World Economic Situation and Prospects

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Decrease in oil prices and internal conflicts threaten Western Asia's economic recovery - UN report

Moderate growth is expected for 2015, although the fall in oil prices presents an important downside risk for oil exporting countries.

Beirut, 19 January— Economic growth is expected to pick up in many countries in Western Asia over the next two years, but decreasing oil prices and ongoing conflicts threaten to weaken economies in the region, says the United Nations *World Economic Situation and Prospects 2015 (WESP)* released today.

After slowing from 4.0 per cent in 2013 to 2.9 per cent in 2014, aggregate gross domestic product (GDP) growth in Western Asia is expected to reach 3.7 per cent in 2015 and 4.3 per cent in 2016. In a broader geographical context, the average GDP growth of Arab countries decelerates to 2.6 per cent in 2014 from 3.3 per cent in 2013. It is projected to reach 3.9 per cent in 2015 and 4.5 per cent in 2016.

Oil exporting countries, in particular several members of the Cooperation Council for the Arab States of the Gulf (GCC), are expected to continue growing faster than non-oil exporters. Qatar and Saudi Arabia are expected to register faster GDP growth in 2015, 6.7 per cent and 4.2 per cent, respectively.

Despite lower oil prices, demand for oil from East and South Asia has been strengthened through increased trade between the regions. In addition, economies are increasing fiscal spending and stimulating domestic demand to offset the negative impact of decreasing oil prices.

An economic forecast for Iraq, another oil exporting country, is harder to formulate due to limited data. Despite stable crude oil exports, the collapse of non-oil-sector activities due to the expanding conflict areas significantly worsened the economic situation. As a result, the economy is estimated to have contracted in 2014 by 2.6 per cent. However, GDP growth is projected to be positive in 2015, before picking up more firmly in 2016.

In Turkey, the biggest economy in the region, GDP growth decreased from 4.1 per cent in 2013 to 2.7 per cent per cent in 2014. The slowdown is mainly due to deceleration of private consumption and investment. A moderate economic recovery is expected, with GDP growth averaging 3.7 per cent a year in 2015 and 2016.

Iraqi and Syrian conflicts create significant spillover effects

In the Syrian Arab Republic, the intensifying armed violence caused substantial losses of capital stock, hampered private investment activities and depressed growth prospects. Besides the heavy humanitarian toll, recent estimations indicate that GDP has contracted for the past three years, by 3 per cent in 2011, by 30.8 per cent in 2012 and by 37.7 in 2013.

In addition, the continuing influx of Syrian refugees overburdened the economic infrastructures of Jordan, Lebanon and Turkey. The armed conflicts in Iraq, Gaza and Yemen have also forced workers either to be unemployed or economically inactive. The presence of a larger number of refugees is expected to continue during the forecast period, fuelling high unemployment.

GDP growth is estimated to have accelerated in 2014, to 3.5 per cent in Jordan and to 2 per cent in Lebanon, driven mainly by strong growth in construction and government spending.

In Israel, GDP growth decelerated in 2014, partly due to the conflict in Gaza, but also to lower private consumption and investment. The economic outlook for Israel, Jordan and Lebanon is improving, and their economies are expected to expand at a faster pace during the forecast period.

Many countries will continue with loose monetary policies, but more prudent on fiscal spending

In oil exporting countries, the fiscal stance is expected to remain expansionary, although less than in previous years, given the sharp decline in oil prices. Current oil prices represent already a fiscal breakeven price for the majority of oil exporting countries. Fiscal breakeven price is the price required for countries to balance their budgets. In particular, countries such as Bahrain and Oman already face fiscal challenges which are expected to be aggravated if fiscal spending is not revised in line with lower oil prices. Nevertheless, growth in public expenditure in real terms is expected to continue to be the basis of support for domestic demand expansion in GCC countries, especially for those that have accumulated substantial financial reserves in recent years.

The report says a prudent fiscal policy environment is expected in Jordan, Lebanon and Yemen, where rising government debt starts pressuring fiscal balances due to higher interest payments. These countries rely more on foreign aid to carry out public investments. Over the next two years, more expansionary fiscal policy is expected in Turkey, partly to compensate for the tighter monetary policy and its consequences on private investment.

Downside risks include expansion of conflict areas and falling oil prices

The economic outlook is subject to major downside risk factors. First, the possible expansion of conflict areas in Syria and Iraq to other countries would have direct negative consequences for the region's economic growth. Second, if crude oil prices remain below $70 per barrel for an extended period, business confidence in GCC countries would be affected. Third, unanticipated repercussions from monetary tightening in the United States would increase the region's funding costs. Last, any worsening in the growth prospects of Asian economies, such as China, India and the Republic of Korea, will have substantial impact on the region's exports.

WESP is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the UN Conference on Trade and Development (UNCTAD), the five UN regional commissions and the World Tourism Organisation (UNWTO).

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