
World Economic Situation and Prospects 2014

Syria crisis slows cross-border economic activities and regional growth in Western Asia, UN report says

Persistent employment challenges subdue gains in non-oil sectors for Western Asia, but economic growth expected to pick up in 2014

Beirut, 20 January—Western Asia saw slightly slower economic growth in 2013 compared to 2012 but growth is expected to accelerate in 2014 even with fallout from military conflicts, according to the UN's *World Economic Situation and Prospects 2014* (WESP).

The WESP report found the average growth of 3.6 per cent in the region for 2013. Growth is expected to accelerate to 4.3 per cent in 2014.

Economic performance varied greatly among Western Asian countries in 2013. Oil-exporting countries in the Gulf Cooperation Council (GCC), such as Bahrain, Kuwait, Oman, Qatar and Saudi Arabia remained on a stable recovery path. Iraq, Jordan, Lebanon, Syrian Arab Republic and Yemen saw sharper declines in economic activity due to continuing political instability and social unrest.

The crisis in Syria continues to have negative spill-over effects for neighbouring countries, particularly in regards to subdued cross-border economic activities—including trade, investment and tourism—between GCC countries and the rest of Western Asia.

Conflict in Syria continues to induce a massive refugee crisis for neighbouring countries, resulting in population increases in already stressed political and economic landscapes. Lebanon has seen a population increase of 25 per cent due to the Syrian refugee crisis, and Jordan has seen an increase of 15 per cent. Most Syrian refugees compete with domestic low-skilled workers for jobs in the informal sector in host countries. The report also warns of creeping inflation in Iraq, Jordan and Lebanon, in part from a significantly increased number of residents, including Syrian refugees. Syria is in a state of hyperinflation due to depleted foreign reserves and the devaluation of its national currency.

Gulf countries see gains in non-oil sectors but slight decline in oil revenues

GCC countries in the region posted a moderate decline in oil revenues while non-oil sectors, particularly the real estate sector, regained strength because of robust domestic demand growth. Consistent with this growth, employment in some GCC countries improved but chronic unemployment remains a critical policy challenge for the region overall, including GCC countries.

Using oil revenues earned in previous years, governments in the GCC countries and Iraq maintained active fiscal policies, mainly geared towards large public-sector led infrastructure. This trend is expected to continue in 2014.

High unemployment and low domestic demand weakens growth prospects

In Iraq, Jordan, Lebanon, the State of Palestine and Yemen, chronic high unemployment was exacerbated by low domestic demand growth. In particular, youth have been affected by high structural unemployment. Where official statistics are available, the unemployment rate stood at 12.6 per cent in Jordan in the second

quarter of 2013, compared to 12.5 per cent in 2012. In the same period, the unemployment rate of the State of Palestine was 20.6 per cent, compared to 23.0 per cent in 2012.

Mixed economic prospects in Turkey and Israel

As a result of declining international capital flows in Turkey, inflation pressures will affect real economic growth in the near term, according to the report. The added pressure of currency devaluation in the Turkey will exacerbate inflation rates. GDP is projected to grow by 3.2 per cent in 2013 and by 5.0 per cent in 2014, before decelerating to 3.0 per cent in 2015. Export growth is expected to improve in the outlook, as external demand from Europe starts to recover.

The GDP of Israel grew at a pace of 3.2 per cent in 2013, driven mainly by consumer demand and net exports. In the outlook, GDP is forecast to grow by 2.2 per cent in 2014 and 3.3 per cent in 2015. In Israel, both exports and imports declined in 2013, but the drop in 2013 was less than in 2012. The start of natural gas output should boost exports further.

Risks: Geopolitical tensions and fluctuating oil prices

The region's geopolitical tensions are likely to remain focused on developments in the Syria, which carries economic consequences for neighboring countries. For GCC countries, however, the risk lies more in a sudden plunge in oil prices, as in 2008. The report warns that if oil prices fell below \$80 per barrel, it would dent the growth of domestic demand in the region. Assuming no further significant eruptions in geopolitical tensions, the Brent oil price is expected to be around \$108 per barrel (pb) for 2014-2015, compared with an estimated average of \$108.1 pb for 2013 and \$111.6 pb in 2012.

With the region's exchange rates pegged mostly to the United States dollar, the gradual reduction of bond purchases planned by the US Federal Reserve and the expected accompanying increase in market interest rates will also translate into rising borrowing costs in the region, particularly in GCC countries.

Table: Western Asia: rates of growth of real GDP, 2010-2015

	2010	2011	2012	2013 ^a	2014 ^b	2015 ^b
Western Asia	6.7	6.9	3.9	3.6	4.3	3.9
Bahrain	4.3	2.1	3.4	3.7	3.7	3.7
Iraq	5.9	8.6	8.4	6.1	6.8	7.9
Israel	5.0	4.6	3.2	3.2	2.2	3.3
Jordan	2.3	2.6	2.7	3.2	3.9	4.4
Kuwait	-2.4	6.3	5.1	4.1	3.8	4.4
Lebanon	6.9	1.6	1.5	1.3	2.4	4.8
Oman	5.6	0.3	5.0	5.1	3.9	3.8
Qatar	16.7	13.0	6.2	5.2	5.2	5.5
Saudi Arabia	7.4	8.6	5.1	4.0	5.1	5.0
Syrian Arab Republic	3.4	-2.0	-31.4	-7.4	-9.0	-8.9
Turkey	9.2	8.8	2.2	3.2	5.0	3.0
United Arab Emirates	1.7	3.9	4.4	4.2	3.9	4.1
Yemen	5.7	-12.8	2.0	4.1	2.6	2.5

Source: UN/DESA, based on data of the United States 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.

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

For more information, visit: <http://www.un.org/en/development/desa/policy/wesp/index.shtml>

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