

## **Background Note on the Economic Outlook of Western Asia**

In Western Asia, political instabilities and lower oil exports are adversely shaping the economic picture. Economic activity is relatively weak, with growth forecasting to reach 3.6 per cent in 2014. Geopolitical tensions can further affect the region's economic prospects and the current forecast.

The members the Gulf Cooperation Council (GCC) have been on a stable growth path, despite weak oil prices and exports. Economic activity continues to be supported by expansionary fiscal policies. These countries seem to be more insulated from the current geopolitical risks, as their economies and financial markets have continued to perform relatively well in recent months.

The economies of Iraq, Jordan, Lebanon, the Syrian Arab Republic, and Yemen have been hampered by continuing political instability, social unrest, security incidents and geopolitical tensions. The heavy human toll and the extraordinarily large number of refugees across the sub-region have been a challenge for conflicting countries themselves, but also for fiscal budgets in neighbouring countries. These conflicts also threaten to undo recent years of economic progress, due to the widespread destruction of crucial infrastructure and lower prospects for foreign investment.

In Turkey, the surge in capital outflows and the depreciation of the exchange rate led to sharp increases in policy interest rates at the beginning of 2014. GDP growth is expected to slow down to 2.2 per cent in 2014. In addition, Turkey's export sector has been hampered by the current turmoil in Iraq, which represents Turkey's second-largest export destination. This could undermine the country's efforts to reduce its large current account deficit.

The Israeli economy, which was already expanding at a slower pace than previously forecast, is expected to be hurt by the conflict in the Gaza strip, adding pressure on governments' finances. The Israeli central bank reckons that the current conflict may affect GDP growth by half a percentage point this year, based on the assumption that the conflict will not last long. The lack of data makes it particularly difficult to assess at this point the impact of the current conflict in the Gaza strip, even though the economic consequences are expected to be particularly heavy.