World Economic Situation and Prospects 2012

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Press Release

Political unrest in the Arab world shakes up regional economy – UN report

Economies of countries experiencing unrest sapped, but higher oil prices helped exporters; expansion is declining region-wide as economic activity slows in developed countries

Beirut, 19 January 2012: Western Asia's economic prospects have been subject to high uncertainty since the start of the Arab spring, and with a divided impact, according to a UN economic report launched today. Political unrest pushed up oil prices, leading to faster growth in net oil exporting countries than among importers, as violent clashes hampered economic activity in several Arab countries.

The *World Economic Situation and Prospects 2012* (WESP) adds that with slackening global economic activity and oil prices unlikely to rise further, regional growth in 2012 is forecast to decline from 6.6 per cent to 3.7 per cent (*see table at the end of the release*).

Higher oil prices and production levels benefit oil exporters

In the wake of the Arab spring, oil prices hovered above $100 per barrel (pb) in 2011, up from $77 pb in 2010. The escalation of the conflict in Libya was one factor in the price surge, as it led to a loss in supply of 1.6 million barrels per day. The increase in international oil prices might have been stronger if other countries, including Bahrain, the United Arab Emirates and Saudi Arabia, had not stepped up their production of crude oil. Qatar also benefited from rising energy prices as its liquefied natural gas production increased by 40 per cent during the first half of 2011. The combination of higher oil prices and greater volume of production boosted revenues as well as economic growth in oil-exporting countries of the region.

Social spending boosting growth and paving a way out of political turmoil

The generous social spending measures announced by many Arab Governments to alleviate popular protests further boosted economic growth by increasing public and private consumption. As a result, most Gulf Cooperation Council (GCC) countries as well as Iraq fared even better in 2011 than in 2010. Saudi Arabia's extraordinary spending packages, which equalled 30 per cent of GDP, aimed to increase employment, wages and consumption in the short run as well as address housing shortages in the long term.

By contrast, fuel importers experienced continued growth, but on less firm ground. Countries deprived of oil revenues adopted more modest spending packages that widened their fiscal deficits. The economic effect of social spending measures and their costs will continue to impact the region in 2012.

Fiscal deficits and weak external balances in oil-importing countries
WESP says that regional unrest also affected trade and tourism revenues, most starkly in Lebanon. On the other hand, external balances in fuel-exporting countries showed solid surpluses in 2011 as a result of the combination of higher oil prices and increased production.

The external environment continued to worsen and foreign investors have become more risk averse, especially as regards the oil-importing countries. There were negative equity investments flows, while foreign direct investment in the region declined for the third consecutive year, in 2011. But external financing conditions for oil-exporting countries were cushioned as funding of large-scale oil projects maintained strong levels.

Unresolved domestic political issues
The UN reports that lasting protests and violent clashes with authorities dented growth in several countries in 2011. Bahrain, with military support from Gulf Cooperation Council (GCC) countries, promptly crushed protests that had erupted in March and will experience positive though lower-than-expected growth in 2011. Bahrain's unresolved sectarian divide, however, may discourage investors and thwart Bahrain's goal of becoming a regional hub for financial and other services. Both Yemen and Syria registered negative growth in 2011. Economic prospects for 2012 in those countries are primarily dependent upon domestic political developments.

Turkish and Israeli growth trajectories
In Turkey, strong private consumption supported economic activity, especially in the construction, trade, transportation and communication sectors. The economy grew by 7.5 per cent in 2011, but momentum faded during the second half of the year. The Turkish economy, along with that of Israel and many other countries in the region, is expected to see its growth slowing down in 2012 in view of weakening external demand. The weak lira improved the competitiveness of Turkish tradable goods and services. However, in the context of strong domestic and weak external demand, exports have not kept pace with imports, causing the current-account deficit to widen to about 10 per cent of GDP in 2011.

In Israel, exports representing about a quarter of GDP were negatively affected by declining demand from its main export markets starting in the second half of 2011 and the current-account balance may turn slightly negative for the first time since 2002.

Unemployment remains high, especially among youth
Recent political unrest highlights the poor employment situation as well as the common problematic features of many labour markets in the region. Despite extremely low female participation rates, unemployment rates in the region are among the highest in the world, especially among educated youth.

At the same time, migrant workers represent on average more than 70 per cent of the labour force in GCC countries. These conditions point, inter alia, at a longstanding lack of coherence between education and economic development policies. In order to counter the threat of spreading unrest, many Governments promised to quickly create jobs for nationals in the public sector and increase wages. Saudi Arabia is trying to impose quotas for nationals in private businesses.

After peaking above 14 per cent in 2009, the unemployment rate in Turkey oscillated around 10 per cent during 2011. In Israel, unemployment receded to 5.4 per cent, below its pre-crisis level. Despite this apparent improvement, in July and August of 2011, rising income disparities and the high cost of living led the struggling working class to organize the largest social protests the country has experienced since its creation.

Downside risks

In the outlook, Western Asia faces three major downside risks. First, the region may be destabilized by the revival of international tensions in the region or by sprawling domestic political unrest. Second, if the financial woes and deeper fiscal austerity in developed countries were to trigger a global downturn, oil prices could drop below break-even prices for fiscal sustainability in oil-exporting countries. In such a pessimistic global scenario, GDP growth in Western Asia may decelerate to just about 1 per cent in 2012, almost 3 percentage points less than in the baseline forecast. Saudi Arabia's economy, for instance, would grow by just 0.8 per cent instead of 3.9 per cent in 2012.

In the long run, inaction in relation to the dire employment situation and, more broadly, the failure to implement effective diversification strategies based on a more inclusive development paradigm represent major risks to stability and prosperity in the region.

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Join Rob Vos, Director of UN/DESA's Development Policy and Analysis Division (DPAD) and economists from DPAD's Global Economic Monitoring Unit on 20 January from 9:00 - 10:00 am EST for a live Facebook chat (http://on.fb.me/wesp2012) on the world economy. Follow us on Twitter (https://twitter.com/#!/UNDevelopPolicy) at #WESP2012.

Western Asia: Rates of growth of real GDP, 2008-2013[a]

Annual percentage change	2008	2009	2010	2011[b]	2012[c]	2013[c]
Western Asia	**3.8**	**-0.9**	**6.3**	**6.6**	**3.7**	**4.3**
Bahrain	6.3	3.1	4.5	2.9	3.7	4.0
Iraq	6.6	9.3	7.3	9.0	12.0	7.0
Israel	4.0	0.8	4.8	4.3	2.5	2.9
Jordan	7.6	2.3	3.1	2.8	3.1	3.0
Kuwait	5.0	-5.2	2.0	6.2	4.7	4.5
Lebanon	9.3	8.0	7.5	1.7	3.1	4.0
Oman	12.8	1.1	4.2	4.9	4.7	4.0
Qatar	17.7	12.0	19.4	18.0	6.2	4.3
Saudi Arabia	4.2	0.2	3.8	6.8	3.9	3.5
Syrian Arab Republic	4.5	6.0	3.2	-2.0	2.0	3.5
Turkey	0.7	-4.8	9.0	7.5	3.2	5.4
United Arab Emirates	3.3	-1.6	1.4	3.6	3.0	3.4
Yemen	4.7	4.7	8.0	-2.0	5.0	3.0
Western Asia (excluding Israel and Turkey)	5.8	1.2	5.0	6.5	4.3	3.8
Gulf Cooperation Council States	5.8	0.4	4.8	7.3	4.2	3.7
More diversified economies	6.4	6.3	5.8	1.6	5.0	4.2

Source: United Nations, *World Economic Situation and Prospects 2012*.

a Regional averages are calculated as a weighted average of individual country growth rates of GDP, where weights are based on GDP in 2005 prices and exchange rates.

b Partly estimated.

c Baseline scenario forecasts, based in part on Project LINK and UN/DESA World Economic Forecasting Model.

Western Asia: the downside scenario[a]

Annual percentage change						
			Downside scenario		*Difference with the baseline scenario*	
Rates of growth of real GDP	*2010*	*2011*[b]	*2012*[c]	*2013*[c]	*2012*	*2013*
World	**4.0**	**2.8**	**0.5**	**2.2**	**-2.1**	**-1.0**
Developed economies	2.7	1.3	-0.9	1.1	-2.1	-0.8
European Union	2.0	1.6	-1.6	1.0	-2.3	-0.6
Japan	4.0	-0.5	0.5	1.2	-1.5	-0.8
United States	3.0	1.7	-0.8	1.1	-2.3	-0.9
Economies in transition	4.1	4.1	-2.0	3.3	-5.9	-0.9
Developing economies	7.5	6.0	3.8	4.5	-1.7	-1.4
Western Asia	6.3	6.6	1.1	2.5	-2.7	-1.8
Turkey	9.0	7.5	0.2	3.6	-3.0	-1.8
Saudi Arabia	3.8	6.8	0.8	1.9	-3.1	-1.6
Western Asia (excluding Israel and Turkey)	5.0	6.5	1.7	2.1	-2.6	-1.7
Oil exporters	5.0	7.1	1.6	2.1	-2.8	-1.7
*More diversified economies**	4.7	0.3	1.6	2.5	-1.1	-1.0

Source: United Nations, *World Economic Situation and Prospects 2012*.

a Regional averages are calculated as a weighted average of individual country growth rates of GDP, where weights are based on GDP in 2005 prices and exchange rates.

b Partly estimated.

c Downside scenario forecasts, based in part on Project LINK and UN/DESA World Economic Forecasting Model.

* Because political turmoil is forecast to end in 2012 in the Syrian Arab Republic, forecast growth in 2012 and 2013 is higher than actual growth in 2011, despite the pessimistic assumptions of the downward scenario.