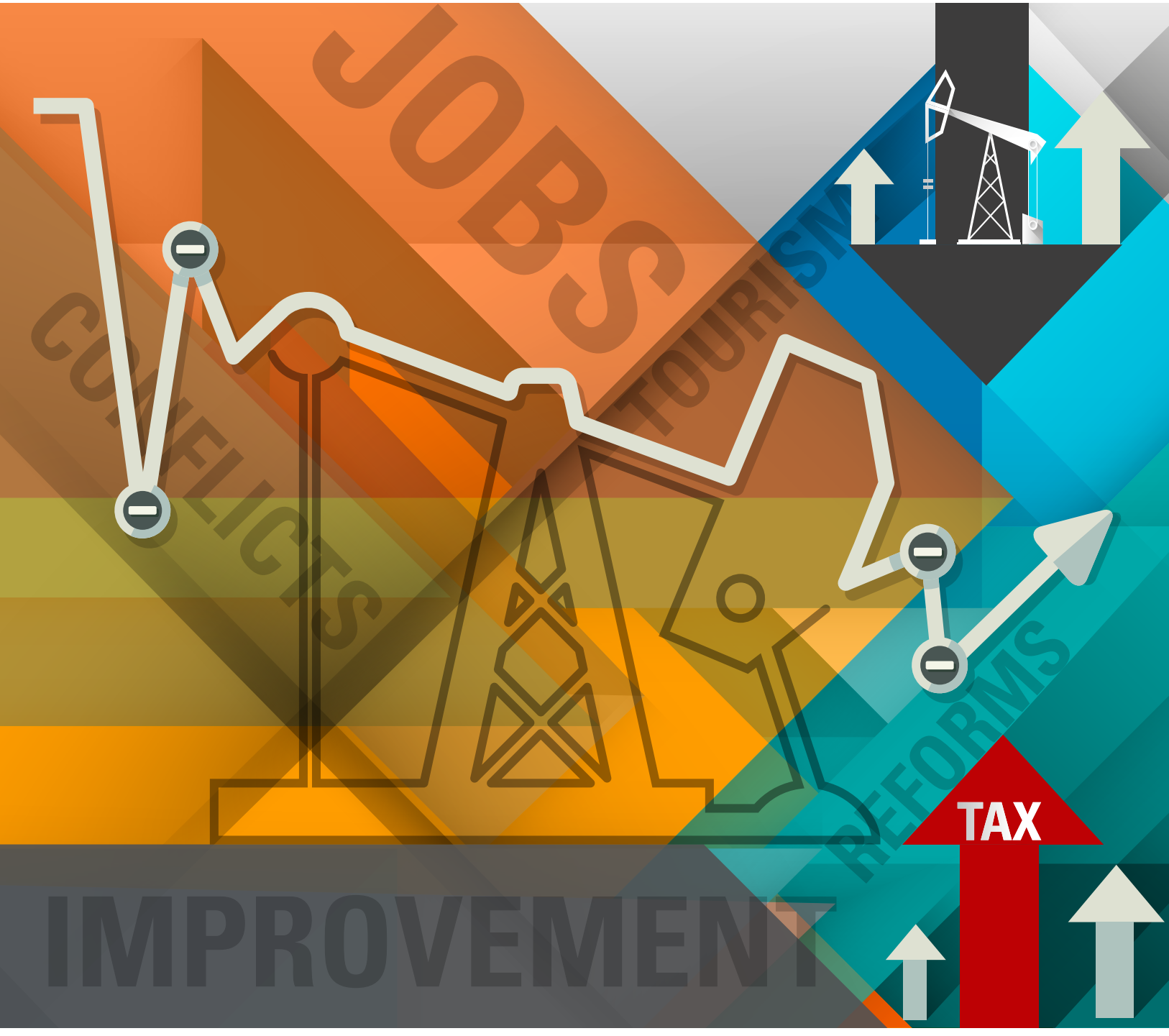
Economic and Social Commission for Western Asia



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Survey of Economic and Social Developments in the Arab Region

2017-2018

Economic and Social Commission for Western Asia

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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 General Assembly resolution 35/56, para. 173; ESCWA resolution 270 (XXIV) paras. 2, 3 and 4; and ESCWA resolution 303 (XXVII), paras. 1 and 2. This publication is linked to subprogramme 3 of ESCWA, on economic development and integration, which seeks to contribute to efforts by member States to reform economic institutions and develop and implement policies based on principles of good governance in order to enable economic planning and policymaking in support of inclusive and sustainable development. This 2017-2018 edition focuses on analysis of the most recent socioeconomic developments under a set format, with a reporting period primarily from January 2017 to March 2018. There are two main objectives: to analyse routinely monitored economic and social variables in the Arab region in a global context (chapters 1 and 2) and to focus on studies of exchange-rate regime and its economic implications for the region (chapter 3).

Acknowledgements

The report was prepared under the overall direction and guidance of Moctar Mohamed El Hacene, Director of the Economic Development and Integration Division (EDID) at the Economic and Social Commission for Western Asia (ESCWA). Mohamed Hedi Bchir, Chief of the Modelling and Forecasting Section at EDID, led a core team, which included Ahmed Moummi, Seung Jin Baek and Nathalie Khaled with research assistance and administrative support from Arpy Atamian, Maroun Laoun, Nasser Badra, Rihab Baltagi, Ali Haffouda, Rahsa Khayat, Minkyung Lee, Yooji Choi and Taewan Shim.

The team would like to greatly acknowledge the internal peer review from Wafa Aboul Hosn, Mehmet Eris, Salim Araji and David Krivanek, the valuable contribution from Khalid Abu-Ismail and Niranjan Saranji, and the substantive contributions made by ESCWA divisions: Sustainable Development Policies Division (SDPD), Social Development Division (SDD), Technology for Development Division (TDD), Statistics Division (SD), Emerging and Conflict-Related Issues Division (ECRI) and ESCWA Centre for Women (ECW). Constructive feedback and insightful comments from ESCWA staff members during a seminar and from the Publications Committee meeting are also greatly acknowledged.

Policymakers and other stakeholders were also consulted throughout the preparation of the survey, and an external expert group meeting to review and validate the draft report was held on 26 June 2018 in Beirut. The experts were: Abeer Elshennawy, Sherine Al-Shawarby, Diana Abu Ghunmi, Nassib Ghobril, Ali Awdeh, Jun Kim and Sami Mouley.

A team from the Conference Services Section (CSS) at ESCWA edited and designed the report.

Executive Summary

Not only did the world economy strengthened in 2017, it appeared poised to maintain a trajectory of growth through 2018. Global gross domestic product (GDP) growth reached 3.1 per cent compared to 2.5 per cent in 2016. This global growth was driven by the rebound in worldwide trade dynamics, a strong investment initiative and improved labour market conditions in the world's major economies. Developing countries were also a driving factor in the global economic uptick, propelled by robust domestic consumption and increased infrastructure investment.

The global economic upturn intensified world demand for oil, as economic recovery in major economies increased consumption. The stronger demand increased transactions in the oil futures market. In late 2016, the Organization of the Petroleum Exporting Countries (OPEC) agreed to reduce crude oil production to rebalance the oil market and counteract the stubbornly low oil prices that had restrained growth and fiscal performance in the Arab region in 2015-2016. As a result, there was shortage of global petroleum inventories over the period 2016-2017 and the price of oil started to rise steadily.

Such upbeat dynamics were, however, unequally distributed across countries and regions, raising questions of sustainability in the long run. Against a backdrop of the global growth, economic growth in the Arab region slowed to 1.5 per cent in 2017 from 2.8 per cent the year before, largely due to underperformance in the region's oil exporters. Subdued economic activities in both Gulf Cooperation Council (GCC) countries and non-GCC oil exporters was largely attributed to hydrocarbon sector-led growth decelerations, in line with the above-mentioned OPEC agreement. The economies of oil-importing countries have expanded following the stronger-than-expected recovery of the global economy, but more so in European countries than in the Arab region. But a gradual improvement in the regional economic outlook is anticipated: growth rates of 3.3 per cent and 3.2 per cent are expected for 2018 and 2019 respectively. These projections are based on oil production dynamics, a series of policy reforms and fiscal adjustments and improvements in the tourism sector, along with a moderate reduction in geopolitical tensions in the forthcoming years.

Looking ahead, the sanctions of the United States of America against Iran and its crude oil exports are expected to intensify supply shortages further, keeping oil prices high for the rest of 2018. In June 2018, the Saudi-led oil-producing countries agreed to a new output level, effectively increasing oil production by almost 1 million barrels per day. The oil sector is expected to fully rebound in 2018, reflecting the increase in the region's total gross oil export revenues. All these dynamics complicate the oil market landscape, increasing the vulnerability of economic growth prospects of the region.

As for fiscal performance, nearly all Arab States continue to run deficits despite having implemented extensive austerity measures. These ongoing efforts to adjust fiscal deficit challenges will eventually pay off. Arab Governments have been taking a tighter monetary stance and experiencing the consequent financial costs. Central banks in the Arab region have increased their policy

rates in tandem with interest rate hikes in the United States. The rapid dollar appreciation has raised the cost of international financing for the region and many Arab countries are using debt issuance for deficit financing purposes. Although some countries, particularly GCC countries, have made efforts to lessen their liquidity pressures and enhance their ability to supply credit to the private sector, this tightening monetary stance is expected to continue in the years to come. Nonetheless, geopolitical uncertainty and high levels of public debt continue to weigh heavy. Economic prospects are also clouded by a trend of increasing trade protectionism.

From the social development angle, despite the recognizable progress in the Arab region towards social evolution and gender equality, progress remains gradual and uneven among countries. The 2017-2018 survey takes an in-depth look at women's participation in the labour force and finds the Arab region continues to lag behind the rest of the world, in spite of the remarkable progress recorded in educational attainment for women. The extremely low total labour participation rate is driven by the huge gap between female and male labour force participation rates, which registered 21 per cent for women compared to 74 per cent for men in 2017.

Many Arab States introduced ambitious new legislations to reduce discriminatory practices and combat issues such as gender-based violence. Saudi Arabia passed a law issued at the end of 2017 allowing women to drive, lifting one of the major restrictions on women's mobility and ability to work. Qatar appointed four women to its Advisory Council, enriching and diversifying the decision-making and the political arena. However, Arab States face huge challenges in achieving the Sustainable Development Goals (SDGs) and decreasing inequalities between men and women. Obstacles such as limited mobility and transportation, concerns on personal safety and fears of harassment, political instability, cultural norms and traditional gender expectations in certain Arab countries are common concerns that impede women participation in the economy and decision-making at all levels.

Conflict and political instability continue to hinder social and human development on many fronts. Three countries in the region, Iraq, the Syrian Arab Republic and Yemen, were classified as Level 3 emergencies during 2017 and the Syrian conflict is still the source of the largest refugee crisis worldwide. The labour market in conflict-affected countries has failed to recover and to close the gap between males and females. The Syrian Arab Republic has the highest female unemployment rate and Yemen continues to rank last in the region in labour force participation in 2017, according to the International Labour Organization (ILO) estimates.

As in previous editions, the 2017-2018 edition of the survey advocates taking into consideration the special context of the region when designing fiscal, social and monetary policies. What works in other countries may not work in the Arab States context. Conflicts, uncertainty, weak financial and legal institutions, and high dependency on primary commodities exports have created specific challenges that policymakers, with the help of international organisations including the Economic and Social Commission for Western Asia (ESCWA), must consider. This year, the survey examines the choice of exchange-rate regime, a topic that has been at the centre of a theoretical and policy debate over several decades.

Policymakers adopt an exchange-rate regime based on the anticipation of a country's vulnerability to real versus nominal shock. The choice between a rigid or flexible regime is a complex decision that hinges on several country-specific characteristics, such as the degree of capital mobility, the trade share with main partners, the degree of flexibility and sustainability of the fiscal policy and the extent

to which wages are sticky. The complexity of factors influencing the choice of exchange-rate regime varies from country to country, which is why no clear consensus has emerged.

While a large body of literature argues that flexible exchange-rate policies contribute to productivity improvements and thus promote economic growth, the 2017-2018 survey shows that fixed exchange-rate regimes, despite substantial misalignments, have a positive impact on growth in the Arab region. This counterintuitive result is driven mainly by the high level of economic uncertainty in the region. From this standpoint, any policy which guarantees a certain amount of predictability for consumers and investors can have positive effect on growth. Rigid exchange-rate regimes serve as a commitment to low inflation levels and eliminate the exchange-rate risk brought about by inappropriate monetary and fiscal policy practices.

A detailed explanation of the empirical evidence for this argument is presented in chapter 3 and is underpinned by the in-depth analysis and monitoring of the state of regional socioeconomic development and the emerging challenges in chapters 1 and 2.

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Abbreviations and Explanatory Notes

AfCFTA	African Continental Free Trade Area
BEER	behavioural equilibrium exchange rate
BIS	Bank for International Settlements
CAGR	compound annual growth rate
CFTC	Commodity Futures Trading Commission (United States)
CO2	carbon dioxide
CPI	consumer price index
DESA	Department of Economic and Social Affairs (of the United Nations)
EAEU	Eurasian Economic Union
ECB	European Central Bank
EIA	Energy Information Administration (United States Department of Energy)
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FDES	Framework for the Development of Environment Statistics
FDI	foreign direct investment
FEER	fundamental equilibrium exchange rate
GAFTA	Greater Arab Free Trade Area
GCC	Gulf Cooperation Council
GDP	gross domestic product
GII	Gender Inequality Index
GVC	global value chain
HDI	Human Development Index
ICT	information and communication technologies
IDP	internally displaced person
IFF	illicit financial flows
ILO	International Labour Organization
IMF	International Monetary Fund
IPU	Inter-Parliamentary Union
IRC	International Rescue Committee
JODI	Joint Organisations Data Initiative
KRG	Kurdistan Regional Government
LDC	least developed country
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas
MENA	Middle East and North Africa
NGVA	Natural and bio Gas Vehicle Association
OCHA	Office for the Coordination of Humanitarian Affairs
OPEC	Organization of the Petroleum Exporting Countries
PCBS	Palestinian Central Bureau of Statistics
RER	real exchange rate
REER	real equilibrium exchange rate
SDGs	Sustainable Development Goals
SEEA-CF	System of Environmental-Economic Accounting Central Framework
SF	Sendai Framework for Disaster Risk Reduction
SPI	Social Program Index
SSE	social and solidarity economy
TED	Treasury-Eurodollar
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
VAT	value added tax
WEF	World Economic Forum
WTO	World Trade Organization

References to dollars ($) are to United States dollars, unless otherwise stated. For other currencies, the following abbreviations are used:

CNY	Chinese yuan renminbi
€	euro
¥	Japanese yen

The following subregional groupings are used in this report, taking into

account a combination of per capita income levels, geographical proximity and similarities in economic and social characteristics and conditions: Gulf Cooperation Council (GCC) countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; Mashreq countries: Egypt, Iraq, Jordan, Lebanon, the State of Palestine and the Syrian Arab Republic; Maghreb countries: Algeria, Libya, Morocco and Tunisia; Arab least developed countries (LDCs): the Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen.

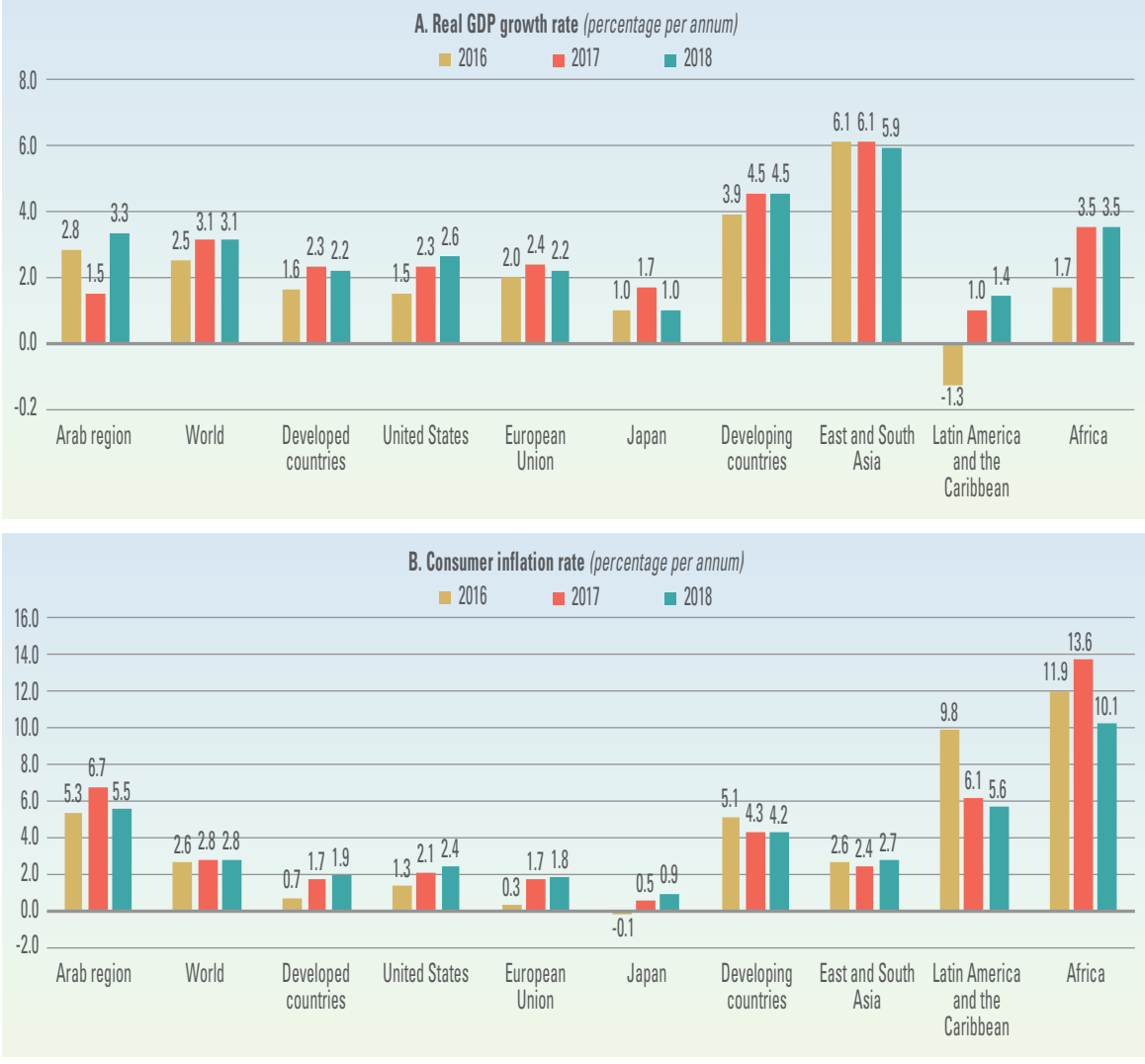

Largely driven by developed countries, the world economy
strengthened, and with improved investment conditions,
world trade rebounded, and levels of employment stabilized

1. The Global Context and its Implications for the Arab Region

A. The global context

In 2017, the world economy strengthened with global gross domestic product (GDP) growth reaching 3.1 per cent compared to 2.5 per cent in 2016. This trajectory of growth continued in 2018 (figure 1.1A). As a result of improved investment conditions, world trade rebounded and employment stabilized in the world's major economies. This global growth was primarily driven by developed countries, whose growth contribution accounted for nearly 30 per cent

Figure 1.1 GDP and inflation in selected regions and countries, 2016-2018



Sources: See appendix A.

of the world's total growth. Economic recovery in some developing countries was another driver contributing to global growth. These upward dynamics were, however, unequally distributed across countries and regions, raising questions for long-term sustainability. In addition to the uneven growth trajectories, prospects are clouded by several uncertainties arising from increased trade protectionism, financial sector vulnerability caused by high debt levels and weak wage growth.

Developed countries began driving the global economic upturn in 2017, gaining momentum to break free from the long-standing subdued economic activity since the 2008 financial crisis. Their economic growth reached 2.3 per cent in 2017, a significant increase from 1.6 per cent in 2016. A strong investment initiative was identified as the most significant factor that largely encouraged the resumption of global economic activities. Furthermore, inflation was benign, and the unemployment rate dropped significantly across all developed countries, further bolstering this economic uptick. The United States, in particular, registered steady growth in 2017, underpinned by improved business investment and favourable external trade. The European Union also registered economic recovery, mainly driven by increased household spending and active investment. In addition, the Japanese economy enjoyed growth in domestic demand, coupled with improved labour market conditions.

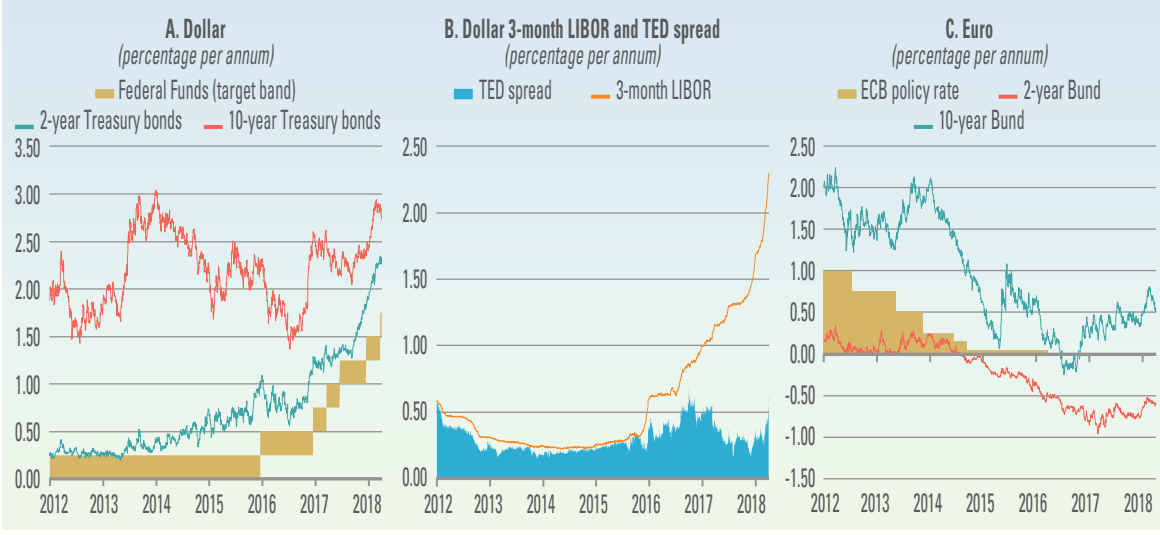
As the expectation of inflation increased with the economic recovery, many major developed countries changed their policy stance to one of monetary tightening (figure 1.1B). The United States Federal Reserve raised interest rates by 0.25 percentage points on three occasions in 2017, doubling interest rates from 0.75 to 1.5 points.[1] This pace was maintained for two further rate hikes to 2 points during 2018.[2] Responding to the policy rate hike, market interest rates benchmarked by 2-year Treasury bond yields continued on an upward trajectory. The anticipated monetary stance raised long-term market interest rates, as was shown in 10-year United States Treasury bond yields (figure 1.2A). The 3-month London Interbank Offered Rate (LIBOR), a benchmark for bank-to-bank transactions, has leapt by more than 1.3 percentage points since 2017 and showed a commensurate response to these global financial market dynamics (figure 1.2B). Nonetheless, a somewhat stable Treasury-Eurodollar (TED) spread between the 3-month LIBOR and 3-month United States Treasury Bill yield rate, was observed, which creates sustainable funding conditions for financial institutions.

Meanwhile, in Europe, instead of intervening in policy rates, the European Central Bank decided to reduce the speed of asset purchases, starting from January 2018.[3] The central banks of the United Kingdom and Canada responded to global dynamics by raising policy rates by 0.25 and 0.50 percentage points respectively and signalled further hikes to come in 2018. Elsewhere in Europe, the German Government 2-year bond yield marginally increased by 0.21 percentage points over the period from January 2017 to March 2018. The German 10-year bond yield also rose to its highest point since September 2015 as worries about resurgent inflation battered world bond markets (figure 1.2C).

Coupled with the monetary policy stance, economic recovery in most European countries has propelled the euro-to-dollar rate higher which caused a rapid appreciation of the euro (figure 1.3A) and was expected to continue through 2018. The value of the Japanese yen rose moderately from ¥117 to the dollar to ¥106 between January 2017 and March 2018 (figure 1.3B). The value of the Chinese yuan renminbi (CNY), another major currency, is on course for radical appreciation from CNY6.9 to CNY6.3 to the dollar over the same period (figure 1.3C).

In 2017, developing countries were also a driving force for global economic growth: output growth in developing countries stood

Figure 1.2 Interest rates: dollar and euro

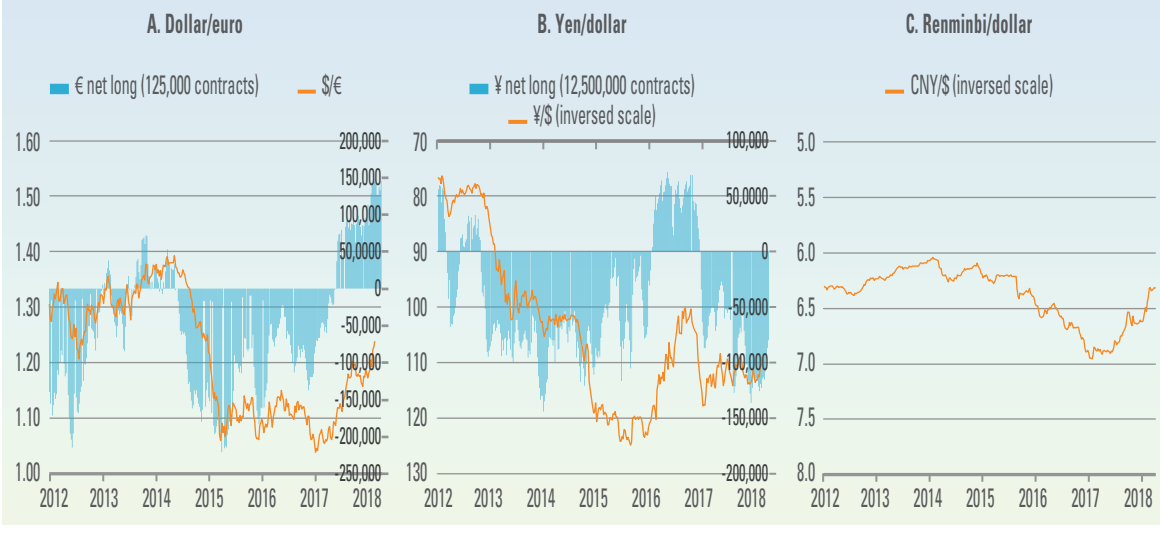


Source: Board of Governors of the Federal Reserve System, "Open market operations". Available at https://www.federalreserve.gov/monetarypolicy/openmarket.htm; and https://www.federalreserve.gov/datadownload/Choose.aspx?rel=H15 (accessed on 15 May 2018).

Sources: ICE Benchmark Administration Limited (IBA), 3-month LIBOR, based on U.S. Dollar© [USD3MTD156N], retrieved from FRED, Federal Reserve Bank of St. Louis. Available at https://fred.stlouisfed.org/series/USD3MTD156N; and Federal Reserve Bank of St. Louis, TED Spread [TEDRATE], retrieved from FRED, Federal Reserve Bank of St. Louis. Available at https://fred.stlouisfed.org/series/TEDRATE (accessed on 15 May 2018).

Source: Deutsche Bundesbank, "Time series BBK01.SU0202: ECB interest rates for main refinancing operations", Time Series database. Available at https://www.bundesbank.de/Navigation/EN/Statistics/Time_series_databases/Money_and_capital_markets/money_and_capital_markets_details_value_node.html?tsId=BBK01.SU0202&listId=www_s510_mb01; and https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/759784/759784?statisticType=BBK_ITS&listId=www_skms_it02f&treeAnchor=GELD (accessed on 15 May 2018).

Figure 1.3 Foreign exchange rates of major currencies



Sources: Exchange rates are from Board of Governors of the Federal Reserve System, available at https://www.federalreserve.gov/releases/h10/hist/default.htm. Net long positions are calculations of Economic and Social Commission for Western Asia (ESCWA) staff based on data from Commodity Futures Trading Commission (CFTC), "Commitments of traders, traders in financial futures"; "Futures only reports". Available at https://www.oanda.com/forex-trading/analysis/commitments-of-traders.

at 4.5 per cent, up by 0.6 percentage points from 2016. Although favourable investment conditions and stable commodity prices contributed to overall growth, development outcomes have not been spread evenly across countries and regions. The growth of East and South Asia made up about half of global growth and is expected to continue to expand at a rapid pace. For example, the Chinese economy grew by 6.8 per cent because of robust domestic consumption and increased infrastructure investment.[4] Commodity-exporting countries such as Brazil and the Russian Federation registered an increasing growth rate, up by 4.5 and 1.6 percentage points, respectively. The upward trend in the commodity prices of export materials drove this significant growth. That said, most developing countries have not diversified their economic and export structure, rendering them vulnerable to the rapid boom and bust cycles of the global commodities market.

World trade rebounded in 2017, reflecting the global economic recovery largely driven by investment growth in developed countries. The growth in merchandise trade volume jumped to 4.7 per cent in 2017, up from 1.8 per cent in 2016. Since investment in developed countries includes a fair amount of spending on imported goods, (more than 40 per cent in the European Union and about 20 per cent in the United States and China), potential risks in the financial system, such as capital flight triggered by interest rate hikes, could have negative impacts on trade performance and the world economy as a whole. In this regard, any escalations in tensions between the world's largest economies would pose downside risks for world trade. In particular, new tariff barriers imposed by the United States in early 2018 on a range of its imports including steel, aluminium, washing machines and solar panel cells, coupled with announcements of plans to impose tariff on imports of Chinese products, could increase the fear of global trade protectionism. Given that the 2017 growth in the world economy was investment-led, increasing trade barriers raised concerns of repercussions such as plunging business confidence and investment decision-making, which could infect the global value chain (GVC) around the world.

Amid these uncertainties in trade negotiations, the recent expansion of regional trade networks boosted the growth in global trade. For instance, the agreement of African Continental Free Trade Area (AfCFTA) in March 2018 is expected to boost intra-African trade by more than 50 per cent by removing tariffs on nearly 90 per cent of goods. In addition, a reduction in trade-restrictive measures in South America and free trade among the Eurasian Economic Union (EAEU) in recent years has helped continue to stimulate intraregional trade along with global economic recovery. It should be noted that these increased efforts to strengthen regional trade connectivity by lowering tariff and non-tariff barriers could promote trade in value added products and services. Indeed, such efforts would be essential not only to diversify the export structure but also to foster structural transformation aspirations for developing countries.

Employment dynamics are another critical area to be monitored. Although global unemployment increased slightly to 5.6 per cent in 2017 from 5.5 per cent in 2016, the situation varied across countries and regions in 2017.[5] Because of the uptick in economic activities, the labour market continued to improve in developed countries, where unemployment fell by 0.5 percentage points to 5.7 per cent. The unemployment rate in the United States decreased by 0.5 percentage points to 4.4 per cent in 2017. Similarly, unemployment in Europe fell by a 0.4 percentage points to 5.6 per cent. The unemployment rate in Japan dropped to an unprecedented low level of 2.8 per cent, down by 0.3 percentage points. In contrast, many developing countries experienced unfavourable changes, largely attributed to labour force growth outweighing employment capacity. Sub-Saharan Africa and

Latin America and the Caribbean have suffered the most from persistent unemployment challenges, largely caused by a demographic transition in the labour market.

As employment dynamics in most major economies make positive progress in terms of unemployment volume towards pre-crisis levels, global unemployment is expected to drop back to 5.5 per cent in 2018. Notwithstanding this positive labour market outlook, several challenges remain. World wage growth has weakened, mainly affected by the growing share of vulnerable forms of employment.[6] For instance, workers in vulnerable forms of employment[7] who account for 42 per cent of global employment, have limited access to social protection and experience low job security. Young people and women continue to face high unemployment rates. The youth unemployment rate increased by 0.3 percentage points to 13 per cent in 2017, equalling one-third of the world's total unemployment.

B. Natural resource commodities

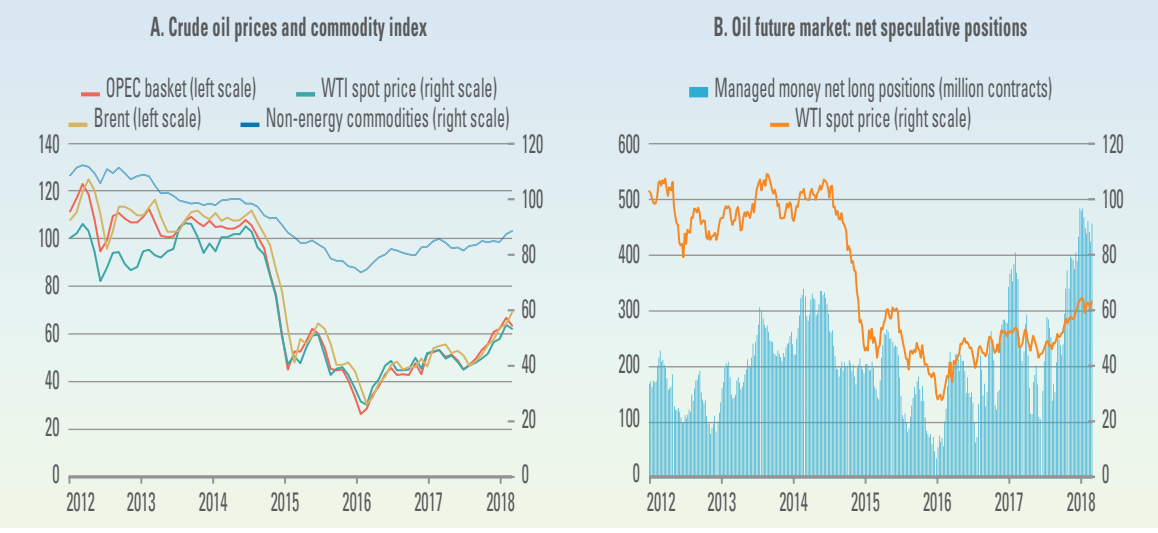
1. Oil

In 2017, world demand for oil stood at 97 million barrels per day, an increase of 1.7 per cent from 2016.[8] The Organization of the Petroleum Exporting Countries (OPEC) forecasts that total oil demand would rise to 98.6 million barrels per day in 2018. Improved demand stems from increased consumption, supported by economic recovery in most developed countries. Furthermore, a drop in crude oil inventories contributed to an increase in demand. The demand for oil in the United States rose by 1.2 per cent to 20.2 million barrels per day in 2017, while demand in Europe increased by 1.4 per cent to 14.2 million barrels per day. A strong demand for oil was also observed in some major developing countries. China redoubled its efforts in petrochemical and transportation sector development, which caused a significant increase in demand. Moreover, Indian demand for oil rose by 1.8 per cent in 2017, a substantial increase from 4.4 million barrels per day in the previous year.

The 2017 OPEC agreement to reduce crude oil production extends to the end of 2018.[9] This agreement rebalanced the global oil market, thus increasing oil prices (figure 1.4A). The reduction was led by Saudi Arabia, which registered the largest oil output cut of nearly 509,000 barrels per day. Notwithstanding efforts to cut production by the majority of OPEC members, their rebalancing outcomes have been limited because of production dynamics in some exempt countries, including Libya which radically increased its oil production in 2017. The oil production activities of non-OPEC countries were also a considerable factor limiting the agreement's rebalancing effect: non-OPEC supply in 2017 increased by 0.86 million barrels per day to 57.86 million barrels per day. Meanwhile, crude oil production in the United States reached its highest level, despite hurricane-related refinery disruptions during the fourth quarter of 2017.

The price of oil rose by $11.8 per barrel from $52.4 in January 2017 to $64.2 per barrel in March 2018 (then again to $72 per barrel by June 2018). This price dynamic reflected a constant upward trend since 2016. This solid recovery was largely the result of increased transactions, mainly speculative activities, in the oil futures market (figure 1.4B), spurred by strong demand and a shortage of global inventories caused by high demand in China and India; recovering demand dynamics in Europe; stable refining margins; moderate growth in tanker rates; and agreements to reduce crude oil production. Despite such a favourable rebalancing trajectory over the past two years, the recent global supply-demand nexus is expected to remain highly uncertain, although a further extension

Figure 1.4 Oil prices



Source: The World Bank, Commodity Prices database. Available at http://www.worldbank.org/en/research/commodity-markets (accessed on 12 May 2018).

Source: ESCWA staff calculations based on data from CFTC, "Commitments of traders, disaggregated futures only reports". Available at https://www.cftc.gov/MarketReports/CommitmentsofTraders/HistoricalCompressed/index.htm; and the Energy Information Administration (EIA), "Petroleum and other liquids, spot prices". Available at https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm (accessed on 12 May 2018).

Table 1.1 Crude oil price estimation and forecast (OPEC reference basket: dollars per barrel)

Year	Minimum	Maximum	Annual average	Forecast annual average		
				Lower	Baseline	Higher
2015	30.74	64.96	49.49			
2016	22.48	53.46	40.76			
2017	42.58	64.47	52.43			
2018				63.19	65.79	69.03

Source: OPEC data for 2015-2017, available at www.opec.org.
Note: Data for 2018 are ESCWA estimates as of July 2018 where a vector autoregressive (VAR) model is employed with a method of least squares (Gauss-Newton/Marquardt steps), incorporating lagged year-on-year quarterly variables (for the period from 2008 to 2018) of OPEC basket prices, Organisation for Economic Co-operation and Development (OECD) consumption, non-OPEC production, non-OECD consumption and money managers net position.

of the production cuts is highly feasible. ESCWA therefore forecasts that the upswing trend will continue to around $65.79 per barrel on average in 2018 (table 1.1).

The recent crude oil exports sanctions from the United States against Iran, the third largest OPEC oil producer after Saudi Arabia and Iraq, are expected to further intensify supply shortages and keep oil prices high for the rest of 2018. In June 2018, OPEC oil producing countries met in Vienna and agreed to a new oil output level that effectively increases production by almost 1 million barrels per day. The same month, the Republic of the Congo became the newest (fifteenth) member of the OPEC while Uganda and South Sudan have also expressed interest in joining. All these dynamics complicate the oil market landscape and

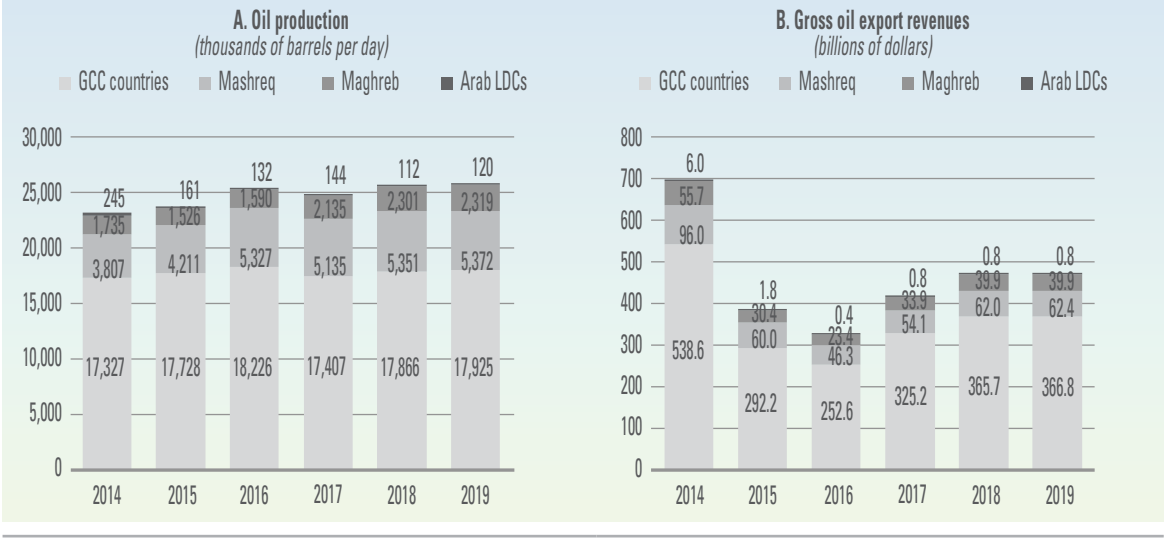
increase the vulnerability to its effects on economic growth prospects of the region.

The Arab region's crude oil production for 2017 is estimated at 24.7 million barrels per day, on average – a drop of nearly 2 per cent from the previous year (figure 1.5A). At the subregional level,[10] the Gulf Cooperation Council (GCC) and Mashreq countries produced an estimated 17.4 million and 5.1 million barrels per day, respectively, equivalent to a decrease of 4.5 per cent and 3.6 per cent compared with 2016. Meanwhile, Maghreb countries and Arab least developed countries (LDCs), although minimal contributors to the region's production, produce an estimated 2.1 million barrels per day and 144 thousand barrels per day, respectively, up by 34.2 per cent and 9.2 per cent over the same period. All of the five oil giants in the Arab region (Algeria, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates) have been significantly affected by the OPEC agreement, which has resulted in a reduction in oil production of between 0.2 per cent and 10.6 per cent from the preceding year. In contrast, Libya, which was exempt from the initial production-cut deal, substantially increased crude oil production by nearly 1 million barrels per day in 2017.

Total production in the Arab region is, however, forecast to increase moderately in 2018 to 25.6 million barrels per day as a result of rebalancing in the oil market. Reflecting a modest rise in oil prices over the period 2016-2017 by 29 per cent, or $11-12 per barrel, the region's total gross oil export revenues are estimated at $405 billion for 2017, a 25.3 per cent increase from 2016 (figure 1.5B). Since the price of oil is projected to remain around current levels, total oil revenues are forecast to continue this upswing trend with a 13.2 per cent increase to $468.4 billion in 2018.

That said, the recent favourable oil market could be negative for sustainability in the region, allowing Arab oil-exporting countries to continue to take a short-term perspective and rely on pursuing carbon-intensive production methods for their industrialization efforts (box 1.1). Alternatively, oil price recovery gains could be used to boost investments on energy productivity and sustainable energy projects which is being initiated in many Arab economies.[11]

Figure 1.5 Oil production and export dynamics in the Arab region



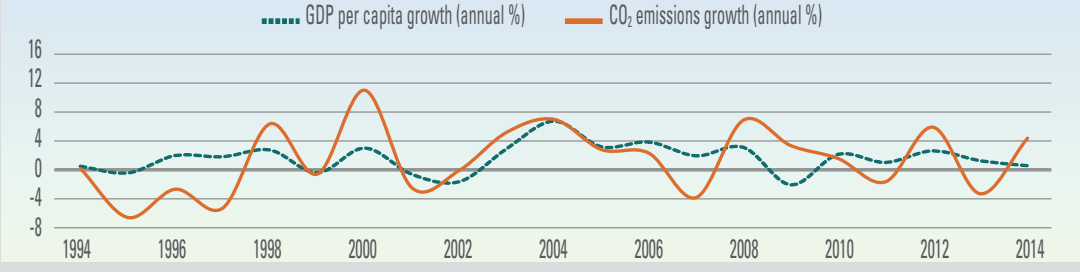
Source: See appendix B.

Source: See appendix C.

Box 1.1 Managing climate change vulnerability

The industrialization that has been realized in the Arab region has been largely based on a fossil fuel-driven production method. Fossil fuel accounts for more than 95 per cent of domestic energy consumption in the region. Meanwhile, the region is currently exporting a significant share, nearly 30 per cent, of the world's total oil exports. As such, the growth in the region has inevitably been associated with the dynamics of carbon dioxide (CO_2) emissions and characterized by the unsustainable use of available energy resources, further causing a greater carbon footprint combined with growing energy needs from population growth and rising living standards. Without a proactive policy for the region's long-term energy resilience and a view toward the global push for low-carbon growth, the sustainability of future growth is put in doubt.

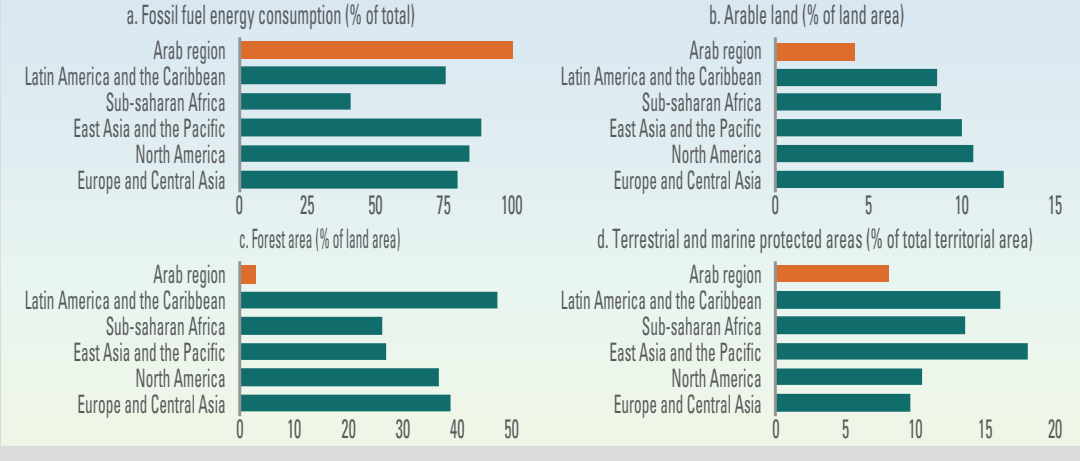
Carbon dioxide emissions vs. per capita GDP growth in the Arab region



Source: Based on the World Bank, World Development Indicators database. Available at http://datatopics.worldbank.org/world-development-indicators (accessed on 25 April 2018).

The Arab region is already highly vulnerable to climate change owing to its geographical characteristics. As the impacts of climate change increase, so does the necessity for a sustainable energy structure. For instance, the area is the most water-stressed region in the world. A large portion of its population's livelihood is critically exposed to climate risk especially in terms of water and food security. The region already suffers from high temperatures, droughts, floods, soil degradation and extreme weather events and unpredictable weather patterns caused by climate change effects are likely to seriously impact agriculture in the region. In fact, the region has limited capacity to mitigate and adapt to climate change given its relative lack of forests, land and marine resources. The negative effect of climate change, while concerning globally, is likely to pose a particularly severe threat to human health and sustainable development in the region.

Climate change vulnerability: selected comparative indicators by region



Source: Based on the World Bank, World Development Indicators database.

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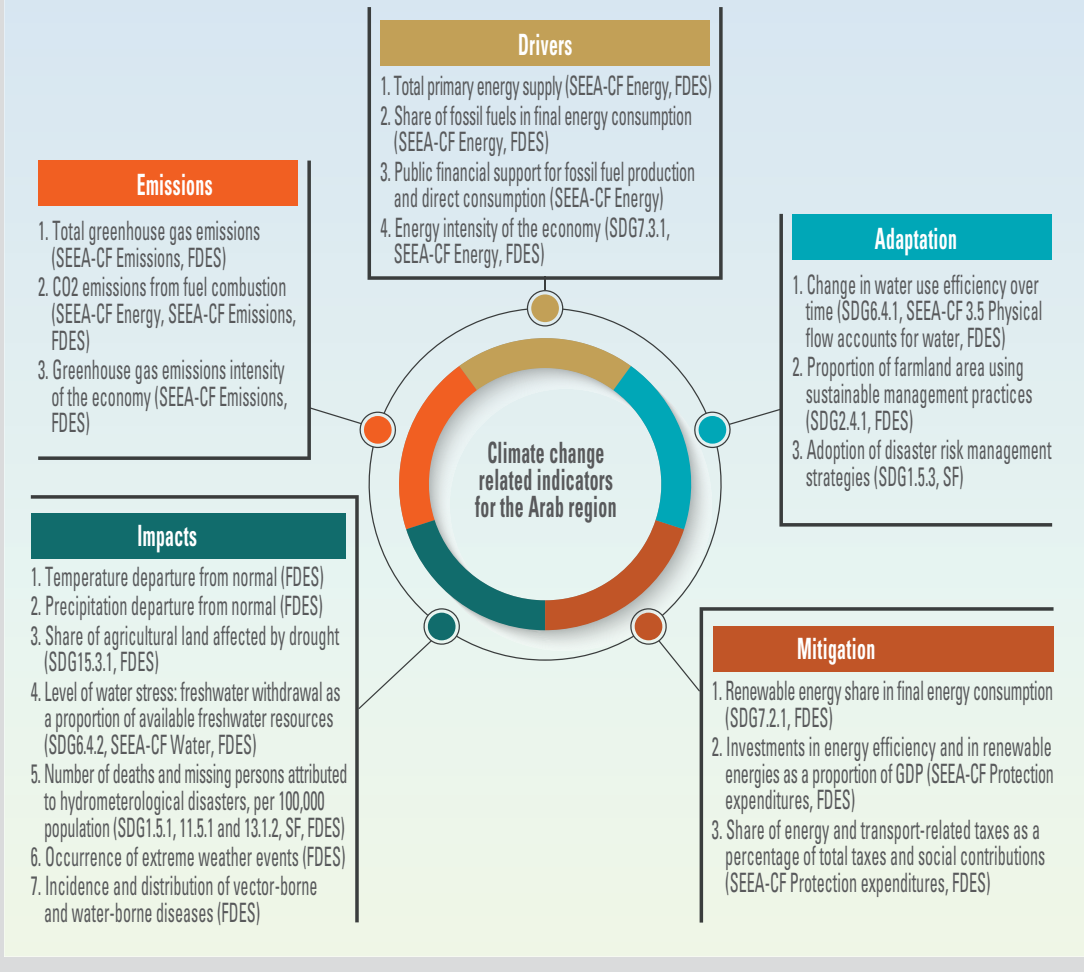
Global efforts are underway to increase resilience to climate change. Sustainable Development Goal (SDG) 13 urges United Nations Member States to take urgent action to combat climate change and its impacts. This initiative was reinforced in a global agreement on climate change (Paris Agreement), to reduce greenhouse gas emissions and keep global warming below two degrees Celsius compared with the preindustrial era. All Arab countries, except the Syrian Arab Republic, signed the agreement and 16 countries in the region have already ratified it.

With rising consciousness and aspirations towards environmental sustainability, reliable statistics are crucial for measuring and monitoring the economic, social and environmental effects of climate change. The climate-related statistics for the Arab region, however, are of poor quality and not easily accessible. Therefore, ESCWA proposes a set of climate change-related indicators that take the regional contexts into consideration. The set of proposed indicators consists of five areas, including drivers, emissions, impacts, mitigation and adaptation, and linking CO_2 emissions with indicators in social, economic and environmental domains and sustainable development.

Twenty-proposed climate change-related indicators for the Arab region



Abbreviations: SEEA-CF, System of Environmental Economic Accounting Central Framework; SF, Sendai Framework for Disaster Risk Reduction; FDES, Framework for the Development of Environment Statistics.
Sources: Based on E/ESCWA/SDPD/2017/2; E/ESCWA/SD/2017/3.

2. Natural gas and phosphate

Global demand for natural gas, estimated to increase by 29 million tonnes to 293 million tonnes in 2017,[12] is underpinned by continuing demands for gas imports to East Asia and Southern Europe. Japan remained the largest importer of natural gas, accounting for nearly one-third of the world's total imports. Partly because of its national environmental development programmes, China became the second largest gas importer in 2017.[13] In addition, Southern Europe imported an additional 10 million tonnes of liquefied natural gas (LNG), owing to increased demand in line with the stronger-than-expected recovery of its economy. Such strong demand dynamics were supported by the rapid growth of LNG production in Australia and the United States. Given the strong supply-demand nexus in 2017,[14] market competition among gas suppliers has intensified as diversification strategies from major gas importers are designed and implemented.

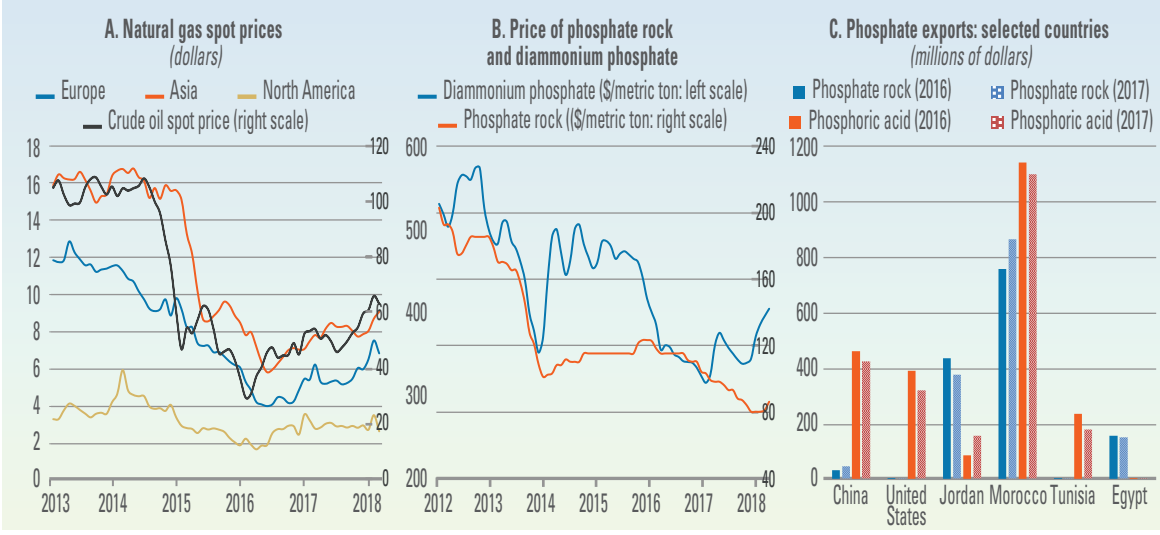
The natural gas market is characterized by geographical segmentation, largely due to the need to invest heavily in transportation facilities from producers to final users, either in the form of pipelines or shipping infrastructure. The extent of this segmentation is reflected in the wide margins in spot natural gas prices in Europe, Japan and the United States (figure 1.6A). In April 2018, the benchmark price stood at $7 per million metric British thermal units in Europe, $9.1 per million metric British thermal units in Japan and $2.7 per million British thermal units in the United States. These prices have been increasing in recent years.

At the regional level, Arab countries occupy a key position in the global natural gas market since they hold 46 per cent of the world's natural gas reserves.[15] In 2017, the Arab region maintained its significant production role, coupled with rapidly growing demand. Qatar remained the world's largest LNG exporter in 2017 with countries such as Algeria, Oman and the United Arab Emirates exporting at competitive levels. In contrast, Egypt suffered from gas shortages because of increased domestic energy demand but it is expected to substantially benefit from the start of production in newly discovered gas fields.[16] Indeed, the great potential that natural gas poses, not just for energy use but also for sustainability transition in the Arab region, should not be underestimated (box 1.2).

The phosphate sector constitutes another strategically important resource in the Arab region, particularly in Egypt, Jordan, Morocco, Saudi Arabia and Tunisia. According to estimates from the International Fertilizer Industry Association, world fertilizer demand increased by 2.4 per cent to 186 million tonnes over the period 2016-2017. This was largely attributed to an exceptionally strong El Niño event and prospects for improving returns from farming. In response to this demand, the fertilizer industry is estimated to have invested $110 billion in more than 65 new production units, increasing global capacity by 90 million tonnes. Nonetheless, the market price dynamics showed a mixed pattern. Over the period from January 2017 to March 2018, the price of diammonium phosphate increased by 27 per cent to $412 per metric ton whereas the price of phosphate rock declined by 13 per cent to $86 per metric ton (figure 1.6B).

With recent price dynamics, Morocco remained the largest exporter of phosphate products, including phosphate rocks and phosphoric acid. Other countries in the region, particularly Jordan, Tunisia and Egypt have maintained their export performance over the period 2016-2017. According to data from the International Trade Centre in 2017, Morocco and Tunisia exported more phosphoric acid, an intermediately processed form of phosphate products, than phosphate rocks (figure 1.6C). This pattern of exporting is in line with other such major producers as China and the United States. Jordan and Egypt, however, have continued to focus more on exporting phosphate rocks than phosphoric acid, which indicates that they have greater development potential in downstream areas with higher value added phosphate products.

Figure 1.6 Natural gas prices, and phosphate prices and exports



Source: The World Bank, Commodity Prices database. Available at http://www.worldbank.org/en/research/commodity-markets (accessed on 12 May 2018).

Source: The World Bank, Commodity Prices database. Available at http://www.worldbank.org/en/research/commodity-markets (accessed on 12 May 2018).

Source: International Trade Centre, Trade Map database. Available at https://www.trademap.org/Index.aspx?AspxAutoDetectCookieSupport=1 (accessed on 12 May 2018).

Box 1.2 Exploring the potential use of natural gas for sustainable transport

Undoubtedly, transportation is a key sector for socioeconomic development. The Arab region has the fastest growth rates of vehicle fleets in the world and transportation now accounts for nearly one third of final energy consumption. Transport comes second in the share of regional consumption of final energy: 46 per cent for industry, 32 per cent for transport, 16 per cent for residential, 5 per cent for services and 1 per cent for agriculture.

Meanwhile, transport is also a main emitter of CO_2 in the region. According to the International Energy Agency, the consumption of oil products by the transport sector in all Arab countries in 2014 resulted in a total of 395 million tonnes of CO_2 emitted, or 20 per cent of total CO_2 emissions in the region. Transport fuel in the region is dominated by liquid-petroleum products (98.9 per cent) and alternative fuels represent only a very tiny fraction of total energy consumption: about 1 per cent is natural gas and 0.1 per cent is electricity. This current energy-intensive structure has a considerable impact on the overall environment and on a wide range of health problems.

The CO_2 emissions from natural gas are approximately 24 per cent of those from liquid-petroleum products and compressed natural gas is cheaper than gasoline and diesel on an energy equivalent basis. While natural gas is a fossil fuel, it is more efficient than liquid-petroleum fuel. Replacing liquid-petroleum fuel with natural gas would not only generate environmental advantages, but also economic and fiscal ones. Natural gas can be a sustainable alternative fuel for transport, allowing the transition to a more sustainable energy system for this sector, in accordance with the 2030 Agenda and the Paris Agreement. The region is endowed with a rich supply of natural gas resources, particularly in Qatar, Algeria, Saudi Arabia and the United Arab Emirates. The appropriate policy instruments combined with the availability of regional natural gas supplies thus could boost the introduction of natural gas in the transport sector. ESCWA proposes four policy priorities for the use of natural gas for sustainable transport:

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1. *Sector reform and adequate domestic energy-pricing policies*
   The high level of fuel energy dependency in transportation is heavily supported by subsidies on liquid-petroleum products, which has been highlighted as a major barrier for sustainable transportation in the region. This fuel-pricing policy not only hinders environmental sustainability to reduce countries' carbon footprint, but it also imposes a major financial burden on their treasuries. Adequate domestic energy-pricing policies, including more rational energy subsidies schemes that would not discourage the use of natural gas, need to be put in place with enforceable fuel standards and environmental regulations to enable the sustainable penetration of the use of natural gas in transport.

2. *Development of a local conversion and manufacturing industry*
   Private sector engagement and investment constitute a viable way forward to promote the sustainable use of natural gas in the transport sector in the region. Most natural gas equipment continues to be imported due to the lack of commercial incentives for the private sector to engage in related manufacturing industries. Therefore, redoubling the effort to encourage the private sector to participate in such industries would be imperative to support a faster and more sustainable introduction of natural gas vehicles.

3. *Regional cooperation and integration among Arab countries*
   Regional cooperation and integration could drive the growth of natural gas use and build the region's sustainable transportation and infrastructure. The LNG Blue Corridors project launched in 2013 in Europe is an example of such a good practice which has established regional cooperation and promoted the use of LNG-powered vehicles along a sustainable transport network. The project is co-funded by a group of companies that are members of the Natural and bio Gas Vehicle Association (NGVA) in Europe. Gas trading and joint regional financial funding would contribute to the growth of natural gas in the region's transport sector.

4. *Promotion of natural gas vehicles in public transportation systems*
   The promotion of natural gas vehicles in public transport systems is key to encourage the use of natural gas as a transport fuel. Several Arab countries, such as the United Arab Emirates and Egypt, have had positive experiences in expanding their public transportation using natural gas. As air pollution and increasing energy demand in the transport sector has raised major policy concerns in the region, the use of natural gas vehicles for public transportation could help manage the growing levels of energy consumption, promote a safer and more efficient transport sector and stimulate potential growth of natural gas use in the sector. The financial strength of the public sector, however, is a prerequisite to ensure adequate investments in the necessary infrastructure.

Sources: Based on E/ESCWA/SDPD/2017/2; E/ESCWA/SDPD/2017/Technical Paper.4.

C. Financial and trade linkages to the Arab region

Over the past decade, Arab countries have been increasing their presence in the international capital market, which in turn has impacted the region's economic performance, increasing the availability of funds, room to manoeuvre, for example, in terms of funding costs.

Based on ESCWAs estimates of total gross oil export earnings (figure 1.5B), GCC countries accounted for an increase of nearly 90 per cent of total export earnings over the period 2016-2017, or $72.6 billion out of $81.8 billion in total. In parallel to increasing oil revenues, the

GCC countries' broad money gained growth momentum in 2017 (figure 1.7A). Meanwhile, the value of financial wealth in GCC countries, measured by market capitalization,[17] marginally contracted by $24 billion in 2017. The biggest contributor to capital flight was the Doha Securities Market whose value of capitalization substantially fell by nearly $40 billion, largely attributed to a diplomatic embargo imposed by several Arab countries on Qatar in June 2017.

In terms of the external financial wealth of Arab countries, figure 1.7B shows an evolution of both the total cross-border claims and the total cross-border liabilities based on data from the Bank for International Settlements (BIS). Over the period 2016-2017, total liabilities (Arab clients' deposits with main international banks) have increased by nearly 14 per cent, while total claims (borrowings by Arab clients from main international banks) also increased by 13.6 per cent. The Arab region as a whole remained a net lender ($209 billion in December 2017) to the main international banks. In 2017, Saudi Arabia and Kuwait were the largest net lenders whereas Qatar and Morocco were the biggest net borrowers.

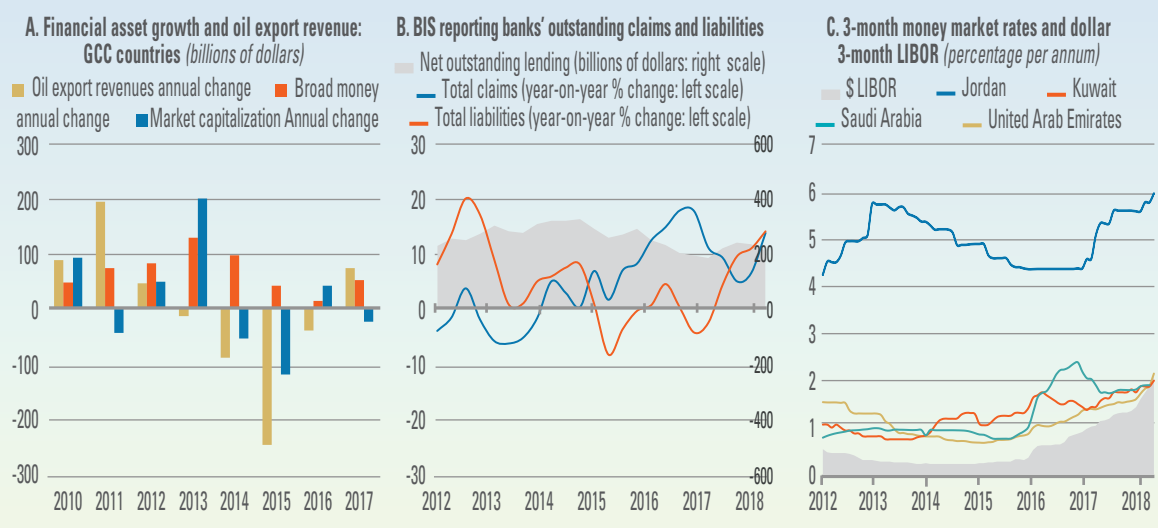
Despite increased influence in the international capital market, the region's financing costs in 2017, as measured by 3-month money market rates, slightly rose on average in parallel with the rise of the dollar 3-month LIBOR (figure 1.7C). Over the period from January 2017 to February 2018, the United Arab Emirates and Kuwait were faced with increased financing rates of 0.489 and 0.438 percentage points, respectively. On the other hand, Saudi Arabia marginally succeeded in managing some tight external financing conditions by lowering rates by 0.126 percentage points during the same period. Meanwhile, in Jordan, the cost of financing rose significantly by 1.381 basis points from 4.569 in January 2017 to 5.950 in March 2018.

Over the past years, the financial sector in the region has been primarily driven by banking industry, particularly GCC countries' banking sector. The profitability of GCC banks remained relatively high (compared to global banking), with incomes slightly increasing in 2017. This trend was underpinned by a higher average interest rate margin. Coupled with efforts to maintain profitability, banking performance in 2017 was sustained by an increase in the amount of earnings-generating assets. This was also accompanied by rigorous implementation of risk management policies against non-performing loans, restructured loans, past due or impaired loans, etc. Overall, GCC banks experienced moderate growth in 2017. However, the transmission of growth from the banking sector to real sector of the economy was restrained, as seen in the slight decrease in credit to the private sector in most countries in 2017.

With regard to foreign investment dynamics, foreign direct investment (FDI) inflow to the Arab region as a whole continued to shrink and decreased by $5 billion over the period 2016-2017.[18] This decline was largely due to the significant drop in foreign investment caused by perceptions of political risk and divestment dynamics in Saudi Arabia where FDI inflow registered a substantial decrease of $6 billion in 2017 alone. This decrease created an alarming situation in Saudi Arabia's private sector and further weakened the economy. Meanwhile, the inflow of FDI to most other countries in the region, including Bahrain, Jordan, Lebanon, Oman, Qatar and the United Arab Emirates, rose slightly in part due to rising cross-border mergers and acquisition sales. However, these FDI inflow increases were not sufficient to help the subregion overcome the overall decline. Notwithstanding such mixed results, the dynamics of FDI for Arab economies are still characterized by the degree of sensitivity to geopolitical conflict, the evolution of oil prices and the efforts of oil-rich countries to promote economic diversification.

International trade is another essential channel for analysis. Arab economies have

Figure 1.7 Global financial linkages in the Arab region



Sources: Based on Arab Monetary Fund, "Markets performance, stock market capitalization", Financial Markets database. Available at http://www.amf.org.ae/sites/default/files/history/prv_yearly_summary.htm (accessed on 10 June 2018); broad money and oil export revenues are ESCWA staff calculations based on national statistical sources.

Source: Based on BIS, "Locational banking statistics". Available at http://stats.bis.org/statx/toc/LBS.html (accessed on 10 June 2018).

Sources: Based on Federal Reserve Bank of St. Louis (dollar LIBOR); Association of Banks in Jordan; Central Bank of the United Arab Emirates; Central Bank of Kuwait; and Saudi Arabian Monetary Authority.

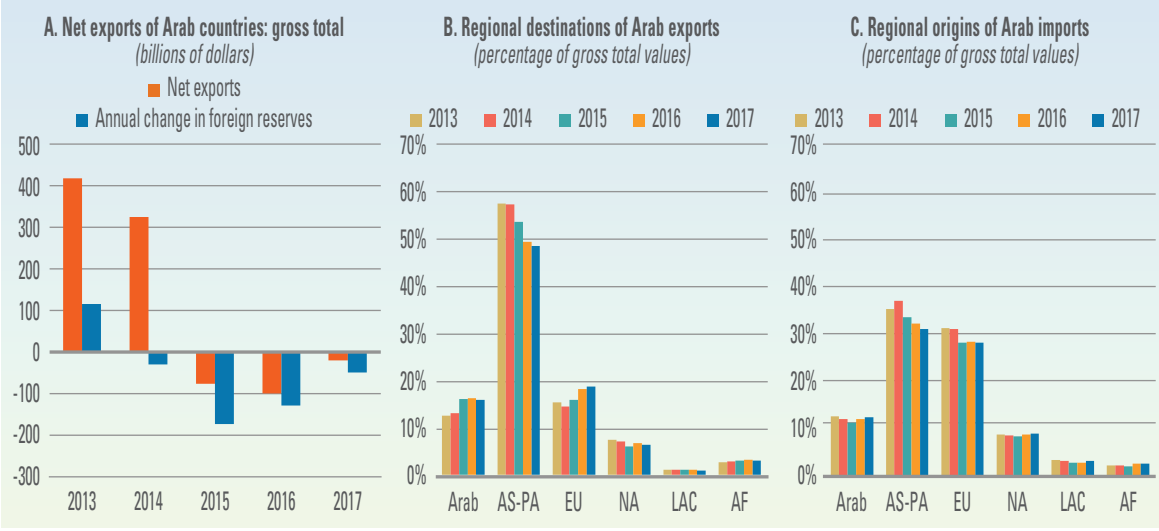
been net importers since 2014 (figure 1.8A). In 2017, trade in the Arab region recorded total estimated exports of $783 billion and imports of $803 billion, with imports exceeding exports by $20 billion although the value of imports was $80 billion lower from the previous year. However, foreign reserves declined by $49 billion in 2017 from $1.03 trillion in 2016 due to weak exports in goods and services and stagnating capital inflows.

Against this backdrop, the Arab region has continued to strengthen its export ties with the Asia and the Pacific region (figure 1.8B). In terms of gross total, 48.4 per cent of goods exported by the Arab region were destined for the Asia and the Pacific region in 2017. However, Arab exports to Asia and the Pacific have been decreasing, although this decrease has been marginally offset by an increasing share of exports to Europe. Overall, the share of exports to other regions in this domain has remained relatively minimal with no substantial changes in 2017. This indicates that the Asia and the Pacific region is still the major importer for energy-related products from the Arab region. In terms of the geographical patterns of Arab country imports, the general trend was somewhat consistent with the exporting ones. The Asia and the Pacific region and Europe have continued to play a significant role with around 30 per cent share each (figure 1.8C).

Intraregional trade in 2017 made up an estimated 15.8 per cent share of total gross exports (down from 16.2 per cent in 2016) and 12.4 per cent of total gross imports (up from 12.1 per cent in 2016). These dynamics illustrate that intraregional export and import remain an important dimension after the Asia and the Pacific region and Europe. In fact, intraregional trade has continued to grow from 9 per cent in 2000, largely due to recent efforts to promote the GCC customs union.

In fact, intraregional trade would offer much greater potential for Arab countries to boost their economic growth, increase employment

Figure 1.8 Global trade linkages in the Arab region



Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.
Source: See appendix E.

and benefit capacity-building for value added industries. However, recent trade dynamics are characterized by low engagement in the regional value chain and remain largely dependent on a few commodities with limited value added. Oil-importing countries have attempted to improve their regional linkages: Egypt, Jordan, Morocco and Tunisia signed the Arab-Mediterranean Free Trade Area, known as the Agadir Agreement, in 2001 to set up their own free trade area. Although some marginal benefits have been realized, this trade agreement has suffered from an array of constraints, including a lack of effective cooperation among the four countries and particularly high transport costs due to poor infrastructure.

The importance of intraregional trade should not be underestimated as there are many countries whose reliance on such is significant. For instance, the share of intraregional export in trade is 83 per cent in the Sudan, 77 per cent in Somalia, 63 per cent in the Syrian Arab Republic, 56 per cent in Yemen, 54 per cent in Bahrain, 48 per cent in Egypt, 46 per cent in Jordan and 44 per cent in Lebanon. While lower, the share of intraregional import in trade is still significant at 45 per cent in Djibouti, 43 per cent in Oman and 36 per cent in the Comoros. This interregional trade performance can largely be attributed to the effectiveness of major Arab regional trade agreements, such as the Greater Arab Free Trade Area (GAFTA), the Agadir Agreement (in spite of its shortcomings) and the World Trade Organization (WTO) preferential trade arrangements in favour of LDCs (such as Aid for Trade), most of which focus on promoting value added trade activities related to manufacturing goods and commercial services.

D. Concluding remarks

In the global economic development trajectory, a number of positive factors that noticeably influenced Arab economies. Largely driven by developed countries, the world economy strengthened, and with improved investment conditions, world trade rebounded, and levels of employment stabilized. What is more, demand for oil is strengthened while the level of adjustment

or absorption of oversupply in oil production was controlled in line with an extended OPEC agreement, especially during 2017. These supply and demand dynamics partly brought oil prices back from the brink during the period 2015-2016 and especially during the second half of 2017. The higher levels of energy and metal commodity prices were also part of the recovery momentum and benefited several commodity-exporting countries in the region.

However, the position of the Arab region could also be described as unbalanced in various respects. Possible negative impacts from changes to the Federal Reserve policy may partly affect international capital markets, which could increase the cost of international financing for the region. Also, the inward-looking policy shifts in the United States of America, intensified by escalating import tariffs, could impede dynamics in the trade market and suppress commodity prices. In an attempt to rebalance the global oil market, a reduction in oil production seems inevitable in major oil producing countries in the region. This would not only burden the region with fiscal consolidating efforts but would lead to lower performance in terms of regional economic output. Negative growth may be registered in some major economies of the region. Furthermore, serious geopolitical tensions and conditions of the labour market (box 1.3) continue to persist, exacerbated by numerous ongoing intraregional diplomatic rifts and their spillover effects. A detailed analysis of these regional dynamics will be discussed in the following chapter.

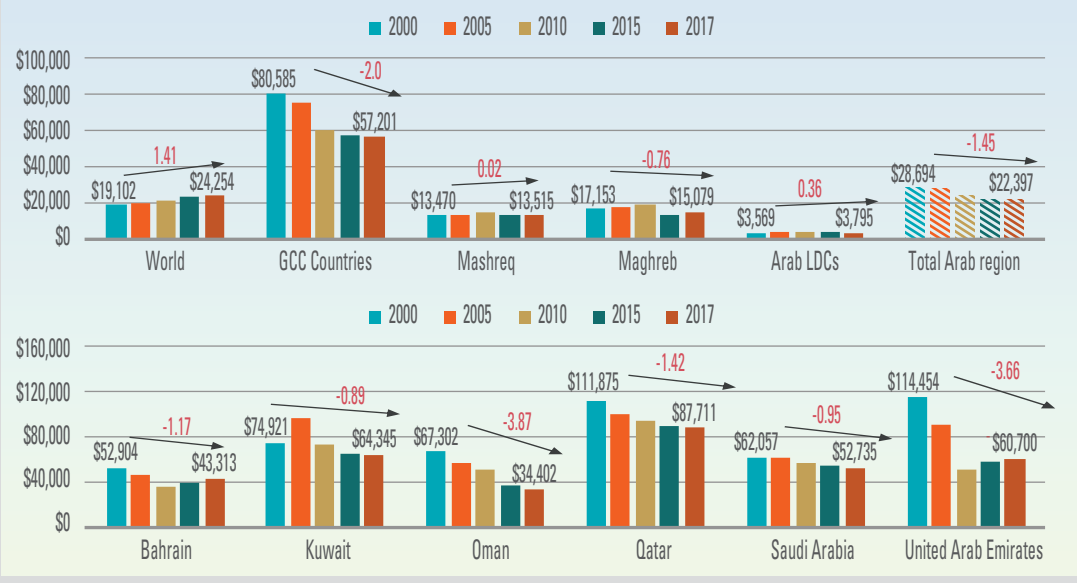
Box 1.3 Limits to improvement in labour productivity

The employment dynamics in the Arab region have mixed depending on the country's context of demographic change and education. Many countries in the region display a mismatch between education output and the demands of labour market with an excessive supply of university graduates compared to the needs of the labour market for skilled and manual workers. The number of university-educated job applicants has continuously risen, attributable in part to a somewhat successful tertiary education policy. Most economies, however, have a limited capacity to absorb the increasing numbers of educated youth. The trend is most stark for female entrants into the labour force, who face additional hurdles in getting employment. In Saudi Arabia, for example, the unemployment rate for university graduates was 7.3 per cent for men and 33.9 per cent for women in late 2017, higher than the unemployment rates for those with less than a high-school education. The gap between education levels and the needs of the labour market has remained a challenge for long-term growth and contributes to social tensions in the region.

Uncompetitive labour productivity coupled with conditions of weak wage growth has also deteriorated the Arab region's labour market. Globally, labour productivity as measured by output per worker in constant 2010 dollars, has consistently increased over the period 2000-2017 with a 1.41 per cent compound annual growth rate (CAGR) worldwide. Meanwhile, the Arab region had a negative CAGR of 1.45 per cent, even worse in GCC countries with nearly 2 per cent negative CAGR. Labour productivity has worsened in all GCC countries over the observed period. Looking at the country level, Bahrain's CAGR is estimated to have decreased by 1.17 per cent. Kuwait, Qatar and Saudi Arabia also registered a 0.89 per cent, 1.42 per cent, and 0.95 per cent decrease, respectively. The negative trend is greatest in Oman and the United Arab Emirates where the negative CAGRs registered 3.87 per cent and 3.66 per cent, respectively. This type of worsening labour productivity has been severely harmful to the sustainability of the labour market in this subregion given that real wage growth has been substantially lacking.

The downward trends of wage growth and labour productivity in this subregion partly stems from the influx of foreign workers who are largely employed in low paid jobs. The region's current structure which is based on high dependency on foreign workers not only challenges the efforts to reform in favour of productivity-led economic diversification but also widens the wage inequality between foreign and domestic workers.

Labour productivity in the Arab region, 2000-2017
(output per worker at GDP constant 2010 dollars)



Source: ESCWA staff compilation based on ILO modelled estimates on labour productivity.


The Arab region will continue to manage uncertainties,
to varying degrees between subregions, towards
an inclusive and sustainable growth

2. Socioeconomic Trends and Developments in the Arab Region

A. Economic situation and prospects

1. Overview

Growth in the Arab region was estimated to have slowed to 1.5 per cent in 2017 from 2.8 per cent the year before, driven by a decline in growth among oil exporters, particularly GCC countries (figure 2.1A).[1] Subdued economic activities in both GCC and non-GCC oil exporters is largely attributed to hydrocarbon sector-led growth decelerations, in line with the OPEC agreement on oil production cuts, which offset the effect of the favourable oil price movement in 2017. In contrast, the economies of oil-importing countries expanded following the stronger-than-expected recovery of the global economy, especially in European countries, coupled with the gradual strengthening of their domestic demand. Nonetheless, geopolitical factors and elevated levels of public debt continue to weigh heavy on the Arab region in general, and on oil-importing countries in particular.

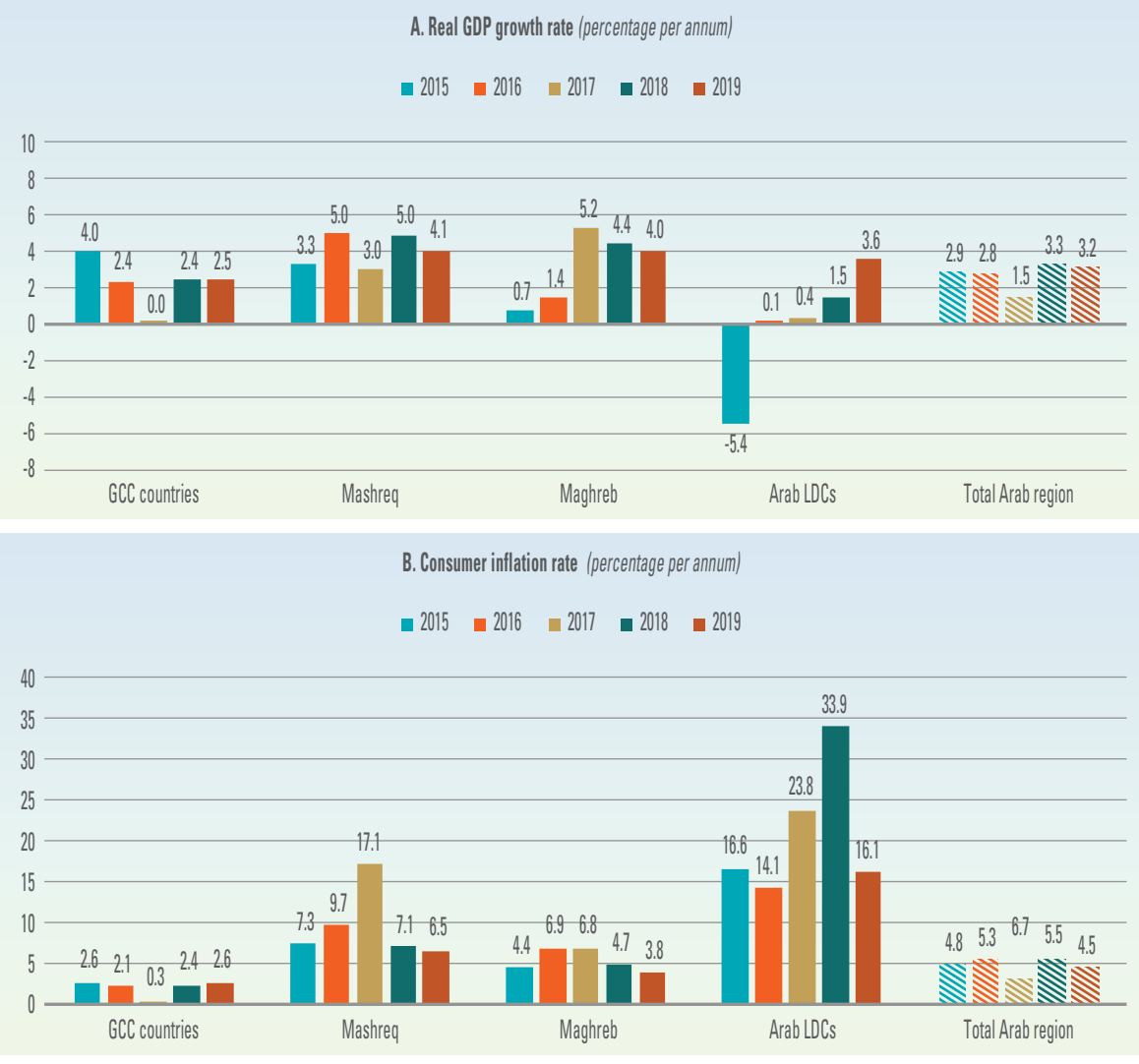
A gradual improvement in the regional economic outlook is anticipated: the GDP growth forecast is 3.3 per cent and 3.2 per cent for 2018 and 2019, respectively. Such projections reflect oil production dynamics, a series of policy reforms, fiscal adjustments and improvements in the tourism sector, along with an expected reduction in geopolitical tensions in the future. It should be noted, however, that these figures are subject to future revision, as official national accounts have been unavailable for Libya, the Syrian Arab Republic and Yemen for some years, given the difficulty of estimating the economic cost of conflict in those countries. Regional growth figures without these countries were estimated at 3 per cent in 2016, 1.2 per cent in 2017 and 3.1 per cent in 2018, which confirms a slowing of the regional growth trajectory in 2017 and a rebound in 2018.

At the subregional level, GCC and Mashreq countries recorded slower economic growth rates in 2017 but were forecast to register better growth performances in the years to come. Meanwhile, Maghreb countries experienced a 5.2 per cent growth rate in 2017, a substantial increase from 1.4 per cent in 2016; however, this is projected to return to rates of around 4 per cent to 4.5 per cent in the years to follow. Unlike the other groups, Arab LDCs have experienced constant growth momentum since 2015 and this pace is anticipated to continue in the future.

Against the backdrop of growth performance, the average annual consumer price inflation for 2017 in the Arab region was estimated at 6.7 per cent, up from 5.3 per cent in 2016 (figure 2.1B). However, this figure may not properly reflect regional price dynamics as inflation trends are largely varied between subregions, depending on country-specific factors.

Inflationary pressures in GCC countries generally appear weak, except in Saudi Arabia which recorded deflation for the first time in over a decade, largely driven by the food and transport components of the economy. Conflict-affected countries, including Libya, the Syrian Arab Republic, Yemen and the Sudan, continued to have double-digit hyperinflation, but the Syrian Arab Republic experienced a drop in its inflation rate from 47.7 per cent in 2016 to 15.9 per cent in 2017 largely due to steps

Figure 2.1 GDP and inflation in the Arab region, 2015-2019



Source: See appendix D.

to stabilize the value of the Syrian pound. Meanwhile, the dynamics in Mashreq countries are more diverse. Inflation rates in Jordan and Lebanon rose sharply in 2017 after deflation in 2016, while conflict-related inflationary pressures in Iraq were somewhat contained as the insurgency was gradually quelled during 2017. Egypt experienced a spike in inflation, increasing from 14 per cent to nearly 30 per cent over 2016-2017. This strong inflationary pressure on Egypt reflects the effects of a pass-through exchange rate on import prices due to domestic inflation, coupled with price increases caused by fuel subsidy cuts and a value added tax (VAT).

While inflationary pressures in the region are projected to ease towards the end of 2018, the outlook will be largely driven by the assumption that a number of single-occasion inflationary factors, namely a one-time effect from an energy subsidy cut in Egypt and the Sudan, will fade over time. Even so, there will be several upward inflationary pressures for the region. The implementation of a unified GCC-wide VAT in January 2018 is expected to produce mild

inflationary pressure and will have knock-on effects on household spending power. Against a backdrop of heterogeneous factors affecting the price structure across countries, the consumer price inflation rate for the region is forecast to average 5.5 per cent in 2018 and further stabilizing to 4.5 per cent in 2019.

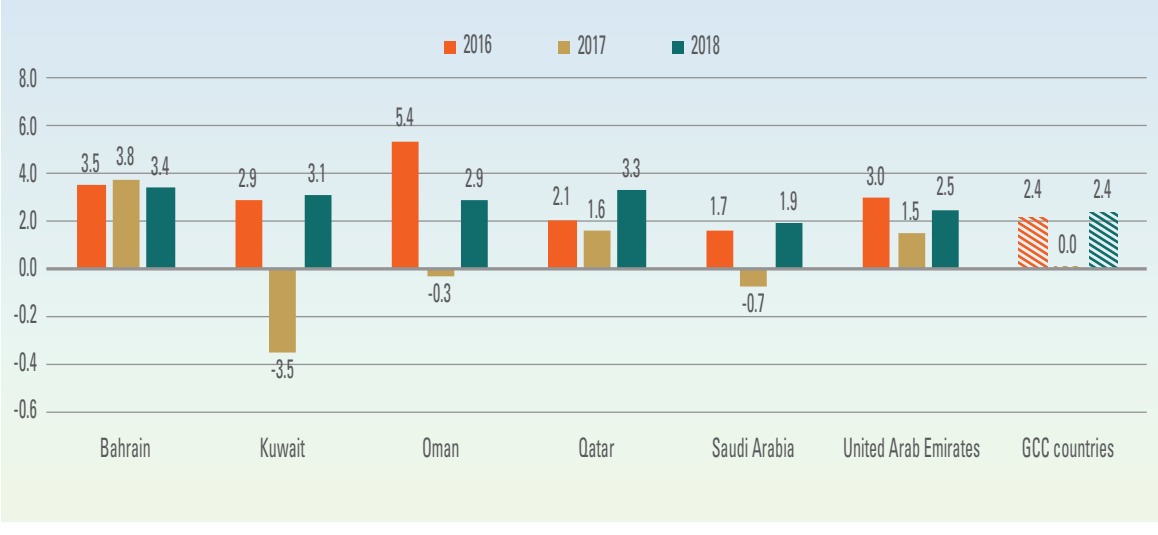
2. Gulf Cooperation Council countries

Overall real GDP growth in GCC countries bottomed out with a near zero growth rate in 2017 as the OPEC agreement reduced oil output by 4.5 per cent over the period 2016-2017. This significant reduction in volume would have caused a more severe contraction of the economy without resilient domestic demand, supported in part by the stabilizing value of financial and real estate assets and a modest recovery of the non-oil sector. Furthermore, external balances slightly improved because of stronger external demand, which eventually led to the recovery of oil export revenues from the lows of 2016.

At the country level, the trend of economic growth continued in Bahrain at a rate of 3.8 per cent, the best record in 2017 among GCC countries. Bahrain has benefitted from GCC funds to boost non-oil sector activities such as financial and hospitality sector. Other GCC countries experienced a substantial drop in their growth performance. Kuwait, Oman and Saudi Arabia registered economic contractions of 3.5 per cent, 0.3 per cent and 0.7 per cent, respectively. In these countries, the effect of the extended OPEC reduction measure outweighed the continued recovery in non-oil activities.

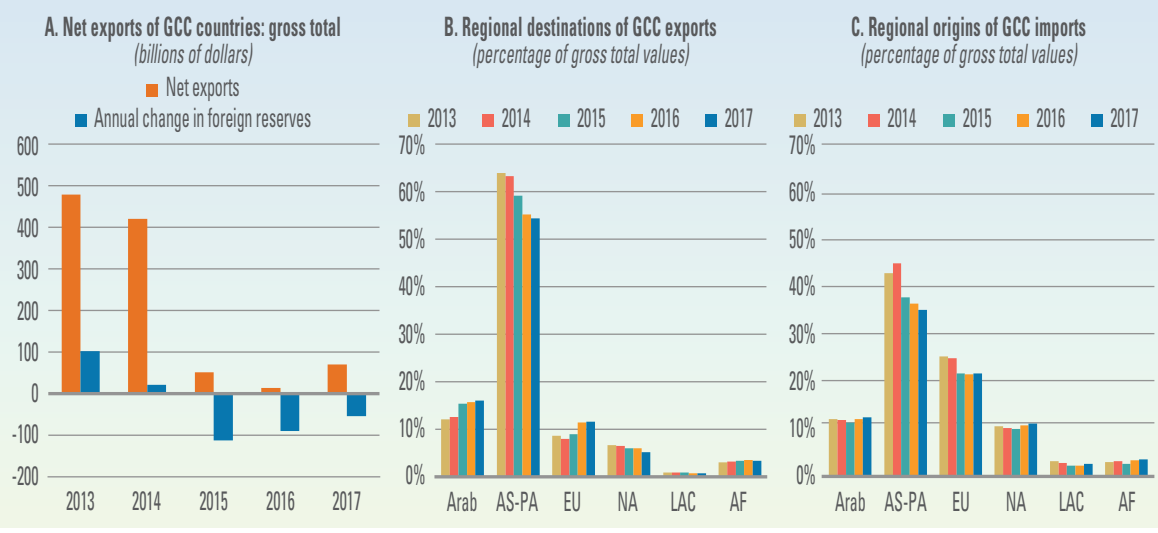
Growth in GCC countries is anticipated to rebound to 2.4 per cent in 2018, largely because of a favourable base effect from real growth in 2017. This recovery is expected to be accompanied by mild inflationary pressure, fuelled in part by the introduction of the unified VAT that is likely to fuel consumer inflation in most GCC countries.[2] Major contributions to the recovery include reforms to promote non-oil sector activities such as services and manufacturing for competitive business environments to cushion the dampening effect of the OPEC-led production cuts; significant deficit reduction efforts, supported by continued improvements in fiscal frameworks and institutions (for example, most GCC countries now have an operationalized macrofiscal department and

Figure 2.2 Real GDP growth rate in GCC countries, 2016-2018



Source: See appendix D.

Figure 2.3 Geographical trade structure: GCC countries



Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.
Source: See appendix E.

debt-management office in their ministries); and an international capital and equity market generally favourable to most GCC countries. Relaxation of the OPEC reduction measure is anticipated in 2019, which is likely to allow growth performance to 2.5 per cent, combined with a number of large infrastructure projects such as World Expo 2020.

Considering some stronger prospects for global demand, GCC countries continued to be net exporters with $69 billion in exports in 2017, an increase of $55 billion from the previous year (figure 2.3A). However, the value of the net exports is still substantially low, compared with $477 billion and $419 billion in 2013 and 2014, respectively. This is due in part to the continued sale of foreign reserves, which was estimated to be $54 billion in 2017.

In terms of the geographical concentration of trade, while Asia and the Pacific region receives the largest share of GCC country exports at 54 per cent, this percentage has been decreasing since 2012. As with the region as a whole, the decline has been marginally supplemented by improved intraregional trade and improved trade with Europe (figure 2.3B).

This trend is also replicated in the subregion's import dynamics. The share of imports shipped from Asia and the Pacific region decreased by 1.3 per cent while the shares from other regions all increased (figure 2.3C). These shifts may be a result of the continued efforts of GCC countries to diversify trade origins and destinations.

Amid intensifying efforts to diversify the trade structure, all GCC countries, except Bahrain, have continued to post a merchandise trade surplus in 2017 (figure 2.4). In large part due to a modest rise in oil prices over the period 2016-2017, trade in GCC countries registered $704 billion in exports in 2017 (equivalent to 48.2 per cent of the consolidated subregional GDP) and $450 billion in imports (equivalent to 30.8 per cent of consolidated subregional GDP): in other terms, a $255 billion positive trade balance. The largest contributors to this surplus were Saudi Arabia and the United Arab Emirates whose net trade balances were estimated at $101 billion and $80 billion, respectively.

The strengthened trade performance in GCC countries coupled with the economic recovery in Europe partially offset deficits in services

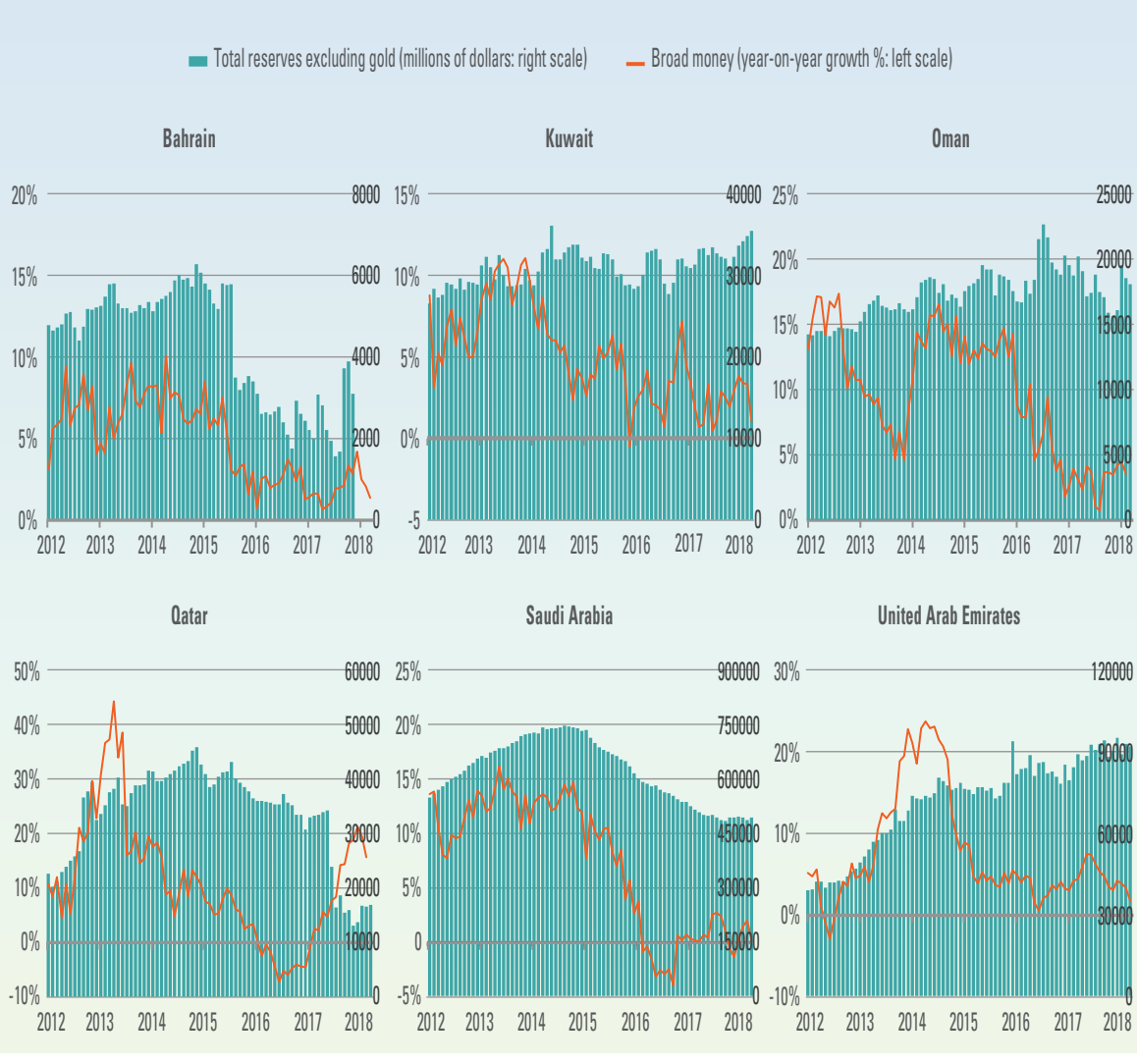
Figure 2.4 Trade and current account balances: GCC countries

Sources: ESCWA staff calculations based on national statistical sources (appendix F). Figures for 2017, 2018 and 2019 are ESCWA staff estimates/projections.

trade and secondary income in 2017. As a result, the whole subregion reached a current account surplus of $46 billion (equivalent to 3.2 per cent of the subregional GDP). While some countries, such as Bahrain and Oman, were still suffering from current account deficits in 2017, the forecast favourable oil prices are projected to widen the margin of trade account surpluses in 2018 for all GCC countries. Added to this, the upturn in the global economy should also continue to support the external balance in the subregion, leading to favourable current account balances.

Given that their outflow of foreign exchange reserves (figure 2.5) accounted for $53.2 billion in the subregion, GCC countries may face foreign exchange constraints. Between 2016 and 2017, Oman, Qatar and Saudi Arabia saw their foreign reserves dwindle by $3.2 billion, $14.1 billion and $48.2 billion, respectively, whereas Bahrain, Kuwait and the United Arab Emirates accumulated $655 million, $3.7 billion and $7.8 billion, respectively. Qatar Central Bank's international reserves experienced the most substantial drop in September 2017, due to capital outflow triggered by diplomatic

Figure 2.5 Monetary indicators: GCC countries



Sources: Total reserves excluding gold are from International Monetary Fund (IMF), International Financial Statistics database, available at http://data.imf.org/?sk=4C514D48-B6BA-49ED-8AB9-52B0C1A0179B&sId=1390030341854 (accessed on 15 June 2018) with the exception of Saudi Arabia. Total reserves excluding gold for Saudi Arabia is an ESCWA staff calculation based on national statistical sources. Broad money estimations are ESCWA staff calculations based on national statistical sources.

sanctions imposed by neighbouring countries. Qatar has since embarked on a significant effort to recover investor confidence and boost domestic demand.

The demand for and access to credit can be signalled by the dynamics of broad money which saw a general recovery in 2017 in this subregion. Year-on-year growth of broad money was particularly steep in Qatar whose broad money grew by 21.3 per cent in December 2017 and 19.6 per cent in January 2018. Nonetheless, broad money in the subregion remains low compared to recent peaks between 2012 and 2014, challenging the growth of credit in the private sector in Oman, the United Arab Emirates and especially Saudi Arabia which had a negative rate of private credit growth in 2017.

While the fiscal position of GCC countries was negative in 2017 it improved slightly

Figure 2.6 Fiscal positions: GCC countries

Sources: ESCWA staff calculations based on national statistical sources (appendix G). Figures for 2017, 2018 and 2019 are ESCWA staff estimates/projections.

compared to 2016 situation (figure 2.6). The 25.3 per cent increase in oil export revenues led to the collection of greater tax revenues in 2017. However, the impact of OPEC oil output reduction measure severely contracted the economy and government revenues in per cent of GDP show a mixed result by country. Oman, Saudi Arabia and the United Arab Emirates government revenues increased by 3.6 percentage points, 5.6 percentage points and 11.2 percentage points respectively, in per cent of GDP in 2017 from the previous year. Conversely, the government income of Bahrain, Kuwait and Qatar shrunk by 1.0 per cent, 2.5 per cent and 1.2 per cent, respectively.

Government expenditure shows similar mixed trends. Bahrain, Oman and Qatar continued austerity measures by cutting expenditure while maintaining capital spending levels. Meanwhile, fiscal adjustments in Kuwait, Saudi Arabia and the United Arab Emirates were accompanied by higher fiscal spending attributable to higher-than-expected non-oil revenues.

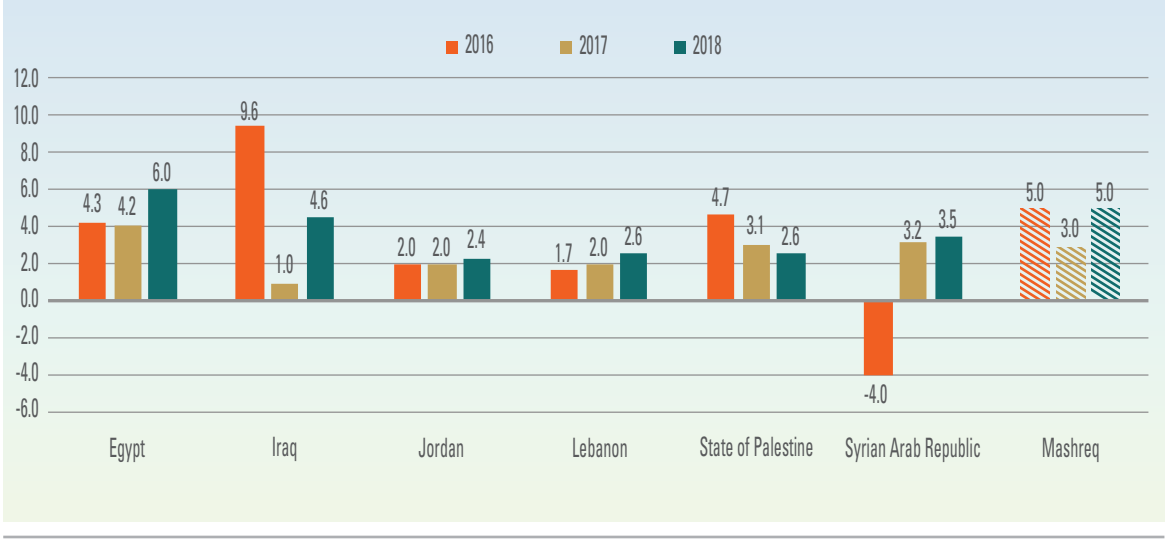
Synthesizing both revenues and expenditures, all GCC countries except the United Arab Emirates registered fiscal deficits with an average of 8.4 per cent of GDP in 2017. Nonetheless, the combination of slightly higher oil prices and continued efforts towards fiscal adjustments, specifically the unified GCC-wide VAT, are strong factors that will contribute to the subregion's improved fiscal situation in the years to come. The fiscal situation will also largely depend on the degree to which the efficiency of public spending can be improved, which remains a key reform priority in most countries in the subregion.

3. Mashreq countries

Growth in Mashreq countries averaged 3 per cent in 2017, down from 5 per cent in 2016 (figure 2.7). At the country level, progress was uneven across this subregion. In Egypt, industrial production and investment were strong, largely benefitting from the effects of its exchange rate devaluation; however, this positive performance was substantially restrained by a series of fiscal adjustments coupled with a high inflation rate. Egypt also began production from newly discovered gas field, which was one of the major sources for national economic growth. Economic expansion in Iraq remained seriously subdued because of the OPEC reduction agreement and the fiscal consolidation under an effort to cut public spending. These actions outweighed a pickup in non-oil activity in the country. Meanwhile, the economy in the Syrian Arab Republic improved significantly as the intensity of the conflict eased in 2017, which is expected to turn to positive growth after a prolonged contraction. Some reconstruction has begun, and private consumption driven by returning Syrian expatriates also contributed to the recovery of the economy. Jordan and Lebanon have experienced mixed pressures. For instance, while geopolitical tensions continue to negatively impact both economies, stronger mining activities and a pickup in tourism derived moderate growth in Jordan, and territorial consolidation and reconstruction efforts in the Syrian Arab Republic boosted economic activities in Lebanon. Nonetheless, stagnant intraregional trade and low workers' remittances and investments were less favourable aspects in both economies.

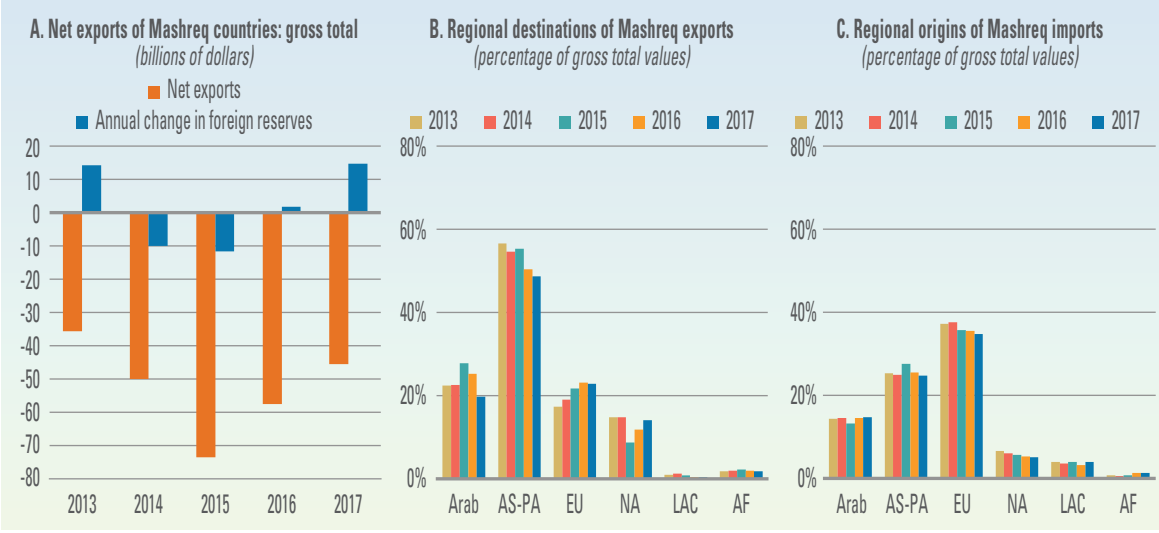
Average growth for the subregion in 2018 is projected to rebound to 5 per cent. The economy of the Syrian Arab Republic will

Figure 2.7 Real GDP growth rate in Mashreq countries, 2016-2018



Source: See appendix D.

Figure 2.8 Geographical trade structure: Mashreq countries



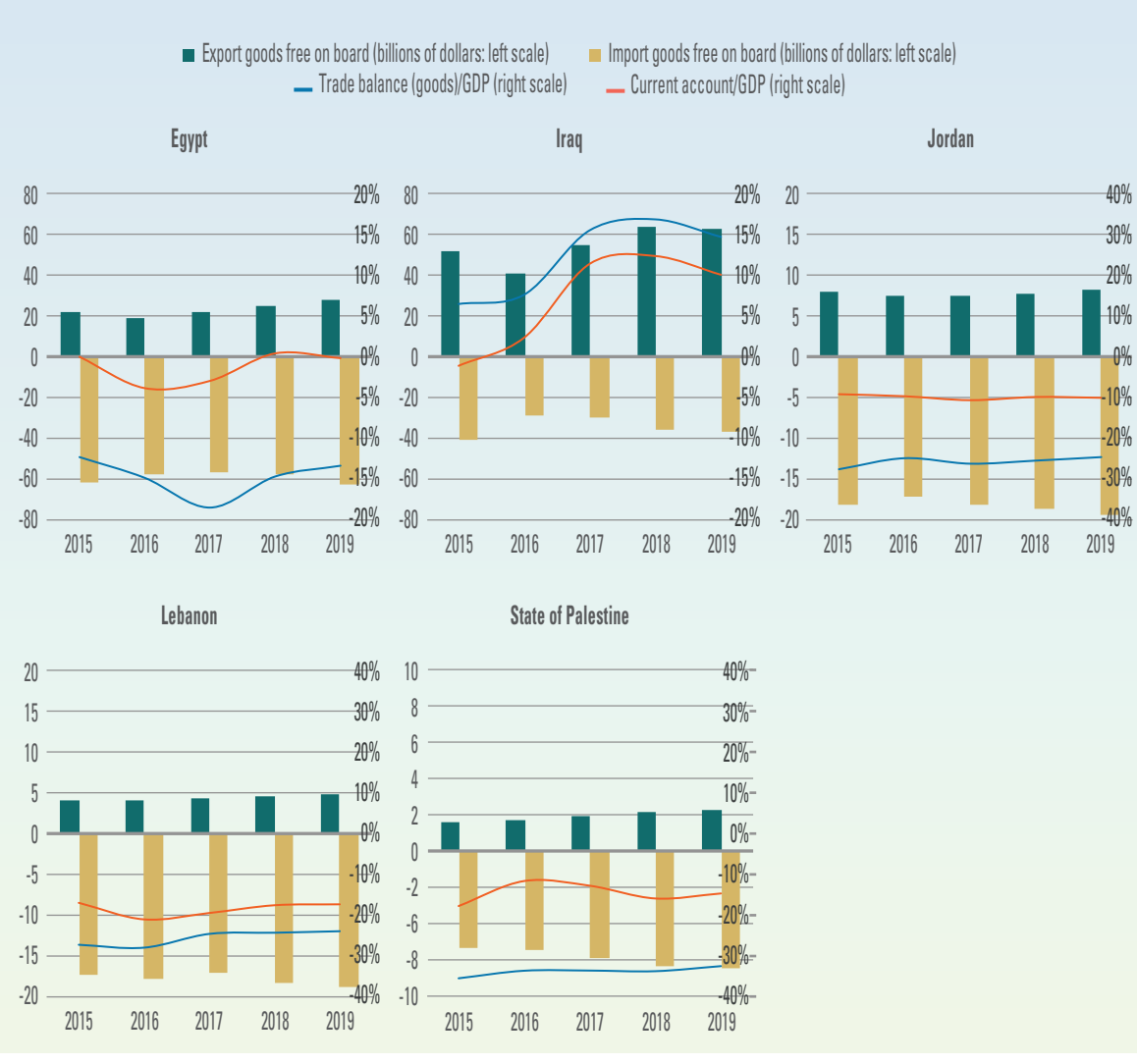
Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.
Source: See appendix E.

maintain its growth pace in 2018 despite anticipated agriculture production loss due to poor rainfall. The outlook for Iraq will continue to be dominated by geopolitical conflict and oil-producing activities. Egypt, Jordan and Lebanon are forecast to post moderate economic outcomes, associated with improvements in balance-of-payments situations, cross-border remittances, capital inflows and tourist arrivals from European countries towards the end of 2018. The economy in the State of Palestine is forecast to contract mainly due to political instability as potential disruptions from renewed political tensions related to the recognition by the United States of Jerusalem as the capital of Israel. Nonetheless, various value added activities and continued reconstruction process in the Gaza Strip are anticipated, particularly private sector transfers from abroad is forecast to exceed $1 billion during 2018.

The Mashreq subregion is a net importer with a net value of $45.6 billion in imports in 2017 (figure 2.8A). In other words, all Mashreq countries except Iraq have merchandise trade deficits. This may be due in part to political instability and social unrest in the region. That said, the margin of net imports has continued to narrow since 2015 and the accumulation of foreign reserves in the subregion reached $135 billion in 2017, an increase of $14.7 billion from 2016. This positive balance is attributable to Egypt's economic reform plan which devalued the local currency, imposed a VAT and cut other subsidies.

As in the GCC subregion, the Mashreq's geographical trade orientation is focused on Asia and the Pacific: merchandise exports from Mashreq countries to Asia and the Pacific region in 2017 accounted for 48.5 per cent of total exports (figure 2.8B). Exports to Europe accounted for 22.7 per cent and exports to North America stood at 14.1 per cent. A remarkable development in comparison to 2016 was that trade with Africa increased and trade with Europe overtook the share of intraregional export. This suggests that Mashreq underperformed in the promotion of the intraregional export initiative in 2017. This is especially the case for Egypt whose export share to the Arab region has continuously declined since 2015 (74 per cent in 2015, 63 per cent in 2016 and 48 per cent in 2017) as it has focused on an effort to diversify exporting structure. The

Figure 2.9 Trade and current account balances: Mashreq countries



Sources: ESCWA staff calculations based on national statistical sources (appendix F). Figures for 2017, 2018 and 2019 are ESCWA staff estimates/projections.
Note: Due to the lack of official statistics, figures for the Syrian Arab Republic are not presented.

dynamics of merchandise imports to Mashreq countries from other continents and regions showed no significant change over the past few years with the largest share coming from Europe, followed by Asia and the Pacific region (figure 2.8B).

As for the balance of payments at the country level, four of the five countries in the subregion recorded account balance deficits. Egypt (18.5 per cent), Jordan (26.2 per cent), Lebanon (24.9 per cent) and the State of Palestine (31.9 per cent) all reported trade deficits in 2017 in per cent of GDP (figure 2.9). These deficits were offset by a surplus in services trade, income and current transfer accounts. Iraq, where trade and current account surplus in per cent of GDP were 15.4 per cent and 11.4 per cent, was the exception in the subregion. Because Iraq's economy heavily relies on oil exports, import constraints caused by persistent political instability have widened the margin of trade and current account.

Figure 2.10 Monetary indicators: Mashreq countries

Sources: Total reserves excluding gold are from IMF, International Financial Statistics database, available at http://data.imf.org/?sk=4C514D48-B6BA-49ED-8AB9-52B0C1A0179B&sId=1390030341854 (accessed on 18 April 2018) with the exception of Jordan. Total reserves excluding gold for Jordan are ESCWA staff calculations based on national statistical sources. Broad money estimations are ESCWA staff calculations based on national statistical sources with the exception of the State of Palestine. Broad money estimations for the State of Palestine are from IMF, International Financial Statistics database, available at http://data.imf.org/?sk=4C514D48-B6BA-49ED-8AB9-52B0C1A0179B&sId=1390030341854 (accessed on 18 April 2018).

Egypt was projected to post a surplus of $696 million (equivalent to 0.3 per cent of its GDP) in its current accounts in 2018, helped by the country's new currency regime. The weaker Egyptian pound gives exports a competitive edge. However, because of the currency devaluation, the favourable projection is uncertain. Higher commodity prices, particularly phosphates and potash, are expected to contribute to Jordan's export earnings in 2018, underpinned by improved access to markets in Iraq. These export prospects are anticipated to be offset by a large import bill, especially for food and fuel. This is the case for the whole subregion, where higher oil prices continue to push an already large merchandise import bill for oil-importing countries, potentially widening deficit levels in the coming years. In the case of the State of Palestine, the current transfer

account is projected to weaken in line with the United States' decision to reduce funding to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

With some improvement in the balance of payments in 2017, the subregion's foreign reserves show some positive resilience (figure 2.10). Between December 2016 and December 2017, foreign reserves in Egypt, Iraq, Lebanon and the State of Palestine increased by $12.4 billion (59.2 per cent), $3.1 billion (7.4 per cent), $117 million (0.3 per cent) and $133 million (42.7 per cent), respectively. In Jordan, the balance of payments declined by $1 billion (7.5 per cent). Lebanon appears to have managed its foreign currency reserves well in 2017, in part due to financial engineering undertaken by the Central Bank of Lebanon to sustain its dollar reserves. Foreign reserves in Jordan continued to be affected by slow growth in remittances, tourism revenues and foreign investment. A radical increase in international reserves in Egypt in 2017 was due to the combination of various factors such as the devaluation of the local currency, new implementation of VAT, substantial elimination of energy-related subsidies and Government plans to reduce the import of commodities.

With regard to domestic demand expansion, broad money accelerated in Egypt, Lebanon and the State of Palestine. For Iraq and Jordan, increased broad money (almost approaching a zero year-on-year growth rate) has paralleled the accumulation of foreign reserves. This indicates that broad money growth was largely supported by the inflows of external funds. Most notably, Egypt's broad money growth presents high volatility ranging between 20 per cent and 40 per cent. Such a high year-on-year growth rate is associated with a strong currency revaluation. For instance, a substantial drop in broad money growth in October 2017 was largely due to an increase of the central bank reserve ratio by 4 percentage points from 10 per cent to 14 per cent. This means that the high broad money growth in 2017 points to money-led inflation as consumer inflation remained high (at around 30 per cent). On the other hand, given the low inflation (0.2 per cent) in the State of Palestine, high broad money growth (nearly 10 per cent) indicates some resilience in domestic demand expansion.

As in GCC countries, Mashreq countries continued to run fiscal deficits in 2017, with an average of 7.5 per cent of GDP (figure 2.11). Over the period 2016-2017 government revenues in per cent of GDP increased in Egypt (by 1.2 per cent), Iraq (8.3 per cent) and Lebanon (1.8 per cent). In contrast, revenues shrunk only slightly in Jordan (by 0.1 per cent) and in the State of Palestine (by 1 per cent) in 2017. Improved revenues were largely attributed to the strengthened oil exports, particularly for Iraq. Government spending averaged around 31.8 per cent of GDP in 2017, with the largest government spending in Iraq (41 per cent), followed by the State of Palestine (34.3 per cent), Egypt (28.6 per cent), Jordan (28.3 per cent) and Lebanon (26.7 per cent). Thus, in most Mashreq countries expenditures were cut between 2016 and 2017 in line with ongoing fiscal reforms.

The fiscal situation is projected to improve in the coming years as a result of a broadening tax base and continued efforts to eliminate subsidies. In Egypt, public finance could be marginally strengthened by rising tax revenues in tandem with sustaining real GDP growth of 4 per cent over the period 2018-2019. The Government of Iraq is also expected to introduce a new form of sales and to excise taxes while removing various electricity subsidies. The effect of such reforms will become apparent in line with the stand-by arrangement agreement with the IMF.[3] Lebanon and Jordan continued consolidation efforts by increasing the corporate tax rates and VAT and instituting measures to widen their income tax base. Jordan is unifying the general sales tax at 16 per cent while

Figure 2.11 Fiscal positions: Mashreq countries

Sources: ESCWA staff calculations based on national statistical sources (appendix G). Figures for 2017, 2018 and 2019 are ESCWA staff estimates/projections.
Notes: Total revenues for Jordan and the State of Palestine include foreign grants. Due to the lack of official statistics, figures for the Syrian Arab Republic are not presented.

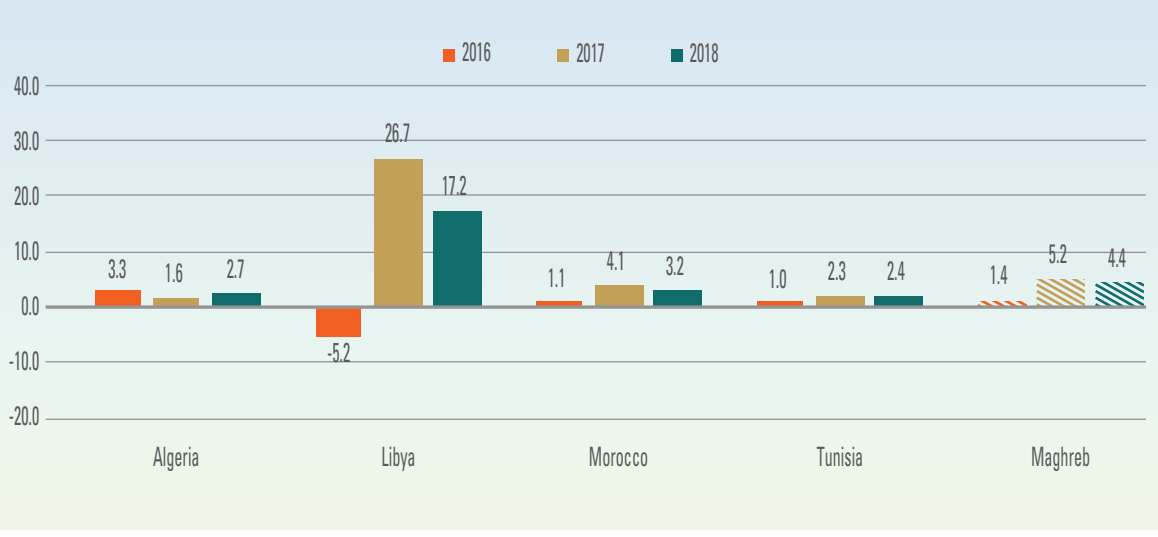
removing exemptions on food items. Lebanon continues to struggle with high public debt (155 per cent of GDP) and interest payments (36 per cent of total expenditure).

The projected fiscal deficits in per cent of GDP for 2018 are 10.6 per cent (Egypt), 8.4 per cent (Lebanon), 7.5 per cent (the State of Palestine), 5.8 per cent (Iraq) and 1.7 per cent (Jordan). However, the anticipated pace of fiscal consolidation may slow down depending on the pace of improvements in domestic confidence and external demand as well as oil price vulnerability.

4. Maghreb countries

Economic growth in Maghreb countries averaged 5.2 per cent in 2017, a substantial increase from the 1.4 per cent recorded in 2016. The subregion's growth was heavily influenced by Libya, whose growth rate increased by 32

Figure 2.12 Real GDP growth rate in Maghreb countries, 2016-2018



Source: See appendix D.

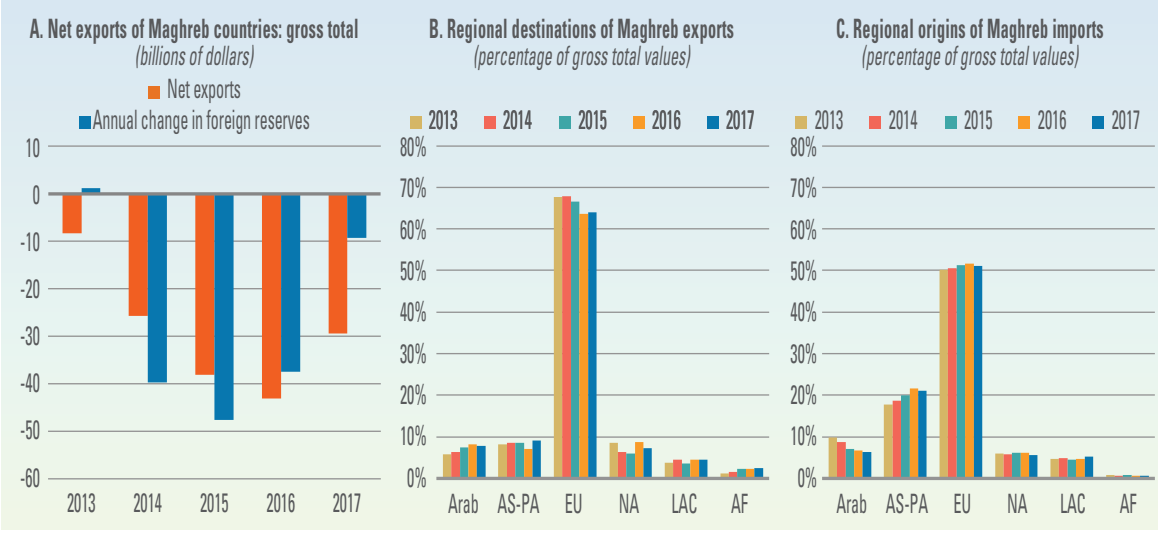
percentage points from negative 5.2 per cent to 26.7 per cent over the period 2016-2017. The expansion of the Libyan economy was driven by a substantial increase in its oil output, which roughly tripled its production from the previous year as a result of the country's exemption from the OPEC production-cut deal. In Morocco, where 40 per cent of the population relies on agriculture, a strong rebound was observed in agricultural production following severe droughts the previous year, in addition to accelerated activities in the services, manufacturing and mining sectors. Similarly, Tunisia experienced gradual recoveries in its agricultural and manufacturing sectors, further supported by improved trade activities and a pickup in tourism (associated with stronger growth in Europe). In contrast, growth in Algeria slowed in 2017 due to spending cuts, particularly in public investment, and subdued hydrocarbon sector and non-oil activities.

A growth rate of 4.4 per cent is expected for the subregion in 2018. This figure largely depends on the performance of the Libyan economy, which is forecast to maintain a positive growth rate of 17.2 per cent following a ramp-up in oil production. The other three Maghreb countries are also projected to improve or maintain their growth momentum in 2018. In Algeria, a more expansionary fiscal stance will act as a driver of growth, albeit only in the short term. In Morocco, external inputs such as capital inflows, further recovery in the tourism sector and favourable price of phosphates, are expected in the future. Similar expectations apply to Tunisia in terms of external performance. Morocco and Tunisia will benefit from the Group of 20 Compact with Africa initiative launched in March 2017, aimed at boosting private investment and improving infrastructure.

It should be noted that weighted average rate of GDP growth for Maghreb countries excluding Libya was 2.0 per cent in 2016, 2.2 per cent in 2017 and 2.5 per cent in 2018, indicating that even without the boost of Libya's boom, these countries are sustaining economic growth.

The Maghreb subregion remained a net importer in 2017 (figure 2.13A): total merchandise exports were $85.7 billion while total imports were $115 billion, a result of $29.5 billion in net imports. The moderate inflow of funds from increased oil export revenues, particularly in Libya, narrowed the trade deficit

Figure 2.13 Geographical trade structure: Maghreb countries



Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.
Source: See appendix E.

margin compared to 2016. This trade deficit is linked to the sale of foreign currency reserves over the past few years.

The geographical pattern of trade in this subregion remains largely unchanged, with some improvements in the management of trade and foreign reserves. Trade links with Europe have remained substantial (figure 2.13B), accounting for 64 per cent of the subregion's gross total exports in 2017, followed by Asia and the Pacific (9.1 per cent), North America (7.3 per cent), Latin America and the Caribbean (4.5 per cent) and Africa (2.4 per cent). Europe also remains the largest source of imports to the subregion (figure 2.13C), accounting for 51 per cent of gross total imports in 2017, followed by Asia and the Pacific (21.1 per cent), North America (5.6 per cent), Latin America and the Caribbean (5.3 per cent) and Africa (0.7 per cent).

The share of intraregional trade exports declined from 8.2 per cent in 2016 to an estimated 7.8 per cent in 2017, mainly owing to changing terms of trade. The share of intraregional imports slipped down from 6.7 per cent to 6.4 per cent over the same period. The challenges in intraregional trade should be addressed by the improved transport and logistics services, which has been raised as a key strategy to integrate the region in GVCs (box 2.1).

The subregion's two main energy-exporting countries, Algeria and Libya, increased their export earnings in 2017 mainly due to higher crude oil prices (figure 2.14). As mentioned previously, this is especially true for Libya whose export ($7 billion up over the period 2016-2017) greatly benefitted from its exemption to the OPEC production-cut agreement, doubling the volume of oil production. This was significant in helping Libya break free from persistent deficits in trade and current account balances. Oil-importing countries in this subregion increased exports in 2017. In Morocco, exports were worth $3.8 billion and in Tunisia $655 million. Both countries benefitted from improved external demand from major trading partners, coupled with favourable price movements for phosphates.

However, current account deficits have persisted as improved exports were largely offset by imports. The current account deficit

Box 2.1 Engaging in global value chain for development

Participation in GVCs is seen as an increasingly important catalyst for sustainable structural transformation. More than half of global trade in manufacturing is in intermediate goods, and around 70 per cent of trade in services is in intermediate services.[a] GVC engagement can offer significant opportunities to improve economic performance in terms of higher productivity, and greater sophistication and diversification of exported intermediates in participant countries, particularly for developing countries with fragmented production.

The Arab region is well positioned to increase its participation in GVCs for several reasons: its proximity to global production centres in Asia and Europe, its location at the crossroads of international trade, its diverse capabilities and endowments, and its relatively low labour costs. To date, however, the region's GVC engagement remains well below its potential. Some oil-rich countries, such as Saudi Arabia, are relatively highly integrated into GVCs, owing to oil products, but their participation is largely confined to the exports of primary commodities and limited value added operations. Other countries with less developed industrial capabilities (for example, Mauritania) are integrated into GVCs through the export of commodities such as iron ore, though with limited added value. Notwithstanding this underperformance in terms of GVC participation in the region, some countries have been able to integrate meaningfully, which is notably the case for Morocco and Tunisia.

Morocco is solidifying its position as a commercial bridge between Europe and West Africa. The main contributing factor is the improvement of infrastructure in the form of world-class ports, airports and railways. Moreover, the country has implemented around 90 per cent of the measures set out in the WTO Trade Facilitation agreement. With 15 commercial ports that generate 92.3 million tonnes annually in merchandise traffic, Morocco is increasingly seen as a regional hub in Northwest Africa for transport and business services.[b] The Tanger-Med port in northern Morocco, for example, serves five export free-trade zones in the area. The port has made a massive difference to the country's connectivity to GVCs, helping attract companies in the automobile, aerospace and textile sectors, among others. Since the port operations have enabled producers in Africa to send parts and components to manufacturers in Europe in just three days, and to the Americas in fewer than 10, it is expected to allow many African countries to better facilitate exports and thus enhance regional connectivity to GVCs.

Tunisia has bolstered its GVC engagement recently. Over the period 1995-2011, domestic value added in its consumer economy decreased from 63 to 49 per cent while the foreign value added content of exports grew significantly, from 25 to 32 per cent.[c] The top export industries were transport and storage, textiles and electrical machinery. In effect, Tunisia participated in GVCs through backward linkages (foreign value added in gross exports of a country) than it did through forward linkages (domestic value added exports of a country which go into exports of other countries). In recent years, its forward linkage participation was mostly in mining, transport and storage, and wholesale and retail trade, and its backward linkage participation in electrical machinery, textiles, and transport and storage. The top foreign input providers are mostly in Europe (France, Germany and Italy).

As the brief review of the two cases above demonstrates, there is an area of convergence for GVC participation in the essential role of transport and storage services. In this context, Morocco and Tunisia have upgraded transport infrastructure and services to promote their engagement in GVCs. Efficient and cost-effective transport and storage services are also critical for attracting foreign firms to outsource parts of their production. Therefore, effective transport and storage promotion strategies to shape favourable trade environments should be treated as one of key development priorities by decision makers for meaningful GVC engagement in general and trade facilitation in particular.

Sources: [a] De Backer and Miroudot, 2014.
[b] Morocco, Ministry of Economy and Finance, 2013.
[c] Mwanza, 2016.
Note: This box draws on the ESCWA report E/ESCWA/EDID/2017/3.

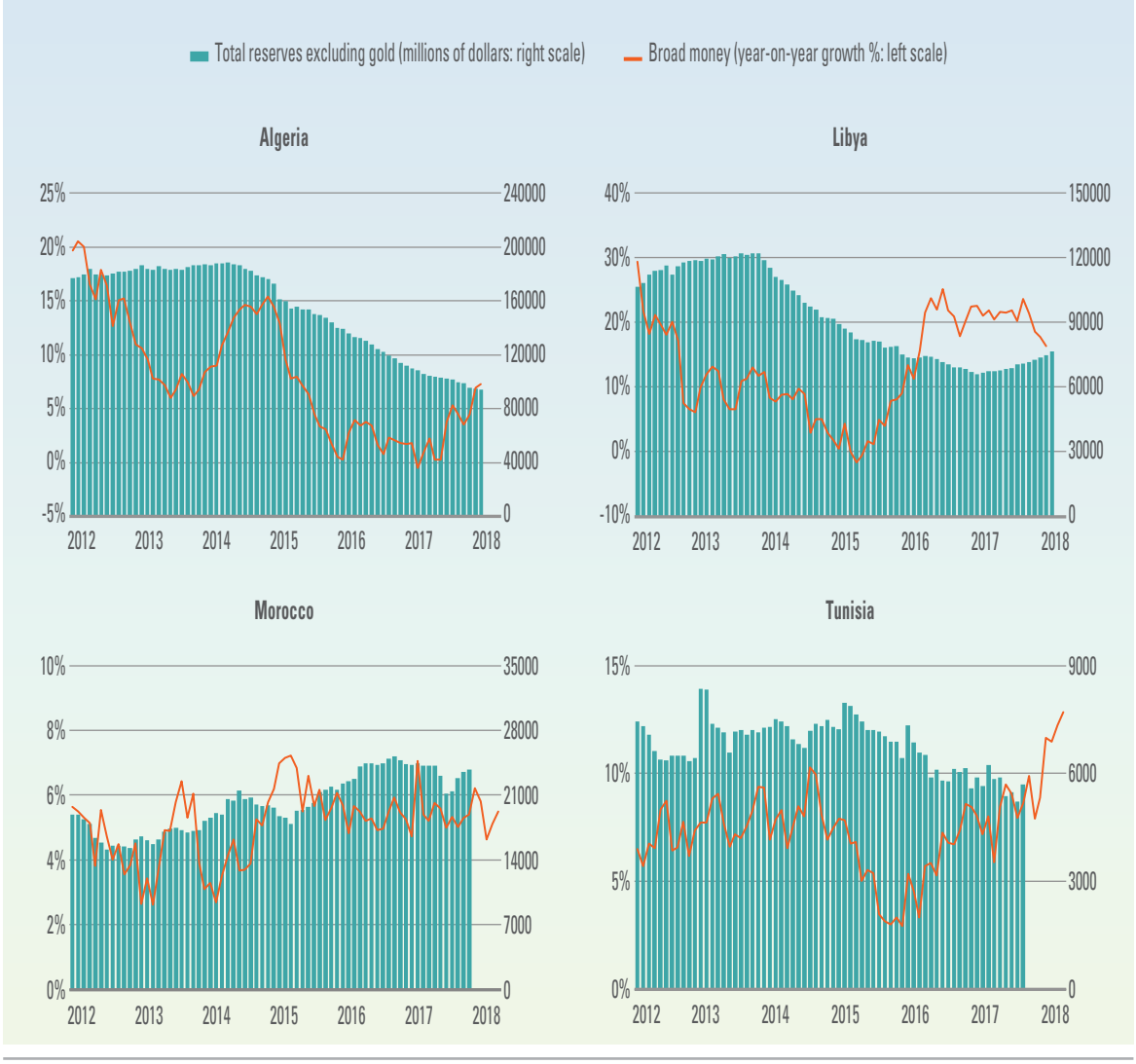
Figure 2.14 Trade and current account balances: Maghreb countries

Sources: ESCWA staff calculations based on national statistical sources (appendix F). Figures for 2017, 2018 and 2019 are ESCWA staff estimates/projections.

for 2017 in per cent of GDP was 14.9 per cent in Algeria, 3.6 per cent in Morocco and 10.3 per cent in Tunisia. Only Libya, for the reasons mentioned, had a current account surplus around 4.3 per cent of GDP. In 2018, trade and current account balances are projected to improve slightly owing to a favourable outlook in Europe that would support the subregion in terms of exports, remittances, foreign direct investment and tourism.

Maghreb countries need to attract trade in services such as tourism, funds transfers (including workers' remittances) and capital inflows to finance trade balance deficits. Despite the balance of payment situation (private and public capital inflows[4] are insufficient to offset the chronic current account deficit) and foreign reserves management (all Maghreb countries apart from Libya saw a decline in foreign reserves in 2017), the financial sectors in Maghreb countries are doing well (figure 2.15). Broad money continues to grow helping bolster private sector activities across most countries in the subregion. Year-on-year growth of

Figure 2.15 Monetary indicators: Maghreb countries

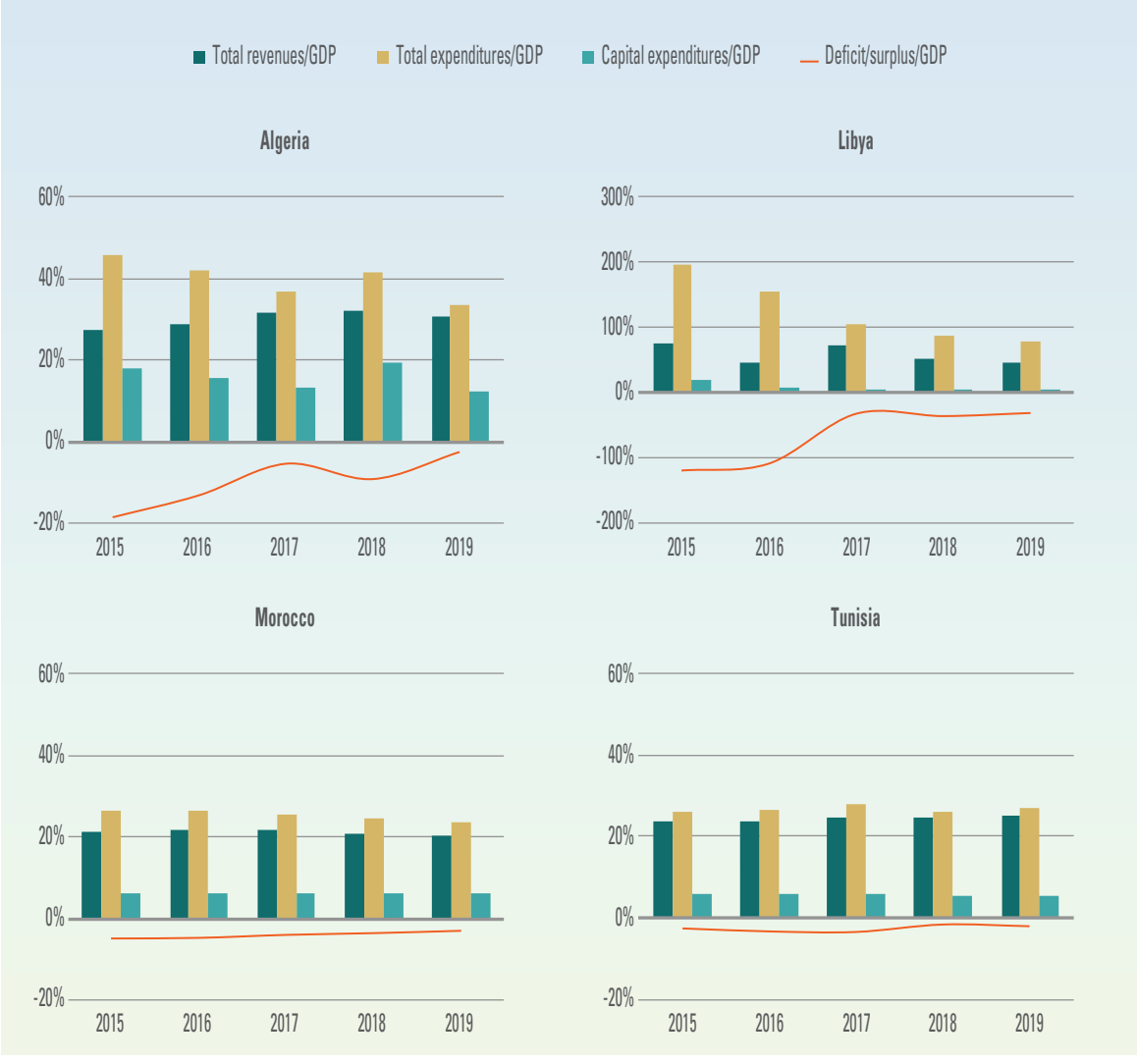


Sources: Total reserves excluding gold are from IMF, International Financial Statistics database. Broad money estimations are ESCWA staff calculations based on national statistical sources.

broad money is particularly steep in Libya whose broad money grew by 20.9 per cent on average throughout 2017, followed by 8.5 per cent in Tunisia, 5.6 per cent in Morocco and 3.2 per cent in Algeria.

In terms of the subregion's fiscal position, Maghreb countries continued to make significant efforts to adjust fiscal deficit challenges by introducing subsidy reforms and revenue mobilization efforts in 2017 (figure 2.16). In Algeria, substantial cuts in spending reduced government expenditure by 5.1 per cent while the revenues rose 2.7 per cent. These fiscal consolidation efforts substantially narrowed its deficit to 5.4 per cent from 13.1 per cent in the previous year. Libya's government revenues in per cent of GDP are estimated to have increased by 13.7 billion Libyan dinar, equivalent to 24.9 per cent increase in GDP, and substantially reduced the country's fiscal deficit. Continued fiscal adjustments in Morocco and Tunisia were also conducted in 2017, including efforts to eliminate or reduce some exemptions and reform the income and corporate tax systems.

Figure 2.16 Fiscal positions: Maghreb countries

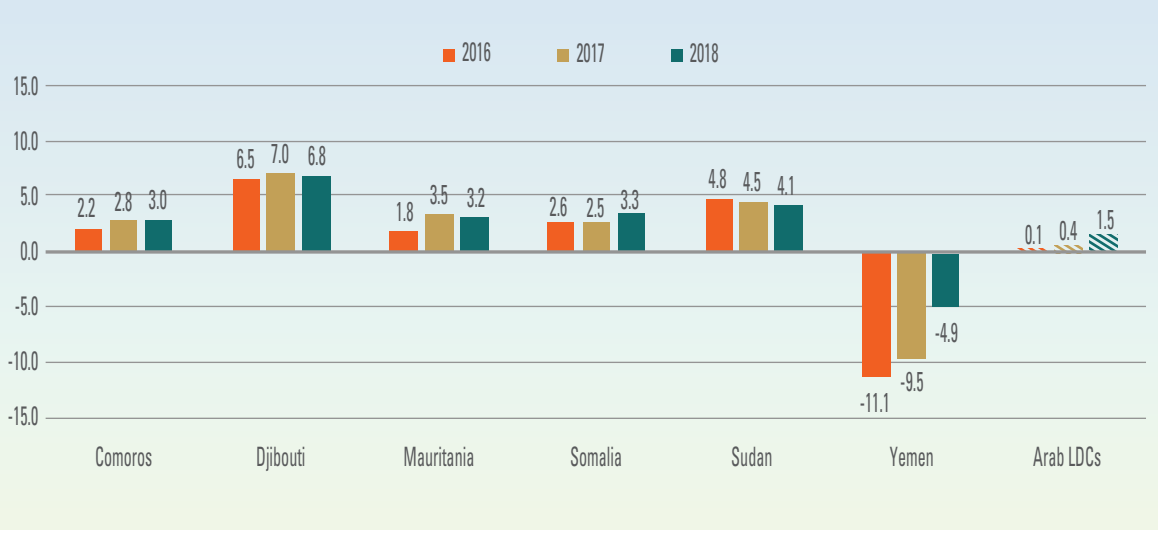


Sources: ESCWA staff calculations based on national statistical sources (appendix G). Figures for 2017, 2018 and 2019 are ESCWA staff estimates/projections.

5. Arab least developed countries

Economic expansion among Arab LDCs was a mere 0.4 per cent in 2017. The poor regional performance is largely the result of continued economic contraction in Yemen: the ongoing conflict has led to the loss of revenues from oil and natural gas exports, exacerbated persistent hyperinflation and created a massive humanitarian crisis. Djibouti and Mauritania were able to manage their current account deficit due to slightly higher oil prices and the continued import of capital goods. The growth of these two economies has also been spurred by port infrastructure projects in Djibouti and large mining and infrastructure investments in Mauritania. The economy in Somalia remained steady despite a severe drought in 2016-2017 devastating the pastoral livestock industry which employs around 60 per cent of the country's working population. Growth remained stable in the Comoros mainly owing to increased remittances and infrastructure investment in support of private sector activities. In contrast, the Sudan suffered from prolonged hyperinflationary pressures

Figure 2.17 Real GDP growth rate in Arab LDCs, 2016-2018



Source: See appendix D.

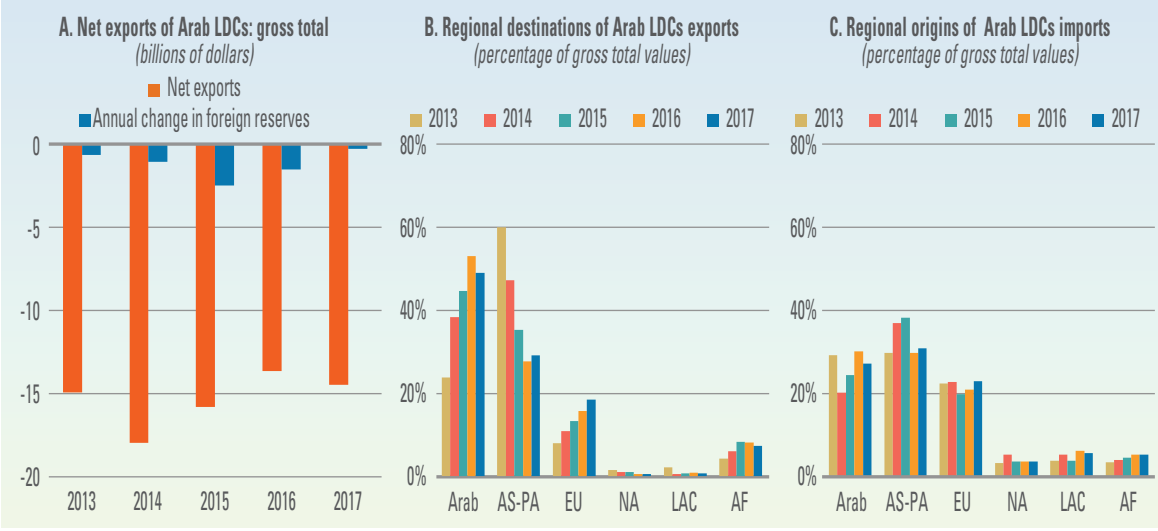
combined with the continued devaluation of its currency, which may have had a negative knock-on effect on consumption and investment in the private sector.

In 2018, the real GDP of the Arab LDCs is projected to grow by about 1.5 per cent. With no improvement in the security situation in sight and agriculture badly hit by fighting, Yemen is unlikely to resume oil and gas exports and the economy will continue to contract. Supported by positive spillovers from tourism, remittances and a stronger global economy, growth prospects in Djibouti and Mauritania appear strong. Since global commodity prices are expected to increase slightly, countries with mineral exports, such as Mauritania (iron ore and gold) and the Sudan (gold), could benefit from improved terms of trade. Economic growth in the Sudan will be steady as stronger private investment and trade are anticipated, propelled by the lifting of the American economic sanctions in October 2017. Somalia is expected to experience relatively high growth during an upcoming phase of infrastructure reconstruction projects. The positive economic outlook is partly the result of a number of global-level trade facilitation initiatives for LDCs, including the 2013 Bali Package and the duty-free and quota-free market access initiative under the WTO. Nonetheless, debt vulnerabilities, such as the build-up of arrears in Somalia and the Sudan, and large infrastructure projects funded by external borrowing in Djibouti and Mauritania, raise questions about long-term sustainability.

Excluding Yemen, this subregion grew at 3.2 per cent in 2016, 3.1 per cent in 2017 and 2.9 per cent in 2018. These slight growth rates indicate that the economy of Arab LDCs as a whole is struggling to gain sustainable growth momentum.

Arab LDCs were net importers in 2017, with merchandise exports and imports estimated at $6.2 billion and $20.7 billion, respectively (figure 2.18A). Compared to 2016, the value of net imports rose, in part due to higher oil prices in some oil-importing countries. While the subregion's trade structure is heavily dependent on imports, Arab LDCs continued to export a large amount of energy and natural resources to Asia and the Pacific region and Europe, receiving nearly half the total export value of the LDCs in 2017 (figure 2.18B). The remaining half went to intraregional exports, which are traded at a

Figure 2.18 Geographical trade structure: Arab LDCs



Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.
Source: See appendix E.

very high level compared to other subregions. In comparison, the share of exports stood at 15.9 per cent in GCC countries, 19.6 per cent in Mashreq countries and 7.8 per cent in Maghreb countries. Such high performance in intraregional exports is linked to high levels of intra-Arab region exports in 2017 by the Sudan (83.2 per cent), Somalia (77.4 per cent) and Yemen (56.1 per cent). Meanwhile, the share of Arab LDCs imports from the three major regions remains relatively stable and somewhat evenly distributed: 30.8 per cent from Asia and the Pacific region, 27.1 per cent from intraregional imports and 22.9 per cent from Europe (figure 2.18C).

In terms of the subregion's balance-of-payments performance, all Arab LDCs remained net importers in 2017 (figure 2.19). Trade deficits were $166 million (equivalent to 28.1 per cent of GDP) in the Comoros, $521 million (equivalent to 24.4 per cent of GDP) in Djibouti, $328 million (equivalent to 6.4 per cent of GDP) in Mauritania and $4.2 billion (equivalent to 3 per cent of GDP) in the Sudan. These deficit levels slightly decreased over the period 2016-2017, particularly in the case of Mauritania where a pickup in the prices of metals had a positive impact. The margin of deficits was further offset in the Comoros and Djibouti in 2017 by surpluses from the services trade and secondary income accounts, such as from foreign aid inflows. Mauritania and the Sudan underperformed in their secondary income accounts and as a consequence, current accounts remained in deficit in 2017, indicating weak capital inflows and continued balance-of-payments challenges. Current account deficits in per cent of GDP registered 5.3 per cent in the Comoros, 7.6 per cent in Djibouti, 15.4 per cent in Mauritania and 3.7 per cent in the Sudan.

In 2018, import growth in this subregion is projected to slow slightly while export growth is expected to be relatively brisk. This import compression reflects a marginal slowdown in capital imports for infrastructure projects while the export trade will be accompanied by some improved external demand coupled with favourable commodity prices. The subregion's balance-of-payments situation is anticipated to be slightly better in the forthcoming years. In the whole subregion, the trade deficit in per cent of GDP is projected to narrow from 3.6 per cent in 2017 to 2.8 per cent in 2018 and 2019.

Figure 2.19 Trade and current account balances: Arab LDCs

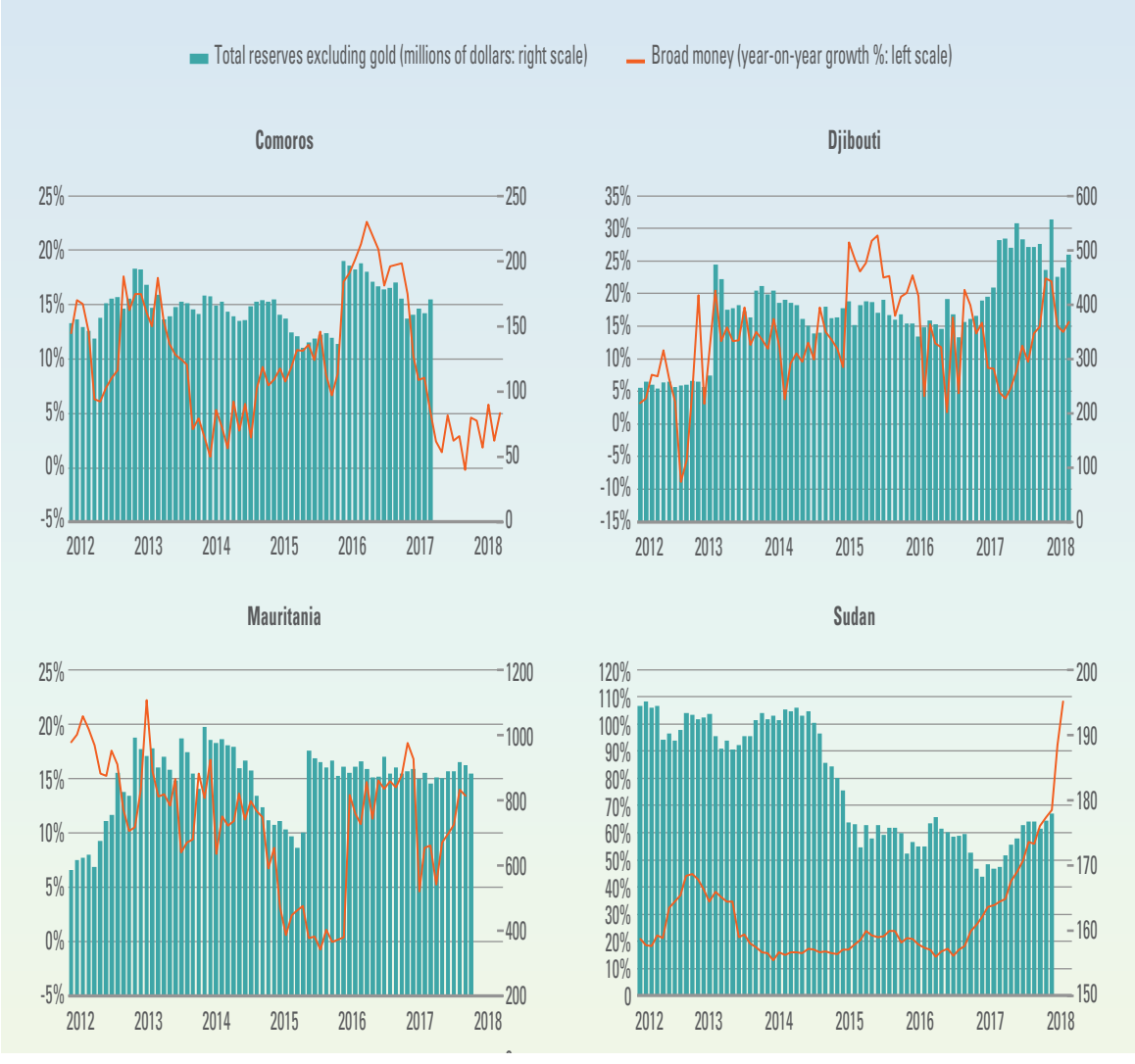
Sources: ESCWA staff calculations based on national statistical sources (appendix F). Figures for 2017, 2018 and 2019 are ESCWA staff estimates/projection.

The current account deficit is also expected to stabilize from 4.2 per cent in 2017 to 1.5 per cent in 2018 and 1.9 per cent in 2019.

Helped by some narrowing in current account deficits in recent years and a surplus in primary income, Djibouti experienced a sharp increase of foreign reserves. Other Arab LDCs were able to avert a depletion of their stock of international reserves. Reflected in the growth dynamics of broad money, the subregion's domestic demand appears subdued in most countries, reflecting weak consumer spending, a lack of private sector credit and reduced confidence. Nonetheless, broad money growth in the Sudan has been extraordinary, with over 68 per cent growth at times, which may be due to the revocation of the United States trade and financial sanctions in 2017.

Government revenues in per cent of GDP at the country level increased by 1.9 per cent in the Comoros, 1.8 per cent in Djibouti and 0.24 per cent in the Sudan over the period 2016-2017, largely attributable to

Figure 2.20 Monetary indicators: Arab LDCs

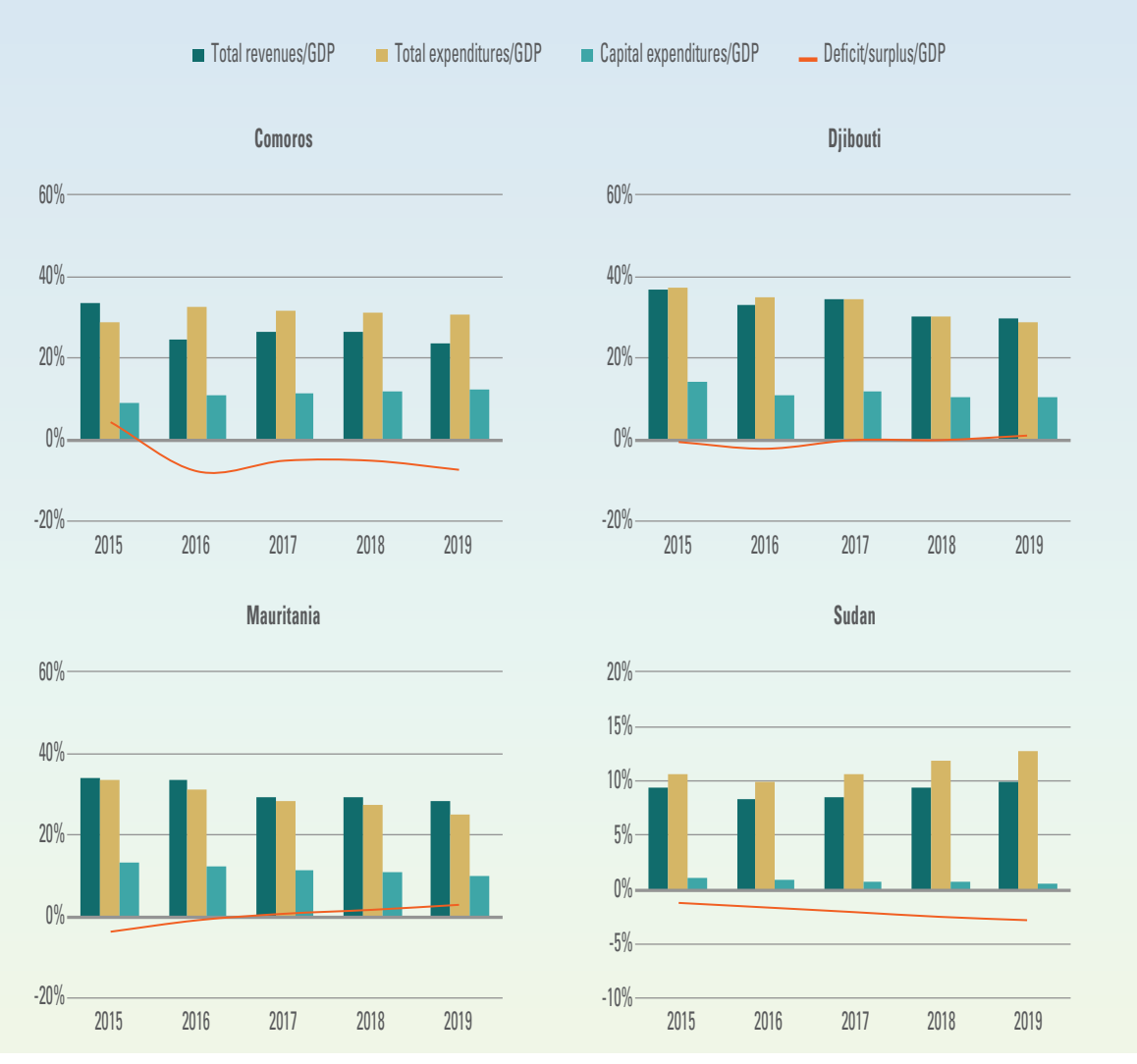


Sources: Total reserves excluding gold are from IMF, International Financial Statistics database. Broad money estimations are ESCWA staff calculations based on national statistical sources.

improvements in revenue collection along with increased non-oil revenue. Mauritania was the exception with a moderate decline in government revenues of about 4 per cent due to the significant impact of drought on its agriculture sector. Most Arab LDCs continued to impose austerity measures such as spending cuts and the removal of various tax exemptions, for example the complete elimination of wheat subsidies in the Sudan and the winding down of infrastructure-related expenditure in Djibouti. Fiscal deficit in per cent of GDP in 2017 was estimated at 5.0 per cent in the Comoros and 2.0 per cent in the Sudan whereas Djibouti and Mauritania had surpluses of slightly below 1 per cent.

In 2018, the fiscal situations in Djibouti and Mauritania are projected to be slightlybetter than in 2017, supported by continuous efforts to improve tax administration and favourable trends in iron ore prices. However, widening deficit levels are anticipated in the Comoros and the Sudan, in particular, where budget dynamics will remain highly exposed to fluctuations in oil prices and associated revenues.

Figure 2.21 Fiscal positions: Arab LDCs



Sources: ESCWA staff calculations based on national statistical sources (appendix G). Figures for 2017, 2018 and 2019 are ESCWA staff estimates/projections. Total revenues of the Comoros, Djibouti and Mauritania include foreign grants.

B. Policy challenges

Arab Governments have limited policy space to manoeuvre given the challenging external environment (see chapter 1) combined with the lasting impact of the 2014 drop in oil prices. Almost all Arab countries continued to apply fiscal consolidation plans in 2017, including cutting costly energy subsidies and reducing other elements of capital spending. Although several countries have managed to reduce their deficits, these reform efforts must continue in the coming years to strengthen the revenue base and reduce outstanding public debt. All GCC countries are expected to fully implement the unified VAT of 5 per cent during 2018 and 2019. Whether countries are oil-exporting or oil-importing, such fiscal consolidation efforts will carry on, supported by a strengthening of institutions to improve the transparency, accountability and sustainability of fiscal frameworks. The importance of institutional quality should not be underestimated as it can potentially prevent large illicit financial outflows from the region (box 2.2). Such outflows could negatively affect

economic outcomes such as investment and productivity as well as distort the effectiveness of international development cooperation.

Public debt challenges also persist: over the past years, debt levels have accumulated which limits financing efforts to address lasting fiscal deficits. Levels have been somewhat manageable for oil-exporting countries but have exceeded 80 per cent of GDP in Egypt, Lebanon and the Sudan. This debt sustainability will be further limited due to a slower pace of fiscal consolidation, and in particular higher financing costs, expected based on monetary policy tightening in advanced economies in the near future.

Under the dollar-pegged currency exchange policies in most Arab economies, central banks increased their policy rates in tandem with the United States interest rate hikes by a 0.25 percentage points in March, June and December 2017 each time. The Saudi Arabian Monetary Authority maintained its policy lending rate at 2 per cent while increasing its policy deposit rate by a 0.25 percentage points several times since 2017. The Central Bank of Jordan revised its policy interest rates four times in 2017. Unsurprisingly, other countries, including Kuwait, Oman, Tunisia and the United Arab Emirates, responded to the United States rate hikes by increasing their policy rates several times throughout 2017.

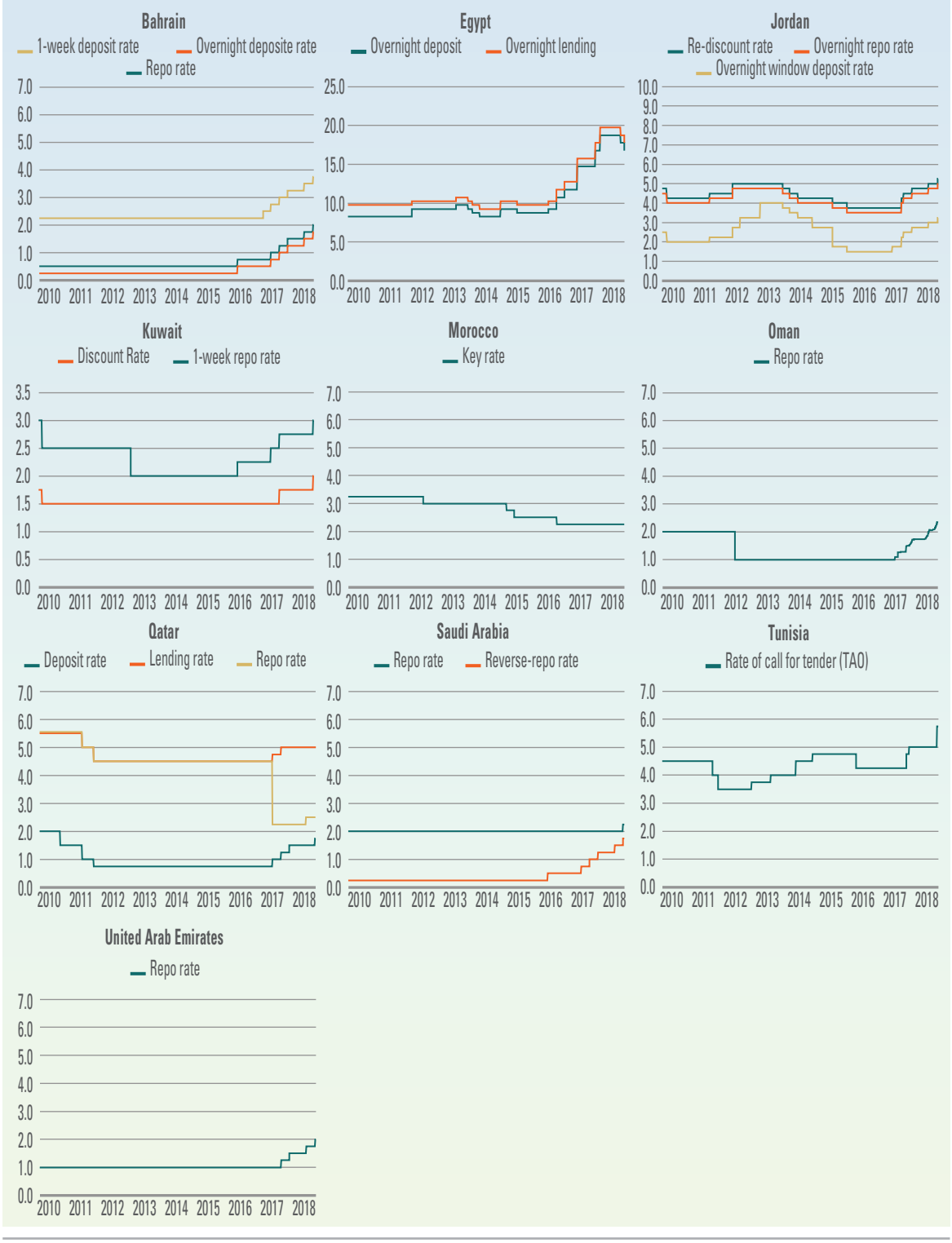
Many Arab Governments have committed to disengaging from IMF programming, including the extended fund facility programme in Egypt and the stand-by arrangement in Jordan. However, this, in turn, often limits room for their monetary policy stance.

The rapid dollar appreciation has raised the cost of international financing for the region, forcing many Arab countries to use debt issuance for deficit financing purposes. Some countries, particularly GCC countries, have made efforts to lessen their liquidity pressures and enhance their ability to supply credit to the private sector. This tightening monetary stance is expected to continue, although Egypt, Jordan, Morocco and Tunisia are considering adopting more flexible forms of exchange-rate regimes and restructuring the domestic capital market.

The exchange-rate regimes of currencies pegged to the dollar continued to dominate in the Arab region, especially in GCC countries whose hydrocarbon economies are priced in dollars. Jordan, Morocco, and Tunisia have adopted more flexible forms of exchange-rate regimes, or independent floating exchange rates. In 2017, regardless of the exchange-rate regime, ongoing fiscal challenges pushed several Arab countries to consider changes or initiate reforms to counteract pressures on their economies, control inflation and reduce severe balance of payments. For example, a free-floating of the Egyptian pound was implemented in November 2016 and a flexible exchange-rate system was introduced in Morocco in January 2018 (see the detailed analysis conducted in the following chapter).

In Egypt, reforms enabled the banking system to manage dollar liquidity, which led the exchange rate to return to close to its actual value in the fourth quarter of 2017 following an initial substantial fall of the Egyptian pound. The Egyptian pound is forecast to strengthen in 2018, once the Zohr gasfield comes on stream. The currencies of Algeria and Mauritania depreciated moderately in 2017 and are expected to further decrease in the years to come due to a severe current account deficit that will exert downward pressure on both. Tunisia is also expected to go through a currency depreciation because of an agreement made with the IMF that limits the role of the country's central bank in protecting the currency. In February 2018, the Central Bank of Sudan devalued the pegged exchange rate of the Sudanese pound and it is expected to devalue further in the near future; the Sudan will be forced to let the currency float towards the end of 2018. Some

Figure 2.22 Policy interest rates in selected Arab countries, 2010-2018



Sources: Bahrain, Central Bank of Bahrain; Egypt, Central Bank of Egypt; Jordan, Central Bank of Jordan; Kuwait, Central Bank of Kuwait; Morocco, Bank of Al-Maghrib; Oman, Central Bank of Oman; Qatar, Qatar Central Bank; Saudi Arabia, Saudi Arabian Monetary Authority; Tunisia, Central Bank of Tunisia; United Arab Emirates, Central Bank of United Arab Emirates.
Note: The repo rate is the rate at which the central bank of a country lends money to commercial banks in the event of any shortfall of funds.

Box 2.2 Measuring illicit financial flows

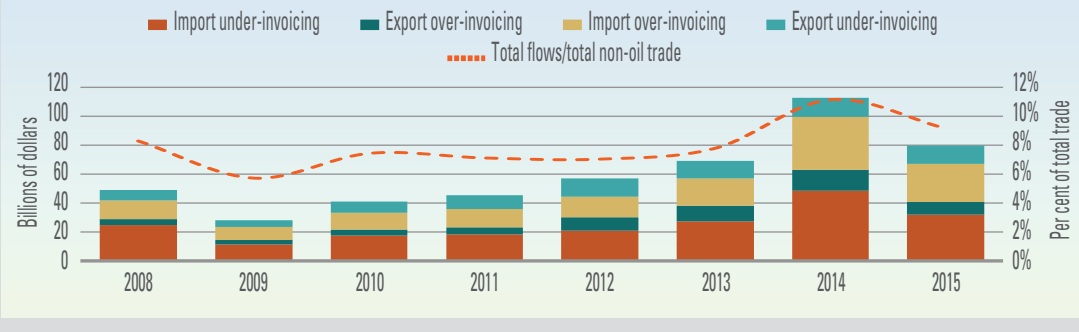
While the illegal cross-border movement of money and capital is not breaking news, the scope and the scale of illicit financial flows (IFFs) continues to pose a major challenge due to constantly evolving channels which are growing in sophistication and utilizing technology to outstrip detection.

Trade misinvoicing was identified as a key component in a relatively lengthy list of IFFs conduits. It causes severe structural, socioeconomic, governance and security complications for economies and constitutes substantial leakages to domestic revenues. Trade fraud exacerbates income inequalities in as much as trade-based money laundering erodes tax revenues, impairs government expenditure eligibility requirements and undermines the rule of law as well as a country's perception-based governance and corruption standings.

Given the clandestine nature of IFFs, it is not possible to effectively and accurately quantify the underlying activities with existing tools and processes. Misinvoicing practices have been used in multiple ways: enterprises sometimes under invoice imports to reduce customs duties while over invoicing exports to benefit from export incentives. While the exact quantity is debatable, asymmetric trade statistics reflect an estimation of IFFs, consequently identifying deliberate misinvoicing as a key component of trade gaps.

The Arab economies lost nearly half a trillion dollars ($482.7 billion), the equivalent of a fifth of the region's GDP in 2016 or $60.3 billion per annum, in public revenues between 2008 and 2015 due to trade misinvoicing. This is also equivalent to 8.2 per cent of total non-oil trade with the world on average. The figure below clearly describes import under-invoicing as the main source of misinvoicing in the Arab world. The figure also indicates that the magnitude of misinvoicing follows the level of structural transformation. In seven Arab economies, trade-based illicit financial outflows exceeded inflows.

Arab region: total non-oil trade misinvoicing by type of conduit, 2008-2015



The overall economic, political and security environment continues to be conducive to the practice of misinvoicing and IFFs in the Arab region. Several steps to mitigate the expansion and subsequent consequences of IFFs could be taken such as the creation of governmental IFF policy translated by the establishment of national bodies supported by multi-agency units and regional bodies led by the League of Arab States to track and curb IFFs. Other steps could include increasing enforcement efforts, promoting financial transparency, tackling tax evasion and avoidance, preventing financial crimes, recalibrating regional trade agreements and establishing an intact Arab customs union, and prohibiting trade with illegal Israeli settlements to name a few.

Source: Based on ESCWA, *Illicit Financial Flows in the Arab region* (Beirut, forthcoming).

countries are able to partially manage the discrepancies between the official exchange rate and the parallel market rate. For instance, the Syrian pound began to strengthen in 2017 on the back of higher inflows of remittances, helping to narrow the differential between the official and the informal market rates. In Yemen, the central bank decided to float the currency in August 2017, resulting in a sharp depreciation. Political instability in Iraq added to the persistent gap between the market and the official exchange rates.

C. Socioeconomic developments and gender dynamics in the Arab region

1. Overview

This section of the survey explores the progress on socioeconomic indicators from a gender perspective in addition to reporting on major achievements and challenges in the region during the reporting period. The 2017-2018 survey highlights two of the main obstacles preventing socioeconomic development in the Arab region: the impact of conflict, with a focus on internally displaced persons (IDPs) and refugees; and the low participation of women, expressed in terms of political and economic participation.

The Arab region is facing significant challenges in reaching its socioeconomic development aspirations. Political instability and social unrest along with high unemployment rates are contributing to the region's economic underperforming. Persisting political instability in Iraq, Libya, the Syrian Arab Republic and Yemen has resulted in damage to property, infrastructure and high economic costs concurrent with the loss of lives and the deterioration of human development. Over the past fifteen years, the Arab region has weathered a dramatic flood of refugees and forced migration to internal regional destinations such as Lebanon, Jordan and Tunisia along with the related socioeconomic spillover effects.

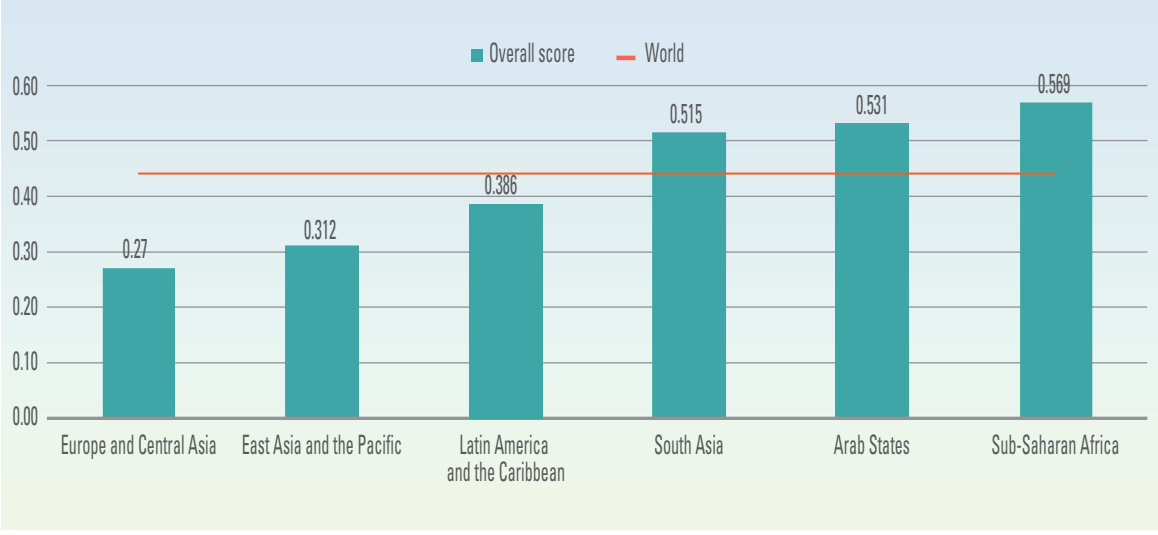
The region's labour market is highly segmented (public vs. private, formal vs. informal, male vs. female and national vs. foreign labour) and continues to lag behind the other world regions, especially for females. Women's total earnings, benefits from employment opportunities and social and economic resources are still less than those of men in similar jobs. The female labour force participation rates in the Arab region are the lowest compared to rates in other regions[5] and the region's employment laws and practices are discriminatory.

The social indicators and gender statistics expose the state of affairs in which women in Arab States are more disadvantaged economically, politically and socially in comparison to women in other regions with similar income levels or other regions at similar stages of economic development.[6] Despite the bridging of the gender gap in education and literacy in most Arab States, inequalities between men and women continue to abound. While the proportion of women in Arab parliaments is higher than ever, and several States have for the first time allowed women to run in elections, women remain under-represented in governance, decision-making processes and senior management positions.

2. Indicators for development and gender equality

More research is being produced on metrics that can capture the well-being of individuals in the economy and compare living standards across countries. One of these metrics is the Human Development Index (HDI), published for the first time in 1990 by the United Nations Development Programme (UNDP). The index captures human development in three main dimensions (long and healthy life, being knowledgeable and having a

Figure 2.23 Gender Inequality Index 2017, by region



Source: United Nations Development Programme, *Human Development Indices and Indicators: 2018 Statistical Update* (New York, 2018), table 5.

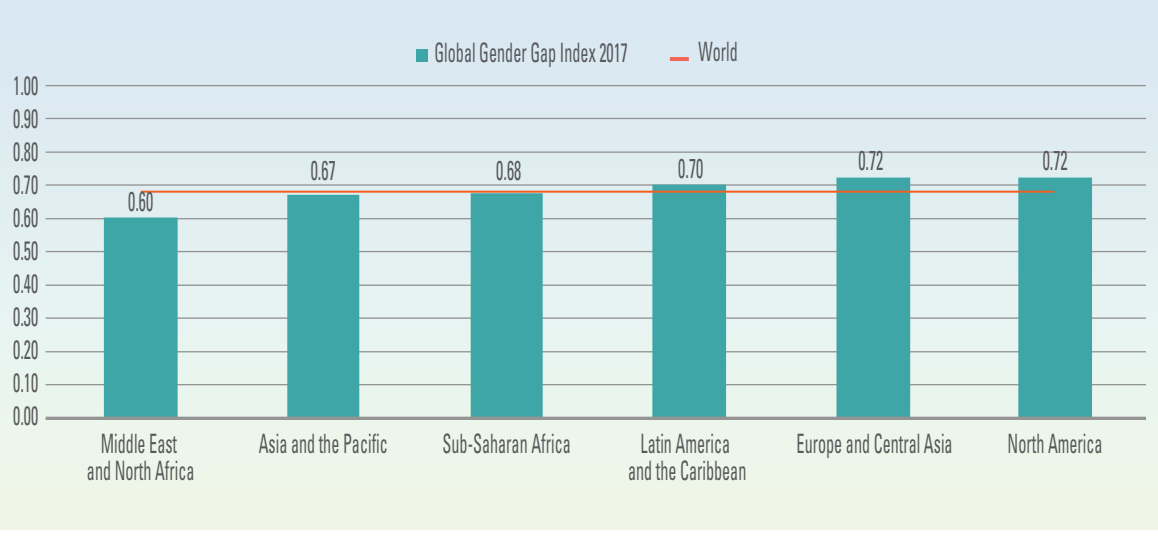
decent standard of living). In 2018, the report indicates a positive improvement globally in overall human development compared to previous years. Fifty-nine countries out of the 189 evaluated reached very high human development rankings and only 38 countries remained in low HDI ranks. Emerging conflict and social unrest have caused some setbacks in the Arab region. Libya, the Syrian Arab Republic and Yemen all registered declining HDI values during the past five to six years. Lebanon, which was affected by conflict in its neighbouring countries, suffered negative spillover effects on its HDI ranking mainly because of the resulting refugee crisis as a host country.

Gender inequality plays a significant role in determining the HDI value of a country. In 2018, the world as a whole lost about 20 per cent[7] of the global HDI value due to persisting inequalities. The Gender Inequality Index (GII) is used by HDI to measure three dimensions of gender inequalities: reproductive health, empowerment and economic status.[8] The global GII value was 0.441 in 2017 compared to 0.531 for the Arab region, coming in the second-to-worst ranking compared to other regions of the world (figure 2.23).[9]

The Global Gender Gap Index, developed and tracked by the World Economic Forum, is a measure of a country's performance with respect to gender. The Global Gender Gap Index integrates the following indicators in each country: economic participation, health and survival, educational attainment and political empowerment. Based on the 2017 Global Gender Gap report, the Arab region continues to rank last globally (figure 2.24) with a remaining gender gap of about 40 per cent. Western Europe ranked first with a remaining gender gap of 25 per cent in 2017, followed by North America, Eastern Europe, Central Asia, Latin America and the Caribbean, East Asia and the Pacific, Sub-Saharan Africa, and South Asia all coming in ahead of the Middle East and North Africa.

Tunisia was the top performer in the region ranking 117 out of 142 counties with a score of 65 per cent, a slight increase from 2016, followed by the United Arab Emirates with a score of 64.9 per cent, Bahrain at 63.2 per cent, Algeria at 62.9 per cent and Qatar at 62.6 per cent. Qatar's ranking went down despite having progressed in women's political representation with the appointment of four women for the first time to the Qatar Advisory Council in June

Figure 2.24 Global Gender Gap Index 2017, by region



Source: ESCWA calculations based on World Economic Forum, *The Global Gender Gap Report 2017* (Geneva, 2017).
Note: Regional average scores are weighted by population using population data from the World Bank, World Development Indicators online database.

Box 2.3 Sustainable Development Goals and progress on gender equality

The Sustainable Development Goals (SDGs) are a set of 17 internationally agreed upon goals that aim at reducing extreme poverty, extending gender equality and advancing opportunities for health and education. These are also targets set out and measured annually in the Human Development Index. In addition to the principle of equality between men and women, girls and boys that underpins all the 17 goals, there is a dedicated global commitment to monitor and work towards achieving gender equality specifically through SDG5 that calls for the promotion of equal rights and opportunities for women as well as for adequate protection from violence against women. Since all the SDGs have gender dimensions, recognizing the specific needs of women in their implementation will support the achievement of SDG5. Gender equality also entails eliminating all forms of discrimination and harmful practices against all women and girls everywhere, as well as enhancing the use of information and communication technology to promote the empowerment of women.

In the Arab region, levels of success and progress in achieving the SDGs related to gender equality differ greatly between countries depending on income level, poverty rates and population growth. There has been notable progress in health and education in the Arab region. Women's life expectancy increased on average to 73 years in 2016.[a] In education, there has been an improvement in women's literacy rate with a 60 per cent overall enrolment with the exception of secondary school, by the end of 2017. However, in some countries, especially LDCs and conflict-affected countries such as Iraq, the Syrian Arab Republic and Yemen, achievements in education and health remain challenging for both sexes. Rates of child marriage among girls remain high, especially among refugee populations despite the role played by international organizations in advocating against violence against girls and women.

Sustainable development can only be achieved if women benefit equally from progress. At the global level, a study by McKinsey & Co. highlighted the costs of gender inequality and showed

→

that by stepping up efforts to advance equality, global GDP growth could increase by 11 per cent by 2025.[b]

The 2030 agenda offers a framework for action that recognizes that multiple, coordinated interventions are needed to achieve these goals. Most Arab countries have set a collection of strategies designed to monitor progress in gender equity incorporated into their development plans, including placing women's empowerment and rights higher up on the agenda. Many efforts were made by Arab countries to oversee the roll out of the SDGs at the national level. Voluntary national reviews are regular follow-up and review mechanisms set out for monitoring the progress of the 2030 Agenda for Sustainable Development at the national and subnational levels. Out of 22 Arab countries, eight (Bahrain, Egypt, Lebanon, Qatar, Saudi Arabia, the State of Palestine, the Sudan and the United Arab Emirates) presented their progress in the implementation of SDGs at the High-Level Political Forum on Sustainable Development held in New York on 18 July 2018.

Source: [a] World Bank, 2018b.
[b] McKinsey Global Institute, 2015.

2016. Saudi Arabia, the Syrian Arab Republic and Yemen continued perform poorly in 2017 with Yemen ranking the lowest both regionally and globally since 2006.

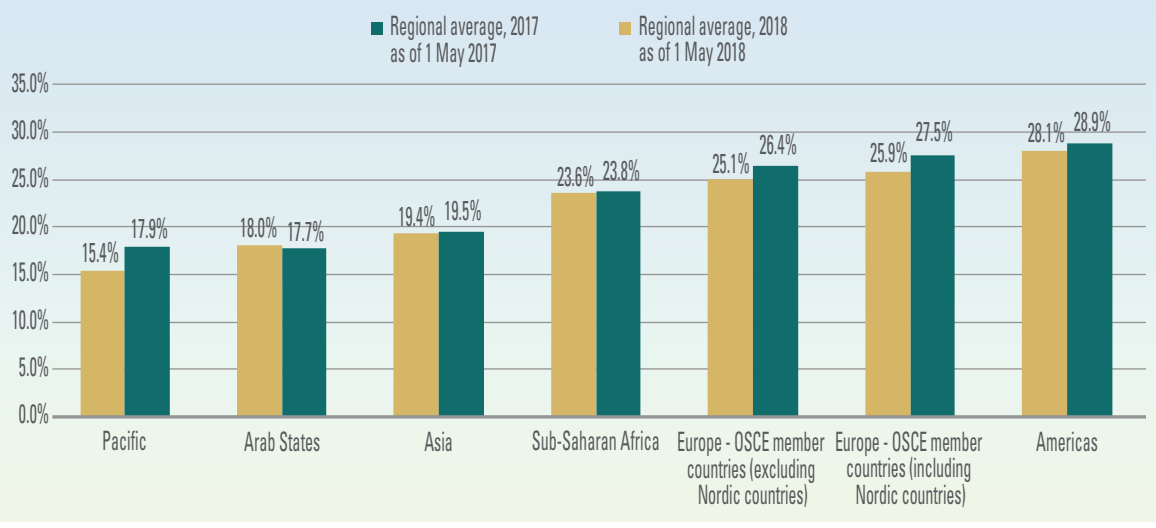
3. Women's political participation

During the first half of 2018, the proportion of women in national parliaments[10] in the Arab region dropped slightly, from 18 per cent in 2017 to 17.7 per cent in 2018 (figure 2.25). Based on information from the Inter-Parliamentary Union (IPU), as of May 2018, women held 18.5 per cent of the seats in the lower or single house and 12.6 per cent of the seats in the upper house or senate.[11] The Arab region ranks second-to-last in the world ranking. Tunisia remains at the top of the chart in the region with 31.34 per cent of women parliamentarians, owing to its strict quota system, followed by the Sudan at 30.5 per cent, Djibouti at 26.2 per cent, Algeria at 25.8 per cent, Iraq at 25.3 per cent and Mauritania at 25.2 per cent. All these countries come in above the world average of 23.8 per cent. On the other hand, Lebanon, Kuwait and Oman have the lowest representation of women with less than 5 per cent in 2018 and Yemen with none (table 2.1). The success story in Tunisia is somewhat less than what it could be as some political parties have taken advantage of loopholes in the quota system to avoid the gender-balance requirements. For example, there is no obligation to reach "horizontal" parity in terms of the proportion of electoral lists headed by women, only "vertical" parity (alternating men and women candidates on the list). Of course, this reduces the number of women elected. Horizontal parity has been introduced in the 2018 municipal elections, however, and will likely be in place in the electoral law for the next general election.

At the end 2017, the share of women in the Qatari Majlis Al-Shura, or Advisory Council, rose from 0 per cent by nearly 10 per cent when, for the first time, four women were appointed to the 41-member Advisory Council following a Royal Decree[12] issued in November 2017. Under their three-year terms, these women are responsible for discussing draft laws, government policy and the State's draft budget. The appointment was one of several policy changes emanating from Qatari leadership in Doha in light of the recent political crisis in the Gulf.[13]

The 2015 elections in the United Arab Emirates of the Majlis Watani Itihadi, or the Federal National Council, used a single-vote system, meaning each voter voted for only one

Figure 2.25 Share of women in national parliaments, regional averages, 2017 and 2018 (*Single and upper house combined*)



Abbreviation: OSCE, Organization for Security and Co-operation in Europe.
Source: Inter-Parliamentary Union (IPU), "Women in national parliaments, world and regional averages". Available at http://www.ipu.org/wmn-e/world.htm (accessed on 26 July 2018).

candidate in his/her emirate, for the first time. Previously, voters could vote for as many as half the number of seats from their respective emirates. Eligible voters outside the country were also allowed to vote for the first time in 2015.[14] Nine out of 40 members were women, of which one was elected and eight were appointed, increasing the percentage of representation of women from 20 per cent in 2011 to 22.5 per cent in 2015.

In Tunisia, a new electoral law adopted in January 2014 required that electoral lists be presented based on gender equality, with women and men alternating on the list. In the 2014 elections, 68 women were elected, up from 57 women in 2011, raising the share of elected women to 31.34 per cent. Municipal elections in May 2018 were remarkable in terms of women's political participation: almost half of municipal candidates were women, the majority of them younger than 35, thanks to a youth quota.[15] Souad Abderrahim became first female mayor of Tunis in history.[16]

In Iraq, the voting system guarantees 25 per cent of seats go to women. Likewise, in the Sudan amendments to the 2008 electoral law increased the percentage of seats reserved for women in the National Assembly from 25 per cent to 30 per cent. Mauritania's electoral law reserves 20 of the 157 seats in the National Assembly for women. Algeria was the only country in the Arab region to renew the membership of its legislature in 2017. A pioneer in the region, Algeria has transformed its political system through electoral reforms, including the introduction of a legislative gender quota in 2012.[17] From 2002 to 2012, the percentage of women increased dramatically from 6.2 per cent to almost 32 per cent. However, in the 2017 elections women suffered a loss with a reduction of seats to 25.76 per cent.

When discussing women's political participation, it is important to touch on women's engagement in political fields other than parliamentary, although obtaining data and information in the region can be difficult. According to an ESCWA report, the presence of women in other political fields in the region has increased over the past years, due in large part to the actions of Governments, and movements

Table 2.1 Women in national parliaments, 2017 and 2018

Country	As of 1 May 2017				As of 1 May 2018			
	Lower or single house				Lower or single house			
	Elections	Seats[a]	Women	% of women	Elections	Seats[a]	Women	% of women
Algeria[b]	10.05.2012	462	146	31.60	04.05.2017	462	119	25.80
Bahrain	22.11.2014	40	3	7.50	22.11.2014	40	3	7.50
Comoros	25.01.2015	33	2	6.10	25.01.2015	33	2	6.10
Djibouti[b]	22.02.2013	65	7	10.80	23.02.2018	65	17	26.20
Egypt	17.10.2015	596	89	14.90	17.10.2015	596	89	14.90
Iraq[b]	30.04.2014	328	83	25.30	30.04.2014	328	83	25.30
Jordan[b]	20.09.2016	130	20	15.40	20.09.2016	130	20	15.40
Kuwait	26.11.2016	65	2	3.10	26.11.2016	65	2	3.10
Lebanon	07.06.2009	128	4	3.10	07.06.2009	128	4	3.10
Libya	25.06.2014	188	30	16.00	25.06.2014	188	30	16.00
Mauritania	23.11.2013	147	37	25.20	23.11.2013	147	37	25.20
Morocco[b]	07.10.2016	395	81	20.50	07.10.2016	395	81	20.50
Oman	25.10.2015	85	1	1.20	25.10.2015	85	1	1.20
State of Palestine[c]	-	-	-	-	-	-	-	-
Qatar	01.07.2013	35	0	0.00	01.07.2013	41	4	9.80
Saudi Arabia	02.12.2016	151	30	19.90	02.12.2016	151	30	19.90
Sudan[b]	13.04.2015	426	130	30.50	13.04.2015	426	130	30.50
Syrian Arab Republic	13.04.2016	250	33	13.20	13.04.2016	250	33	13.20
Tunisia[b]	26.10.2014	217	68	31.30	26.10.2014	217	68	31.30
United Arab Emirates	24.09.2011	40	8	20.00	03.10.2015	40	9	22.50
Yemen	27.04.2003	275	0	0.00	27.04.2003	275	0	0.00

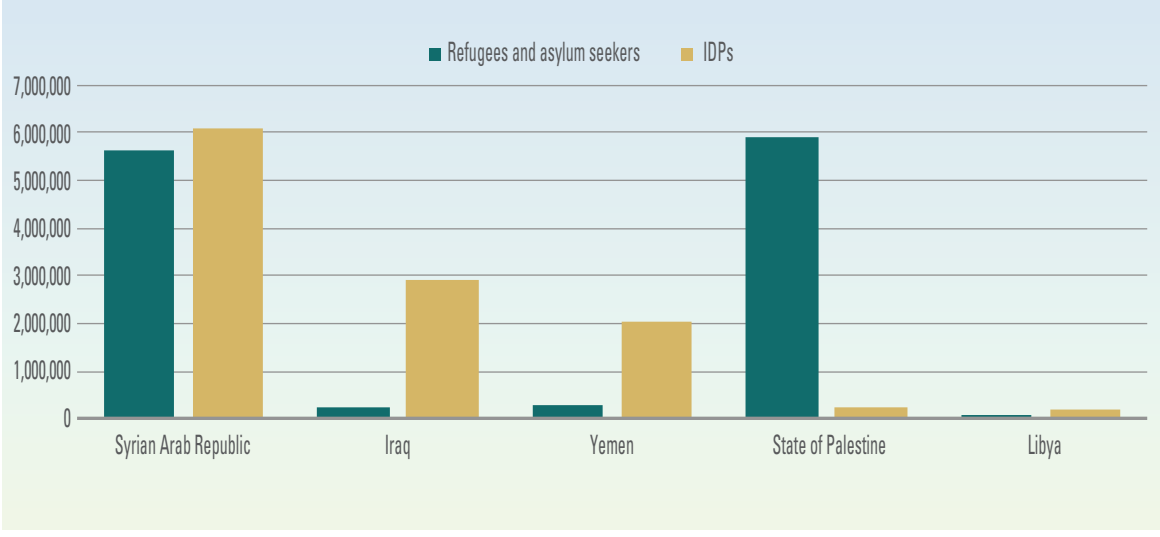
Source: IPU, "Women in national parliaments". Available at http://www.ipu.org/wmn-e/world.htm (accessed on 15 June 2018).
[a] Figures correspond to the number of seats currently filled in the parliament.
[b] Quota system in place to reserve a number of seats for women in the parliament.
[c] Data are unavailable or not separately reported.

and calls from civil society and international organizations. Nevertheless, women are still underrepresented in the government, many of which include none or only one or two female ministers. As for the judicial roles, "women remain underrepresented in judicial systems in the Arab region"[18] according to ESCWA policy brief on women in judiciary. ESCWA recommends a number of policy actions to be taken collaboratively by Arab States, international organizations and civil society organizations to overcome the persistent barriers to women's political representation, including sociocultural beliefs and norms of patriarchal society which place gender-biased expectations on women's roles.[19]

4. Refugees and internally displaced persons

Conflict and displacement constitute a key obstacle to development. While both refugees and internally displaced persons

Figure 2.26 Refugees and internally displaced persons in the Arab region, most recent data



Notes: IDPs correspond to the total internally displaced persons within each country until the end of 2017; refugees and asylum seekers correspond to the total refugees departing from each country until the end of 2017.
Sources: Syrian Arab Republic: for refugees, UNHCR, Operational portal, "Syria regional refugee response", available at https://data2.unhcr.org/en/situations/syria/location/113 (accessed on 1 September 2018); for IDPs: Office for the Coordination of Humanitarian Affairs, *2018 Humanitarian Needs Overview: Syrian Arab Republic* (November 2017), available at https://hno-syria.org/#key-figures.
State of Palestine: for refugees: Palestinian Central Bureau of Statistics, "On the occasion of the International Day of Refugees (20/06/2017)", available at http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=1957; for IDPs, Internal Displacement Monitoring Centre (IDMC) and Norwegian Refugee Council (NRC), *Global Report on Internal Displacement 2018* (Geneva, 2018).
Iraq: for refugees and IDPs: UNHCR, Flash update: Iraq 31 May 2018, available at https://reliefweb.int/sites/reliefweb.int/files/resources/UNHCR%20Iraq%20Flash%20Update%20-%2031MAY18.pdf.
Yemen: for refugees and IDPs: UNHCR, Yemen update 13-26 October 2018, available at https://reliefweb.int/sites/reliefweb.int/files/resources/External%20Update%20Yemen%202018-10-26%20FINAL.PDF.
Libya: UNHCR, Flash update: Libya 14-21 September, available at https://reliefweb.int/sites/reliefweb.int/files/resources/UNHCR%20Libya%20Flash%20Update%2019%20September%202018%20FINAL.PDF.

(IDPs) are people who are forced to flee their homes, refugees cross an international border and IDPs are forcibly displaced inside their own country.[20] The numbers of both are extensive and increasing worldwide as well as in the Arab region specifically. The vast majority have been uprooted primarily due to conflict and violence. By the end of 2017, there were 25 million refugees and 43 million forcibly displaced million people in the world, a new record, according to the United Nations High Commissioner for Refugees (UNHCR). New internal displacements in the Arab region accounted for 38 per cent of the worldwide trend.

Forced displacement from one's home has a huge psychological, economic, social and environmental impact on the affected countries, host countries and the displaced people themselves. Large-scale displacements continued to occur internally and externally in 2017 due to the ongoing armed conflicts in the Arab region with almost 4.5 million new internal displacements concentrated in Iraq, the Syrian Arab Republic and Yemen. The situations in these three countries worsened in 2017, triggering the United Nations Emergency Relief Coordinator to declare a "Level 3" emergency, where the county's capacity of operation is incapable to respond to the crisis and the highest level of mobilization is required across the system.

Around half of the regions' displaced people are female. Displaced women and girls experience a loss of gender equity gains[21] and encounter specific difficulties. They are vulnerable to multiple forms of exploitation, sexual and gender-based violence, trafficking

and other basic human rights violations such as the right to health services, shelter, nationality and others. The abuse of displaced young women and girls has also led to increased involuntary child marriages, which in turn generates additional health risks, escalates rates of domestic violence and affects education attainment status as well as having a severe mental and psychological impact on the girls affected. Host countries need to be aware of the specific risks and needs of women and design adequate safety nets and facilities in collaboration with the local and international humanitarian agencies in responding to crises.

The crisis in the Syrian Arab Republic remains the largest in the world with 6.1 million internally displaced Syrians[22] and 5.6 million refugees who have fled to neighbouring countries, such as Egypt, Iraq, Jordan, Lebanon and Turkey.[23] The majority – or 56 per cent – of Syrian refugees are men and approximately 44 per cent are women. Among Syrian IDPs, 51 per cent are women and 49 per cent are men. A 2017 paper by Al Ibraheem and others studied the physical and mental health issues of refugees and IDPs from the Syrian war as well as problems such as discrimination, school disruptions and loss of businesses.[24] On average, 25 per cent of refugee and IDP groups experienced post-traumatic stress disorder. A startling fact is that depression seems to be higher among refugees than IDPs still living in the country.

Looking at displacement issues from an economic standpoint, the Syrian crisis and consequent influx of refugees has actually had both negative and positive impacts on host countries' economies. While in Jordan, Syrians usually take low-paying informal jobs that are not highly attractive to nationals, so they have had little impact on the labour market, in Lebanon, host communities are in competition over the same job opportunities and the number of Syrian workers has caused increased job competition and pushed wages down. According to a 2016 International Rescue Committee report, 88 per cent of Syrians in Lebanon earn 40 per cent less than the minimum wage. In host countries such as Lebanon, that restrict access to jobs in the formal sector, many Syrian refugees can work only in informal markets such as the agriculture and construction. They are denied protections under domestic labour law, employment contracts and social security. The labour market has been negatively affected in other ways: child labour has increased in Lebanon and other host countries, and Syrian refugee children have been subject to labour exploitation and abuse.

The more obvious damage to the economy has been at a broader macroeconomic level: trade throughout the area has suffered since the major trade routes through the Syrian Arab Republic have been closed due to the war. This has led to the adoption of costlier alternative routes and an increase in export prices. For example, exports from Jordan and Turkey to the Syrian Arab Republic decreased and the tourism sector declined in both countries. More generally, consumer and investor confidence have diminished due to the regional insecurity and uncertainty.

On the flip side, the International Rescue Committee report affirms developing research indicating a positive effect on job creation thanks to the increased demand of labour and shows that the influx of refugees has actually helped by infusing labour and purchasing power.[25] The Turkish host community benefited from the demand for -quality formal jobs created by humanitarian agencies that were filled by Turkish workers. The economies of host countries have also benefited by the increase of investment by Syrian businesses, that have directed these assets to neighbouring countries. For example, in Jordan direct investment from Syrian investors boosted in industrial activity. Likewise, in Turkey, one quarter of newly registered businesses in 2014 were owned or invested in by Syrians. Refugees are also consumers who increase

demand on local products such as food, services and rents. Humanitarian aid flows are also a source of indirect contribution to host country economies.

The Palestinian refugee crisis is by far the most extensive and long-lasting displacement crisis, spanning 57 years so far. Since the 1948 conflict, millions of Palestinians have lost their homes[26] and have been living as refugees in the occupied Palestinian territories such as West Bank, East Jerusalem and the Gaza Strip. There are about 1.3 million of Palestinians IDPs in Gaza and over 800,000 Palestinians in the West Bank registered with UNRWA.[27] Others have settled in neighbouring countries, most typically Lebanon, Jordan and the Syrian Arab Republic.[28] According to the Palestinian Bureau of Statistics, there were around 5.9 million Palestinian refugees registered by UNRWA in 2016.[29] Jordan hosts the largest population of 2 million registered Palestinian refugees who enjoy full citizenship rights. Around 450,000 Palestinian refugees are registered in Lebanon despite their lack of many basic rights in the host country, such as the right to employment. In the Syrian Arab Republic, there are around 526,000 registered Palestinian refugees with citizenship rights. Based on 2011 data,[30] there is a nearly equal distribution of Palestinian refugees by gender: males account for 51 per cent of total refugees and females account for 49 per cent.[31] In August 2018, The United States administration announced it would terminate its contributions to UNRWA which accounted for about one third of the agency's $1.1 billion 2017 budget.[32] This loss will impact the continuation of the vital services in its many locations in the Middle East, and more specifically it will affect the humanitarian and economic situation of Palestinian refugees who benefit from the agency's support provided in the form of food and health and education services in Gaza and the West Bank, as well as in Jordan, Lebanon and the Syrian Arab Republic.[33]

Iraq has the second largest refugee population in the Arab region after the Syrian Arab Republic. According to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) among the almost 6 million people displaced since the rise of the Islamic State[34] in 2014, just over 2 million remained displaced as of mid-2018.[35] While the Government of Iraq and Kurdistan Regional Government are making huge efforts to incentivize and facilitate returns, many vulnerable families still require assistance even if they make it back home. A report by the World Bank conducted in 2015,[36] noted that the influx of Syrian refugees and Iraqi IDPs has put significant pressures on the Government, as well as on health, education, and social protection programmes. Poverty has increased, and the standards of living have worsened. The report affirms that Government expenditures have been dominated by the cost of food assistance to refugees and IDPs. Additionally, the stress on infrastructure such as water supply, solid waste management, electricity and transport has increased due to the displacement crisis. Most IDPs in Iraq fled immediately before the arrival of the Islamic State in key cities. For example, around 500,000 Iraqis left Mosul the week before the Islamic States' conquest of the city. Then in December 2017, after the announcement of the liberation of the country's territory from the Islamic State, the number of returnees to Mosul reached 1.8 million,[37] exceeding the number of displaced people. In January 2018, 52 per cent of the internally displaced Iraqis were men and 48 per cent were women.[38]

The humanitarian situation in Yemen continued to deteriorate in 2017, particularly following the escalation of airstrikes and armed clashes. The outbreak of cholera exacerbated Yemen's humanitarian crisis and the country teetered on the verge of famine, which increased insecurity and provoked new internal displacements. Most of the displacement was internal within Yemen, which now has a population of approximately 2 million IDPs.[39] Despite the precarious conditions, Yemen also hosted 280,000 refugees and asylum seekers, mainly

Box 2.4 Social and solidarity economy as a tool for social justice

What is social and solidarity economy?

Mainstreaming the ideals of human rights, participation and the right to fair and sustainable growth is considered vital in a world where social justice must be a central factor of development. An economy which ensures these principles in a development context and takes the welfare of underprivileged people into account is called a social and solidarity economy (SSE). Due to the failure of traditional aid-for-growth development models in preventing economic and social crises, the concept of an SSE came to grow in popularity as a creative alternative.

Fundamentally, an SSE is of and for the people. The main goal of economic activity is to serve the needs of people and to channel advancement in development towards social ends rather than the maximization of profits.[a] Institutions that fall under the SSE umbrella comprise cooperatives, fair trade organizations, social enterprises and mutual societies.[b] Their activities mainly include the provision of various types of socioeconomic services by enabling access to financial, technological and information resources. Deeply-rooted socioeconomic issues are tackled effectively. Such issues might include poverty, vulnerable employment, income inequality and power asymmetry within labour and products.[c]

Cooperatives in the Arab region

In the Arab region, there are about 30,000 formal cooperatives (Taawaniya), the majority of them (59 per cent) are agricultural in nature.[d] Most agricultural cooperatives in Iraq receive no government support in the form of agricultural inputs. Sometimes, however, the Government of the United States, through its different funds and aid agencies contributes to Iraqi cooperatives either financially or by exchanging expertise and know-how. Elsewhere, for example in Lebanon, State support for cooperatives is highly influenced by politics, which detracts from the reputation of a cooperative as a cornerstone for social economy. An interesting trend has been the emergence of women's cooperatives in the rural areas of Lebanon. Although they face gender biases, they consistently engage in campaigns advocating for women's rights in economic, social, and political fields.[e]

Social entrepreneurship in the Arab region

A social and solidarity economy, as mentioned above, includes various institutions; one of which is social entrepreneurship. One can define the latter concept as a combination of business ventures having socially motivated goals as a primal focus in their mission. Subsequently, agents who work in social entrepreneurship focus on finding creative and innovative solutions to bring about social change within the society that they serve. Effectively, an SSE organization is concerned with the SDGs and creating impact, rather than products and services for profit. Such organizations actively engage in innovation, adaptation, and learning activities.[f] Particularly, a social entrepreneur could address the issues of marginalization in society, equitable access to resources, and the lack of economic/financial means in achieving growth.

Social entrepreneurs work in different contexts with a variety of people stemming from all sectors. Such diversity requires flexibility and the ability to adapt approaches and solutions, thus making innovation an essential element in successful social entrepreneurship. Innovation is understood as new ways of achieving a result and/or performing work and is linked to all three pillars of sustainable development. It can be completely new, a change in a current system, or something that already exists elsewhere implemented for the first time.[g] Innovation in the context

→

of social entrepreneurship is only successful if it contributes to the well-being of a country or society and bringing about greater development. Therefore, the involvement of the community is essential as this will ensure the development of innovations that speak to the needs of people and in which they have a vested interest to see them succeed. Social entrepreneurship can therefore make use of a variety of bottom-up approaches to innovation that involves authorities, civil society and the community, helping to reduce inequality and increase well-being.[h]

Issues such as high youth unemployment levels, overpopulation, environmental challenges in the Arab region create a pressing need for social entrepreneurships which can create opportunities and new jobs for underprivileged youth. In 2010, 73 internationally recognized social entrepreneurs in the Arab region were from Egypt, Jordan, Lebanon, Morocco and the State of Palestine.[i] Most of them focus on issues like education, skill development, health, community development, income generation, civic engagement and socioeconomic development.[j] In Jordan, for example, the social enterprise "Injaz" was founded in 1999 as a public-civic partnership with private sector volunteers and the Ministry of Education to provide Jordanian children with life skills such as teamwork, entrepreneurial thinking, and work-readiness training.[k]

SSE organizations could help prepare the younger generations for social and economic challenges. With innovative training and skill development, Arab youth would be equipped with appropriate skills that would otherwise be inaccessible in a traditional schooling environment.

Sources: [a] Steyn, 2012, p. 5.
[b] Kawano, 2013.
[c] United Nations Inter-Agency Task Force on Social and Solidarity Economy, 2014.
[d] Polat, 2010.
[e] Ibid.
[f] Dees, 2001.
[g] E/ESCWA/TDD/2017/Technical Paper.6.
[h] E/ESCWA/TDD/2017/Technical Paper.5.
[i] Abdou and others, 2010, p. 2.
[j] Ibid., p. 15.
[k] Ibid., p. 16.

from the Horn of Africa, including 100,000 people who arrived in 2017.[40] According to a report conducted by the Stockholm International Peace Research Institute, ground fighting and insecurity inhibited the movement of commodities.[41] This hindered the availability of food supplies and contributed the developing food security emergency for food import-dependent Yemen.

Yemen's national oil production stopped in March 2015. In the run up to the current crisis, fuel was in short supply and a spike in prices hindered agricultural production and increased the cost of both food transportation and water pumping. In turn, food prices sharply increased, at times 25 per cent to 50 per cent higher than the pre-crisis period. Malnutrition was a concern, particularly among IDPs, who are understandably more food insecure. Households headed by women were more fragile in terms of food security than households headed by men. This trend is particularly concerning in Yemen, where women and children make up almost 76 per cent of total IDPs.[42]

The persistent security and political challenges in Libya has had an impact on the number of IDPs, estimated by UNHCR to have risen to 192,513 as of 2018. There were also nearly 55,000 refugees and asylum seekers in Libya registered by UNHCR as of September 2018.[43] Living conditions in Libya are difficult and access to essential services such as health and education has become restricted. The security situation has allowed violations of human rights to occur and human

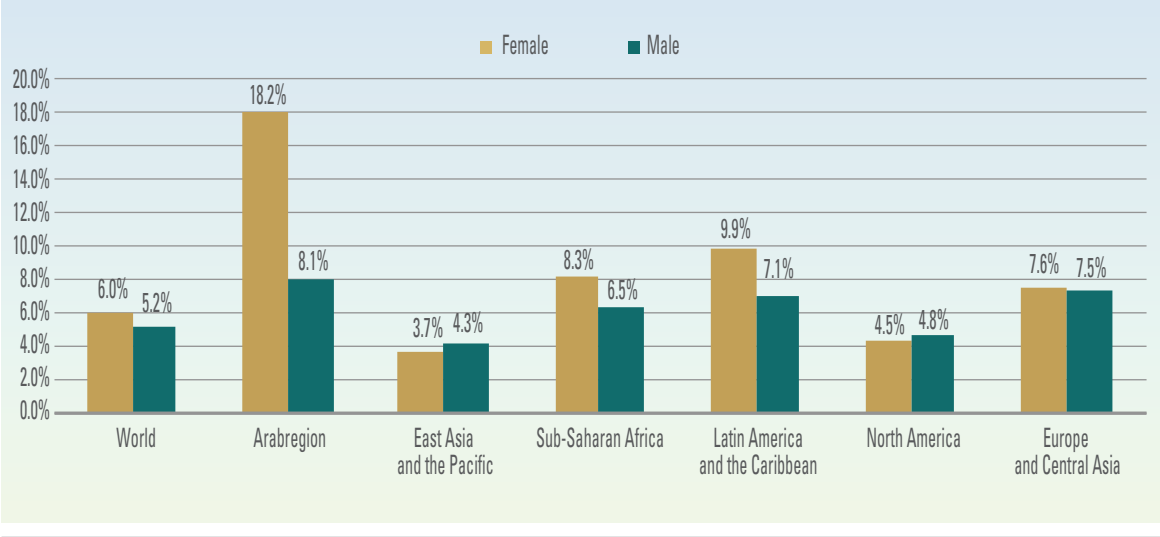
trafficking is widespread. According to the IMF, the successive civil wars and resulting displacement has had a huge economic impact in Libya:[44] GDP fell by 24 per cent in 2014 and inflation peaked at more than 15 per cent in 2011. Due to damage to pipelines and other oil infrastructure, oil production has dropped. Subsequently, the external current account registered a deficit of 44 per cent of GDP in 2015. Fiscal balances deteriorated considerably after the onset of major violence compared to before the 2011 crisis. To help maintain stability, the central bank of Libya became the fiscal agent responsible for managing government finances during the crisis and has negotiated with oil companies with regard to export contracts for oil and other commodities.

5. Labour market

Labour market dynamics in the Arab region remain challenging. The region has the worst overall labour force participation and unemployment rates in the world. The labour force participation rate for females in 2017 was 21 per cent[45] compared to the world average of 48.6 per cent.[46] The male rate of labour force participation in the region was 74 per cent (figure 2.28).[47] The unemployment situation, especially for youth, is an added obstacle for inclusive growth in the Arab region. The region has the highest unemployment rate for youth, with 27.3 per cent of young people unemployed in 2017 compared to the world average of 13.6 per cent, according to the ILO.[48] Female unemployment is 18.2 per cent compared to male unemployment of 8.1 per cent (figure 2.27). Given the challenges affecting growth performance in the region, such as fiscal consolidation, reduced oil production and regional conflicts, solving unemployment and overall socioeconomic hardships is all the more pressing.

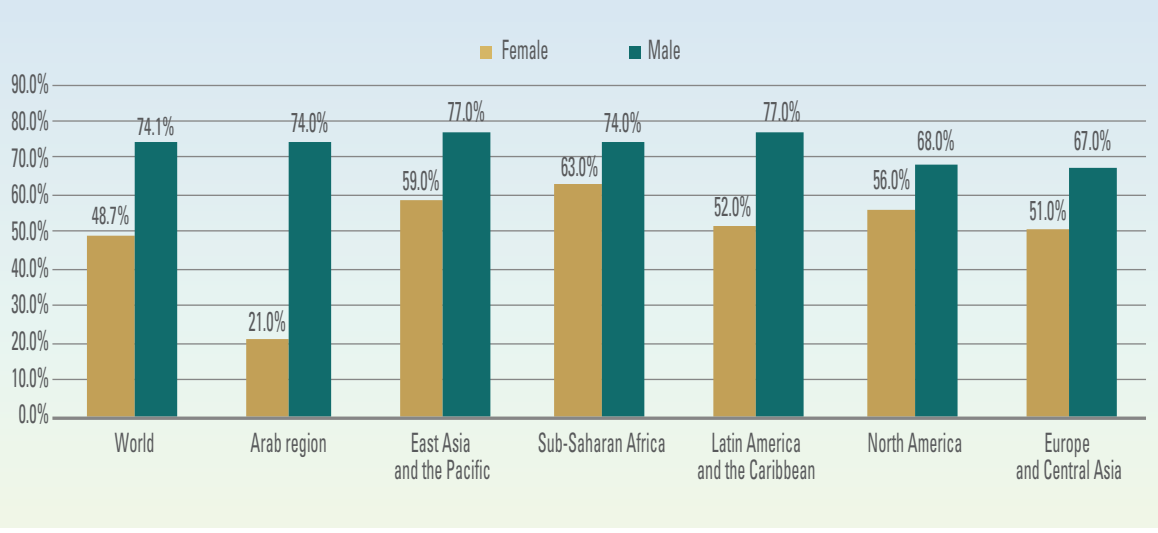
Work in the informal economy represents a large proportion of employment in many countries of the region. A significant portion of private sector employment is concentrated in agriculture and the lower end of service sectors in countries that are either in conflict or recovering from conflict. The informal economy is characterized by low and insecure wages and incomes, and serious deficits in the conditions of work and in access to social protection.

Figure 2.27 Female and male unemployment rates, regional averages, 2017



Source: World Bank, World Development Indicators database. Available at https://data.worldbank.org/indicator/SL.UEM.TOTL.FE.ZS?view=chart; https://data.worldbank.org/indicator/SL.UEM.TOTL.MA.ZS?view=chart (accessed on 15 May 2018).

Figure 2.28 Female and male labour force participation rates, regional averages, 2017



Source: World Bank, World Development Indicators database. Available at https://data.worldbank.org/indicator/SL.TLF.CACT.MA.ZS; https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS. (accessed on 15 May 2018).

Despite the high rates of female education in the Arab region, which normally would yield higher levels of employment, Arab women face specific challenges that impede their ability to compete with their male counterparts based on competency and skills. Factors such as limited mobility in specific areas and prevailing social and cultural norms continue to hamper women's participation in paid employment.[49] In the region, women are defined within specific gender roles as caretakers, daughters, wives and mothers, even when working outside the home, compared to men who are considered as providers and protectors of the family. This gender identity impedes women's full potential and ability to fully participate in their community and economic life. This fact also imposes restrictions on women's availability for work and pushes them into informal employment that offers more flexible hours. In fact, unpaid employment appears to be the main occupation for women in the Arab region, where the vast majority of women are removed from the labour market and spend their time as housewives, child care-givers and household workers.

Due to the 2014 slump in oil prices in GCC countries, growth slowed and the monetary policy tightened. Since then, most GCC countries have strengthened labour nationalization policies in an attempt to roll back the resulting deficit.[50] These efforts should have a positive impact on national unemployment while at the same time, discouraging the region's immigrant job seekers, particularly from the Mashreq and Maghreb countries. For example, in Saudi Arabia, the expansion of the "Saudization" policy in the private sector aims to increase employment rates for Saudi nationals, especially for women. In the last quarter of 2017, the share of non-nationals employed in Saudi Arabia reached 78 per cent compared to 22 per cent for nationals.[51] The Saudization plan also takes into consideration factors such as salary averages, the percentage of female employees, employment time and other factors. The policy has also imposed increased taxes on companies employing foreign workers and on the families of foreign workers.

Examining the labour market situation in more details, labour force participation and unemployment were updated in the 2017-2018 survey for eight Arab countries: Algeria, Egypt, Jordan, Morocco, the State of

Palestine, Qatar, Saudi Arabia, and Tunisia. Unfortunately, there is a lack of sufficient national data for other countries in the region, and the reporting infrastructure for monitoring and evaluation of the labour market is not disaggregated by gender.

In Jordan, there was a slight increase in the participation rate for both men and women from 2016 to 2017. This increase, however, was matched by a surge in unemployment rates for both sexes, but especially women, whose unemployment rate was higher than that of men (27.5 per cent for women compared to 16.1 per cent for men) (figure 2.29).[52] While 56 per cent[53] of Jordanian women are university graduates, the country has not shown a significant progress in five years despite the efforts made by the Jordanian Government to enhance women's participation and to create a more flexible and gender-sensitive workforce. One of the main challenges adhering the progress for women to join the workforce and remaining unsolved is the gender pay gap in all professions, reaching more than 40 per cent in manufacturing, 27.9 per cent in health and social work, and 24.5 per cent in education.[54] Other influencing factors include the high involvement of women in Jordan in the informal economy, the regional political instability that leads to the upsurge of refugees' number in Jordan, and the job market mismatch between jobs available and skills of job seekers. The burden of home and family care, socio-cultural norms, and expectations regarding women's and men's economic participation, in addition to the weakness of transportation represent major factors that contribute to the extremely low female labour force participation. In Jordan, and similar to GCC countries, women are considered to be the sole providers of family care and household chores, while men are responsible for working and providing the needs of their families.

Morocco has had a stable economic participation rate of about 72 per cent over the past five years with unemployment rate remaining around 9 per cent. Progress was also stable for women until 2017 when unemployment rate had a noticeable spike compared to the previous years and reached almost 15 per cent. This was accompanied with a slight decrease in women's labour participation rate which reached 21 per cent.[55] Unemployment rates tend to be higher for both young men and women in urban areas (35 per cent for men and 50 per cent for women)[56] than in rural areas. Rural jobs in Morocco, which are primarily in agriculture, suffer from lower salaries, poorer social protection and a lack of decent conditions in comparison to urban areas.

In Egypt, where unemployment had been on an upward trend since 2010,[57] there was a small but positive improvement in 2017 in the labour participation which increased to 72.6 per cent for men and to 21.6 per cent for women. Employment that lacks affordable childcare facilities, flexible working arrangements, and supportive labour market policies presents a high opportunity cost for active married women with children.[58]

Most noticeable in the labour market dynamics in Saudi Arabia is the wide and increasing gap between men and women in both unemployment and labour force participation rates. Recent efforts have been made to change the roles and socioeconomic positions of women through the implementation of new employment laws and programmes to encourage women's participation in the labour market. The new law allows women to work side by side with men as long as the entity is equipped with specific facilities: a security system, and separate toilets, lunch spaces and prayer areas. The policy developments in 2017 regarding women's right to drive illustrates the Kingdom's commitment to make steps towards improving gender equality. However, societal constraints and cultural conservatism have not caught up with the Government's objectives for an inclusive approach that benefits the overall economic progress. Despite the 130 per cent

increase in the number of Saudi women working in the private sector between 2012 and 2016,[59] the public sector remains the biggest female employer due to its well-paid jobs and flexible conditions.

Despite a period of recovery after the recession in Gaza caused by the 2014 Gaza-Israel conflict, the State of Palestine's unemployment rate remained stubbornly high at 29 per cent – highest in the Arab region in 2017 and one of the highest unemployment rates in the world. Unemployment reached a 15-year high in 2017, when 44 per cent of the population of the Gaza Strip were jobless, more than twice the 21 per cent unemployment rate in the West Bank, according to the Palestinian Central Bureau of Statistics (PCBS).[60] The female unemployment rate in the State of Palestine was twice as high as the male unemployment rate, at 50 per cent and 23.7 per cent, respectively. Economic activity has been stifled from the Israeli blockade and the continuous conflicts. While employment figures have deteriorated, participation in the labour force increased from 2010 to 2016, with female and male labour participation rates reaching 19.3 per cent and 71.6 per cent in 2016, respectively. Since then, female labour force participation has decreased to 18.5 per cent, while the male participation rate remained stable. The low female participation rate has been attributed to the Israeli settlements in the West Bank and the Israeli restriction on movements, both of which create disincentives for women to face commuting and safety challenges and work outside their local communities. Women's opportunities tend to be restricted to low-paying agriculture and services jobs which accounts for the significant 29 per cent wage gap between females and males and adds to the factors that negatively impact female labour participation.[61] In May 2018, violence escalated in the State of Palestine following a declaration from United States President Donald Trump officially recognizing Jerusalem as the capital of Israel and moving the United States embassy there.[62] Economically, this translates to higher rates of unemployment and poverty among Palestinians in Jerusalem, where the population already suffers from tightened security conditions and mobility restrictions, as well as increased displacement from Jerusalem.

Algeria's female labour force participation increased slightly from 16.4 per cent in 2016 to 17.4 per cent in 2017, according to the National Office of Statistics (figure 2.29). However, the female participation in the labour force is still low relative to the male labour participation rate of 66.3 per cent in 2017. The female unemployment rate in Algeria was 20.5 per cent, almost twice the rate of male unemployment which was 10.1 per cent in 2017.[63] While Algerian women have made significant progress in education, opportunities for educated women are still limited in Algeria where most jobs are in agriculture and clothing manufacture. Female labour supply is still restricted to house and family responsibilities. Outside the home, women are mostly employed in the public sector, which has shrunk recently in the Maghreb region. The failure of the private sector to absorb employees from the public sector also contributes to the low female labour force participation.

Following good harvests and strong tourism, the Tunisian economy is regaining its strength since its return to democratic rule. The country has made improvements in the political, economic and social sectors but challenges are ongoing in the labour market, which suffers from weak job creations and consistent high unemployment. According to the Statistique Tunisie, Tunisia's national statistics agency, unemployment in Tunisia reached 15.3 per cent in 2017, exceeding the average unemployment in the Arab States by 5 per cent, according to ILO estimates.

Tunisia has been a pioneer in human rights and gender equality in the region.

National efforts have addressed equality in educational attainment, political and cultural representation, and economic participation. In 2014, the Tunisian constitution put an end to discrimination between women and men through the adoption of article 21. Tunisia closed a large gap in the Global Gender Gap Index and ranked first among Arab countries. Women graduates significantly outnumbered their male counterparts in 2010, comprising 63 per cent of all graduates.[64] In 2017, female labour force participation rates for women registered 20.5 per cent compared to around 60 per cent for men. Female unemployment rate registered 22.8 per cent almost as twice as male unemployment, which was 12.3 per cent in 2017 (Statistique Tunisie). The decrease in female labour force participation rate since 2014, coupled with the rapid increase in women's educational attainment, can be attributed to the weak job opportunities available for educated women, as opposed to supply side factors. In addition, a slowdown in the public sector, which employed a large concentration of working women, combined with the failure of the private sector to absorb women into its ranks has worsened the low female labour force participation rate.

Qatar has the lowest unemployment rate in the Arab region at 0.3 per cent for males and 0.75 per cent for females.[65] In part because of the high number of expatriate workers in the country, the Ministry of Interior and the Ministry of Administrative Development, Labor and Social Affairs (MADLSA) implemented policies to protect Qatari nationals and ensure their participation in the private sector. Qatar has high percentage of migrants, who constituted 75 per cent[66] of the country's population in 2015. A localization policy known as "Qatarization" aims at increasing the number of national workers in the country, with a target of 50 per cent, particularly in the energy and industry sectors, and 90 per cent in the public sector by 2026.[67] Thus far, Qatarization policy has had better success in the public sector than the private sector where the country plans to have 9 out of 10 employees be Qatari nationals by 2026.

The female labour force participation rate in Qatar was 36.4 per cent in 2017 compared to the male labour force participation rate of 67.3 per cent.[68] Qatari women have one of the highest literacy rates in the region as 98.3 per cent and 54 per cent of Qatari women are enrolled in higher education compared to only 28 per cent of men, according to the United Nations Children's Fund(UNICEF) estimates.[69] Despite these figures, Qatari women have a negligible presence in the private sector, unlike non-national females. Higher rates of Qatari women are employed in the public sector which offers better compensation and flexible working. The initiation of the Qatar Businesswomen Forum by the Government was a positive step to encourage national women's participation in the private sector by widening their opportunities. Overcoming social boundaries would be the most effective change allowing them to take more part in the private sector.

The Syrian Arab Republic, where the ongoing conflict since 2011 has deteriorated the labour market, degraded the economic conditions and led to massive emigration, reported a relatively high unemployment rate of 15.2 per cent in 2017.[70] This was largely due to the female unemployment rate which, at 41.3 per cent, is the highest in the Arab region.[71] Women's labour force participation rate was 12 per cent in 2017 according to ILO statistics.[72]

In 2017, Lebanon's labour force participation rate was 23 per cent[73] for women and 71 per cent for men.[74] Female unemployment was 7.5 per cent[75] compared to male unemployment of 5.9 per cent.[76] Youth, who have an unemployment rate of 16.5 per cent, bear the burden of the unemployment crisis in Lebanon. According to the Ministry of Labour in Lebanon, the 30,000-35,000 young Lebanese who graduate from universities every year

Figure 2.29 Unemployment and labour force participation rates in selected Arab countries

Sources: ESCWA staff calculations based on data from national statistical offices (see appendix H).
Note: data for Qatar and Saudi Arabia are for nationals only.

are competing for just 5,000 job opportunities. Many Lebanese are employed in GCC countries. However, the decrease of oil prices and the increased entry and security regulations in the Gulf region, have reduced employment opportunities in the traditional market (the Gulf, Africa and the West) and made unemployment in Lebanon more precarious.[77] Furthermore, in the informal market, the numerous Syrian refugees in Lebanon who are willing to work for lower wages, in addition to the fluctuating political conflicts, have contributed to low labour force participation.

Iraq's labour force participation rate for females was 19 per cent[78] while for males it was 74 per cent[79] in 2017. In terms of unemployment, 13.3 per cent of women[80] were unemployed compared to 6.9 per cent of men[81], largely due to the ongoing conflicts in the country in 2017. After a remarkable boom in employment starting in 2003 until 2011, Iraq's overall unemployment rate has been stagnant around 8 per cent since 2011.[82] According to the World Bank, Iraq was among the five counties worldwide with three or more legal reforms to improve employment conditions. In the past two years, Iraq's reforms have covered areas such as accessing institutions, finding a job, motivating people to work, and ensuring protection for women against violence. For example, the Government of Iraq increased the period of maternity leave from 72 days to 98 days.[83] However, since 2011, female labour participation and unemployment rates continued to fluctuate around 18 per cent and 13 per cent respectively, recording no significant improvements.[84]

At just 38 per cent, Yemen had the lowest labour participation rate in the Arab region[85] and an extremely high unemployment rate of 13.8 per cent,[86] according to ILO 2017 statistics. It also registered an exceedingly low level of education and an illiteracy rate above 30 per cent among adults.[87] Instability, political corruption and the ongoing conflict in the country, are believed to be continuously increasing unemployment, especially with the displacement of Yemeni citizens inside the borders and the arrival of immigrants from Africa. The informal economy in Yemen is large, and conditions of its labour market are precarious. In the period 2000-2007, 91 per cent of the labour force in Yemen was employed in the informal market.[88] Yemen also registered a remarkable gap between female and male labour force participation rates: a participation rate of 7.9 per cent[89] for women was the lowest in the world compared to a rate of 70 per cent[90] for men in 2017. This massive disparity drives the total labour force participation rate down. Yemen also had the lowest Global Gender Gap Index among Arab countries at 0.516 in 2017. Yemen's performance in gender equality appears especially poor in the educational attainment subindex which registered the lowest score of 0.737.[91] Following the escalation of conflict in 2015, around half a million children were forced to leave school, bringing the total number of school dropouts in Yemen to 2 million children.[92] Under the current conditions, the next generation of Yeminis cannot rely on education to improve their lives.

The armed conflict that has been unfolding in Libya since 2011 has challenged the labour market in numerous ways. Continuing widespread political instability and security threats have prevented the recovery of the labour market. The private sector, made up primarily of informal small enterprises, is weak. The informal sector accounts for anywhere from 40 per cent to 60 per cent of employment in Libya.[93] While Libya has a high university enrolment rate, the educational system is not equipping students with the skills the labour market needs. This skills mismatch reduces the competitive advantage of Libyans compared to foreign labourers from Bangladesh, Egypt, Pakistan, the Philippines and the Sudan, who have proven to have higher productivity and lower cost than local labour. As in Yemen, a significant population

increase has played a role in increasing unemployment, increasing labour supply against limited opportunities. Libya registered 17.7 per cent unemployment in 2017, which was a decrease from 19 per cent in 2012, one year after the conflict began. The gap between males and females is quite high, with labour force participation rates for females and males of 25 per cent[94] and 79 per cent,[95] respectively.

Providing fiscal incentives, encouraging entrepreneurship, supporting small- and medium-sized enterprises and developing skills to match the existing labour market requirements are proven useful policies that would support higher employment generation in the region. Governments should also prioritize the establishment of employment policies in the formal sector that support women's needs: flexible hours, equal pay, and childcare services are measures that would break some boundaries that hinder women's economic participation. Increasing job benefits and conditions of work in the private sector and introducing safety nets is recommended to increase employment opportunities and motivate women to engage more in this sector.

D. Concluding remarks

On its path towards an inclusive and sustainable growth trajectory, the Arab region continues to manage uncertainties, although to varying degrees of success depending on the subregion. Geopolitical tensions, exacerbated by ongoing intraregional diplomatic rifts, persist. These factors further amplify enduring challenges in fragile economies, including worsening refugee crises, conflicts and political instability, shaky investor confidence, slackening private sector development and clouded growth prospects. Political instability, such as was seen in the elections in Lebanon, Mauritania and Tunisia, has been intensified by the ongoing impact of regional conflicts, which in turn weighs down the progress of structural reforms and impairs trade, tourism and investment.

Adding an additional layer to these challenges, global interest rates have soared, mainly driven by the United States of America and other advanced economies. This obviously tightens credit conditions and increases fiscal vulnerabilities for the region. Furthermore, dynamic external conditions make country's growth strategy complicated. The moderate recovery in oil prices coupled with a rapid tightening of global financial conditions, complicates the balance between fiscal consolidation, private sector development, diversification and external imbalances.

The American sanctions against Iran's crude oil exports are expected to further intensify supply shortages, keeping oil prices high throughout 2018. Combined with this, in June 2018 Saudi-led oil producing countries agreed to increase oil production by almost 1 million barrels per day. The impact of these radical dynamics will depend on the reaction of foreign buyers such as Europe and Asia. Whether regional economic activities, such as the increase in oil production, are viewed by foreign investors as risks or opportunities, will be a determining factor on the economic growth prospects of the region. Reflecting both upside opportunities and downside risks, growth in the region in 2017 is estimated to have slowed to 1.5 per cent in 2017 from 2.8 per cent the year before but is projected to rebound to 3.3 per cent in 2018.

Notwithstanding the daunting challenges ahead for policymakers in the region, stronger economic prospects in Europe will create more opportunities for Arab countries' economic activities. Moreover, a key trading partner, China, is strengthening its economic fundamentals, such as industrial profit levels and urban employment rates, which should bring some benefit to the region. Against this projected steady upswing in external demand,

redoubling efforts for fiscal consolidation, working toward the full elimination of various energy-related subsidies and other critical reforms for pension and social security systems, will pave the way for boosting productivity and fostering structural transformation across the countries in the region. These reforms will enhance the continued recovery in non-oil activities in support of strengthened domestic demand. Given this, the GDP growth is projected to maintain at a similar rate for 2019.

From the social development aspect, the youthful population in the region is maturing and projected population growth will continue to exert pressure on labour markets. The region will need comprehensive and proactive employment policies. The unemployment rate must be curbed, new jobs created to absorb new entrants into the labour markets and the quality of jobs and overall productivity improved.

Violence against women remains a particularly worrying form of injustice that denies women their right to safety and security: according to the World Health Organization estimates, one third of all women in the region in a relationship have been subjected to violence by their partner.[96] Many new developments related to legislations on gender issues were implemented and there have been notable landmark achievements in the period 2017-2018. Tunisia and Morocco passed a law recognizing domestic violence and abuse as crimes. Jordan and Lebanon also made similar amendments on certain penal codes. In Egypt, women's inheritance rights were reinforced through legislative reforms in legislations.[97]

However important these achievements may be, in the broader regional story Arab States continue to trail behind global averages on most aspects of gender equality. The prevalence of informal economy and unequal division of unpaid work continues to hinder women's full access to labour markets, as women still bear the brunt of family and household tasks and work in the informal market.[98] The region needs more rigorous laws, intensified efforts, greater political will and a willingness to involve all relevant stakeholders, starting with women themselves, to achieve gender equality and empower women.

Overall, most countries are indeed implementing their own ambitious national development strategies. The regional outlook will therefore hinge upon their capacity to implement these agendas and priorities. Arab countries must maximize the transformative potential of the global recovery and far-reaching infrastructure development initiatives, such as the Belt and Road Initiative and the Group of 20 Compact with Africa, while at the same time, minimize conflicting development priorities and uncertainties. To fully thrive, the Arab region must harness the benefits of the digital revolution (box 2.5) that can enable countries to fully utilize their large human potential, educated youth, financial resources and central geographic position to act as a complementary force in transforming their economies and societies.

Box 2.5 Uncovering economic value through digital transformation

Much like the Industrial Revolution of the nineteenth century – when steam power, combustion engines and electricity transformed society – a similar scenario is now in play with the emergence of the digital economy. Defined as the pervasive use of information and communication technologies (ICTs) in social and economic endeavours, the digital economy is redefining the behaviour of people, businesses and Governments and leading to expanded opportunities, economic growth and improved public service delivery. The rise of the digital

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economy has been fuelled by several factors: expanding internet access through both fixed and mobile broadband, the explosion in the use of smartphones and the expansion of big data, powerful data analytics and machine learning.

Although the Arab region continues to endure serious political instabilities and armed conflicts, it has not been absent from this digital revolution. Many of the region's ills, such as slow economic growth, unemployment, underemployment, environmental challenges and population displacement, can be directly or indirectly mitigated through the proper application of digital technology and innovation. Arab countries, with their large human potential, educated youth, financial resources and central geographic position, should utilize the assets offered by the digital economy to transform their economies and societies. That said, along with the many socioeconomic benefits, a digital economy can bring about serious challenges if not correctly managed. These include the potential for rising inequality, dominance by a small number of economic actors and invasions of data privacy and security risks, to name a few. Accordingly, there is a need for a proper policy to augment the positive impact of technology and mitigate the risks.

Although fixed broadband subscription is low in most Arab countries, the growth of the proportion of individuals who effectively use the internet on mobile broadband is both very promising and above average in Arab countries compared to the rest of the world. Arab countries doubled their penetration rate between 2005 and 2012 and then tripled it by 2016. This robust usage of ICTs by individuals has been supported by substantial infrastructure investment in the mobile sector in the Arab region.

In contrast, ICT use by businesses in the Arab region remains weak, although comprehensive data is not readily available. Research conducted by McKinsey in October 2016 confirms that business adoption of digital technologies in the Arab region was still low and a recent survey revealed that just 18 per cent of small and medium-sized enterprises in the United Arab Emirates, 15 per cent in Saudi Arabia and 7 per cent in Egypt had an online presence. The digital economy is crucial to creating 'smart' societies where all actors use ICT tools and services to make informed decisions.[a]

In an age of a digital economy, innovation is an essential component for greater economic growth as it contributes to solutions to socioeconomic development challenges and creates fresh pathways to sustainable development. Innovation can offer new products, services and technological responses by tackling problems from new perspectives, customized to the development needs of the region. However, to ensure the effective contribution of innovation to economic growth, a national innovation ecosystem must be put in place, supported by an innovation policy that nutures innovation for development. Few Arab countries have an overarching innovation policy, but many try to include it in policies on science, technology and innovation as well as research and development. Innovation at any level (national, subregional and community) and in any sector (private or public), can aid better socioeconomic development.[b]

The 2018 United Nations e-Government Survey takes note of the efforts made by Arab countries to adopt ICTs for e-government services and identifes the United Arab Emirates and Bahrain as the top two countries in the region.[c] Digital technologies not only offer opportunities for businesses and households, they also enable citizens to access open government data and public services, strengthen government capabilities and serve as a platform for collective action to solve problems. In recent years, countries have started moving beyond e-government, with its focus on effective and efficient service delivery, towards open government, which focuses on

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enhancing government transparency and accountability. The aim of an open government is to identify, develop and implement innovative solutions to development challenges through greater citizen participation and collaboration in decision-making.[d]

Sources: [a] E/ESCWA/TDD/2017/2.
[b] E/ESCWA/TDD/2017/1.
[c] DESA, 2018.
[d] ESCWA, 2018e.
Note: This box draws on the ESCWA report E/ESCWA/TDD/2017/2.


“No single currency regime is right for all countries or at all times”... the choice of exchange-rate regime is case-by-case analysis rather than a one-size-fits-all recipe

3. Exchange-Rate Regimes Reform in Arab Countries

A. Introduction

The choice of exchange-rate regime is always a controversial topic. As policymakers adopt an exchange-rate regime based on the anticipation of country's vulnerability to real versus nominal shock, the choice between a rigid and flexible regime is a complex decision that hinges on several country-specific characteristics such as the degree of capital mobility, trade share with main partners, the degree of flexibility and sustainability of fiscal policy, and the extent to which wages are sticky.

Existing literature on the choice of exchange-rate regime postulates that the benefits from adopting a fixed exchange rate, such as having an inflation anchor and promoting trade and investment, come at the cost of abandoning sovereignty over its monetary policy. This was seen in Europe in 1992-1993, in Asia in 1996-1997 and in 2016 when Egypt devalued its pound.

On the other hand, a flexible exchange-rate regime, via the depreciation of the currency in times of hardship or in response to shocks, can act as a catalyst for real exchange-rate adjustment. This comes at the cost of inflation via a pass-through effect (an increase of import prices when the exchange rate depreciates), impeding international trade, as uncertainty over nominal exchange rate increases. Additional drawbacks under a flexible regime are that discretionary monetary policy is limited and concerns about fiscal sustainability are heightened.

In the case of a real exchange-rate misalignment, meaning the overvaluation or undervaluation of the currency, the real exchange rate deviates from its long-run equilibrium path. This is a consequence of adopting an inappropriate exchange-rate arrangement and is usually accompanied by a social cost. For example, Lebanon's fixed exchange-rate regime led to an overvaluation of its currency, a high unemployment rate and high cost of capital due to central bank interventions to increase interest rates in order to sustain capital inflow needed to finance the recurrent balance of payment deficits. On the other hand, if the exchange rate was to float, the floating regime would trigger inflation via a pass-through effect and would be coupled with limited ability to conduct monetary policy when foreign currency in circulation is high. The case of Lebanon demonstrates how sensitive the choice of exchange-rate regime can be.[1]

In this chapter, the degree of misalignment of the real exchange rate is measured in select Arab countries, then evidence is presented on the impact of the choice of exchange-rate regime on growth at both the international and regional level.

B. Diagnostic of the recent exchange-rate regimes reforms in Arab countries

There is no concrete evidence for one optimal exchange-rate regime but two opposite visions. In the first, a fixed exchange-rate regime is seen to be more suitable for relatively small and open developing economies. "Small and open" refers to countries where internationally traded goods constitute a high share of the economy, making exchange rate volatility costly. "Developing" indicates financial markets that are not well developed, and perhaps a central bank with lower credibility

than monetary authorities in advanced economies, so a visible anchor for monetary policy such as a fixed exchange rate is needed. That said, most very small and open economies do have firm currency pegs. Examples among oil exporters include Brunei Darussalam, Timor-Leste and Trinidad and Tobago.[2]

Empirical literature has documented evidence that countries which tend to exhibit high exogenous volatility in terms of trade, which certainly characterizes oil exporters, should let the currency float. Under a floating regime, currency will automatically adjust, either appreciate or depreciate, in response to boom or decline in the world oil market. Many economists,[3] have provided evidence that the currencies of commodity-exporting countries under floating exchange-rate regimes fluctuate in tandem with global prices of commodities. A number of studies have also confirmed empirically that in the presence of large terms of trade shocks, economic performance in countries with floating exchange-rates tends to be better than in countries with conventionally fixed exchange rates.[4]

In recent years, the decline in oil and commodity prices, growing fiscal imbalances, and geopolitical tensions have inspired many Arab countries to reflect on what is the most appropriate exchange-rate regime and triggered reforms in how the exchange rate is managed. These reform efforts have focused on managed arrangements that are less stable but allow greater flexibility. For example, in January 2018, Morocco allowed a widened fluctuation around its reference basket-currency (discussed later in this chapter). Some academic experts have also suggested that a fundamental rethinking of exchange-rate policies would be beneficial for oil-exporting countries in the Gulf region.[5]

Empirical literature has not yet come to an agreement on what is the best exchange-rate regime. Frankel (1999) has stressed the fact that "no single currency regime is right for all countries or at all times." In short, the choice of exchange-rate regime is case-by-case analysis rather than a one-size-fits-all recipe.

1. Exchange-rate regime classification

The IMF categorizes exchange-rate arrangements according to the degree to which an exchange rate is determined by the market forces rather than monetary authorities' interventions. Four broad groups are distinguished: hard pegs, soft pegs, floating arrangements and other managed arrangements. Subdivisions within these groups specify the nature of the exchange-rate regime (table 3.1). It should be noted that the IMF categorization captures the outcome of actual exchange-rate policies, which might not coincide with the announced or de jure arrangement.

The economic structure and macroeconomic situation is highly diverse across Arab

Table 3.1 The International Monetary Fund classification of exchange-rate arrangements

Hard peg
Exchange arrangement with no separate legal tender
Currency board arrangement
Soft peg
Conventional pegged arrangement
Stabilized arrangement
Pegged exchange rate within horizontal bands
Crawling peg
Crawl-like arrangement
Floating arrangements
Floating
Free floating
Other managed arrangements

Source: Karl Habermeier and others, "Revised system for the classification of exchange rate arrangements", IMF Working Paper, WP/09/211 (Washington, D.C., International Monetary Fund, 2009).

countries, notably with respect to political stability and dependence on volatile oil revenues. Consequently, countries implement different exchange-rate arrangements (table 3.2). Sixteen Arab countries operate a soft currency peg, one (Djibouti) implements a hard peg, two (Egypt and Somalia) maintain a floating arrangement, and two (Algeria and the Syrian Arab Republic) have other managed arrangements. In the cases of Algeria and the Syrian Arab Republic, the exchange-rate regimes that do not correspond

Table 3.2 Exchange-rate arrangements in Arab countries

Group	Country	Currency board	Conventional peg			Stabilized arrangement	Crawl-like arrangement	Floating	Free floating	Other arrangement
			Dollar	Euro	Composite					
GCC countries	Bahrain		X							
	Kuwait				X					
	Oman		X							
	Qatar		X							
	Saudi Arabia		X							
	United Arab Emirates		X							
Mashreq	Egypt							X		
	Iraq		X							
	Jordan		X							
	Lebanon					X				
	Syrian Arab Republic									X
Maghreb	Algeria									X
	Libya				X					
	Morocco				X					
	Tunisia						X			
Arab LDCs	Comoros			X						
	Djibouti	X								
	Mauritania						X			
	Somalia								X	
	Sudan					X				
	Yemen					X				
Total number		1	7	1	3	3	2	1	1	2

Source: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2016* (Washington, D.C., 2016); IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2017* (Washington, D.C., 2018).

to criteria for any of the other 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 currencies of major trading or financial partners with corresponding weights to reflect the geographic distribution of trade, services, or capital flows.[6] Seven Arab countries(all GCC members except Kuwait, and Iraq and Jordan) 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.[7] 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, imposition of foreign exchange regulations or interventions by other public institutions, to sustain the target rate. However, there is no irrevocable commitment to maintain parity with the 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. Mauritania and Tunisia operate crawl-like arrangements[8] which means the exchange rate remains within a narrow margin of two per cent relative to a statistically identified trend for at least six months. The rate of change is generally greater than in the case of a stabilized arrangement, but the exchange rate is also not floating. Mauritania links its ouguiya to the dollar, while Tunisia anchors the Tunisian dinar to a basket of currencies.

Table 3.3 Rigid vs. supple exchange-rate arrangements

Countries with rigid exchange rates*	Countries with supple exchange rates**	Countries with other managed arrangements
Bahrain	Egypt	Algeria
Comoros	Lebanon	Syrian Arab Republic
Djibouti	Mauritania	
Iraq	Somalia	
Jordan	Sudan	
Kuwait	Tunisia	
Libya	Yemen	
Morocco		
Oman		
Qatar		
Saudi Arabia		
United Arab Emirates		

Source: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2017* (Washington, D.C., 2018).
Notes: * No separate legal tender, currency board or conventional peg; **Stabilized arrangement, pegged exchange rate within horizontal bands, crawling peg, crawl-like arrangement, floating, or free 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 might 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.

In sum, there is a broad range of exchange-rate arrangements in Arab countries: about two thirds of countries have a rigid exchange rate (currency board or conventional peg), while the remaining one third operate more supple regimes by floating their currency or

allowing for at least some flexibility in the exchange rate (table 3.3).

2. Estimation of the equilibrium exchange rate and the misalignment level for each Arab country

There is an established and comprehensive body of literature on the determinants of real equilibrium exchange rates (REER). Two main methodologies to estimate the long-run real exchange rate (RER) stand out: (a) the "fundamental equilibrium exchange rate (FEER) approach", as introduced by Williamson (1994), and (b) the "behavioural equilibrium exchange rate (BEER) approach", as advocated by Edwards (1994).

The FEER approach assumes that fluctuations in the equilibrium value of the exchange rate reflect changes in the underlying economic fundamentals, notably the capital flows and the current account. It is based on the concept that the equilibrium exchange rate must simultaneously meet conditions of internal and external balances. In particular, the FEER approach derives the REER as the exchange rate that would lead to the targeted current account gap if the economy were to operate at its potential output.

On the other hand, the BEER approach explains the behaviour of exchange rates by evaluating changes in relevant economic variables. It does not involve the determination of potential output, but instead relies on statistical relationships between the exchange rate and its determinants such as sectoral productivity differentials, net foreign asset positions and the terms of trade, in order to derive the equilibrium RER. Further, the BEER approach imposes fewer normative assumptions on the relationship between variables than the FEER approach, it also allows for greater flexibility in the analysis. The economic model outlined below follows the research methodology of the BEER approach.

(a) Estimation of the equilibrium exchange rate

Following Edwards (1994), who developed a dynamic model of RER determination for a small open economy, the long-run equilibrium exchange rate is influenced by several financial and trade determinants:

$$ln(RER_{i,t}) = \text{CONST}_i + b1*ln(INV_{i,t}) + b2*ln(GOV_{i,t}) + b3*ln(OPEN_{i,t}) + b4*ln(TOT_{i,t}) + e_{i,t} \quad (1)$$

Where variables in equation (1) are defined as follows: *RER* is the real exchange rate calculated that is the ratio of the international price level to the domestic price level multiplied by the nominal exchange rate. *INV* stands for investment, measured by the ratio of gross fixed capital formation to GDP. *GOV* represents final government consumption as a percentage of GDP. *OPEN* is a measure of economic openness and is calculated as the ratio of exports plus imports to GDP. *TOT* stands for terms of trade, constructed as the ratio of export to import prices. Finally, the parameter *CONST* is the intercept, b1 to b4 are estimation parameters, *i* is the country index, *t* is the time index, and *e* is the error term.

The model is based on the assumption that increased investment leads to higher domestic demand for non-tradable goods and services, such as construction, real estate and retail sales. The latter boosts demand, which in turn triggers a rise in the relative price of non-tradable goods and services so that the real exchange rate appreciates. Similarly, high government spending is assumed to strengthen demand and shift resources towards the production of the non-tradable sector, thereby appreciating the RER.

Fewer barriers of trade and better integration with international trade partners tends to be associated with a larger degree of economic openness, measured by the trade to GDP ratio. This implies that trade integration will bring domestic prices closer to international ones and, thereby, depreciate the RER.

The impact of the terms of trade on the real exchange rate is included to control for the income effect of an increase in the relative price of exports to imports. If the latter effect dominates, then RER will appreciate as the demand for non-tradable goods and services is pushed up. Conversely, if the substitution effect is more important, that is, if the production of non-tradable items becomes cheaper due to lower costs of imported intermediates, then RER will depreciate.

Equation (1) was estimated using an unbalanced panel of 85 countries for which data on real exchange rates and the remaining independent variables is available over the period from 2008 to 2016. Data on effective real exchange rates was retrieved from the IMF International Financial Statistics database, while data on gross fixed capital formation, government spending, trade flows, terms of trade and GDP was obtained from the World Bank World Development Indicators database. The regression was estimated using the fixed effects methodology and uses the White/Huber estimator of the error term's covariance matrix to correct for heteroskedasticity bias. Table 3.4 summarizes the regression results.

The signs of the parameter estimates are as expected, except for the parameter on GOV, which, turned out not to be significantly different from zero. When dropping this determinant from the regression, as in equation 1b, the estimated relationships between the real exchange rate and its fundamental determinants remains significant and in line with theory, namely, an increase in investment or an improvement of the terms of trade result in an appreciation of the RER. That is, the income effect outweighs the substitution effect. On the other hand, the lowering of trade barriers and enhanced openness, results in the depreciation of the RER.

Table 3.4 Estimation results for the real equilibrium exchange rate

Variable	Eq. 1a	Eq. 1b
CONST	4.55 (0.44)	4.39 (0.40)
ln(INV)	0.03 (0.03)	0.03 (0.02)
ln(GOV)	-0.04 (0.05)	
ln(OPEN)	-0.19 (0.08)	-0.18 (0.08)
ln(TOT)	0.01 (0.08)	0.02 (0.08)

Source: Author's calculations.
Note: Standard errors shown in parenthesis.

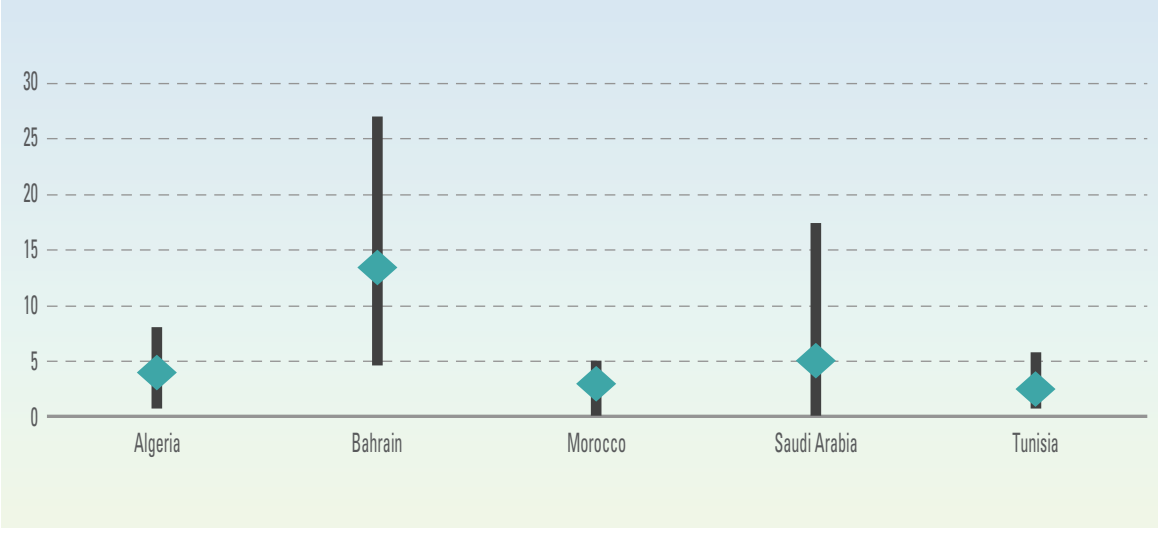
(b) Exchange-rate misalignment in the Arab region

The estimation results on the relationship between the real exchange rate and its fundamental determinants, as established in equation 1b, can be used to derive the real equilibrium exchange rate (REER). The latter can be thought of as the RER that would prevail if the economy were in its permanent equilibrium. This equilibrium corresponds to a situation where all the fundamental variables are in line with their sustainable values calculated as the three-year moving average over the study period. The REER is then the real exchange rate that is consistent with these fundamentals, and deviations of the RER from the REER represent misalignments as follows:

$$MIS = RER/REER \qquad (2)$$

Accordingly, investment surges, excessive trade protection or strong increases in the terms of trade compared to the equilibrium values lead to an overvaluation of the RER, and MIS takes a value greater than 1. Conversely, values for MIS less than 1 indicates an undervaluation. Five of the 85 countries for which information on real exchange rates is available from the IMF are Arab countries: Algeria, Bahrain, Morocco, Saudi Arabia and Tunisia. Figure 3.1 summarizes the results concerning exchange-rate misalignment in these five countries.

Figure 3.1 Exchange-rate misalignment in Arab countries (percentage from REER)



Source: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2016* (Washington, D.C., 2016); IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2017* (Washington, D.C., 2018).

Figure 3.1 shows the average deviation of the RER from the REER over the period 2008-2016, as well as the observed range of misalignment over the entire period. For example, in Algeria the estimated misalignment of the exchange rate ranged from 0.8 per cent to 8.1 per cent with an average misalignment of 4.0 per cent.

In Algeria, Morocco and Tunisia, the exchange rate was close to its equilibrium value over the study period. All the three countries show an estimated misalignment of less than five per cent on average. Also, the misalignment in any individual year never exceeded a 10 per cent threshold. These findings are in line with other recent research on currency misalignment in Maghreb countries that show only minor deviations of the real exchange rate from its equilibrium level in Morocco and Tunisia.[9]

On the other hand, Bahrain and Saudi Arabia exhibit higher average levels of exchange-rate misalignment, and in some years the deviation from the equilibrium exchange rate exceeded 15 per cent. Both countries are major oil exporters and both operate a conventional peg vis-à-vis the dollar. As previously discussed, pegged regimes promote transparency and predictability at the cost of an independent monetary policy and expose the domestic economy to the impacts of swings in world oil prices. In contrast, countries that have a floating exchange-rate regime benefit from an automatic stabilization mechanism in the sense that their currency will appreciate when international oil prices are strong and depreciate when they are weak.

The early literature on optimal exchange-rate regimes[10] has suggested that a misalignment of the long-run exchange rate is not necessarily an indication that the existing exchange-rate regime is not appropriate. Instead, a country's situation should be analysed in the context of its particular circumstances and challenges, taking into account government debt levels, external balances, the levels of corruption, and competitiveness in international markets.

Yet, persistent deviations of the real exchange rate from its equilibrium value may signal distortions in relative prices due to fundamental macroeconomic imbalances. If the latter are pronounced and last over longer periods of time, macroeconomic crisis and disruptive exchange-rate adjustments may occur.[11]

For example, large swings in oil markets have recently forced some oil-exporting countries, such as Azerbaijan and Kazakhstan, to suddenly abandon their exchange-rate targets. Moreover, even when large foreign exchange reserves make it possible to maintain a misaligned exchange rate over longer periods of time, the deviation might come at an economic cost. If the currency is overvalued, traded goods producers will lose international competitiveness. Conversely, an undervalued exchange rate will result in a loss of purchasing power and an increase in the costs of imported capital goods and, thereby, causing a fall in investment and growth rates.

Whether and to what extent exchange-rate misalignment affects economic growth is an empirical question. Rodrik (2008), for example, finds that overvalued currencies stifle growth, while the effect of undervalued currencies is ambiguous. In advanced economies, no significant effect of undervaluation has been documented while in emerging economies it leads to higher growth rates. However, Goncalves and Rodrigues (2017) report that the association between undervaluation and growth in emerging economies disappears if differences in savings rates are taken into account.

C. Assessing the macroeconomic effects of exchange-rate regimes in Arab countries

The observation that some exchange rates in Arab countries show an elevated degree of misalignment and that the respective countries operate a rigid exchange-rate regime raises the question on whether specific exchange-rate arrangements are associated with stronger or weaker macroeconomic performance. Levy Yeyati and Sturzenegger (2003) tested the relationship between exchange-rate choice and economic growth for a sample of 183 countries over the period 1974-2000 and found that less flexible exchange-rate regimes led to slower growth in developing countries, while there was no significant impact in advanced economies. The subsequent analysis pursues a similar approach but bases the estimations on more recent data and applies an explicit focus on the Arab region. A sample of 187 countries over the period 2008-2016 is used to assess the relationship between the exchange-rate regime and macroeconomic performance.

1. Statistical assessment

As a first step, a set of descriptive statistics is presented. Table 5A reports the average growth rates of countries by exchange-rate regime for the pooled dataset of all country-year observations. Not all countries have data available across all years, so the number of observations is reported in the table. In addition to the mean and median for all countries, the average values for the subsample of Arab countries are shown separately. The exchange regimes are grouped into three categories in line with the discussion in section A: rigid, supple and other. The latter is a residual category that contains exchange-rate regimes that the IMF classifies as “other managed arrangements”.

Table 3.5A shows that mean growth rates in countries with a supple exchange-rate regime (3.3 per cent) exceeded growth in countries with a rigid exchange-rate arrangement (2.7 per cent). The superiority of the supple regime is confirmed by median values. The median is less sensitive to extreme values and arguably provides a more accurate picture of the annual growth situation. On the other hand, among the subsample of Arab countries, economies with a rigid exchange-rate arrangement grew faster than those with a supple one.

Moreover, supplementary calculations are undertaken for other macroeconomic performance indicators, notably inflation, current account balance, unemployment, gross capital formation and foreign direct

investment. Results are summarized in tables 3.5B through 3.5F. For some of these indicators, in particular the unemployment rate, the number of observations is very low so the findings should be interpreted with care.

Table 3.5A Average economic growth rate (per cent per year)

	All countries			Arab countries		
	Rigid	Supple	Other	Rigid	Supple	Other
Observations	582	907	162	93	43	27
Mean	2.7	3.3	3.6	3.4	2.9	2.9
Median	3.1	3.2	4.3	3.7	2.9	3.6

Table 3.5B Average inflation rate (per cent per year)

	All countries			Arab countries		
	Rigid	Supple	Other	Rigid	Supple	Other
Observations	471	843	141	96	31	20
Mean	3.3	5.1	11.9	3.1	5.4	11.1
Median	2.5	3.8	6.8	2.7	4.9	6.0

Table 3.5C Average current account balance (per cent of GDP)

	All countries			Arab countries		
	Rigid	Supple	Other	Rigid	Supple	Other
Observations	586	924	163	100	48	27
Mean	-4.6	-3.1	-5.2	3.2	-8.8	-4.3
Median	-5.7	-2.8	-3.8	2.4	-6.8	-4.4

Table 3.5D Average unemployment rate (per cent per year)

	All countries			Arab countries		
	Rigid	Supple	Other	Rigid	Supple	Other
Observations	206	664	94	44	19	18
Mean	9.1	8.6	7.0	6.8	14.6	11.3
Median	7.6	7.2	6.3	5.6	14.0	10.8

Table 3.5E Average gross capital formation (per cent of GDP)

	All countries			Arab countries		
	Rigid	Supple	Other	Rigid	Supple	Other
Observations	430	878	147	60	47	27
Mean	24.5	23.2	24.1	25.1	20.1	27.6
Median	23.5	22.3	23.1	25.2	19.9	29.9

Table 3.5F Average net foreign direct investment inflow (per cent of GDP)

	All countries			Arab countries		
	Rigid	Supple	Other	Rigid	Supple	Other
Observations	563	906	161	92	43	27
Mean	5.3	5.9	6.6	3.3	3.6	3.8
Median	3.1	3.2	3.5	2.4	2.2	2.0

Source: Author's calculations based on IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2016* (Washington, D.C., 2016); and IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2017* (Washington, D.C., 2018).

The scrutiny of non-growth macroeconomic performance indicators provides a mixed picture. Inflation rates are on average lower in countries with a rigid exchange-rate regime. This finding is valid for both the entire sample and the countries of the Arab region. A similar result is observed with respect to annual investment. Gross capital formation as a percentage of GDP is higher in countries with a rigid exchange rate arrangement than in countries with a supple one.

When it comes to unemployment, lower rates are seen in countries operating under a supple exchange-rate regime. Also, the current account is closer to being in balance under the supple exchange rate arrangement. In the subsample of Arab countries, the inverse relationship is observed with respect to the current account: Arab countries with a rigid exchange-rate regime showed on average a current account surplus, while those with a supple exchange-rate regime had a large deficit.

2. Econometric analysis

To gauge the effect of exchange-rate regime on macroeconomic performance, specifically growth rate, the effect of macroeconomic variables on growth rates was estimated while incorporating the effect of exchange-rate regimes. Following Barro (2013) we estimate equation (3), where *GDPBASE* is the per capita GDP during the base period 2008, *INV* stands for investment as measured by gross capital formation as a percentage of GDP, *POP* is the log of population size and is a used as a proxy for country size. *GOV* is government consumption as a per cent of GDP, *SEC* is the secondary enrolment rate and is used as a proxy for human capital, *STAB* is the political stability index used as a proxy for the rule of law and absence of violence/terrorism, *TOT* is the terms of trade and *OPEN* stands for a country's openness to trade. Finally, rigid, supple, and other are dummies for exchange-rate regimes.

(a) Data description and model specification

The data spans the period 2008 through 2016 and comprises 187 countries of which 14 Arab countries are present in the data sample: Algeria, Bahrain, the Comoros, Egypt, Lebanon, Mauritania, Morocco, Kuwait, Oman and Saudi Arabia. However, not all Arab countries were included due unavailability of data in some countries. Moreover, all data are stationary using both Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests and exhibit some multicollinearity between variables using the variance inflation factor (VIF) indicator.

Model Specification, equation (3) below, asserts that growth is linearly related to a set of macroeconomic variables in a panel context. However, an inherit problem associated with panel models arises from error term's violation to standard assumptions. In particular, panel data is prone to exhibit group-wise heteroscedasticity, a case in which each panel (country) exhibits a different variance in the error term. Another violation of classical assumption of the error term that arises in the panel analysis context is when the error terms ($e_{i,t}$) are clustered, meaning error terms are auto-correlated within groups such that previous shock induces present shocks. The 2008 financial crisis (a shock), the implications of which are still being felt, is an example of clustering in the error term. Finally, cross-sectional dependence in the error term, a case where a shock in country (panel) induces a shock in another country.[12] For instance, an oil shock that reduces oil prices in Arab oil-exporting countries can have a contemporaneous effect on other Arab non-oil exporting countries via various transmission channels. Throughout the estimation process, we will check the later three assumptions and correct using Generalized Least Square estimator when necessary.[13]

One must point out that a dynamic panel model could have been adopted, such as in Arellano

and Bond (1991) or Arellano and Bover (1995). A generalized method of moments, GMM-2 step type of estimator is employed in addressing endogeneity problems. There is a great amount of existing literature on the endogenous effect of technology and research and development in the work of Romer (1989) and Aghion and Howitt (1996) that allows for richer analysis. However, we were constrained by the span of data available especially for Arab countries.

$$GROWTH_{i,t} = \text{CONST}_i + b1*GDPBASE_{i,t} + b2*INV_{i,t} + b3*POP_{i,t} + b4*GOV_{i,t} + b5*SEC_{i,t} + b6*STAB_{i,t} + b7*TOT_{i,t} + b8*OPEN_{i,t} + b9*Rigid_{i,t} + b10*\text{Supple}_{i,t} + b11*Other_{i,t} + e_{i,t}. \quad (3)$$

(b) Regression results

Hausman robust version[14] points to the absence of fixed effect. Moreover, random effect specification was rejected in favour of a pooled ordinary least squares (OLS) case. Both full and subsample exhibits group-wise heteroskedasticity. In terms of clustering, full sample exhibits clustering pattern in the error term, whereas the subsample, Arab countries sample, do not exhibit clustering in the error term process.

Table 3.6 summarizes two regression results: the first regression results use full sample at hand, while the second regression addresses subsample observations for 14 Arab countries.

Government consumption is found to be marginally significant and negatively related to growth in the full sample but not in the Arab countries subsample. Romer (1990) found similar results in that "the level of government spending on items other than investment seems to be negatively related to the rate of growth". However, the interpretation of the negative sign rests on the fact that government consumption diverts country's savings into non-productive government spending such as transfers, current spending, etc. The latter result has been theoretically stressed in the work of Obstfeld and Rogoff (1994).

Table 3.6 Regression results

Growth rate	All countries	Arab countries
GOV	-0.000	-0.000
	[1.69]*	[0.05]
SEC	-0.007	-0.010
	[2.98]***	[0.35]
Per capita GDP	1.794	-13.039
	[0.16]	[0.08]
POP	0.092	-0.848
	[2.32]**	[1.29]
INV	0.002	0.133
	[0.24]	[1.78]*
STAB	0.161	-2.371
	[2.77]***	[1.83]*
OPEN	0.000	-0.000
	[2.66]***	[2.29]**
TOT	0.145	4.030
	[1.29]	[2.40]**
Rigid	-0.037	3.736
	[0.29]	[2.11]**
Supple	0.224	-4.153
	[1.62]	[0.41]
Constant	-1.189	7.825
	[1.71]*	[0.79]
N	797	50

Source: Author's calculations.
Notes: * $p<0.1$; ** $p<0.05$; *** $p<0.01$
"Other" exchange-rate regime has been dropped due to dummy variable trap.

Investment (INV) is found to be significant and positively related to growth only in the subsample, possibly due to the fact that Arab countries have not attained a level of maturity of the economy whereas the developed countries in the full sample have already accumulated capital and attained the steady state level after which an economy's capital remains steady. On the other hand, education

has been found to be significant at 1 per cent level in the full sample but not in the subsample and in line with growth model that stresses the effect of human capital and research and development models. The insignificance of education in the subsample is attributed to quality of education.

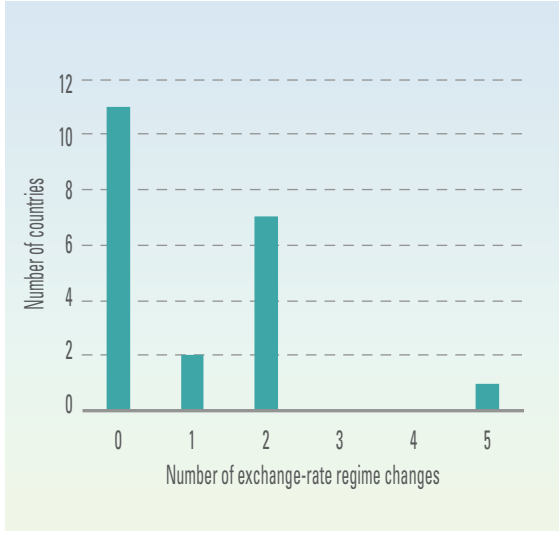
Political stability and the level of openness are significant in both the full and subsample and their sign, either negative or positive, confirms theory predictions. The terms of trade are significant in the subsample only, probably due to the overreliance of Arab countries on oil exports, as opposed to developed economies that have diversified exports.

More importantly, the rigid exchange-rate regime type was found to promote growth in the Arab countries subsample results, but the same result does not apply to the full sample. This is due to the fact that Arab countries lack consumer and investor confidence given their weak financial and legal institutions. In a way, rigid exchange-rate regime types serve as a commitment to low inflation rate levels and eliminate exchange-rate uncertainty brought about by inappropriate monetary and fiscal policy practice. Also, these results are in line with empirical findings that small open and developing economies are better served by a fixed exchange rate.

D. Assessing the economic implications of changing an exchange-rate regime: the case of Egypt and Morocco

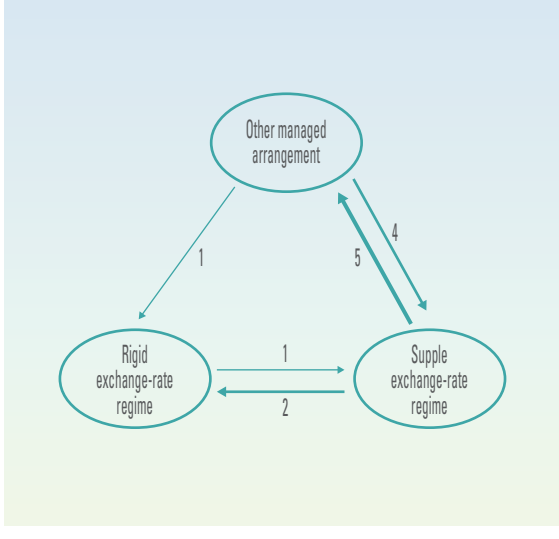
Countries can and do change their exchange-rate regime over time as part of monetary policy reforms. While 11 Arab countries have maintained the same exchange-rate arrangement over the period 2008-2016, ten others have made adjustments that resulted in a reclassification of their policy (figure 3.2). Indeed, seven Arab countries have changed their regime twice between 2008 and 2016 and

Figure 3.2 Number of exchange-rate regime changes in Arab countries (2008-2016)



Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2016* (Washington, D.C., 2016); IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2017* (Washington, D.C., 2018).

Figure 3.3 Flow chart of exchange-rate regime changes in Arab countries (2008-2016)

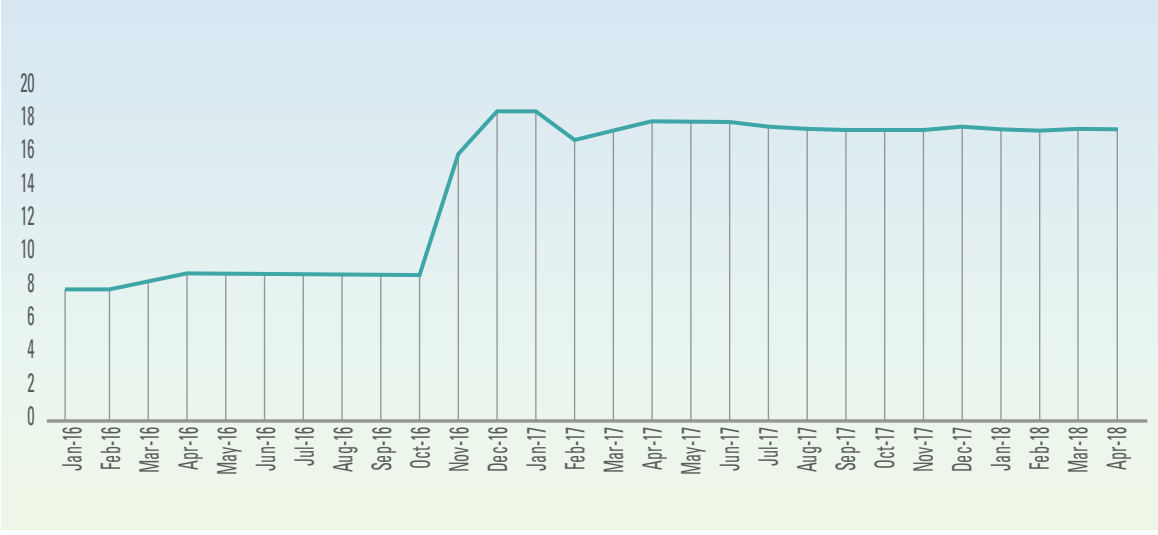


Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2016* (Washington, D.C., 2016); IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions 2017* (Washington, D.C., 2018).

Egypt made five alterations in its exchange-rate arrangement.

There is no clear trend in the direction of the exchange-rate regimes changes (figure 3.3).

Figure 3.4 Monthly average exchange rate (Egyptian pound – $)



Source: Egypt, Central Bank, "Statistics". Available at http://www.cbe.org.eg/en/EconomicResearch/Statistics/Pages/ExchangeRateshistorical.aspx (accessed on 10 June 2018).

Most transitions are from a supple exchange-rate regime to another managed regime arrangement. There were only two shifts to a rigid exchange-rate regime from a supple one during the study period.

Two countries in the region have taken two distinct approaches in changing their exchange-rate policy. Egypt opted for a hard lending policy and adopted a floating regime. Morocco opted for a soft lending policy and in 2018 implemented the first step toward the long-term adoption of a floating regime.

1. The implication of the adoption of a floating exchange-rate regime in Egypt

Historically, the objective of central banks in most countries in the Arab region has been exchange-rate stabilization, given that most countries have pegged exchange-rate regimes. Monetary policy has largely been accommodative and has had a limited role. Adding to these concerns, evidence across countries suggests that while a pegged exchange rate can lead to lower inflation, it also slows productivity growth.[15] Several studies have pointed to an overvalued exchange rate as one of the root causes of the lack of productivity growth and structural change.[16]

This situation is starting to change in Egypt with the adoption of a floating exchange-rate regime in November 2016.[17] The reasons for Egypt's adopting a floating exchange rate were rooted in severe macroeconomic challenges, including a large and persistent current account deficit, declining competitiveness of its currency and high depreciation of exchange rate in parallel market.[18] Egypt's reserves, which declined to $17 billion by mid-2016, were scant and could barely finance three months of imports.[19] Accessing financial support of IMF was imperative. At this point, the country underwent a comprehensive overhaul of macroeconomic management. Egypt put forward an active monetary policy and adopted a floating exchange-rate system in November 2016, in addition to devaluing the currency, as noted in figure 3.4.

Since the adoption of floating exchange rate in 2016, inflation targeting has become the new objective of Central Bank of Egypt. Other oil-poor developing countries in the region who also face the challenge of overcoming low

productivity may consider adopting a similar policy in the future and making their economies more competitive by means of correcting the exchange rate.

The framework of Libich, Nguyen, and Stehlík (2015) was used in a structural macroeconomic model to empirically examine the fiscal-monetary interactions in the context of Egypt's economy. The aim was to better understand the interactions between exchange rate, inflation and output gap and to examine the implications of the new policy objective of inflation targeting on output gap in the floating exchange-rate scenario. Furthermore, this model studies the effectiveness of monetary and fiscal policy on inclusive growth by considering several innovations in fiscal-monetary policy actions.

Prior to solving the macroeconomic model, a structural vector autoregressive (SVAR) model was employed to better understand the interactions and transmission process between exchange rate, inflation and other key macroeconomic variables. A SVAR would help us diagnose the impact of shocks and the underlying pass-through effects among the key macroeconomic variables.

The SVAR model used data from the Central Bank of Egypt for 34 quarterly periods between 2008 and 2016. The 2017-2018 data on inflation turned out to be an outlier. It showed significant jumps in inflation rates from 8 per cent in the fourth quarter of 2016 to a maximum of 34 per cent in the fourth quarter of 2017 (figure 3.5). It sharply declined thereafter reaching 13 per cent in the third quarter of 2018. Given these exceptional movements in the recent quarters, these periods were excluded from the estimation and the SVAR relied on the data until the second quarter of 2016. Additionally, due to relatively limited number of observations, the model has not been able to investigate separate exchange-rate regimes in Egypt, such as in the early 2000s or during the mid-2000s, when there were some exchange-rate pressures that led to policy interventions.

However, these interventions did not impact the exchange rate as significantly as in 2016.

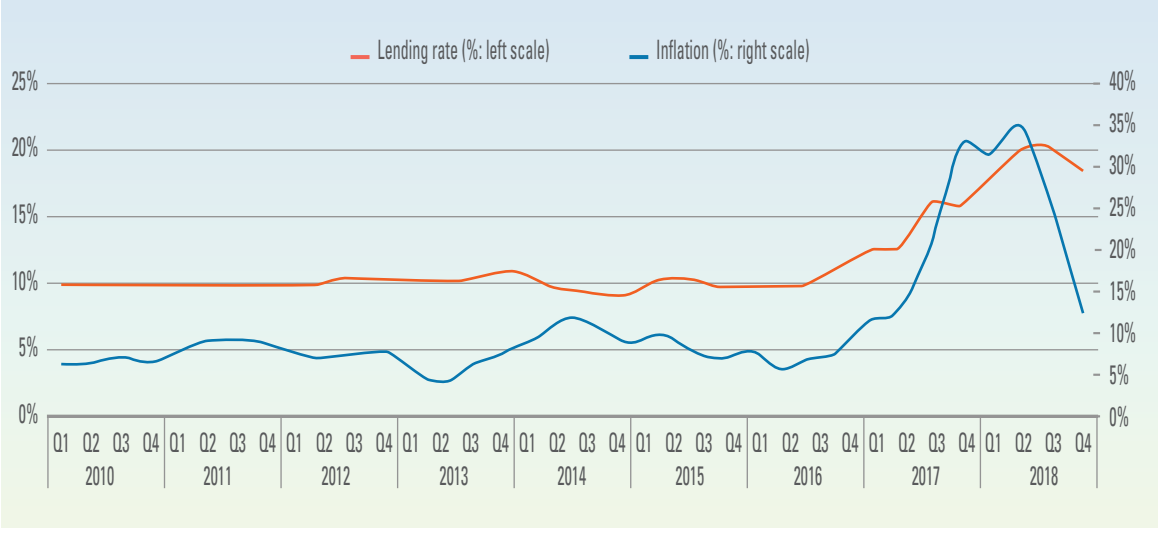
How much an exchange-rate shock impacts inflation can be misleading if the recent data, since the devaluation in the last quarter of 2016, is examined. As noted earlier, the sharp movements in inflation were not easily explained. While the steep rise in inflation in 2017 may not be entirely due to exchange-rate shock, the steep fall in inflation since the first quarter of 2018 may not be entirely due to rise in interest rates. Interest-rate changes will be examined in the section on monetary policy effectiveness.

Other factors could have influenced variation in inflation during the period since the fourth quarter of 2016. For instance, to build up its dwindling foreign currency reserves, the Central Bank of Egypt hiked the treasury bill rate from 13 per cent in the fourth quarter of 2016 to 20 per cent in the fourth quarter of 2017. As a result, a large inflow of portfolio investment, amounting to about $18 billion, was reported during the period until end 2017, contributing to a sudden demand-side pressure on inflation (figure 3.6).

Fiscal reforms also contributed to inflation, particularly the implementation of energy subsidy reforms. For example, inflation increased from 6.9 per cent in 2013 to 12 per cent in 2015 in tandem with the first phase of subsidy reforms introduced in 2013. These reforms led to a 40-80 per cent increase in fuel and natural gas prices and a 10-50 per cent rise in electricity tariffs in 2014. Furthermore, electricity tariffs were raised by 30 per cent in July 2016 and again by 40 per cent in July 2017. Prices for gasoline and diesel were raised by 53 per cent, liquefied petroleum gas by 100 per cent, kerosene by 55 per cent and fuel oil by 40 per cent in June 2017.[20] Egypt also introduced a VAT in September 2016.

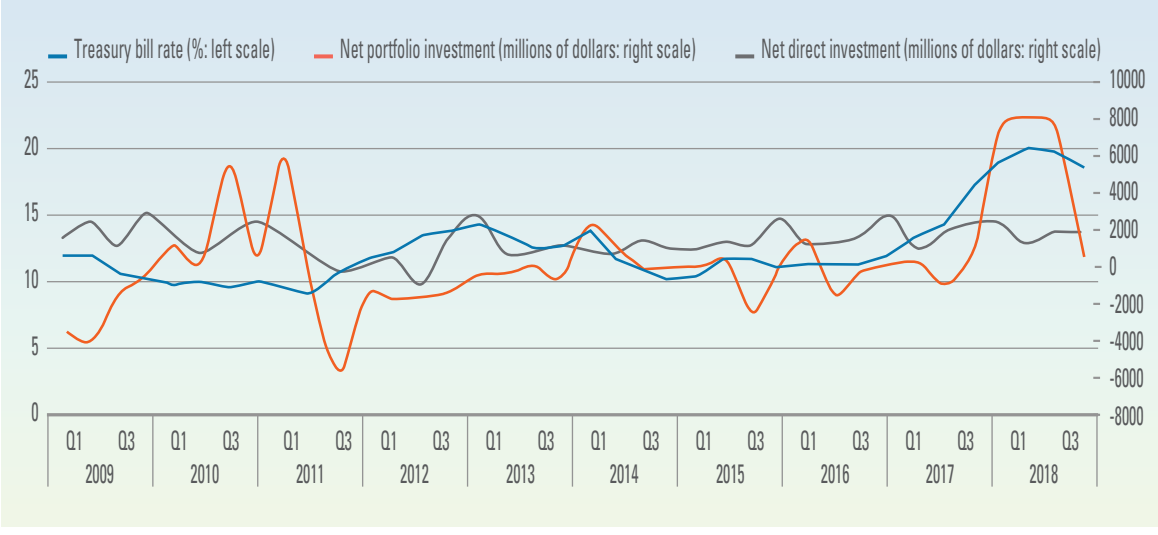
All these fiscal reforms factors combined influenced the skyrocketing inflation.

Figure 3.5 Inflation and interest rate, quarterly



Source: Egypt, Central Bank, "Statistics". Available at http://www.cbe.org.eg/en/EconomicResearch/Statistics/Pages/Inflation.aspx (accessed on 10 June 2018).

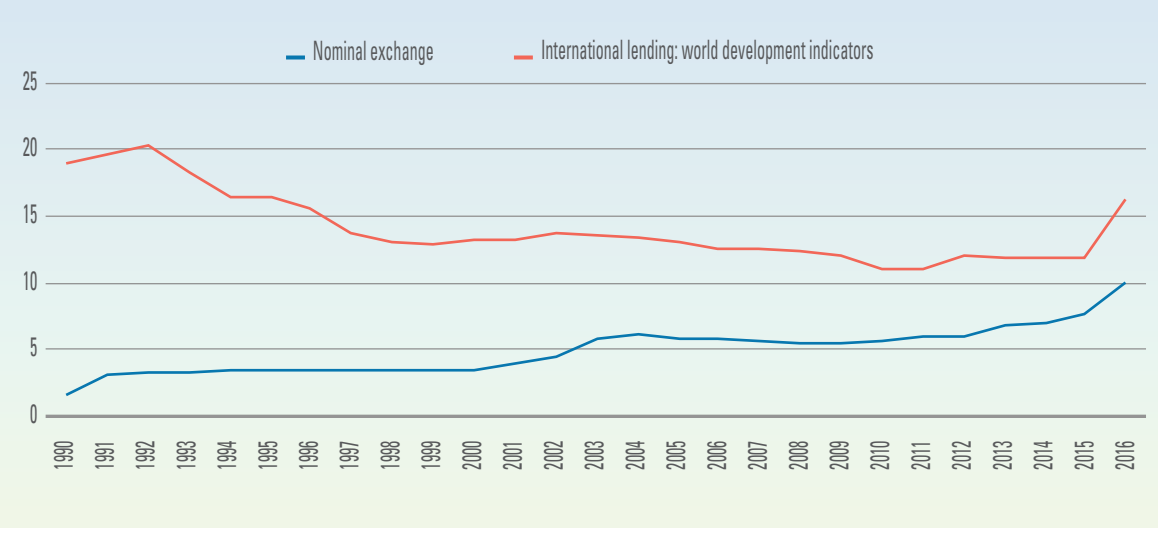
Figure 3.6 Treasury bill rate, net portfolio investment and net direct investment, quarterly



Source: Egypt, Central Bank, "Statistics". Available at http://www.cbe.org.eg/en/EconomicResearch/Statistics/Pages/Inflation.aspx (accessed on 10 June 2018).

As seen in the case of Egypt, the interaction between nominal exchange rate and nominal interest rate is indirect, but there is a strong causality in the direction from exchange rate to interest rate. The impulse response of lending interest-rate shock to exchange rate does not show any significant influence. A sharp rise in lending interest rate was noted only between the third quarter of 2016 to the fourth quarter of 2017. Prior to that, the lending rate was almost flat, at around 12 per cent during the 2006 to 2015, and it had a slightly declining trend for the whole period from 1990 to 2015. During the same period, nominal exchange rate had a slightly upward trend. Both indicators were tending to converge, as shown in figure 3.7, except there is departure from the earlier trends since 2016. This shows the impact of the kind of passive

Figure 3.7 Nominal exchange rate and nominal lending interest rate



Source: Author's calculations.

monetary policy followed by Egypt, whereas the policy objective during the previous periods was mainly exchange-rate stabilization with a very limited role for monetary policy.

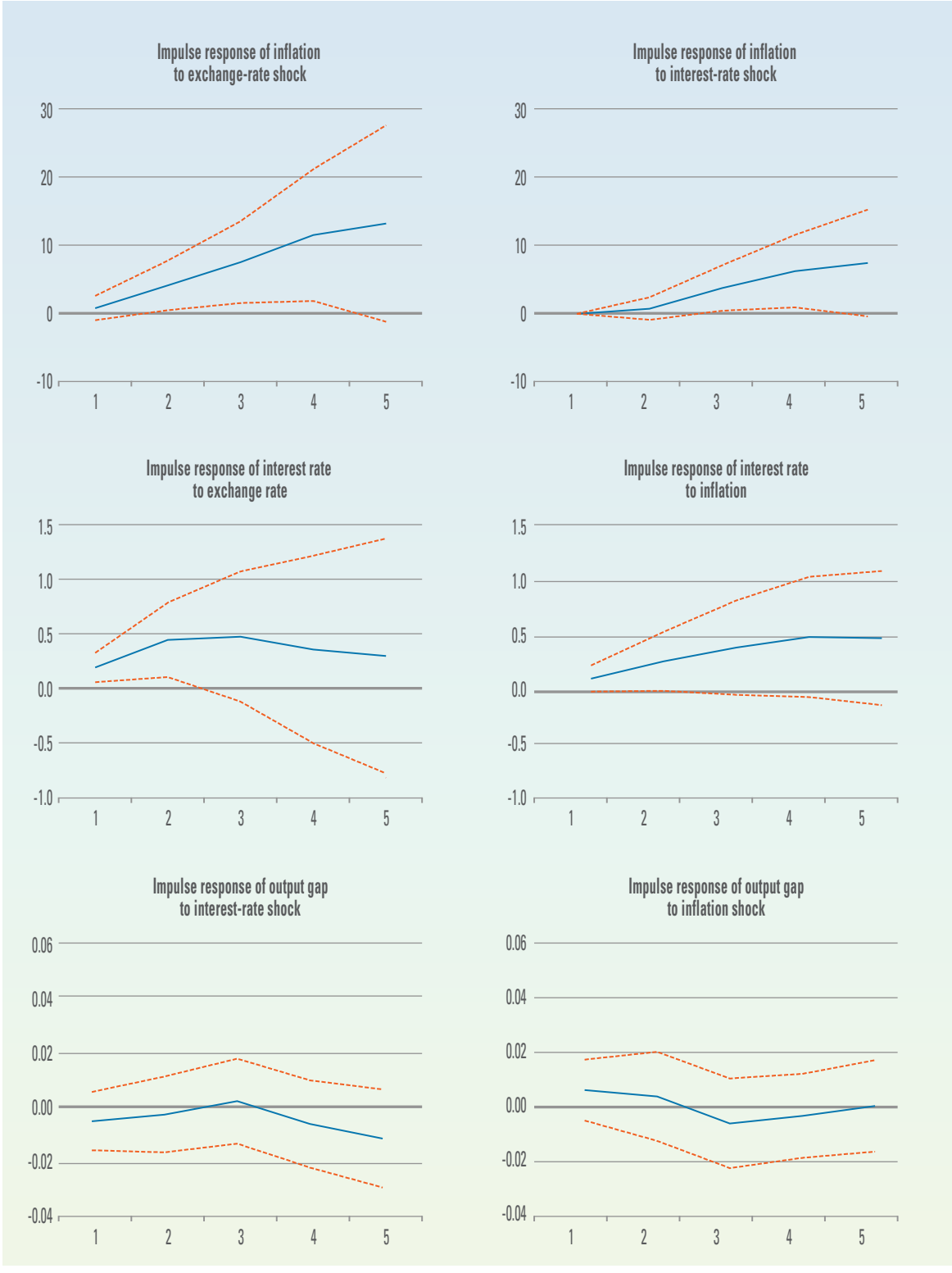
According to the Granger causality tests, the interaction between nominal interest rate and inflation is not significant. The impulse response of interest rate to inflation shocks shows positive impact for the four quarters of 2017 but they are not highly significant. Alternatively, the impulse response of inflation to interest-rate shocks is moderately positive in the first two quarters and then becomes significant during the third and fourth quarters, indicating that interest-rate shocks may influence inflation transitorily. It is possible to explain this in terms of cost-push inflation, in which a higher interest rate leads to higher costs of production which pushes up the prices. Given the information and the impulse responses between inflation and interest rate, it is difficult to conclude any significant effect of monetary policy on containing inflation.

Quarterly data on inflation and interest rate for the period since the fourth quarter of 2016 shows an upward trend of interest rates alongside inflationary pressures, which tends to suggest that tightening monetary policy in terms of raising the 'discount rate' has somewhat contained inflation. However, there is some ambiguity in the steep decline in inflation rate since the first quarter of 2018. While the evidence is not clear on the pass-through effect of monetary policy, the steep decline in inflation could partly be influenced by the high base effect in 2017, as inflation is measured by month-to-month comparing the current year to the previous year. Therefore, the effectiveness of monetary policy in containing inflation in Egypt is inconclusive, at least empirically.

The trade-off between managing inflation and output gap

The impulse response of output gap to interest-rate shock shows a low but adverse impact. While initially the impact is insignificant at close to zero, the adverse impact becomes higher after a lag time of two quarters when output gap shows a strong negative trend. That said, the impact is still statistically insignificant. Even so, the direction of the impact supports theoretical possibilities. Clarida, Galí and Gertler (1999) argued that the pace at which monetary policy tries to reach the optimal inflation rate, primarily through tightening the

Figure 3.8 Results of the structural vector autoregressive model: accumulated impulse responses (Cholesky one S.D innovations +/- 2 S.E)



Source: Author's calculations.

interest rate, determines the cost to output growth. This sharp increase in the interest rate was noted during 2017. Any sharp increase in the interest rate would be expected to make borrowings too costly for businesses to survive which adversely impacts output growth. The empirical evidence will be clearer when more periods of data are available for analysis.

The results of the SVAR model reinforce the potential trade-off between tightening monetary policy to achieve inflation versus minimizing the output gap, as well as complex inflation and fiscal balance interactions over short and long run. This advocates for the necessity for greater monetary and fiscal policy coordination. While SVAR provides this diagnosis, the structural macroeconomic model on fiscal-monetary interactions which is being developed aims to solve the linkages between optimal rates of inflation, interest rates and output gap. The solutions, however, are challenging when exchange-rate shocks have immediate and high impact on inflation.

2. Recent reform of exchange-rate regime in Morocco

The Moroccan dirham was first pegged to the French franc and then to a basket of eight currencies. In the early 2000s, the basket was narrowed to euro and the dollar. This policy provided a credible nominal anchor for inflationary expectations. Over the period 2008-2017, the average national inflation rate stood at 1.4 per cent overall and 1.5 per cent for tradable goods and services, in line with the 1.4 per cent inflation levels recorded in the region. Although the peg to the euro helped protect Morocco from the financial turbulence during the 2008 crisis, the exchange-rate policy deprived the Moroccan economy of potential shock absorption of external real shocks, especially when the country was looking forward to become a regional financial hub. For this reason, Morocco opted in January 2015 for a new exchange-rate regime and introduced more flexibility that consisted of widening the fluctuation corridor from ±0.3 basis point to ±2.5 basis points. This reform was considered as a first step towards a gradual and free-floating regime. Authorities did not provide any indication as to the duration of the transition period. Adjustment cost-wise, Morocco took advantage of its high-quality credit rating and its solid economic performance (table 3.7) to implement a smooth and manageable transition and limit the social cost.

Table 3.7 Selected macroeconomic indicators (in billions of dollars, unless otherwise indicated)

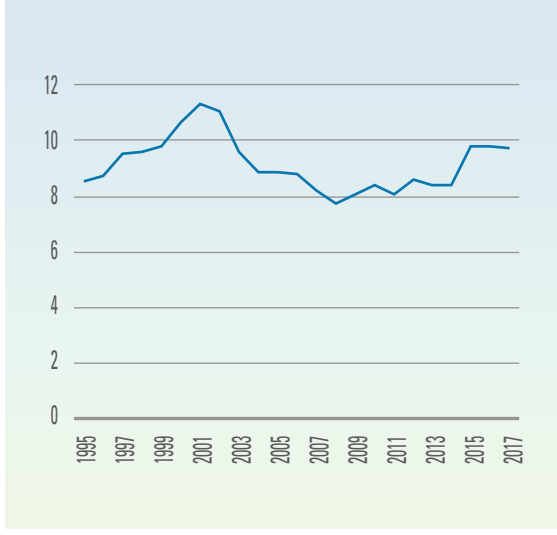
	2013	2014	2015	2016	2017	2018
GDP growth (%)	4.5	2.7	4.5	1.2	4.6*	3.1*
Unemployment rate (%)	9.2	9.9	9.7	9.4	5*	--
Consumer price index	1.9	0.4	1.5	1.6	0.6*	1.3*
Public debt (% GDP)	61.7	63.3	63.7	64.7	64.3*	64*
Budget balance (% GDP)	-5.1	-4.8	-4.2	-4.1	-3.5*	-3*
Gross capital formation (% GDP)	34.7	32.5	30.8	26.9	33.2*	34.5*
Net imports of energy products	12.2	11	6.8	5.5	6.4*	7.3*
Current account	8.1	6.5	2.2	4.5	4.4*	4.3*
Capital and financial account	9.4	8.8	5.8	6.5	2.5*	6.9*
Reserves	1.8	2.9	4.3	2.8	1.8*	2.6*

Source: IMF, "Morocco: 2017 article IV consultation-press release; staff report; and statement by the executive director for Morocco", IMF Country Report, No. 18/75 (Washington, D.C., 2018).
Note: * stands for projected values.

Figure 3.9 Exchange-rate misalignment in Morocco

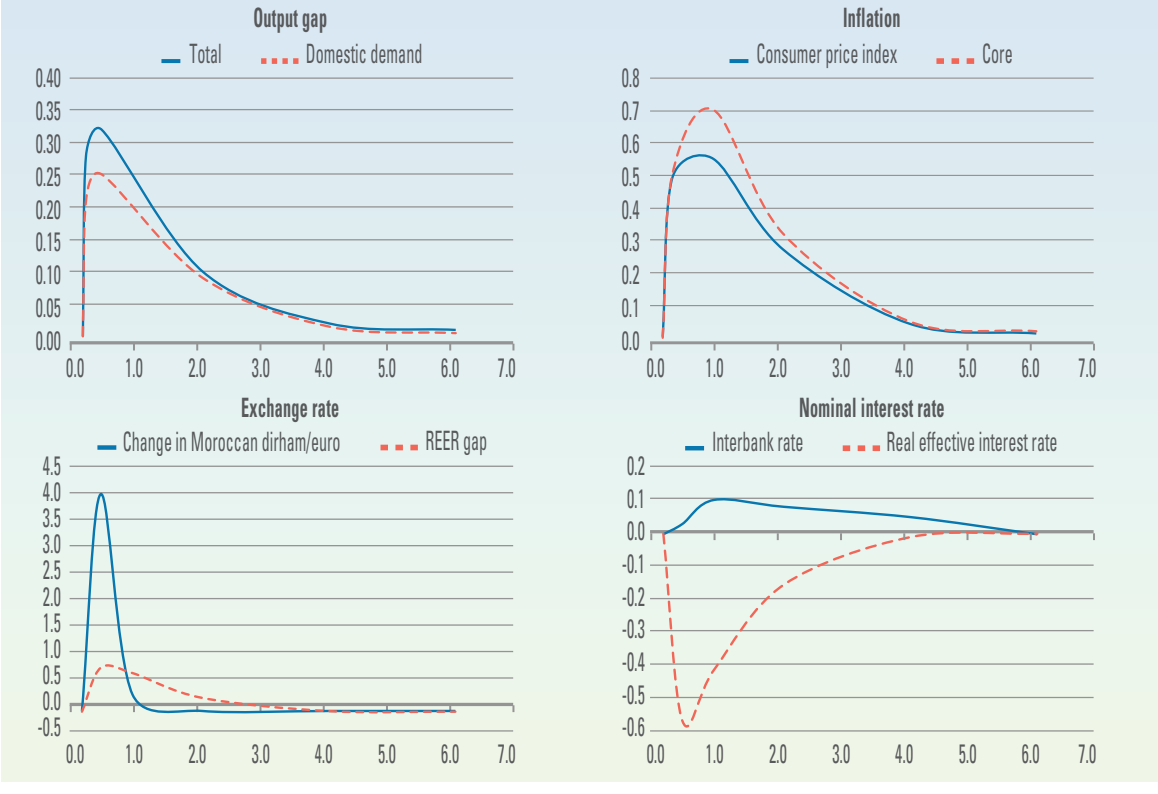
Source: Mokhtar Benlamine and others, "Morocco: a practical approach to monetary policy analysis in a country with capital controls", IMF Working Paper, WP/18/27 (Washington, D.C.: International Monetary Fund, 2018).

Figure 3.10 Exchange rate of the Moroccan dirham to the dollar (1995-2017)



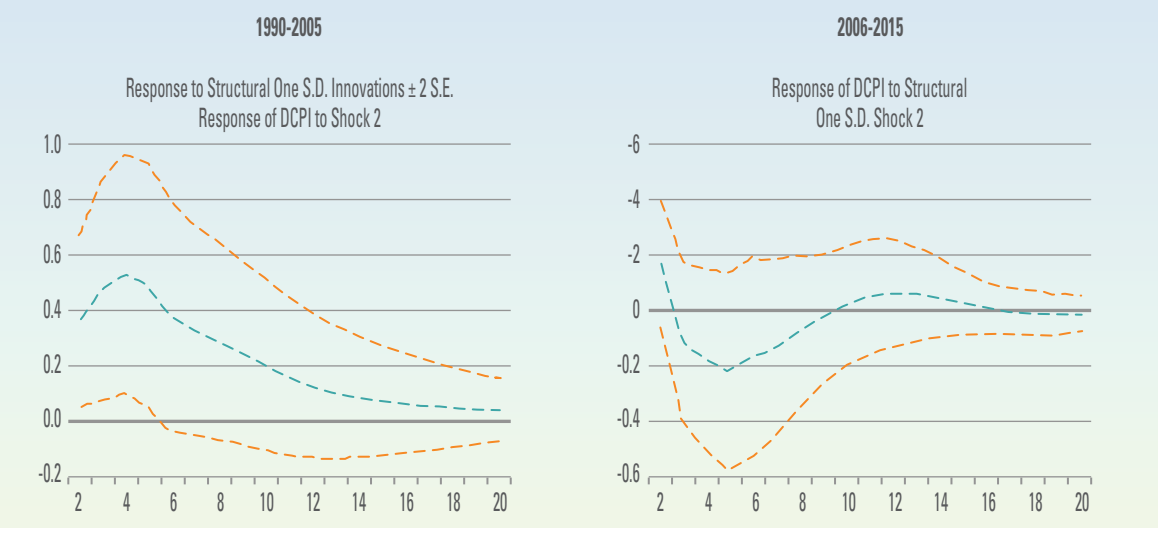
Source: World Bank, "Official exchange rate (LCU per US$, period average)", DataBank. Available at https://data.worldbank.org/indicator/PA.NUS.FCRF?locations=MA&view=chart (accessed on 15 June 2018).

Figure 3.11 Exchange-rate regime impact on Moroccan economy



Source: Mokhtar Benlamine and others, "Morocco: a practical approach to monetary policy analysis in a country with capital controls", IMF Working Paper, WP/18/27 (Washington, D.C., International Monetary Fund, 2018).

Figure 3.12 Impulse responses of the consumer price index to shocks of exchange rate



Source: Abdellatif Chatri, Abdelwahab Maarouf and Aziz Ragbi, "An empirical investigation of the exchange rate pass-through to prices in Morocco", Munich Personal RePEc Archive, Paper No. 71757. Munich.

On the other hand, economic implications of this policy did not manifest itself yet, but the authorities and the IMF estimated that the overall impacts of this reform will be limited due to a low level of real exchange-rate misalignment and the continual adjustment of the nominal exchange rate thereafter.

Using a semi-structural model, Benlamine and others (2018) estimated how much impact a positive change in the nominal exchange rate would have both on inflation and output effects (figure 3.11). The results show that an increase in import prices in terms of domestic currency is passed through to headline inflation. Moreover, a prospective devaluation would improve Moroccan net exports, making them more competitive to foreign products. Finally, the estimated time for domestic price level to fully adjust to the devaluation shock – the long-term exchange rate pass-through is equal to 1 – is 16 quarters or four years.

Although a floating the exchange rate aims to promote economic resilience by enhancing country's ability to absorb real external shocks and sharpening its competitiveness, a flexible exchange rate can cause a country to lose its nominal anchor. This is especially important as the value of Morocco's imports are $40 billion compared to exports of only $5 billion. Imports of energy products (table 3.7) are between $12.2 billion and $5.5 billion. This makes the Moroccan economy vulnerable to an increase in oil prices and/or commodity prices that would be translated into higher inflation rates.

At an empirical level, one can gauge the effect of imported inflation via a pass-through effect if exchange rate were to float. This happens when depreciation of local currency induces inflation rates through higher prices of imports due to exchange rate depreciation. The larger the share of imports in the consumer's basket, the larger the degree of exchange rate pass-through effect would be. Moreover, the lower the degree of pass-through effect, the greater the flexibility to conduct monetary policy and, thereby, implement an inflation targeting strategy. A low pass-through effect minimizes the cost of abandoning a fixed exchange rate when the latter serves as nominal anchor.[21]

In the light of both empirical and estimated forecasts, the rapid expansion of export-oriented sectors and other structural

changes in the Moroccan economy will have a profound impact on economic growth and employment. These developments will speed the path of the Morocco's economic convergence vis-à-vis its developed-country trading partners. Furthermore, susceptibility to terms of trade shocks emanating from Europe, proximity to European Union markets and a low pass-through effect grant the new exchange-rate regime the higher odds to be a successful economic reform.

E. Conclusion and policy recommendations

This chapter examined the misalignment of current exchange rates in Arab countries and identified substantial misalignments in some oil-exporting countries in the region operating under fixed exchange-rate arrangements. These countries are recommended to reconsider their exchange-rate regimes and move towards more flexible arrangements. Although there have been a number of regime switches since 2008 as countries have tried to adjust their exchange-rate arrangements to new macroeconomic environments, large and prolonged deviations of the real exchange rate from its equilibrium level can present serious challenges. The transition to a flexible exchange-rate regime must be gradual and accompanied with profound economic reforms in terms of regulations and investments.

As the region is characterized by high political, social and economic instability, any policy that guarantees a level of predictability could have positive effect on growth in the region. This is unique to the Arab region as predictability does not have same importance for economic actors in the rest of the world. Given its weak financial and legal institutions, Arab countries lack consumer and investor confidence. A rigid type of exchange-rate regime would serve as commitment to low level of inflation rate and would eliminate exchange rate uncertainty brought about by inappropriate monetary and fiscal policy practice. These results are also consistent with empirical findings that have found that small and open developing economies are better served by a fixed exchange rate.

However, as this chapter laid out, there is no "one-size-fits-all" regime type. Many studies[22] pointed that the costs of transition to a floating exchange rate are not minor and depend heavily on initial conditions. For countries with widespread financial dollarization, a move to a flexible regime may increase output volatility due to the balance sheet effect of fluctuations in the nominal exchange rate.

Moreover, recent research on exchange rate behaviour has highlighted that countries are often reluctant to allow the exchange rate to fluctuate to avoid the adverse effects and the stress on unhedged balance sheets and inflationary expectations. These concerns have generated strong interest in policies to minimize exchange-rate volatility and ensure orderly transitions towards exchange-rate flexibility.[23] The case of Egypt reaffirms the need for both economic and institutional reforms before migrating to a more flexible exchange-rate regime. Instead of a sudden curbing of government expenditure, such as the abrupt abandonment of the government subsidies to oil and gas, gradual fiscal reform must precede the transition phase to a floating exchange-rate regime.

Another advantage of the floating exchange rate is that it allows the central bank to follow an inflation targeting policy. Despite a spike in inflation rates triggered by a pass-through effect, long-term inflation rates can be subdued. The devaluation of exchange rate could serve as a vehicle to promote exports and close a gap in current accounts. This has been the case in Egypt where, despite painful adjustment costs in the short run, the country will reap the benefits of these reforms in the long run.

The transition to a flexible exchange-rate regime must be gradual and accompanied with sweeping reforms in terms of regulations, ease of doing business and investments in infrastructure to enhance economic competitivity. The transition to the free-floating regime in Morocco is a gradual process that has been underway place since the 2007. The Morocco case study also illustrates how a smooth transition to a more flexible exchange-rate regime is possible when a country has favorable economic conditions.

The case studies have shown the benefits and risks of a monetary policy framework shift towards a more flexible exchange rate and inflation-forecast targeting. The assessment of the monetary policy stance and possibilities allows policymakers to compare alternative scenarios and assess risks. Modernization of monetary policy, including a central bank reforms and gradual enhancement of the policy modelling framework, could be a crucial part of the reform efforts.

Endnotes

Chapter 1

1. Board of Governors of the Federal Reserve System, 2017.
2. As of June 2018.
3. European Central Bank, 2017.
4. The Belt and Road Initiative launched by the Chinese Government in 2013, aims to build and link mainland and maritime roads across three continents (Europe, Asia and Africa) and over 60 countries. The project is ongoing, and mainly focuses on investments in infrastructure, transportation and energy projects.
5. International Labour Organization (ILO), 2018b.
6. International Monetary Fund (IMF), 2017.
7. Own-account workers and contributing family workers, based on classifications by ILO.
8. Organization of the Petroleum Exporting Countries (OPEC), 2017.
9. In May 2017, OPEC and non-OPEC oil-producing countries extended their reduction agreement until the first quarter of 2018, followed by a further agreement in November 2017 lasting until the end of 2018.
10. ESCWA divides the Arab countries into four subregions: GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates); Mashreq countries (Egypt, Iraq, Jordan, Lebanon, the State of Palestine and the Syrian Arab Republic); Maghreb countries (Algeria, Libya, Morocco and Tunisia); and least developed countries (the Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen).
11. See E/ESCWA/SDPD/2017/CP.8, E/ESCWA/SDPD/2017/CP.9, E/ESCWA/SDPD/2017/CP.7 and E/ESCWA/SDPD/2017/CP.6.
12. Shell Global, 2018.
13. China has implemented its thirteenth Five-Year Plan and Energy Production and Consumption Revolution Strategy 2016-2030, geared towards increasing the share of natural gas in its energy mix from 5.9 per cent in 2015 to 10 per cent by 2020, and to 15 per cent by 2030.
14. Gas market dynamics evolve and will continue to evolve thanks to the increasing share of LNG projects worldwide creating niche markets and additional demand, not only for power generation but also in the transport and petrochemical sector. The liquid gas market significantly contributed to increased competition compared to traditional suppliers which use gas pipelines. LNG will continue to dominate the regional gas markets, propelled in part by China's strategy to use cleaner fuel in its energy mix.
15. World Energy Council, 2016.
16. According to the agreement signed between Eni S.p.A, an Italian multinational oil and gas company, and the Egyptian Government, the Eni subsidiary Italian Egyptian Oil Co. (IEOC) will take up to 40 per cent of the newly discovered Zohr gas field's output to recover 11 years of development and exploration costs. This constitutes half of the project's estimated lifetime. The remaining 60 per cent of gas output will be distributed between IEOC and the Egyptian Natural Gas Holding Company (EGAS) based on production levels. During the second half of the project's lifetime, the cost recovery ratio falls from 40 per cent to 20 per cent to compensate for ongoing field development costs. The remaining 80 per cent is then distributed between EGAS and IEOC in accordance with output levels with IEOC taking almost 45 per cent of output, and EGAS getting the remaining 55 per cent.
17. As measured in the Bahrain Stock Exchange, Kuwait Stock Market, Muscat Securities Market, Doha Securities Market, Saudi Stock Market and Dubai Financial Market.
18. United Nations Conference on Trade and Development, 2018.

Chapter 2

1. Financial figures such as GDP, inflation rates and trade for 2016 and 2017 are based on national data, where available. Where national data was not yet available, the rates are projections that have been calculated by ESCWA and United Nations Department of Economic and Social Affairs (DESA). Seeee the appendices.
2. As of August 2018, this VAT had been introduced in Saudi Arabia and the United Arab Emirates. Bahrain and Qatar are expected to introduce it before the end of 2018 and Kuwait and Oman during 2019.
3. Iraq's economic reform programme, supported by the stand-by arrangement, aims to address the urgent balance-of-payments needs, bring spending in line with lower global oil prices and ensure debt sustainability. The programme also includes measures to protect the poor, strengthen public financial management, enhance financial sector stability and curb corruption.
4. For example, the issuance of international bonds in Tunisia.
5. ESCWA, 2014.
6. Moghadam, 2004.
7. United Nations Development Programme (UNDP), 2018.
8. The higher the GII value, the greater the gender inequality.
9. UNDP, 2018.
10. This occurred in both single house or lower house and upper house or senate.
11. Inter-Parliamentary Union (IPU), 2018a.
12. Qatar, Emiri Decision No. 22 of 9 November 2017.
13. Qatar Tribune, 2017.
14. IPU, 2017.
15. Vogelstein, 2018.
16. Ibid.
17. IPU, 2018c.
18. E/ESCWA/ECW/2018/Brief.1.
19. E/ESCWA/ECW/2017/3.
20. United Nations High Commissioner for Refugees (UNHCR), 2018a.
21. Kholy, 2008.
22. United Nations Office for the Coordination of Humanitarian Affairs (OCHA), 2017b.
23. UNHCR, 2018c.
24. Al Ibraheem and others, 2017.

25. International Rescue Committee, 2016.
26. United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), n.d.
27. IRIN, 2018.
28. International Middle East Media Center, 2018.
29. State of Palestine, Palestinian Central Bureau of Statistics (PCBS), 2017b.
30. BADIL Resource Center, 2015.
31. UNRWA, 2011.
32. DeYoung, Eglash and Balousha, 2018.
33. Ravid, 2018.
34. Islamic State of Iraq and the Levant.
35. UNHCR, 2018f; OCHA, 2018.
36. World Bank, 2015.
37. Internal Displacement Monitoring Centre (IDMC) and Norwegian Refugee Council (NRC), 2018.
38. UNHCR, 2018b.
39. UNHCR, 2018g.
40. UNHCR, 2017.
41. Grip, 2017.
42. OCHA, 2017a.
43. UNHCR, 2018e.
44. Rother and others, 2016.
45. World Bank, 2018h.
46. Ibid.
47. World Bank, 2018i.
48. World Bank, 2018j.
49. Sexual reputation, personal safety and protection from harassment in public places, contact with males in non-public places; geographical accessibility from home to the place of work.
50. Fargues and Shah, 2018.
51. Saudi Arabia, General Authority of Statistics, 2017.
52. Jordan, Department of Statistics, 2017.
53. Sowell, 2017.
54. Sweidan, 2014.
55. Morocco, Haut-Commissariat au Plan, 2017.
56. ILO, 2018a.
57. Egypt, Central Agency for Public Mobilization and Statistics, 2017.
58. Nazier and Ramadan, 2016.
59. Abdul Latif Jamil, 2018.
60. PCBS, 2017a.
61. PCBS, 2018.
62. BBC News, 2018.
63. Algeria, National Office of Statistics, 2017.
64. Tunisia, Statistique Tunisie, 2017.
65. Qatar, Ministry of Development Planning and Statistics, 2017.
66. E/ESCWA/SDD/2017/1, p. 18.
67. U.S. Department of State, Bureau of Economic and Business Affairs, 2017.
68. Qatar, Ministry of Development Planning and Statistics, 2017, p. 11.
69. United Nations Children's Fund (UNICEF), 2013.
70. World Bank, 2018f.
71. World Bank, 2018d.
72. World Bank, 2018h.
73. Ibid.
74. World Bank, 2018i.
75. World Bank, 2018d.
76. World Bank, 2018g.
77. Kadi, 2017.
78. World Bank, 2018h.
79. World Bank, 2018i.
80. World Bank, 2018d.
81. World Bank, 2018g.
82. World Bank, 2018f.
83. World Bank, 2018a.
84. World Bank, 2018h.
85. World Bank, 2018e.
86. World Bank, 2018f.
87. Knoema, 2015.
88. Diego and Tanabe, 2012.
89. World Bank, 2018h.
90. World Bank, 2018i.
91. World Economic Forum, 2017.
92. UNICEF, 2018.
93. African Development Bank and African Development Fund, 2012.
94. World Bank, 2018h.
95. World Bank, 2018i.
96. World Health Organization, 2017.
97. IPU, 2018c.
98. E/ESCWA/ECW/2017/Technical Paper.6.

Chapter 3

1. Bhattacharya, 2003.
2. Frankel, 2017.
3. See for example, Chen and Rogoff, 2003; Cashin, Céspedes and Sahay, 2004; Frankel, 2007; Habib and Kalamova, 2007.
4. This has been documented in the work of Edwards and Levy Yeyati, 2003; Broda, 2004; Rafiq, 2011; Céspedes and Velasco, 2012.
5. Frankel, 2017.
6. Habermeier and others, 2009.
7. The country pegs its currency at a fixed rate to a weighted average of a basket of currencies. The basket is formed from the currencies of major trading or financial partners and weights reflect the geographical distribution of trade, services, or capital flows.
8. A crawling peg is a system of exchange-rate adjustments in which a currency with a fixed exchange rate is allowed to fluctuate within a band of rates.
9. Lebdaoui, 2013; Brixiova, Egert and Essid, 2014.
10. See for example, Fleming, 1962; Mundell, 1963; and Poole, 1970.
11. Holtemöller and Mallick, 2013.
12. Also referred to as contagion effect or spillover effect in literature.
13. For deeper discussion see Baltagi, 2008.
14. Following Wooldridge, 2002, pp. 288-301.
15. Ghosh, 1996; McMillan and Rodrik, 2011.
16. Elbadawi, Schmidt-Hebbel and Soto, 2015; Nabli, Keller and Veganzones, 2003.
17. Bhanumurthy and Sarangi, 2018.
18. IMF, 2018.
19. Ibid.
20. Ibid.
21. Abdellatif, Maarouf and Ragbi, 2016.
22. Levy Yeyati and Sturzenegger, 2016.
23. IMF, 2004, 2016.

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Appendices

Appendix A. Growth and inflation: world and regional averages, 2016-2019 *(percentage)*

Country/subregion	Real GDP growth rate				Consumer price inflation rate			
	2016	2017	2018	2019	2016	2017	2018	2019
Arab region	2.8	1.5	3.3	3.2	5.3	6.7	5.5	4.5
World	2.5	3.1	3.1	3.0	2.6	2.8	2.8	2.9
Developed countries	1.6	2.3	2.2	2.0	0.7	1.7	1.9	2.1
United States	1.5	2.3	2.6	2.3	1.3	2.1	2.4	2.3
European Union	2.0	2.4	2.2	2.0	0.3	1.7	1.8	2.1
Japan	1.0	1.7	1.0	1.5	-0.1	0.5	0.9	1.4
Economies in transition	0.4	2.1	2.1	2.1	7.8	5.1	3.9	4.4
Developing countries	3.9	4.5	4.5	4.5	5.1	4.3	4.2	4.0
Africa	1.7	3.5	3.5	3.8	11.9	13.6	10.1	8.4
East and South Asia	6.1	6.1	5.9	5.7	2.6	2.4	2.7	2.8
Latin America and the Caribbean	-1.3	1.0	1.4	2.1	9.8	6.1	5.6	5.1

Sources: Figures for the Arab region are ESCWA staff estimations/forecasts, based on national statistical sources. Other figures are based on DESA Expert Group Meeting on the World Economy (Project LINK) 2018.
Note: The country grouping is based on World Economic Situation and Prospects 2018. DESA estimation/projection based in part of Project LINK and DESA World Economic-Forecasting Model.

Appendix B. Oil production in the Arab region, 2014-2019 *(thousands of barrels per day)*

Country/subregion	2014	2015	2016	2017[a]	2018[b]	2019[b]
Bahrain	49	51	82	207	203	199
Kuwait	2,869	2,621	2,708	2,704	2,853	2,882
Oman	949	986	1007	977	948	878
Qatar	709	656	652	600	593	564
Saudi Arabia	9,714	10,189	10,460	9,951	10,050	10,151
United Arab Emirates	3,036	3,224	3,318	2,967	3,218	3,250
GCC countries	17,327	17,728	18,226	17,407	17,866	17,925
Egypt	672	682	651	626	551	523
Iraq	3,113	3,499	4,647	4,479	4,769	4,817
Syrian Arab Republic	23	30	29	30	31	32
Mashreq	3,807	4,211	5,327	5,135	5,351	5,372
Algeria	1,209	1,072	1,159	1,059	1,122	1,049
Libya	471	404	385	620	732	555
Morocco	0.2	0.2	0.2	1	1	1
Tunisia	54	49	46	36	35	34
Maghreb	1,735	1,526	1,590	2,135	2,301	2,319
Mauritania	6.0	5.2	5.0	5	6	6
Sudan	114	108	105	116	82	88
Yemen	125	48	22	23	24	25
Arab LDCs	245	161	132	144	112	120
Arab region total	23,114	23,626	25,276	24,821	25,630	25,735

Sources: ESCWA calculations based on the Joint Organisations Data Initiative database, available at https://www.jodidata.org/oil/ (accessed on 10 June 2018) with the exception of Mauritania, Morocco, the Syrian Arab Republic, the Sudan and Yemen. For those countries, the source is the Organization of Arab Petroleum Exporting Countries Databank, available at www.oapecorg.org/Home/DataBank (accessed on 10 June 2018).

[a] ESCWA staff estimates as of March 2018.

[b] ESCWA staff projections as of March 2018.

Appendix C. Gross oil export revenues in the Arab region, 2014-2019 *(billions of dollars)*

Country/subregion	2014	2015	2016	2017[a]	2018[b]	2019[b]
Bahrain	14.5	7.7	6.1	18.7	20.1	19.8
Kuwait	97.5	48.4	41.5	50.2	58.3	59.0
Oman	31.0	17.9	13.3	15.7	16.7	15.5
Qatar	16.3	8.1	12.3	23.5	25.5	24.4
Saudi Arabia	284.6	152.9	136.2	170.2	189.1	191.5
United Arab Emirates	94.8	57.2	43.2	46.9	55.9	56.6
GCC countries	538.6	292.2	252.6	325.2	365.7	366.8
Egypt	12.5	9.0	5.8	6.8	6.5	6.2
Iraq	83.5	50.9	40.5	47.3	55.4	56.1
Syrian Arab Republic	0.0	0.0	0.0	0.0	0.0	0.0
Mashreq	96.0	60.0	46.3	54.1	62.0	62.4
Algeria	35.4	19.1	16.4	18.5	21.6	20.2
Libya	17.3	10.0	6.1	13.5	16.3	17.7
Morocco	0.8	0.3	0.2	1.2	1.3	1.3
Tunisia	2.2	1.0	0.8	0.7	0.8	0.8
Maghreb	55.7	30.4	23.4	33.9	39.9	39.9
Mauritania	0.2	0.1	0.1	0.3	0.4	0.4
Sudan	1.4	0.6	0.4	0.5	0.4	0.4
Yemen	4.5	1.1	0.0	0.0	0.0	0.0
Arab LDCs	6.0	1.8	0.4	0.8	0.8	0.8
Arab region total	696.3	384.3	322.7	413.9	468.4	469.9

Sources: ESCWA estimates based on national statistical sources.
[a] ESCWA staff estimates as of March 2018.
[b] ESCWA staff projections as of March 2018.

Appendix D. Real GDP growth rate and consumer price inflation rate, 2015-2019 *(annual percentage change)*

Country/subregion	Real GDP growth rate					Consumer price inflation rate				
	2015[a]	2016[a]	2017[a]	2018[b]	2019[b]	2015[a]	2016[a]	2017[a]	2018[b]	2019[b]
Bahrain[i]	2.9	3.5	3.8	3.4	3.0	1.9	2.7	1.4	2.8	3.0
Kuwait	0.6	2.9	-3.5	3.1	2.9	3.7	3.5	1.5	1.0	2.7
Oman[h]	4.7	5.4	-0.3	2.9	2.1	0.1	1.1	1.6	1.1	1.3
Qatar	3.6	2.1	1.6	3.3	2.9	1.8	2.7	0.5	0.8	3.1
Saudi Arabia	4.1	1.7	-0.7	1.9	2.1	2.2	2.0	-0.9	2.1	3.2
United Arab Emirates[i]	5.1	3.0	1.5	2.5	2.8	4.1	1.8	1.8	4.1	1.6
GCC countries	4.0	2.4	0.0	2.4	2.5	2.6	2.1	0.3	2.4	2.6
Egypt[c]	4.4	4.3	4.2	6.0	5.4	10.4	14.0	29.8	11.2	10.8
Iraq[l]	3.8	9.6	1.0	4.6	2.3	1.4	0.5	0.2	0.1	0.2
Jordan	2.4	2.0	2.0	2.4	2.3	-0.9	-0.8	3.3	4.1	2.3
Lebanon[h]	0.2	1.7	2.0	2.6	2.8	-3.7	-0.8	4.5	5.1	2.4
State of Palestine[i,k,l]	3.4	4.7	3.1	2.6	2.6	1.4	-0.2	0.2	0.1	0.1
Syrian Arab Republic[g,m]	-6.1	-4.0	3.2	3.5	4.7	38.4	47.7	15.9	10.2	7.8
Mashreq	3.3	5.0	3.0	5.0	4.1	7.3	9.7	17.1	7.1	6.5
Algeria	3.7	3.3	1.6	2.7	2.2	4.8	6.4	5.6	3.9	2.9
Libya[d,h]	-22.0	-5.2	26.7	17.2	12.8	9.8	25.9	28.5	12.8	9.6
Morocco	4.5	1.1	4.1	3.2	3.9	1.6	1.6	0.8	2.1	2.8
Tunisia	1.2	1.0	2.3	2.4	3.4	4.8	3.8	5.3	6.4	3.9
Maghreb	0.7	1.4	5.2	4.4	4.0	4.4	6.9	6.8	4.7	3.8
Comoros[h]	1.0	2.2	2.8	3.0	3.6	1.3	1.8	2.0	0.4	0.9
Djibouti	6.5	6.5	7.0	6.8	6.7	2.7	2.4	-0.8	1.6	1.5
Mauritania	0.9	1.8	3.5	3.2	5.1	0.5	1.5	2.3	3.0	5.4
Somalia[e,j]	2.6	2.6	2.5	3.3	3.9	-2.9	-3.6	2.2	0.8	1.3
Sudan	4.3	4.8	4.5	4.1	4.2	17.3	17.6	32.4	48.5	19.5
Yemen[f,h,j]	-29.2	-11.1	-9.5	-4.9	1.8	21.4	11.9	12.8	13.8	13.5
Arab LDCs	-5.4	0.1	0.4	1.5	3.6	16.6	14.1	23.8	33.9	16.1
Total Arab region	2.9	2.8	1.5	3.3	3.2	4.8	5.3	6.7	5.5	4.5

Sources: ESCWA estimates/forecasts based on national statistical sources.

[a] Figures are from national sources unless otherwise indicated.

[b] Forecast figures are based on DESA/Project LINK 2018.

[c] Data are for Egypt's fiscal year, which ends in June.

[d] 2015-2016 GDP growth rates in Yemen and Libya are from ESCWA Statistical Information Portal, available at https://www.unescwa.org/sub-site/statistics-information-portal (accessed on 10 March 2018).

[e] The GDP growth rate and inflation rate for Somalia are from the United Nations Department of Economic and Social Affairs, *World Economic Situation and Prospects 2018* (New York, 2018), p. 155.

[f] Consumer inflation rate for Yemen is from *World Economic Situation and Prospects 2018*.

[g] The GDP growth rate for the Syrian Arab Republic is based on the National Agenda for the Future of Syria (NAFS) project of ESCWA, available at https://www.unescwa.org/sub-site/national-agenda-future-syria.

[h] The 2017 GDP growth rates for the Comoros, Yemen, Oman, Libya, and Lebanon are based on DESA/Project LINK 2018.

[i] The 2018 and 2019 GDP growth rates for Bahrain, the State of Palestine and the United Arab Emirates are based on ESCWA staff forecasts.

[j] The 2016 and 2017 inflation rates for Somalia and Yemen are based on DESA/Project LINK 2018.

[k] The 2018 inflation rate for the State of Palestine is from national sources.

[l] The inflation rates for Iraq in 2018 and the State of Palestine in 2019 are based on ESCWA staff forecasts.

[m] The inflation rate for the Syrian Arab Republic is based on DESA/Project LINK 2018.

Appendix E. Geographical trade structure, 2013-2017

GCC countries

Exports (*billions of dollars*)	2013	2014	2015	2016	2017
GCC countries	93.0	92.9	72.1	60.9	69.1
Mashreq	18.7	21.0	14.0	13.8	17.3
Maghreb	4.4	3.9	2.9	2.6	2.5
Arab LDCs	9.4	6.7	5.4	5.2	5.1
Arab region	125.5	124.6	94.4	82.4	94.0
Asia and the Pacific	667.7	631.1	367.2	290.0	319.8
Europe	88.6	79.1	55.4	59.4	67.6
North America	67.7	63.5	36.1	30.9	29.9
Latin America and the Caribbean	7.3	7.6	4.7	3.6	3.5
Africa	30.5	30.5	19.9	17.7	18.9
World	1,046.5	999.4	622.5	527.0	589.3

Exports (*percentage*)	2013	2014	2015	2016	2017
Arab region	12.0	12.5	15.2	15.6	15.9
Asia and the Pacific	63.8	63.1	59.0	55.0	54.3
Europe	8.5	7.9	8.9	11.3	11.5
North America	6.5	6.3	5.8	5.9	5.1
Latin America and the Caribbean	0.7	0.8	0.8	0.7	0.6
Africa	2.9	3.1	3.2	3.4	3.2
World	100.0	100.0	100.0	100.0	100.0

Imports (*billions of dollars*)	2013	2014	2015	2016	2017
GCC countries	56.9	55.3	50.8	45.1	47.2
Mashreq	7.6	8.4	8.3	9.6	9.6
Maghreb	1.1	1.4	2.0	3.4	3.5
Arab LDCs	3.5	3.5	3.0	3.7	4.9
Arab region	68.5	68.1	63.8	61.3	64.5
Asia and the Pacific	242.7	259.6	214.4	185.8	181.8
Europe	143.5	143.1	123.0	109.8	111.8
North America	59.9	58.5	56.6	54.6	57.0
Latin America and the Caribbean	17.4	15.8	12.7	11.2	13.0
Africa	17.3	18.3	15.2	17.0	17.9
World	569.3	580.2	571.7	512.8	520.1

Imports (*percentage*)	2013	2014	2015	2016	2017
Arab region	12.0	11.7	11.2	12.0	12.4
Asia and the Pacific	42.6	44.7	37.5	36.2	35.0
Europe	25.2	24.7	21.5	21.4	21.5
North America	10.5	10.1	9.9	10.6	11.0
Latin America and the Caribbean	3.1	2.7	2.2	2.2	2.5
Africa	3.0	3.1	2.7	3.3	3.4
World	100.0	100.0	100.0	100.0	100.0

Mashreq countries

Exports (*billions of dollars*)	2013	2014	2015	2016	2017
GCC countries	7.1	7.9	7.8	8.7	8.6
Mashreq	7.1	6.2	4.8	3.2	4.0
Maghreb	4.0	3.3	2.1	0.9	1.0
Arab LDCs	1.1	0.9	0.9	0.2	0.4
Arab region	28.3	27.2	23.4	19.2	19.9
Asia and the Pacific	71.8	66.1	46.5	38.5	49.1
Europe	22.0	23.0	18.2	17.7	23.0
North America	18.8	17.8	7.2	9.0	14.2
Latin America and the Caribbean	1.2	1.4	0.7	0.2	0.3
Africa	2.3	2.4	1.8	1.5	1.8
World	127.0	121.3	84.2	76.6	101.3

Exports (*percentage*)	2013	2014	2015	2016	2017
Arab region	22.3	22.4	27.7	25.1	19.6
Asia and the Pacific	56.5	54.5	55.3	50.3	48.5
Europe	17.3	19.0	21.6	23.1	22.7
North America	14.8	14.7	8.6	11.7	14.1
Latin America and the Caribbean	0.9	1.1	0.8	0.3	0.3
Africa	1.8	2.0	2.1	1.9	1.8
World	100.0	100.0	100.0	100.0	100.0

Imports (*billions of dollars*)	2013	2014	2015	2016	2017
GCC countries	15.2	17.6	14.6	14.6	15.4
Mashreq	6.8	5.9	4.8	4.1	5.0
Maghreb	1.1	0.9	1.4	0.8	1.1

Arab LDCs	0.3	0.4	0.2	0.2	0.3
Arab region	23.4	24.9	20.9	19.7	21.7
Asia and the Pacific	41.3	42.9	43.6	34.2	36.4
Europe	60.7	64.4	56.4	47.8	51.0
North America	10.9	10.6	9.1	7.2	7.7
Latin America and the Caribbean	6.5	6.1	6.4	4.5	5.8
Africa	1.3	1.2	1.5	1.8	2.0
World	162.7	171.3	157.7	134.2	146.9

Imports (*percentage*)	**2013**	**2014**	**2015**	**2016**	**2017**
Arab region	14.4	14.5	13.3	14.7	14.8
Asia and the Pacific	25.4	25.0	27.7	25.5	24.8
Europe	37.3	37.6	35.8	35.6	34.7
North America	6.7	6.2	5.8	5.4	5.2
Latin America and the Caribbean	4.0	3.6	4.0	3.3	4.0
Africa	0.8	0.7	0.9	1.4	1.4
World	100.0	100.0	100.0	100.0	100.0

Maghreb countries

Exports (*billions of dollars*)	**2013**	**2014**	**2015**	**2016**	**2017**
GCC countries	0.4	0.4	0.4	0.4	0.6
Mashreq	1.6	1.4	1.5	1.5	2.1
Maghreb	4.9	4.6	3.2	2.9	2.3
Arab LDCs	0.3	0.3	0.2	0.4	0.3
Arab region	7.7	7.2	5.7	5.8	6.7
Asia and the Pacific	10.8	9.8	6.6	5.0	7.8
Europe	89.8	77.4	51.4	45.1	54.8
North America	11.3	7.2	4.7	6.2	6.3
Latin America and the Caribbean	5.1	5.1	2.8	3.2	3.9
Africa	1.7	1.8	1.8	1.7	2.1
World	132.7	114.0	77.3	70.8	85.7

Exports (*percentage*)	**2013**	**2014**	**2015**	**2016**	**2017**
Arab region	5.8	6.3	7.4	8.2	7.8
Asia and the Pacific	8.1	8.6	8.5	7.1	9.1
Europe	67.7	67.9	66.5	63.7	64.0
North America	8.5	6.3	6.0	8.8	7.3

Latin America and the Caribbean	3.8	4.4	3.7	4.5	4.5
Africa	1.3	1.6	2.3	2.4	2.4
World	100.0	100.0	100.0	100.0	100.0

Imports (*billions of dollars*)	**2013**	**2014**	**2015**	**2016**	**2017**
GCC countries	5.6	4.9	3.4	3.4	3.0
Mashreq	3.5	2.9	1.9	1.6	1.7
Maghreb	4.7	4.4	2.9	2.6	2.7
Arab LDCs	0.0	0.0	0.0	0.0	0.0
Arab region	13.9	12.2	8.2	7.6	7.4
Asia and the Pacific	25.1	26.2	23.1	24.6	24.3
Europe	70.8	70.7	59.2	58.8	58.8
North America	8.5	8.2	7.0	7.0	6.4
Latin America and the Caribbean	6.7	6.9	5.2	5.3	6.1
Africa	1.0	0.9	1.0	0.7	0.8
World	141.1	139.7	115.4	113.9	115.2

Imports (*percentage*)	**2013**	**2014**	**2015**	**2016**	**2017**
Arab region	9.8	8.7	7.1	6.7	6.4
Asia and the Pacific	17.8	18.8	20.0	21.6	21.1
Europe	50.2	50.6	51.3	51.6	51.0
North America	6.0	5.9	6.1	6.1	5.6
Latin America and the Caribbean	4.8	4.9	4.5	4.7	5.3
Africa	0.7	0.6	0.8	0.6	0.7
World	100.0	100.0	100.0	100.0	100.0

Arab least developed countries

Exports (*billions of dollars*)	**2013**	**2014**	**2015**	**2016**	**2017**
GCC countries	3.2	3.2	2.3	2.3	2.3
Mashreq	0.3	0.4	0.4	0.5	0.7
Maghreb	0.0	0.0	0.0	0.0	0.0
Arab LDCs	0.2	0.2	0.1	0.1	0.1
Arab region	3.6	3.8	2.8	2.9	3.1
Asia and the Pacific	9.1	4.7	2.2	1.5	1.8
Europe	1.2	1.1	0.8	0.8	1.1
North America	0.2	0.1	0.1	0.0	0.0

Latin America and the Caribbean	0.3	0.0	0.0	0.0	0.0
Africa	0.6	0.6	0.5	0.4	0.5
World	15.3	10.0	6.3	5.4	6.3

Exports (*percentage*)	**2013**	**2014**	**2015**	**2016**	**2017**
Arab region	23.7	38.2	44.4	52.8	48.8
Asia and the Pacific	59.8	47.0	35.1	27.4	29.0
Europe	7.8	10.8	13.2	15.5	18.3
North America	1.4	0.9	1.0	0.5	0.5
Latin America and the Caribbean	2.0	0.4	0.6	0.8	0.6
Africa	4.1	5.9	8.2	8.0	7.2
World	100.0	100.0	100.0	100.0	100.0

Imports (*billions of dollars*)	**2013**	**2014**	**2015**	**2016**	**2017**
GCC countries	7.0	4.2	4.0	4.3	4.0
Mashreq	1.2	1.0	1.0	1.0	1.2
Maghreb	0.2	0.2	0.2	0.2	0.2
Arab LDCs	0.4	0.2	0.2	0.2	0.2
Arab region	8.8	5.6	5.4	5.7	5.6
Asia and the Pacific	9.0	10.3	8.5	5.6	6.4
Europe	6.7	6.4	4.4	4.0	4.7
North America	1.0	1.5	0.8	0.7	0.8
Latin America and the Caribbean	1.2	1.5	0.8	1.2	1.2
Africa	1.0	1.1	1.0	1.0	1.1
World	30.2	27.9	22.1	19.0	20.7

Imports (*percentage*)	**2013**	**2014**	**2015**	**2016**	**2017**
Arab region	29.2	20.2	24.4	30.0	27.1
Asia and the Pacific	29.7	36.8	38.3	29.7	30.8
Europe	22.4	22.8	19.9	20.9	22.9
North America	3.3	5.2	3.6	3.5	3.7
Latin America and the Caribbean	3.8	5.3	3.7	6.2	5.7
Africa	3.5	4.0	4.5	5.2	5.3
World	100.0	100.0	100.0	100.0	100.0

Source: ESCWA staff calculations based on IMF, Direction of Trade Statistics and International Financial Statistics. Available at http://www.imf.org/en/Data (accessed on 15 June 2018).

Appendix F. Trade and current account balances, 2015-2019 *(percentage of GDP)*

Country/subregion	Trade goods balance					Current account balance				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
GCC countries										
Bahrain	2.6	-2.5	-2.0	-0.7	-0.3	-2.4	-4.7	-4.0	-1.3	-0.3
Kuwait	24.4	18.1	21.4	26.1	23.6	3.5	-4.5	6.3	13.2	15.2
Oman	13.2	9.4	14.4	18.5	17.5	-15.9	-18.4	-12.2	-5.2	-5.5
Qatar	29.6	16.6	21.9	23.2	21.1	8.4	-5.4	3.8	6.9	5.8
Saudi Arabia	6.8	8.6	14.8	17.9	15.4	-8.7	-3.7	2.2	5.6	3.0
United Arab Emirates	21.4	19.6	21.4	22.0	21.9	4.9	3.8	7.3	8.4	9.0
Mashreq										
Egypt	-12.2	-14.8	-18.5	-14.6	-13.3	-0.1	-3.9	-3.0	0.3	-0.3
Iraq	6.4	7.5	15.4	16.8	14.6	-1.2	2.3	11.4	12.4	10.1
Jordan	-27.5	-24.8	-26.2	-25.4	-24.5	-9.1	-9.5	-10.4	-9.7	-9.9
Lebanon	-27.5	-28.1	-24.9	-24.7	-24.3	-17.5	-21.2	-19.8	-18.0	-17.8
State of Palestine	-33.9	-31.9	-31.9	-32.0	-30.7	-16.3	-10.0	-11.2	-14.4	-13.2
Maghreb										
Algeria	-10.9	-12.8	-11.5	-8.7	-8.9	-16.4	-16.6	-14.9	-11.5	-11.7
Libya	-34.9	-14.3	21.4	5.0	8.6	-57.8	-35.4	4.3	-5.9	-1.1
Morocco	-14.5	-17.1	-16.5	-16.4	-15.9	-2.1	-4.2	-3.6	-4.3	-3.8
Tunisia	-11.6	-11.4	-13.1	-11.7	-10.6	-8.9	-8.8	-10.3	-9.0	-8.0
Arab LDCs										
Comoros	-30.2	-26.4	-28.1	-25.8	-24.1	-0.4	-7.8	-5.3	-4.0	-4.7
Djibouti	-54.5	-29.6	-24.4	-22.0	-21.3	-31.5	-9.1	-7.6	-5.8	-6.7
Mauritania	-11.9	-10.9	-6.4	-5.7	-5.1	-20.4	-15.5	-15.4	-12.1	-10.7
Sudan	-5.4	-3.8	-3.0	-2.3	-2.4	-5.6	-3.5	-3.7	-1.1	-1.5

Source: See appendix H (national statistical sources).

Appendix G. Fiscal positions, 2015-2019 *(percentage of GDP)*

GCC countries

Country	Component	2015	2016	2017	2018	2019
Bahrain	Revenues	17.5	18.2	17.2	17.4	16.9
	Expenditures	30.0	30.7	27.5	27.1	25.4
	Balances	-12.5	-12.6	-10.3	-9.7	-8.5
Kuwait	Revenues	43.8	39.1	36.6	38.8	34.6
	Expenditures	54.8	52.8	54.6	51.8	50.2
	Balances	-10.9	-13.8	-18.0	-12.9	-15.6
Oman	Revenues	34.2	29.6	33.2	32.2	34.2
	Expenditures	51.7	50.2	42.2	42.4	38.3
	Balances	-17.5	-20.6	-8.9	-10.2	-4.1
Qatar	Revenues	36.6	29.0	27.9	27.2	26.6
	Expenditures	38.4	38.0	32.5	31.6	30.8
	Balances	-1.9	-9.0	-4.6	-4.4	-4.2
Saudi Arabia	Revenues	25.1	21.4	26.9	29.3	30.5
	Expenditures	40.0	34.2	35.8	36.6	36.4
	Balances	-15.0	-12.8	-8.9	-7.3	-5.9
United Arab Emirates	Revenues	20.4	29.0	40.2	39.0	38.5
	Expenditures	26.9	32.1	39.6	38.4	37.5
	Balances	-6.5	-3.1	0.6	0.6	1.0

Mashreq countries

Country	Component	2015	2016	2017	2018	2019
Egypt	Revenues	18.8	18.4	19.6	20.5	21.6
	Expenditures	29.7	30.6	28.6	31.1	31.1
	Balances	-10.8	-12.2	-8.9	-10.6	-9.5
Iraq	Revenues	34.9	27.7	36.0	36.5	35.6
	Expenditures	39.8	34.1	41.0	41.2	37.3
	Balances	-4.9	-6.4	-10.8	-5.8	-1.7
Jordan	Revenues	25.5	25.8	25.7	27.9	28.3
	Expenditures	29.0	29.0	28.3	29.6	29.4
	Balances	-3.5	-3.2	-2.6	-1.7	-1.1
Lebanon	Revenues	18.3	18.7	20.5	17.8	17.9
	Expenditures	24.3	26.0	26.7	27.4	27.0

	Balances	-6.0	-7.4	-6.3	-8.4	-7.9
State of Palestine	**Revenues**	22.2	26.5	25.5	23.2	21.6
	Expenditures	33.6	34.6	34.3	30.6	28.9
	Balances	-11.4	-8.1	-8.8	-7.5	-7.4

Maghreb countries

Country	Component	2015	2016	2017	2018	2019
Algeria	**Revenues**	27.3	28.8	31.5	32.1	30.8
	Expenditures	45.8	41.9	36.8	41.3	33.3
	Balances	-18.6	-13.1	-5.4	-9.2	-2.5
Libya	**Revenues**	76.6	46.5	71.4	51.7	47.2
	Expenditures	196.3	155.6	104.4	88.3	79.1
	Balances	-119.7	-109.2	-33.1	-36.6	-31.9
Morocco	**Revenues**	21.4	21.5	21.6	20.9	20.4
	Expenditures	26.3	26.2	25.6	24.5	23.4
	Balances	-4.9	-4.7	-4.0	-3.6	-3.0
Tunisia	**Revenues**	23.8	23.5	24.6	24.8	24.9
	Expenditures	26.2	26.7	27.9	26.3	26.8
	Balances	-2.4	-3.2	-3.3	-1.5	-1.9

Arab least developed countries

Country	Component	2015	2016	2017	2018	2019
Comoros	**Revenues**	33.4	24.8	26.7	26.4	23.5
	Expenditures	28.8	32.4	31.7	31.4	30.8
	Balances	4.6	-7.7	-5.0	-5.0	-7.3
Djibouti	**Revenues**	36.8	32.9	34.7	30.1	29.9
	Expenditures	37.3	35.0	34.7	30.1	28.7
	Balances	-0.5	-2.2	0.0	0.0	1.1
Mauritania	**Revenues**	33.9	33.3	29.3	29.2	28.4
	Expenditures	33.6	31.3	28.4	27.3	25.3
	Balances	-3.3	-0.6	0.9	1.9	3.1
Sudan	**Revenues**	9.3	8.3	8.6	9.4	9.9
	Expenditures	10.5	10.0	10.6	11.9	12.7
	Balances	-1.2	-1.6	-2.0	-2.5	-2.8

Source: See appendix H (national statistical sources).

Appendix H. Sources of national statistical data

1. Algeria

Gross oil export revenues

Bank of Algeria
Quarterly Statistical Bulletin, No. 40 (December 2017)
http://www.bank-of-algeria.dz/pdf/Bulletin_40e.pdf

Real GDP growth

Office National des Statistiques
Quarterly National Accounts, No. 813
Fourth Quarter 2017
http://www.ons.dz/IMG/Comptes4T2017.pdf

Consumer inflation rate

Office National des Statistiques
Indice des Prix à la Consommation, No. 271 (June 2018)
http://www.ons.dz/IMG/pdf/IPC_juin2018-3.pdf

Trade and current account balances

Bank of Algeria
Quarterly Statistical Bulletin, No. 40 (December 2017)
http://www.bank-of-algeria.dz/pdf/Bulletin_40e.pdf

Monetary indicator: broad money

Bank of Algeria
Quarterly Statistical Bulletin, No. 40 (December 2017)
http://www.bank-of-algeria.dz/pdf/Bulletin_40e.pdf

Fiscal positions

Ministry of Finance
Rapport de Présentation de la Loi de Finances pour 2017 et Prévisions 2018-2019
http://www.dgpp-mf.gov.dz/images/stories/PDF/RPLF/NPLF_2017_francais.pdf

Ministry of Finance
Rapport de Présentation du Projet de la Loi de Finances pour 2018 et Prévisions 2019-2020
http://www.dgpp-mf.gov.dz/images/stories/PDF/RPLF/aplf2018.pdf

Unemployment and labour force participation rates

National Office of Statistics
Activité, emploi & chômage, No. 785 (April 2017).
http://www.ons.dz/IMG/Emploi%20Avril%202017.pdf

2. Bahrain

Gross oil export revenues

Central Bank of Bahrain

Statistical Bulletin (March 2018)
http://www.cbb.gov.bh/assets/statistics/Mar_2018_Final.pdf

Real GDP growth

Bahrain Economic Development Board
Bahrain Economic Quarterly (June 2018)
http://bahrainedb.com/app/uploads/2017/06/BEQ-June-2018-1.pdf

Central Bank of Bahrain
Economic Report 2016
http://www.cbb.gov.bh/assets/Reports%20and%20Papers/EconomicReport2016-%20Arabic.pdf

Consumer inflation rate

Bahrain Open Data Portal
Consumer Price Index 2016, 2017, 2018
http://www.data.gov.bh/en/ResourceCenter

Trade and current account balances

Central Bank of Bahrain
Statistical Bulletin (March 2018)
http://www.cbb.gov.bh/assets/statistics/Mar_2018_Final.pdf

Monetary indicator: broad money

Central Bank of Bahrain
Statistical Bulletin (April 2018)
http://www.cbb.gov.bh/assets/statistics/Mar_2018_Final.pdf

Fiscal positions

Central Bank of Bahrain
Economic Indicators (September 2015)
http://www.cbb.gov.bh/assets/E%20I/EI%20Sep2015.pdf

Central Bank of Bahrain
Statistical Bulletin (February 2018)
https://www.cbb.gov.bh/assets/statistics/Feb_2018_final.pdf

Ministry of Finance
Total State Revenue and Expenditure for the Fiscal Years 2015 and 2016
http://www.mof.gov.bh/ShowDataFile.asp?rid=3283

Ministry of Finance
Budget Tables 2017, 2018
https://www.mof.gov.bh/Files/L1/Content/CI938-budget%20tables.pdf

3. Comoros

Real GDP growth

Banque Centrale des Comores
Rapport Annuel 2016
http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2016.pdf

Consumer inflation rate

Banque Centrale des Comores
Rapport Annuel 2016
http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2016.pdf

Trade and current account balances

Banque Centrale des Comores
Rapport Annuel 2016
http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2016.pdf
Rapport Annuel 2015
http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2015.pdf
Rapport Annuel 2014
http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2014.pdf

Monetary indicator: broad money

Banque Centrale des Comores
Statistiques Monétaires
Total de la Masse Monétaire
http://www.banque-comores.km/index.php?page=statistiques-monetaires

Fiscal positions

Banque Centrale des Comores
Rapport Annuel 2016
http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2016.pdf

4. Djibouti

Real GDP growth

Banque Centrale de Djibouti
Rapport Annuel 2017
http://banque-centrale.dj/wp-content/uploads/2018/08/BCD_Rapport_Annuel_2017_version_finale.pdf
Rapport Annuel 2016
http://banque-centrale.dj/wp-content/uploads/2018/03/Rapport_Annuel_2016.pdf

Consumer inflation rate

Banque Centrale de Djibouti
Rapport Annuel 2017
http://banque-centrale.dj/wp-content/uploads/2018/08/BCD_Rapport_Annuel_2017_version_finale.pdf
Rapport Annuel 2016
http://banque-centrale.dj/wp-content/uploads/2018/03/Rapport_Annuel_2016.pdf

Trade and current account balances

Banque Centrale de Djibouti
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Annuaire Statistique

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Monetary indicator: broad money
Banque Centrale de Djibouti
Bulletin Mensuel (September, 2017)
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Fiscal positions
Banque Centrale de Djibouti
Rapport Annuel 2016
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5. Egypt

Gross oil export revenues
Central Bank of Egypt
Monthly Statistical Bulletin, No. 252 (March 2018)
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Real GDP growth
Central Bank of Egypt
Monthly Statistical Bulletin, No. 252 (March 2018)
Real Sector
http://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/MonthlyStatisticaclBulletin.aspx

Consumer inflation rate
Central Bank of Egypt
Statistics
Inflation rates
http://www.cbe.org.eg/en/EconomicResearch/Statistics/Pages/Inflation.aspx

Trade and current account balances
Central Bank of Egypt
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Monetary indicator: broad money
Central Bank of Egypt
Monthly Statistical Bulletin, No. 251 (February 2018)
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Fiscal positions
Central Bank of Egypt
Statistics
State Budget, Deficit and Sources of Financing
http://www.cbe.org.eg/_layouts/xlviewer.aspx?id=/Time%20Series%20Documents/State%20Budget/Deficit%20and%20Sources%20of%20Financing/Deficit%20and%20Sources%20Annual.xlsx&DefaultItemOpen=1

Central Agency for Public Mobilization and Statistics
Egypt in Figures – Economy (March 2018)
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Unemployment and labour force participation rates

Central Agency for Public Mobilization and Statistics
Quarterly Bulletin Labour Force Survey (2017)
http://www.capmas.gov.eg/Pages/Publications.aspx?page_id=5106

6. Iraq

Gross oil export revenues

Central Bank of Iraq
Annual Statistical Bulletin (2017, 2016, 2015)
https://cbi.iq/news/view/492

Real GDP growth

Central Bank of Iraq
Annual Statistical Bulletin (2017)
https://cbi.iq/news/view/492

Consumer inflation rate

Central Bank of Iraq
Economic and Statistics Data – Price Indicator
http://www.cbiraq.org/SubCategoriesTable.aspx?SubCatID=103

Trade and current account balances

Central Bank of Iraq
Economic and Statistics Data
Foreign Trade – External Trade
http://www.cbiraq.org/SubCategoriesTable.aspx?SubCatID=110

Monetary indicator: broad money

Central Bank of Iraq
Annual Statistical Bulletin (2017)
https://cbi.iq/news/view/492

Fiscal positions

Central Bank of Iraq
Annual Statistical Bulletin (2015, 2016)
https://cbi.iq/news/view/492

Central Bank of Iraq
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Ministry of Finance
Budget Medium Term Strategy 2018
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7. Jordan

Real GDP growth

Department of Statistics
National Accounts
http://dosweb.dos.gov.jo/nationalaccount/annual-accounts/tables_accounts/

Consumer inflation rate

Department of Statistics
Price Indices
http://dosweb.dos.gov.jo/economic/price-indices/

Trade and current account balances

Central Bank of Jordan
Monthly Statistical Bulletin
External Sector
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Monetary indicator: broad money

Central Bank of Jordan
Statistical Bulletin (April 2018)
Money Supply, M2
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Fiscal positions

Central Bank of Jordan
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Central Bank of Jordan
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Unemployment and labour force participation rates

Department of Statistics
18.5% unemployment rate during the fourth quarter of 2017 (March)
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8. Kuwait

Gross oil export revenues

Central Bank of Kuwait
Quarterly Statistical Bulletin
Balance of Payments of Kuwait
http://www.cbk.gov.kw/en/statistics-and-publication/statistical-releases/quarterly.jsp

Real GDP growth

Central Bank of Kuwait
Revised and Provisional Estimates National Accounts at Constant Prices 2015-2017

https://www.csb.gov.kw/Pages/Statistics_en?ID=23&ParentCatID=%203
Revised and Provisional Estimates National Accounts at Constant Prices 2014-2016
https://www.csb.gov.kw/Pages/Statistics_en?ID=23&ParentCatID=%203

Consumer inflation rate

Central Bank of Kuwait
Consumer Price Index Numbers
https://www.csb.gov.kw/Pages/Statistics_en?ID=34&ParentCatID=3

Trade and current account balances

Central Bank of Kuwait
Quarterly Statistical Bulletin
Balance of Payments of Kuwait
http://www.cbk.gov.kw/en/statistics-and-publication/statistical-releases/quarterly.jsp

Monetary indicator: broad money

Central Bank of Kuwait
Statistical Release, Monthly
Money Supply, M2
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Fiscal positions

Central Bank of Kuwait
Quarterly Statistical Bulletin (July-September 2017)
Key Economic Indicators
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Ministry of Finance
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9. Lebanon

Real GDP growth

Central Administration of Statistics
http://www.cas.gov.lb/index.php/national-accounts-en

Consumer inflation rate

Central Administration of Statistics
http://www.cas.gov.lb/index.php/latest-news-en/161-2011-2-2013-2
Consumer Price Index, CPI
http://www.cas.gov.lb/index.php/economic-statistics-en?layout=edit&id=185#cpiresults

Trade and current account balances

Central Bank of Lebanon
Statistics and Research
Main series, External Sector and Balance of Payments
http://www.bdl.gov.lb/webroot/statistics/

Monetary indicator: broad money

Central Bank of Lebanon
Statistics and Research
Monetary Aggregates and Counterparts, M2
http://www.bdl.gov.lb/webroot/statistics/table.php?name=t521-5

Fiscal positions

Central Administration of Statistics
National Accounts 2004-2015 Tables
http://www.cas.gov.lb/index.php/national-accounts

Central Bank of Lebanon
Quarterly Bulletins (Q4-2014, Q4-2015, Q4-2016, Q3-2017)
http://www.bdl.gov.lb/downloads/index/9/148/Quarterly-Bulletins.html

Ministry of Finance
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Summary of Fiscal Performance, 2017
http://www.finance.gov.lb/en-us/Finance/EDS/FP/2017/FISPRF%20Summary%20English%20Dec%202017.pdf

10. Libya

Gross oil export revenues

Central Bank of Libya
Economic Bulletin
Fourth Quarter 2017 (March 2018)
http://cbl.gov.ly/en/wp-content/uploads/sites/2/2018/03/Economic-Bulletin-4th-Quarter-2017.pdf

Real GDP growth

Central Bank of Libya
Economic Bulletin
Fourth Quarter 2017 (March 2018)
http://cbl.gov.ly/en/wp-content/uploads/sites/2/2018/03/Economic-Bulletin-4th-Quarter-2017.pdf

Consumer inflation rate

Central Bank of Libya
Economic Bulletin
Fourth Quarter 2017 (March 2018)
http://cbl.gov.ly/en/wp-content/uploads/sites/2/2018/03/Economic-Bulletin-4th-Quarter-2017.pdf

Trade and current account balances

Central Bank of Libya
Economic Bulletin
Fourth Quarter 2017 (March 2018)
http://cbl.gov.ly/en/wp-content/uploads/sites/2/2018/03/Economic-Bulletin-4th-Quarter-2017.pdf

Monetary indicator: broad money

Central Bank of Libya
Economic Bulletin
Fourth Quarter 2017 (March 2018)
http://cbl.gov.ly/en/wp-content/uploads/sites/2/2018/03/Economic-Bulletin-4th-Quarter-2017.pdf

Fiscal positions

Central Bank of Libya
Economic Bulletin
Fourth Quarter 2017 (March 2018)
http://cbl.gov.ly/en/wp-content/uploads/sites/2/2018/03/Economic-Bulletin-4th-Quarter-2017.pdf

11. Mauritania

Gross oil export revenues

Banque Centrale de Mauritanie
Bulletin Trimestriel des Statistiques (November 2017)
http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_t-3._2017.pdf

Real GDP growth

Banque Centrale de Mauritanie
Rapport Annuel de l'exercice 2017
http://www.bcm.mr/IMG/pdf/rapport_annuel_bcm_2017_fr.pdf
Bulletin Trimestriel des Statistiques (November 2017)
http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_t-3._2017.pdf

Consumer inflation rate

Banque Centrale de Mauritanie
Bulletin Trimestriel des Statistiques (June 2018)
http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_t-4_2017.pdf
Bulletin Trimestriel des Statistiques (November 2017)
http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_t-3._2017.pdf

Trade and current account balances

Ministry of Finance
Cadre Budgétaire à Moyen Terme (2015-2017)
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Monetary indicator: broad money

Banque Centrale de Mauritanie
Bulletins Trimestriels des Statistiques (November 2017)
http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_t-3._2017.pdf

Fiscal positions

Banque Centrale de Mauritanie
Statistiques monétaires et financières
Balance des Paiements 2016
http://www.bcm.mr/IMG/pdf/balance_des_paiements_2016.pdf

12. Morocco

Gross oil export revenues
Bank Al-Maghrib
Annual Report 2016
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Real GDP growth
Haut-Commissariat au Plan
Comptes nationaux des secteurs institutionnels 2016
https://www.hcp.ma/downloads/Comptabilite-nationale_t11873.html

Consumer inflation rate
Haut-Commissariat au Plan
Indice Des Prix A La Consommation
https://www.hcp.ma/downloads/IPC-Indice-des-prix-a-la-consommation_t12173.html

Trade and current account balances
Bank Al-Maghrib
Report on Monetary Policy
Monetary Policy Report 2017 (March-September 2017)
http://www.bkam.ma/en/content/view/full/14916

Monetary indicator: Broad money
Bank Al-Maghrib
Documents Information and statistics
Key Monetary Statistics (March 2018)
http://www.bkam.ma/

Fiscal positions
Ministry of Finance
Economic and Financial Data, Public Finance
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Unemployment and labour force participation rates
Haut-Commissariat au Plan, Direction de La Statistique
Activité, Emploi, et Chômage, Troisième trimestre 2017

13. Oman

Gross oil export revenues
Central Bank of Oman
Quarterly Statistical Bulletin (December 2017)
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Real GDP growth
National Centre for Statistics and Information
National Accounts, Issue No. 17 (2014-2016)
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Consumer inflation rate

Central Bank of Oman
Annual Report 2017 (June 2018)
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National Centre for Statistics and Information
Statistical Yearbook, Issue No. 45 (2017)
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Trade and current account balances

Central bank of Oman
Quarterly Statistical Bulletin (March 2018)
https://cbo.gov.om/report/QuarterlyBulletins/63

Monetary indicator: broad money

Central Bank of Oman
Banking Indicator
Monetary Indicators, Broad Money Supply (M2)
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Fiscal positions

National Centre for Statistics and Information
Statistical Year Book, Issue No. 45
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Monthly Statistical Bulletin, vol. 29 (April 2018)
https://www.ncsi.gov.om/Elibrary/LibraryContentDoc/bar_Monthly%20Statistical%20Bulletin%20%20April%202018_4eddef5f-6020-43c8-84fb-24df22572713.pdf

Ministry of Finance
The State Budget 2018
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14. State of Palestine

Real GDP growth

Palestine Monetary Authority
Statistics Time Series Data – National Accounts
http://www.pma.ps/Default.aspx?tabid=202&language=en-US

Consumer inflation rate

Palestinian Central Bureau of Statistics
Monthly and Quarterly Data
http://www.pma.ps/Default.aspx?tabid=201&language=en-US

Trade and current account balances

State of Palestine Monetary Authority

Statistics, Time Series Data, External Sector Palestinian Balance of Payments
http://www.pma.ps/Default.aspx?tabid=202&language=en-US

Fiscal positions

Palestine Monetary Authority
Statistics, Time Series Data, Main Economic Indicators
http://www.pma.ps/Default.aspx?tabid=202&language=en-US

Ministry of Finance
http://www.pmof.ps/en/41

Unemployment and labour force participation rates

Palestinian Central Bureau of Statistics
Labour Force Survey (April-June 2017) Round (Q2/2017)

15. Qatar

Gross oil export revenues

Ministry of Development Planning and Statistics
Quarterly Statistical Bulletin
Fourth Quarter 2017 (February 2018)
https://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Economic/ForeignTrade/2017/Q4/FT_Q4_2018_En.pdf

Real GDP growth

Ministry of Development Planning and Statistics
National Accounts Bulletin 2018
https://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Economic/NationalAccounts/NationalAccounts/2018/National_Accounts_MDPS_Bu_AE_2018.pdf.pdf
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https://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Economic/NationalAccounts/NationalAccounts/2016/National_Accounts_MDPS_Bu_AE_2016.pdf.pdf
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https://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Economic/NationalAccounts/NationalAccounts/2015/National-Accounts-Bulletin-2015.pdf

Consumer inflation rate

Qatar Central Bank
Annual Report 2017
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Ministry of Development Planning and Statistics
Qatar Monthly Statistics Bulletin (December 2017)
https://www.mdps.gov.qa/en/statistics/Statistical%20Releases/General/QMS/QMS_MDPS_48_Jan_2018.pdf

Trade and current account balances

Qatar Central Bank
Quarterly Statistical Bulletin

Fourth Quarter 2017 (December 2017)
http://www.qcb.gov.qa/English/Publications/Statistics/Pages/Statisticalbulletins.aspx

Monetary indicator: broad money

Qatar Central Bank
Monthly Monetary Bulletin (April 2018)
http://www.qcb.gov.qa/English/Publications/Statistics/Pages/MonthlyBulletin.aspx

Fiscal positions

Ministry of Development Planning and Statistics
National Accounts Bulletin (2016)
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Quarterly Statistical Bulletin
Window on Economic Statistics of Qatar, Issue No. 22, Q3 2017 (January 2018)
https://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Economic/GeneralEconomicStatistics/windowonstatistics/2017/WinEconomicStat_22th_Issue_Q3_2017_AE.pdf

Unemployment and labour force participation rates

Ministry of Development Planning and Statistics
Labor Force Survey
Third Quarter (July-September 2017)
https://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Social/LaborForce/2017/Q3/LF-Q3-2017-AE.pdf.

16. Saudi Arabia

Gross oil export revenues

Saudi Arabian Monetary Authority
Annual Statistics 2017
http://www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx

Real GDP growth

Saudi Arabian Monetary Authority
Annual Statistics 2017
http://www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx

Consumer inflation rate

Saudi Arabian Monetary Authority
Annual Statistics 2017
http://www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx

Trade and current account balances

Saudi Arabian Monetary Authority
Annual Statistics 2017
http://www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx

Monetary indicator: broad money

Saudi Arabian Monetary Authority

Monthly Bulletin (March and April 2018)
http://www.sama.gov.sa/en-US/EconomicReports/Pages/MonthlyStatistics.aspx

Fiscal positions

Saudi Arabian Monetary Authority
Annual Statistics 2017
http://www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx

Ministry of Finance
Budget statement (Fiscal Year 2018)
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Unemployment and labour force participation rates

General Authority of Statistics
Labor Market 2017
Third Quarter
https://www.stats.gov.sa/sites/default/files/labor_market_q3.pdf

17. Sudan

Gross oil export revenues

Central Bank of Sudan
Economic and Financial Statistics Review
First Quarter 2018 (January-March 2018)
https://cbos.gov.sd/sites/default/files/Q1_2018.pdf
Fourth Quarter 2017 (September-December 2017)
https://cbos.gov.sd/sites/default/files/Q4-2017.pdf

Real GDP growth

Central Bank of Sudan
Economic and Financial Statistics Review
First Quarter 2018 (January-March 2018)
https://cbos.gov.sd/sites/default/files/Q1_2018.pdf

Consumer inflation rate

Central Bank of Sudan
Economic and Financial Statistics Review
First Quarter 2018 (January-March 2018)
https://cbos.gov.sd/sites/default/files/Q1_2018.pdf
56th Annual Report 2016
https://cbos.gov.sd/sites/default/files/Annual%20report%202016.pdf

Trade and current account balances

Central Bank of Sudan
56th Annual Report 2016
https://cbos.gov.sd/sites/default/files/Annual%20report%202016.pdf

Monetary indicator: broad money

Central Bank of Sudan

Economic Brief, February 2018
https://cbos.gov.sd/sites/default/files/issue_2_2018.pdf

Fiscal positions

Central Bank of Sudan
Economic and Financial Statistics Review, Issue No. 4, vol. 58 (October – December 2017)
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56th Annual Report 2016
https://cbos.gov.sd/sites/default/files/Annual%20report%202016.pdf

18. Syrian Arab Republic

Real GDP growth

Syrian Arab Republic, Central Bureau of Statistics
Statistics
http://www.cbssyr.sy/index.htm

Consumer inflation rate

Syrian Arab Republic, Central Bureau of Statistics
Consumer Price Index, CPI
http://www.cbssyr.sy/index.htm

19. Tunisia

Real GDP growth

Central Bank of Tunisia
Nation's Accounts
https://www.bct.gov.tn/bct/siteprod/tableau_n.jsp?params=PL203150,PL203160&la=an

Consumer inflation rate

National Institute of Statistics
Household consumer price index, CPI
Evolution of the consumer price index by year of base, CPI
http://www.ins.tn/en/themes/prix#sub-355

Trade and current account balances

Central Bank of Tunisia
External Sector, Balance of Payments
Evolution of Main Flows and Balance of External Payments 2017
https://www.bct.gov.tn/bct/siteprod/tab_trimestriel.
jsp?params=PL120010,PL120020,PL120030&cal=t&page=P120&tab=040&pos=3

Monetary indicator: broad money

Central Bank of Tunisia
Statistics, Monetary Sector
Analytic Accounts of the Banking Sector
https://www.bct.gov.tn/bct/siteprod/tableau_statistique.
jsp?params=PL030010&cal=m&page=P030&tab=020&la=an

Fiscal positions

Ministry of Finance
Indicators
Annual evolution of foreign trade
http://www.finances.gov.tn/index.php?option=com_content&view=article&id=192&Itemid=305&lang=fr

Unemployment and labour force participation rates

Statistique Tunisie
Indicateurs de L'emploi et du Chômage, Quatrième trimestre 2017

20. United Arab Emirates

Gross oil export revenues

Central Bank of United Arab Emirates
Annual Balance of Payments Statistics
Development in the Balance of Payments (1 May 2018)
https://www.centralbank.ae/en/index.php?option=com_content&view=article&id=198&Itemid=418

Real GDP growth

Central Bank of United Arab Emirates
Annual Report 2017

Federal Competitiveness and Statistical Authority
Economic Statistics
National Accounts Estimates 1975-2017
http://fcsa.gov.ae/en-us/Pages/Statistics/Statistics-by-Subject.aspx

Consumer inflation rate

Federal Competitiveness and Statistical Authority
Economic Statistics, Prices and Indices, Consumer Price Indices
Monthly Consumer Price Index 2008-2016
http://fcsa.gov.ae/en-us/Pages/Statistics/Statistics-by-Subject.aspx

Trade and current account balances

Central Bank of United Arab Emirates
Annual Report 2017
https://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2017_En.pdf
Annual Report 2016
https://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2016_En_new.pdf
Annual Report 2015
https://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2015_En_2.pdf

Monetary indicator: broad money

Central Bank of United Arab Emirates
Monthly Statistical Reports
Monetary Survey (January 2018)
https://www.centralbank.ae/en/index.php?option=com_jumi&fileid=54&Itemid=122&fid=7

Fiscal positions

Central Bank of United Arab Emirates
Annual Report 2017
https://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2017_En.pdf
Annual Report 2016
http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2016_En_new.pdf
Annual Report 2015
http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2015_En_2.pdf
Annual Report 2014
http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport2014_en_new.pdf
Annual Report 2013
http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport2013_English3.pdf

21. Yemen

Real GDP growth

Central Statistical Organization
Statistical Yearbook 2013
http://www.centralbank.gov.ye/App_Upload/Ann_rep%202013_EN%20.pdf

Consumer inflation rate

Central Bank of Yemen
Money and Banking Development (January 2015)
http://www.centralbank.gov.ye/App_Upload/Jan2015.pdf

The Arab region continues to manage uncertainties on its path towards an inclusive and sustainable growth trajectory: geopolitical tensions persist, and global interest rates have soared. The moderate recovery in oil prices further complicates the balance between fiscal consolidation, private sector development, diversification and external imbalances. Notwithstanding the daunting challenges ahead for policymakers, stronger economic prospects in Europe will create more opportunities for the region. Reflecting both upside opportunities and downside risks, the *Survey of Economic and Social Developments in the Arab Region 2017-2018* shows that regional economic growth is estimated to have slowed to 1.5 per cent in 2017 from 2.8 per cent the year before, but is projected to rebound to 3.3 per cent in 2018 and maintain a similar rate of growth for 2019.

The 2017-2018 survey finds that the region continues to lag behind the rest of the world in gender equality, in spite of remarkable progress recorded in educational attainment for women and ambitious new legislation to reduce discriminatory practices. It also attempts to explore the exchange-rate regime in Arab countries and claims that fixed exchange regimes, despite substantial misalignments, have a better impact on growth in some countries. This counterintuitive result is mainly driven by the high level of uncertainty in the region. Mindful of this, any policy that guarantees a certain predictability for consumers and investors may have a positive effect on growth. Rigid exchange-rate regimes serve as a commitment to low inflation and eliminate exchange-rate risk caused by inappropriate monetary and fiscal policies.

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