World Economic Situation and Prospects 2013

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UN: Despite record-high oil revenues, economic growth decelerates across the region

Uncertainty of future oil prices and Arab Spring outcomes dim economic prospects

Beirut, 17 January 2013— Economic growth in the Western Asian region declined in 2012 and is expected to stay stagnant in 2013 before resuming in 2014 according to the UN's annual economic report, World Economic Situation and Prospects 2013 (WESP).

The WESP report found that GDP growth in the region declined from 6.7 per cent in 2011 to 3.3 per cent in 2012, and it is likely to stagnate in 2013 before picking up to 4.1 per cent in 2014, said the UN annual.

The WESP report said economic performance varied in 2012 with most oil-exporting countries seeing robust yet slowing growth, while oil-importing countries saw a sharper decline in economic activity.

Most oil-exporting countries, the report said, benefitted from record-high oil prices and rising oil output in 2012, especially Iraq, Kuwait and Saudi Arabia. Public and private investments bolstered growth in Qatar. Economic activity grew more modestly in Bahrain, Oman and the United Arab Emirates. Political instability delayed any possible recovery in Yemen and degenerated into civil war in the Syrian Arab Republic, weighing on risk perception in the entire region. Neighbouring Jordan and Lebanon were further affected by subdued cross-border economic activities, including trade, investment and tourism. The deteriorating external environment increasingly affected economic activity in other oil-importing countries such as Israel, while weakening domestic demand contributed to a sharp decline in economic growth in Turkey.

Economic impact of the Syrian crisis

The conflict in the Syrian Arab Republic has inflicted significant economic damage, including the destruction of commercial and residential properties, infrastructures and production facilities. Economic sanctions also negatively impacted the Syrian economy. The oil embargo caused an export revenue loss of about $4 billion, cutting government revenue by around 25 per cent in 2012.

Bilateral trade flows between the Syrian Arab Republic and neighbouring countries decreased substantially in the first half of 2012, with the exception of Lebanon, the WESP report said. The transit of goods through Syrian territory almost stopped, with most traffic diverting to alternate routes. The disruption of trade flows, accompanied by the reshaping of new trade networks, may have long-lasting effects

Jordan and Lebanon were especially affected by subdued cross-border economic activities. Capital inflows and tourism, which were recent drivers of economic expansion in those countries, decreased significantly due to the crisis. Following the devaluation of the Syrian pound in January 2012, demand for foreign currencies surged in several neighbouring countries. The Jordanian central bank had to raise interest rates and sell foreign reserves to defend the Jordanian dinar, and the Iraqi dinar depreciated against the US dollar.

Reliance on oil means uncertain and unstable future

The WESP report said an uncertain outlook for oil prices weighed on risk perceptions in the region. While social unrest and geostrategic tensions in the region kept the oil price risk premium elevated over the last two years, a lasting global economic slowdown could cause a sustained drop in the oil prices and further slow the region's economic growth. This would generate greater social instability, particularly with some Gulf countries becoming more reliant on oil revenues to balance their budgets and pay for schemes responding to the Arab Spring.

Medium-run fiscal balances remain strong in many Gulf countries, but the break-even price of oil for Gulf Cooperation Council (GCC) countries as a whole is estimated to have increased from $49 per barrel in 2008 to $79 in 2012, with Bahrain and Oman being most vulnerable to a potential drop in oil price. Current-account surpluses in GCC countries range from about 8 per cent of GDP in the United Arab Emirates to more than 40 per cent in Kuwait. By contrast, record high annual average oil prices in 2012 burdened external imbalances in oil-importing countries. Budget deficits also increased in Jordan, Lebanon and Syria.

Employment issues remain acute

Social unrest associated with the Arab Spring surged in part because of the weak absorption capacity of labour markets across the region, which generates unemployment, underemployment and vulnerable employment. Relatively low official unemployment rates disguise the true extent of underutilization of labour because of low participation rates, especially among women.

Governments of GCC and other countries responded to social unrest by raising wages and creating new jobs in the public sector, including by strengthening security forces, and extending the social safety net. In Saudi Arabia, for instance, the unemployment scheme created in the wake of the Arab Spring attracted more than a million unemployed workers, many of them women not previously considered part of the labour force.

Meanwhile, labour markets remain highly segregated in GCC countries. Migrant labour still represents about 90 per cent of the private sector work force as a consequence of uncompetitive compensation compared to the public sector and poorly coordinated education and industrial policies that result in a skills mismatch.

Weaker demand weighs on economic prospects in Israel and Turkey

The deteriorating external environment increasingly affected economic activity in Israel, while weakening domestic demand contributed to a sharp decline in economic growth in Turkey. In Turkey, unemployment declined slightly to almost 9 per cent in 2012. In Israel, new unemployment estimates showed an increase in the rate by more than one percentage point to almost 7 per cent in 2012, contrasting with earlier estimates and thereby undermining claims that the country would be coping with the global slowdown with relative ease. Gas resources in the Mediterranean are expected to generate external surpluses for Israel from 2014.

In Israel, the projected rise of the budget deficit to 3.4 per cent of GDP in 2012 is related to steady military spending amounting to more than 6 per cent of GDP. In Turkey, slowing growth is expected to have increased the budget deficit from an estimated 1.4 per cent of GDP in 2011 to more than 2 per cent in 2012. Fiscal balances in Turkey and across the region are forecast to deteriorate next year.

Downside risks

According to the WESP, Western Asia faces three major downside risks over the next two years.. First, intensifying geostrategic tensions could fuel speculation, raise the oil-price risk premium and exacerbate existing current-account and fiscal imbalances between oil and non-oil economies. Second, if the financial woes and deeper fiscal austerity in developed countries were to trigger a global downturn, a sustained drop in the oil price would negatively affect fiscal and, eventually, social stability in oil-exporting countries. Finally, 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 long-run stability and prosperity in the region.

Table:
Western Asia: rates of growth of real GDP, 2009-2014

	2009	*2010*	*2011*	*2012*[a]	*2013*[b]	*2014*[b]
Western Asia	**-1.5**	**6.7**	**6.7**	**3.3**	**3.3**	**4.1**
Bahrain	3.1	4.5	2.2	2.5	2.9	3.0
Iraq	5.8	5.9	8.6	11.3	7.8	8.1
Israel	1.1	5.0	4.6	2.9	2.8	6.0
Jordan	5.5	2.3	2.6	2.9	3.0	3.5
Kuwait	-7.8	7.9	8.2	4.7	3.7	4.0
Lebanon	9.0	7.0	1.5	1.6	2.4	3.9
Oman	1.1	8.1	5.5	4.5	3.5	4.0
Qatar	12.0	16.7	13.5	6.2	4.5	4.0
Saudi Arabia	0.1	4.6	6.8	5.5	3.7	3.0
Syrian Arab Republic	5.9	3.4	-2.0	-29.1	-15.0	10.0
Turkey	-4.8	9.2	8.5	3.0	3.4	4.2
United Arab Emirates	-4.8	1.3	4.2	3.4	3.6	3.4
Yemen	4.3	7.8	-10.5	-1.0	5.0	3.0
Western Asia (excluding Israel and Turkey)	0.0	5.6	6.0	3.6	3.4	3.7
Gulf Cooperation Council States	-0.9	5.7	7.0	4.9	3.8	3.4
More diversified economies	-2.1	7.7	6.5	1.8	2.9	4.8

Source: UN/DESA, based on data of the United Nations Statistics Division and individual national sources.

Note:

a Partly estimated.

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

World Economic Situation and Prospects is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the United Nations Conference for Trade and Development (UNCTAD) and the five United Nations regional commissions.

On the web: http://www.un.org/en/development/desa/policy/wesp/index.shtml
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