off due to the decline in energy export revenues which marked a historical high in 2012. However, the polarization of the region's economic and social developments was deepened in 2012. Major energy exporters in the region, namely the member countries of GCC, have been on the stable recovery path which was warranted by the expansionary fiscal and monetary policy mix. In the same time, net energy importing countries in the region struggled to stabilize their economies amid worsening foreign exchange constraints. The polarization was partly due to political instability and social unrest, but also to the severed intra-regional flow of funds with trade, tourism and investments. The lack of business confidence for intraregional business transactions resulted in the segmentation of the regional economies. The loss of regional leverage through the segmentation amplified the seriousness of unemployment issue throughout the region, even in GCC countries. Amid these economic and employment difficulties, social development in the region has yet continued gradually through a series of policy reforms and institutional development. Most notably in 2012, Saudi Arabia took a series of active labor policies for Saudi nationals, emphasizing the importance of female employment. However, much of social dynamics in the region were observed as social unrest in parallel with political instability. The structural weakness of the economies in the Arab region, represented by high unemployment rates and income inequalities, is the chronic undercurrent to motivate social unrest and political instability. Reviving effective regional leverage through further regional cooperation and integration efforts is crucial to compensate the failing market-based intraregional resource transfers.

[1] Following the accession of Libya, Morocco and Tunisia to the Commission in July 2012, it was decided that the territorial coverage of the Survey of Economic and Social Developments in the ESCWA Region would be expanded to include all the countries which consist the Arab region. The following regional sub-regional grouping is used in this paper, considering 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, the United Arab Emirates; Mashreq: Egypt, Iraq, Jordan, Lebanon, Palestine, the Syrian Arab Republic; Maghreb: Algeria, Libya, Morocco, Tunisia; Arab Least Developed Countries (LDCs): Comoros, Djibouti, Mauritania, Somalia, Sudan, Yemen.

I. GLOBAL CONTEXT

1. The world economy continued struggling to recover throughout 2012. The global financial crisis of 2008-2009 led central banks in the developed economies to take a monetary easing stance to its maximum. A series of monetary policy coordination efforts of this line has successfully contained the contagion of liquidity crisis. Moreover, a series of fiscal stimulus policies at global level in 2008 and 2009 successfully buoyed the global demand growth from the risk of serious implosion. The possibility for the world economy to be trapped into a deflationary spiral was clearly averted. Nevertheless, despite those short-term successes, the struggle for a stable economic recovery became more apparent in 2012 as economic policy options for many governments were exhausted further. The quickly shrinking fiscal space forced many governments to maintain a fiscal austerity stance. Meanwhile, the speed of balance sheet adjustment of financial sector, which was hit by the global financial crisis of 2008-2009, varied: while a smooth adjustment has been observed in the United States, the process has been slow in the Euro Area. The remaining uncertainty over financial risks, which still could be contagious, precluded a strong investment-led growth recovery of the world economy at this stage. The developed economies, particularly in Europe, are still prone to a double-dipped recession.

2. The developing economies, including ESCWA member countries of the Arab region, increased their presence in the world economy in 2012, by sustaining the world economy's demand growth. However, it appeared that the economic performance of developing economies was diverging according to their resource endowments. This was mainly due to the stagnating global investment flows as the investors stayed cautious in taking risks. Therefore, those developing economies with natural and financial resources, could weather the uncertain world economic situation. This resilience in part of developing economies has sustained the world demand for natural resources, compensating the moderately decreasing demand from the developed economies. However, the developing economies without natural resources endowments have increasingly suffered from the rising foreign exchange constraint as the capital inflow to these economies became insufficient to finance the current account deficits. International price of food and energy stayed relatively stable in 2012, but some developing economies experienced high inflation rates due to country-specific factors which are mainly related to foreign exchange constraint.

3. For the immediate prospects for 2013, the sustainability of sovereign debts, both in developed and developing countries, casts a shadow of vulnerability to the world economy. This vulnerability points to two issues of concern. Firstly, the balance sheet adjustments of financial sector have not been completed in many economies. The financial sector's asset side of the balance sheets suffered from the global financial crisis of 2008-2009. The recovery of asset prices has been slow and mostly still below pre-crisis levels. The governments' fiscal intervention was intended to support the financial sector's balance sheet adjustments directly and indirectly, but such intervention turned out to be not sustainable in several countries, particularly of southern Europe. The most recent case in point was the financial insolvency crisis in Cyprus for which the national government could not sustain fiscal supports. As far as asset prices are stagnated, the world economic situation holds this fundamental fragility from on-going slow balance sheet adjustment of financial sector. Secondly, with the exception of those countries with natural resources, more governments maintained their fiscal austerity stance in 2012-2013 fiscal years. Moreover, it is expected that more central banks are shifting to tighter monetary stance in 2013. This general trend of tightening policy-mix is being justified for fiscal prudence and against rising level of expected inflation. However, the policy-tightening may negatively affect still-progressing balance sheet adjustments in the financial sector in most of the developed economies.

4. The fragility of world economic recovery was also reflected in its extremely weak employment creation. The situation has not been improved in the developed economies in 2012, which resulted in multiple negative effects on the developing economies' employment opportunities as job seekers in the developing economies suffered from the loss of obtaining job by migration as well as chronic high unemployment in their home countries. The employment situation has crucial financial implications to the developing economies as workers' remittances became even more vital source to finance current account deficits. In sum, the main challenges that the world economy is facing consist of: 1) smooth balance sheet adjustment in parallel with recovery of asset prices at global level; 2) appropriate growth-leaning macro-policy mix to revive the financial sector; and 3) sufficient employment creation as the issue of rising unemployment, both in the developed and developing economies, will be the most crucial for solid economic recovery.

5. In this global context, ESCWA member countries of the Arab region exhibited further polarization in their development paths in 2012. Major energy exporters in the region, namely the member countries of Gulf Cooperation Council (GCC) have been on the stable recovery path which was warranted by the expansionary fiscal and monetary policy mix. In the same time, net energy importing countries in the region struggled to stabilize their economies amid the worsening foreign exchange constraint. The polarization was partly due to political instability and social unrest, but also further severed intra-regional flow of funds from the region's major energy exporters. The lack of business confidence for intra-regional business transactions resulted in the segmentation of the regional economies. The loss of regional leverage through the segmentation amplified the seriousness of unemployment issue throughout the region, even including GCC countries. Amid these economic and employment difficulties, social development in the region has yet continued gradually through a series of policy reforms and institutional development. However, much of social dynamics in the region were observed as social unrest in parallel with political instability.

II. OIL SECTOR DEVELOPMENT

6. According to the estimation from Organization of Petroleum Exporting Countries (OPEC)[2], the total world demand in 2012 averaged 88.8 million barrels per day while total supply of crude oil averaged 89.8 million barrels per day. The demand for crude oil is estimated to have increased in 2012 by 0.8 million barrels per day over the previous year. The declining trend of demand from the developed economies continued while the demand from developing economies consistently has been growing. The main contributor of oil demand growth remained that of China. From the near-maximum level of crude oil production, OPEC member countries have been reducing the production gradually since August 2012. Meanwhile, the crude production of the United States and Canada has shown a notable increase through the development of shale/tight oils and tar sands extractions. Geo-political risks in crude oil supply are expected to remain, but the world crude oil supply is realized to have a sufficient level of spare capacity for 2013. For this prospect of relaxing supply-demand balance, OPEC may moderately reduce the production quota in 2013.

7. Crude oil prices experienced a rapid decline in the first half of 2012 mainly due to the concern over the world demand growth. However, crude oil prices recovered throughout the second half of the year to mark the historically high annual average. OPEC Reference Basket Price averaged \$109.45 per barrel in 2012, which marked the year's highest at \$124.64 per barrel on the 8th of March and the lowest at \$88.74 per barrel on the 22nd of June (Table 1). The speculations at commodity futures markets remained influential in both selling and buying. The financing for speculators remained available for the prolonged monetary easing policies in the developed economies where nominal interbank interest rates stayed at the historical low. For

[2] OPEC Monthly Oil Market Report, February 2013

2013, the prospects of crude oil prices as well as the price of fuel products are increasingly dependent on the extent of potential supply glut in the global market of fuel products. The weak recovery of world economy continues to be the main concern. Moreover, North American refiners have been gaining competitiveness, due to the increasing production of shale oil, which pressured the refining margins in Asia and Europe. The overcapacity in oil tanker market is another factor to lower the price of crude oil and fuel products. As several other asset classes showed a sign of recovery, speculations are expected to be relatively less influential. Having taken these factors into consideration, the average OPEC Reference Basket price for 2013 is projected to average in the range of $85.0 to $120.0 per barrel.

TABLE 1: CRUDE OIL PRICE ESTIMATION AND FORECAST
(OPEC Reference Basket: $ per barrel)

	Minimum	Maximum	Annual Average	Forecasted annual average for 2013		
				Lower	Median	Higher
2010	66.84	90.73	77.45			
2011	89.81	120.91	107.46			
2012	88.74	124.64	109.45			
2013				85.00	102.50	120.00

Source: OPEC for 2010-2012. Figures for 2013 are forecasts as of March 2013

8. The total crude oil production of the region's major energy exporters, namely GCC countries, is estimated to average 16.8 million barrels per day in 2012, increased 4.2 per cent from the previous year. The total production marked a record high, surpassed the level of 2008. Iraq continued to expand its production capacity. Its crude oil production has grown by 11% to the average of 2.9 million barrels per day in 2012. The crude oil production of Libya saw a rapid recovery from a drastic production plunge in 2011. Its crude oil production has grown to the average of 1.3 million barrels per day, which is at 89% of the 2010 level. Transport difficulties related to worsened security situations in Sudan and the Syrian Arab Republic seriously reduced crude oil production and exports from those countries. Yemen managed to maintain the production level of the previous year despite occasional disruptions of crude oil transport through pipelines.

III. REGIONAL ECONOMIC TRENDS

9. The real GDP growth on average in the Arab region is estimated to be at 4.6 per cent in 2012, compared to 2.4 per cent in 2011 (Table 2). The recovery in Maghreb economies, particularly of Libya, contributed to the improvement in the average growth rate as well as the consistent growth in GCC economies. However, the polarization of the region's economies was deepened in 2012. The polarization was partly due to political instability, social unrest and armed conflicts, and increasingly severed intra-regional flow of funds from the region's major energy exporters. While major energy exporting countries in the region recorded another year of high energy export revenues, energy importers in the region struggled to finance their current account deficits. The weak demand of European economies to non-energy exports from the region and hovering energy prices also contributed to the widening current account deficits of energy importing countries in the region. The high oil prices, combined with near-maximum output level, ensued in another historical high in energy export revenues in major energy exporters in the region. However, the positive spill-over through markets from was observed limited within GCC countries: other sub-regions in the Arab region has not benefited from the present "oil boom". The failing intra-regional markets led to a segmentation of the region's economies.

TABLE 2: REAL GDP GROWTH RATE AND CONSUMER INFLATION RATE, 2009-2013
(*Annual Percentage change)*

	Real GDP Growth rate					Consumer inflation rate				
Country/Area	2009	2010	2011[a/]	2012[b/]	2013[c/]	2009	2010	2011	2012[b/]	2013[c/]
Bahrain	2.5	4.3	1.9	3.4	3.0	2.8	2.0	-0.4	2.8	3.2
Kuwait	-7.8	7.9	8.2	4.7	3.2	4.0	4.0	4.8	2.9	3.2
Oman	1.1	8.1	5.5	4.5	4.0	4.2	3.2	4.1	2.9	3.2
Qatar	12.0	16.7	13.5	6.2	5.2	-4.9	-2.4	1.9	1.9	2.5
Saudi Arabia	0.1	5.1	7.1	6.8	5.5	5.1	5.3	5.0	4.5	5.0
The United Arab Emirates	-4.8	1.3	4.2	4.0	3.8	1.6	0.9	0.9	0.7	2.0
GCC countries	-0.9	5.9	7.1	5.6	4.7	3.3	3.3	3.5	3.0	3.7
Egypt [e/]	4.7	5.1	1.9	2.2	3.2	11.8	11.1	10.1	7.2	11.0
Iraq	5.8	5.9	8.6	11.3	7.8	-2.8	2.4	5.6	6.1	6.0
Jordan	5.5	2.3	2.6	2.7	2.9	-0.7	5.0	4.4	4.8	5.0
Lebanon	9.0	7.0	1.5	1.2	1.8	1.2	4.1	4.9	6.6	5.2
Palestine	7.4	9.3	12.2	5.3	4.0	2.8	3.7	2.9	2.7	3.0
The Syrian Arab Republic	5.9	3.4	-2.0	-31.4	-7.1	2.9	4.4	4.7	36.5	12.0
Mashreq	5.6	5.1	2.2	-1.6	2.6	6.5	7.7	7.6	11.4	9.3
Algeria	2.4	3.3	2.9	2.8	2.9	5.7	3.9	4.5	8.6	4.8
Libya	-0.7	4.2	-61.3	100.7	15.0	2.5	2.5	15.0	5.0	3.5
Morocco	4.8	3.7	5.0	2.8	4.9	1.0	1.0	0.9	1.3	1.8
Tunisia	3.1	3.2	-1.9	2.6	3.6	2.9	4.4	3.6	5.6	5.2
Maghreb	2.5	3.6	-9.3	10.6	5.3	3.6	3.0	5.5	5.7	3.9
Comoros	1.8	2.1	2.2	2.5	3.5	4.8	4.2	6.8	5.0	3.2
Djibouti	5.0	3.5	4.8	4.7	4.8	1.7	4.0	6.8	5.0	3.2
Mauritania	0.1	5.6	5.1	4.8	6.3	2.2	6.3	5.7	6.2	6.0
Somalia	--	--	--	--	--	--	--	--	--	--
The Sudan	8.2	4.5	-2.2	-11.0	2.5	11.2	14.0	18.1	35.1	22.0
Yemen	4.3	7.8	-10.5	-1.0	4.5	5.4	11.1	19.4	10.2	9.5
Arab LDCs	6.5	5.4	-4.0	-7.0	3.3	9.5	12.2	17.2	24.6	16.5
Total Arab region [d/]	1.2	5.2	2.4	4.6	4.4	4.2	4.4	5.3	6.0	5.3

Source: National sources unless otherwise stated.

a/ Figures for 2011 are of preliminary release from national sources which are subject to revisions. The estimated figures for Lebanon, and the Sudan, the Syrian Arab Republic and Yemen as of March 2013
b/ March 2013 estimations
c/ March 2013 forecasts
d/ Figures for country groups are weighted averages, where weights for each year are based on GDP in 2005 constant prices.
e/ For GDP growth rate of Egypt, the figures are for the country's fiscal year which ends in June of the year.

10. GCC countries, on average, are estimated to have a 5.6 per cent GDP growth in 2012, after registering 7.1 per cent of 2011. Despite the deceleration in growth rate, GCC economies showed more robustness with a consistent domestic demand growth. With the exception of Saudi Arabia, the most concerned consequence of global financial crisis of 2008-2009 was an implosion of domestic demand and debt deflation. Favorable external economic conditions such as the recovery in energy prices and international coordination in monetary easing favorably influenced the economic sentiment and confidence in GCC countries. The financial sector's balance sheet adjustment in this sub-region was progressed smoothly despite that the price level, of both financial and property assets, has not been recovered to the pre-crisis level yet. Saudi Arabia led the economic recovery in this sub-region. The Saudi Arabian economy

continued to experience a stable domestic demand-led growth, supported by an expansionary fiscal and monetary policy mix.

11. For 2013, GCC countries are expected to continue a stable economic growth though the GDP growth rate on average is likely to taper off. The deceleration of growth rate is mostly caused by an expected energy export revenues. Both crude oil production and prices are expected to decline moderately. However, the strong domestic demand growth is expected throughout GCC countries with the recovery in the financial sector's balance sheet. The continuing efforts to diversify the energy production-based economies with institutional reforms, targeting foreign direct investments, further create growth potential in this sub-region. The average real GDP growth rate of this sub-region is projected at 4.7 percent for 2013. The economic growth rates of GCC countries are projected to show a converging trend with the exception of Kuwait where the domestic demand growth stays relatively weak on a slower non-energy sector growth. In other GCC countries, however, the structural fragility in domestic demand is likely to be offset by active fiscal policy and project implementations in the non-energy sector. In 2013, the forecasted growth rate is 3.0 percent for Bahrain, 3.2 percent for Kuwait, 4.0 percent for Oman, 5.2 percent for Qatar, 5.5 percent for Saudi Arabia, and 3.8 percent for the United Arab Emirates.

12. The economies in the sub-region of Arab Mashreq are, on average, estimated to have contracted by 1.6 per cent in 2012, after registering 2.2 per cent growth in 2011. The devastation of Syrian economy was the largest factor to influence the sub-region's economic contraction. This sub-region was most affected by political instability, social unrest, and economic repercussion of the Syrian crisis. The slump in non-energy exports and the higher cost of energy imports widened the current account deficits. Moreover, the weakened capital inflows into the sub-region from GCC countries and Europe made it difficult to finance such external deficits. Tourism, which has been one of the main economic activities for domestic demand growth of Arab Mashreq economies, was substantially affected by security warnings of various extents which deterred tourists from visiting this sub-region. Construction activities, another pivotal source for domestic demand expansion, have also slowed down. Meanwhile, industrial development of this sub-region marked a significant set-back particularly in the Syrian Arab Republic. The production factories and facilities in Syrian industrial zones were severely damaged by the armed conflicts. The real GDP growth of Iraq was mainly due to a special factor of crude oil production expansion, which did not correspond to the slow domestic income growth. The real GDP growth of Palestine was also based on a scaling-effect for the ongoing reconstruction of the economy in Gaze Strip. The physical blockades, continuing security instabilities and hostilities continued to be a severe constraint on Palestinian economy.

13. For 2013, the sub-region of Arab Mashreq is projected to mark a moderate recovery at 2.6 percent on average. This figure is highly influenced by the increasing crude oil production of Iraq and other energy-related activities in this sub-region. As no resolution of deteriorating security situations, particularly in the Syrian Arab Republic, is in sight, business confidence and consumer sentiment are expected to stay weak in 2013 in this sub-region. Moreover, capital account position is expected to stay weak, and the risk for further balance of payments difficulties remains. The space for domestic demand growth remains limited on both supply and demand side factors. Fiscal austerity is expected to continue in Egypt, Jordan and Lebanon, and the tighter monetary policy stance is likely in Egypt and Jordan for the defense of respective national currency. The resource flows of official development aid are expected to be crucial for this sub-region to release fiscal and foreign exchange constraints. In 2013, the forecasted growth rate is 3.2 percent for Egypt, 7.8 percent for Iraq, 2.9 percent for Jordan, 1.8 percent for Lebanon, 4.0 percent for Palestine. The economy of the Syrian Arab Republic is projected to contract further by 7.1 percent.

14. The economies in the sub-region of Arab Maghreb are, on average, estimated to have grown by 10.6 per cent in 2012, after registering 9.3 per cent contraction in 2011. The major

contributor to the sub-regional economic expansion is Libya's resumption of energy production after it collapsed in the previous year. Even with this phenomenal rate of growth, Libyan economy has not reached the pre-crisis level of 2010. Meanwhile, the economy of Morocco was affected by underperforming agricultural sector due to poor weather conditions. Despite increasing number of social unrest and security incidents, this sub-region exhibited resilience to mark a moderate growth. For Algeria, the stable energy export revenues were sufficient to cushion negative economic and non-economic impacts. The availability of international finance for Morocco and Tunisia to fill the gap of external deficits kept foreign exchange constraint away from binding. The moderate domestic demand expansion was commonly observed in this sub-region. However, the growth was considerably insufficient to create decent enough employment opportunities particularly for young job seekers.

15. For 2013, the sub-region of Arab Maghreb is projected to continue to grow by 5.3 percent. With this rate of growth, this sub-region is expected to surpass the pre-transition level of 2010. In spite of unsettling social unrest in several cities and the neighboring countries, the Arab Maghreb countries are well situated to receive foreign direct investments and international aid. The sub-region's business environment is increasingly perceived to be less risky than that of Arab Mashreq. The uncertainty concerning investment environment is gradually lifted. This is particularly so in energy-exporting countries of Algeria and Libya, and the potential of Morocco and Tunisia may be re-evaluated by foreign investors for continuing sovereign debt crisis situation in the Euro Area. However, structural fragility of sub-region's economy is to remain for its weak export-oriented non-energy production base. More decent employment opportunities are urgently needed to resolve the fundamental cause of social unrest in this sub-region. In 2013, the forecasted growth rate is 2.9 percent for Algeria, 15.0 percent for Libya, 4.9 percent for Morocco and 3.6 percent for Tunisia.

16. The economies of Arab Least Developed Countries (LDCs) are, on average, estimated to have contracted by 7.0 per cent in 2012, following the previous year's contraction at 4.0 percent. The averaged contraction was mainly contributed by that of Sudan and Yemen. The struggle of Sudan for economic stability continued after the separation of South Sudan. A number of armed conflicts over the border area in early 2012 made it difficult for Sudan to adjust to the new economic environment smoothly. However, as Sudan and South Sudan finally reached an agreement over the terms of oil production and transportation in March 2013, external economic and non-economic environments are expected to be stabilized. Due to the loss of crude oil export revenues, Sudan suffered from a serious foreign exchange constraint which negatively affected the country's domestic demand and income level. The economy of Yemen was more stabilized toward the end of 2012. Despite the worsened security situation, the country maintained a stable crude oil export level. The energy export revenues, both in crude oil and Liquefied Natural Gas (LNG), sustained Yemen's domestic demand from falling further. Furthermore, financial supports for Yemen's transition were actively pledged at both regional and international levels. Other Arab LDCs, Comoros, Djibouti and Mauritania marked a moderate GDP growth in 2012, which has only made weak contribution to those countries' national income level. The economic outcome of political stabilization in Somalia was still uncertain during 2012.

17. For 2013, real GDP growth of Arab LDCs is projected to average 3.3 percent. The stable growth in energy and natural resource exports is expected to buoy the growth of Mauritania and Yemen. The economic prospects of Comoros and Djibouti much depend on that of their neighboring countries, which is expected to be stable. Sudan is expected to mark positive growth after two year's economic decline. The severe foreign exchange constraint is to remain, but its extent is expected to be relaxed due to the consistent growth in non-energy exports. The growth prospects of Arab LDCs are, however, very weak to reduce the prevailing poverty level. In 2013, the forecasted growth rate is 3.5 percent for Comoros, 4.8 percent for Djibouti, 6.3 percent for Mauritania, 2.5 percent for Sudan and 4.5 percent for Yemen.

18 The average consumer price inflation of the Arab region is estimated to be at 6.0 percent in 2012, compared to 5.3 percent in 2011 (Table 2). Although international commodity prices of energy, metal and food items hovered at a higher level, no extreme price spikes were observed throughout 2012. While the pass-through from international commodity markets had a less impact, each country's consumer inflation level was determined by more country-specific factors. The deflationary pressure remained on housing-related items in Bahrain, Qatar and the United Arab Emirates. The weak property rent contributed to this trend due to the oversupply of rental properties which became apparent after the global financial crisis of 2008-2009. On the other hand, Saudi Arabia and Oman were under constant inflationary pressure, including housing-related items, for their sustained growth of real estate sector. Nevertheless, GCC countries averaged the lower consumer inflation rate compared to other sub-region averaged 3.0 percent in 2012. Other countries in the Arab region, with exception of Morocco, experienced higher consumer inflation rate than GCC countries in 2012. The structural supply bottlenecks resulted in hovering consumer prices in Mashreq, Maghreb and Arab LDCs, and inflation was notably accelerated in the countries under foreign exchange constraints, namely as Egypt, the Syrian Arab Republic, and Sudan. The upward shift of private sector wage level in parallel with recent wage hikes in the public sector was observed in GCC countries, but the shift is not expected to influence the inflation rate of GCC countries.

19. The forecasted consumer price inflation rate of the Arab region averages 5.3 percent in 2013. The low-inflation regime of GCC countries is expected to continue. Food prices have been observed increasing since 2012, but the price increase is expected to be moderate. Moreover, the price of housing-related items, such as property rents, is projected to be depressed in Bahrain, Kuwait, Qatar and the United Arab Emirates. Although exceptionally high inflation rate in the Syrian Arab Republic, Susan and Yemen of 2012 is expected to taper off in 2013, the seriously biding foreign exchange constraint is anticipated to push up the price level of those countries. Egypt also is expected to experience an accelerating inflation due to the foreign exchange constraint with the devaluation of its national currency. GCC countries may implement another round of wage hike in the public sector in 2013, but its influence on general price level is expected to be limited. With exception of limited professional occupation categories in GCC countries, the region's private sector wage level is expected to stay depressed. The wage-push inflation is not likely to take place in 2013 in the region. GCC countries are in surplus in fiscal and external accounts to maintain the sufficient supply capacity for domestic demand growth. In other sub-regions, as the private sector wage level is expected to be depressed though the year, the only channel of wage-push inflation can be of the public sector. The public sector wage hike has been proposed to a few countries, most notably in Lebanon since 2012, but its impact on inflation projection remained uncertain.

20. The exchange rates of ESCWA/Arab region stayed stable from 2012 to early 2013 with the exception of Egypt, Sudan and the Syrian Arab Republic. GCC countries, with exception of Kuwait, have kept its foreign exchange rate regime of the US Dollar peg. Djibouti, Jordan and Lebanon have also maintained their national currencies' pegging to the US Dollar. Kuwait has maintained the pegging of the national currency to the basket of foreign currencies. Central banks of Algeria, Comoros, Iraq, Libya, Mauritania, Morocco, Tunisia and Yemen maintained the managed float regime of foreign exchange rate. For Sudan and the Syrian Arab Republic, the rapid decline in the value of national currency widened the spread between the official exchange rate and the exchange rate of parallel markets. Practically, foreign currencies were rationed in those countries. Economic sanctions and other non-economic events largely contributed to the national currency depreciation in Sudan and the Syrian Arab Republic whereas the depreciation of Egyptian Pound (LE) was more caused by economic environments. In a space of 3 months since December 2012, Egyptian Pound depreciated by 8 percent to the level of LE6.8/$ in March 2013. Before this abrupt devaluation, Egyptian Pound had been effectively pegged to US Dollar during April 2011 to December 2012 as a nominal anchor for Egyptian economy to whether unstable political and social situations in the country. Before this period, throughout 2010, Egyptian Pound was gradually depreciated by 7 percent from

LE5.4/$ to LE5.8/$, but this gradual depreciation policy was replaced by the currency peg in effect. The currency peg regime was effective in maintaining the level of domestic demand at the highly turbulent period. However, as it ensued in the rapidly dwindling foreign reserves from $28 billion in April 2011 to the range around $15 billion in February 2012. The resumption of gradual depreciation policy was not taken promptly. This was due to an observation that a currency devaluation could cause an immediate fiscal crisis by increasing food and energy subsidies and that a currency devaluation impact only modestly on the competitiveness of Egyptian exports. A gradual depreciation of Egyptian Pound is expected to continue in 2013, but the key for orderly resolution of the present balance of payment crisis in Egypt would critically rest on the prospects of fiscal reform.

21. The armed violence in the Syrian Arab Republic, the destruction of commercial and residential properties, infrastructures and production facilities has already caused significant economic damages. It was estimated that GDP in real terms contracted by 31.4 percent in 2012. The contraction of GDP was not due to the suspending economic activities and the idle production capacity. Rather it is due to the damage on physical capital stock and the loss of human capital. Even with the most optimistic scenario, it would take at least a few years for Syrian economy to return to the level of 2010. Economic sanctions that have been imposed by the United States, European Union and the League of Arab States caused a severe foreign exchange constraint. Since the financial sanctions and oil embargo were imposed in 2011, the Syrian economy lost a substantial amount of export revenues and its trade facilitation capacity was hampered for the difficulties in trade financing. The official exchange rate of the national currency, Syrian Pound (SP) was gradually depreciated from SP 47.1/$ in January 2011 to SP 87.09/$ in March 2013 with a widening spread between the official rate and parallel market rate. The loss of value in the national currency and the destructions of domestic transport networks caused a hyper-inflation. The year-on-year consumer inflation rate surged from 5.8 percent in November 2012 to 49.7 percent in November 2013.

22. Despite the magnitude of the violence and destruction, Syrian economy exhibited its resilience as it could avoid falling into a complete halt. Financial institutions are still in operation and international trade with neighboring countries continued with a reduced amount. For example, according to Lebanese customs data, Syrian exports to Lebanon in January 2013 stood at $16.0 million which is 56 percent of the pre-crisis monthly average in 2010. The neighboring countries felt the impact of the crisis not only the reduced amount of trade through Syria but also by the spillover of geopolitical tensions. It adversely affected risk perception in the sub-region of Mashreq. The inflows of capital and tourists, which had been the main driver of recent economic expansion in Jordan and Lebanon, were stagnated. Moreover, the rapidly increasing number of Syrian refugees to Jordan and Lebanon has put an additional fiscal burden on both countries. At the end of March 2013, United Nations High Commission for Refugees (UNHCR) estimated the number of Syrian refugees at 1.23 million, of which 396 thousands refugees stayed in Lebanon and 394 thousands refugees stayed in Jordan[3]. As of March 15, 2013, the only 31 percent of the required level for UNHCR's regional response plan was funded[4].

IV. POLICY DEVELOPMENTS

23. The economic environment that policymakers faced in 2012 grew remarkably different between major energy exporters of GCC countries and other sub-regions in the Arab region. At the risk of domestic demand stagnation and continuing deflationary pressures, the governments

[3] UNHCR "Syria Regional Refugee Response" http://data.unhcr.org/syrianrefugees/regional.php (accessed on 1 April 2013). The number is of "persons of concern" which is the total of the number of registered refugees and those awaiting registration.

[4] UNHCR "Syria Regional Response Plan Funding Update as of 15 March" http://data.unhcr.org/syrianrefugees/regional.php (accessed on 1 April 2013).

in GCC countries could adopt the mix of expansionary fiscal and monetary policies. This expansionary policy path was sufficiently sustainable for the ample fiscal space due to the growing energy exporting revenues and the continuing monetary easing of the United States. GCC countries' monetary policy mirrors that of the United States through the currency peg. By contrast, the governments of other sub-regions were under pressure to implement further fiscal consolidation through austerity measures. Monetary policy has also tightened in energy importing countries in Mashreq and Maghreb. For the rising inflationary pressure from worsening foreign exchange constraints, central banks in Egypt, Jordan and Tunisia tightened their monetary stances by early 2013. The clear policy dilemma existed in energy importing countries in the Mashreq and Maghreb as a much-needed pro-growth mix of fiscal and monetary policy became unaffordable.

24. Despite the limited latitude of monetary policy in GCC countries for their currencies' link to the U.S. Dollar, the relatively stable general price level allowed central banks in GCC countries to stay an easing stance comfortably in parallel with the policy stance of U.S. monetary authority. The funding cost in terms of 3-months interbank money market has converged around 1.0 percent among GCC countries at the level 70 basis points higher than 3-months U.S. Dollar London Interbank Offered Rate (LIBOR). The policy shift for monetary easing was seen in Yemen where the Central Bank of Yemen lowered policy interest rates in October 2012 and February 2013 to 15 percent. The neutral monetary stance was maintained in Algeria, Lebanon and Morocco. Monetary policy was tightened in Egypt, Jordan, Sudan and Tunisia in order to cope with inflationary pressures from biding foreign exchange constraints. The Central Bank of Egypt raised policy interest rates in March 2013 for the first time since November 2011, which made overnight deposit rate 9.75 percent. The Central Bank of Jordan raised its policy rates February, June and December in 2012, by which overnight deposit rate reached 4.0 percent. The Central Bank of Tunisia raised its policy interest rate in August 2012 and March 2013 to 4.0 percent.

25. For the fiscal year covering 2012 and 2013, the fiscal stance of GCC countries remained expansionary. The emphasis on infrastructure investment, health and education and social provision continued. The main challenge for GCC countries in the fiscal policy area was not rest on the size but on the scope. It became increasingly important to implement budgeted projects effectively in order to attain long-term policy goals such as the improvement in productivity. The boom in fiscal revenue could easily result in the increase in an income transfer type of fiscal outlay rather than public investment for physical or human capital formation. At the chronic high unemployment of their nationals, GCC countries are keen on strategizing fiscal policy with a comprehensive development plan in both economic and social spheres. By contrast, energy importing countries of Mashreq, Maghreb and Arab LDCs struggled to form and implement fiscal austerity measures in the fiscal year covering 2012 and 2013. In need of fiscal consolidation, the subsidy reform on food and energy has become the main policy focus for the governments. Attaining consensus for the reform while assuring a basic living standard for the low income populations will be a challenging priority in forming fiscal policy measures for forthcoming fiscal years.

26. The employment situations have been worsened in the Arab region in 2012. In addition to the existing chronically high unemployment among their nationals, the prolonged economic slump in North America and Europe discouraged the region's job seekers immigration. A sizeable return migration cases from Europe were observed in Maghreb. The employment situation in GCC countries remained unbalanced as foreign workers consist of the majority of workforce in the private sector. In spite of its consistently expanding domestic economy, the labor markets in GCC countries remained consisting of the combination of a high unemployment rate for the nationals and a low unemployment rate for the foreign workers. The policy to increase the share of the nationals among the private sector workforce has been in place more than a decade in GCC countries. In 2012, more stringent application of this policy became a trend in GCC countries. The case in point was Saudi Arabia where the firms that did

not employ a legally-set proportion of Saudi national in the workforce were fined from November 2012 on. Saudi Arabia also campaigned for the promotion of female employment. More occupational classes in the private sector were opened for female job seekers and several government ministries initiated employing female workers. Moreover, 30 prominent female figures were appointed to the Shura (Consultative) Council for the first time in Saudi Arabia's history. The gradual shift of labor policy in Saudi Arabia is expected to impact not only in GCC countries but also in other sub-regions.

V. CONCLUDING REMARKS

27. On average, the GDP growth rate of the Arab region is likely to taper off in 2013 due to the decline in energy export revenues which marked a historical high in 2012. However, it should be noted that it is increasingly difficult to provide a simple projection on economic and social developments in the region for 2013. The polarization of the region's economic and social developments was anticipated to deepen. Several signs of further segmentations have already been observed. Moreover, it has also been observed that the region was exposed to the downside risk of the dependency on energy exports. In spite of the active policy efforts for economic diversification, major energy exporting countries are still away from the diversification targets. As the region's non-energy sector in Mashreq and Maghreb has already been weakened, the Arab region's economy became more vulnerable to an abrupt energy price plunge though it is projected that an oil price plunge to an extent of 2008 is unlikely. A strong recovery in business confidence for intraregional business transactions is foreseen, considering the unstable political situation in Mashreq. However, it was structural weakness of the economies in the Arab region, represented by high unemployment rates and income inequalities, that has been argued as the chronic undercurrent to motivate social unrest and political instability. Thus, social unrest and political instability are not necessarily the cause of economic underperformance but can be the result of it. In order to let the Arab region away from falling into the vicious cycle, an effective regional leverage for economic activities through further regional cooperation frameworks and regional integration efforts need to be augmented.