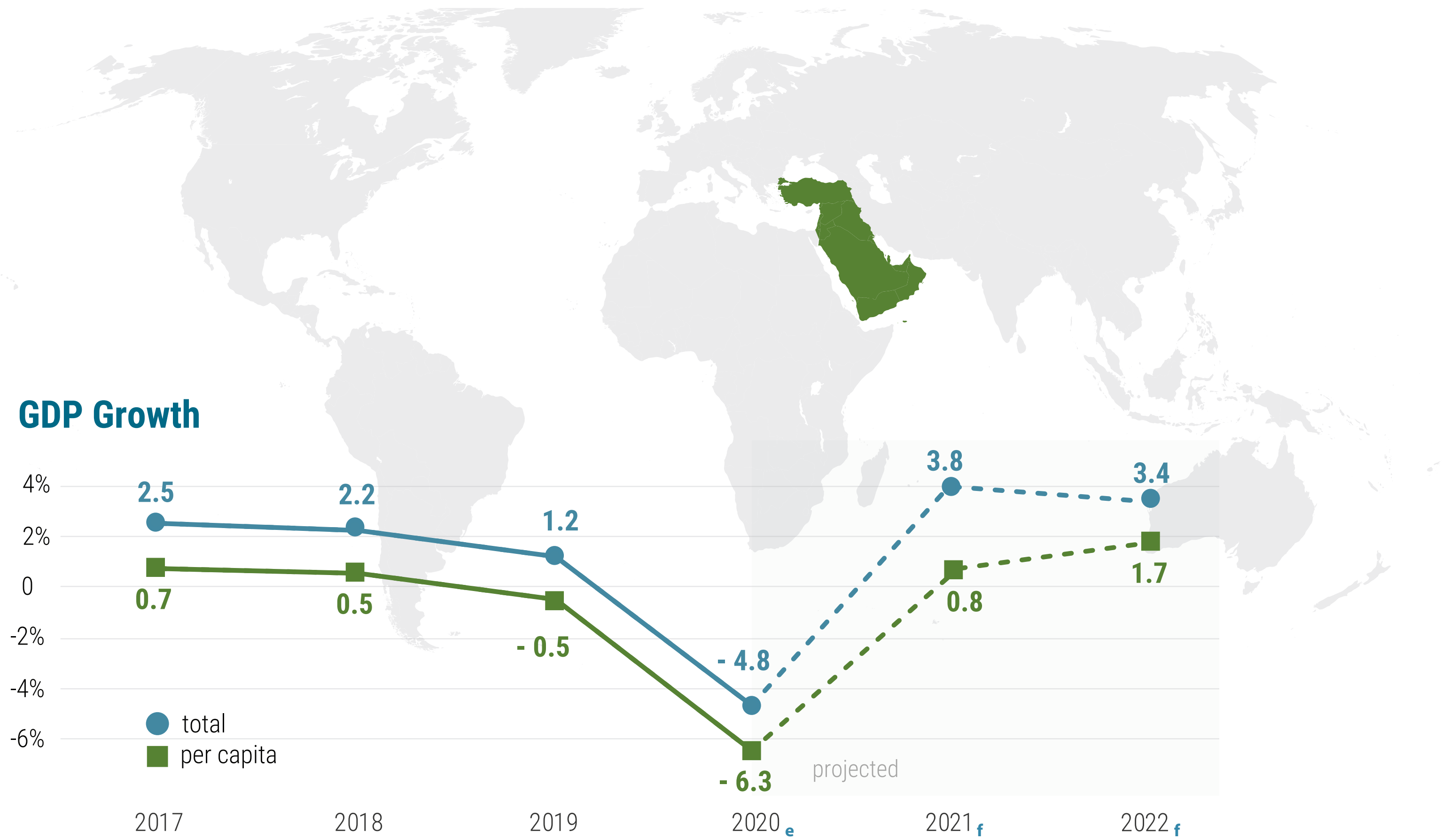
World Economic Situation and Prospects

2021

United Nations

Western Asia

GDP Growth

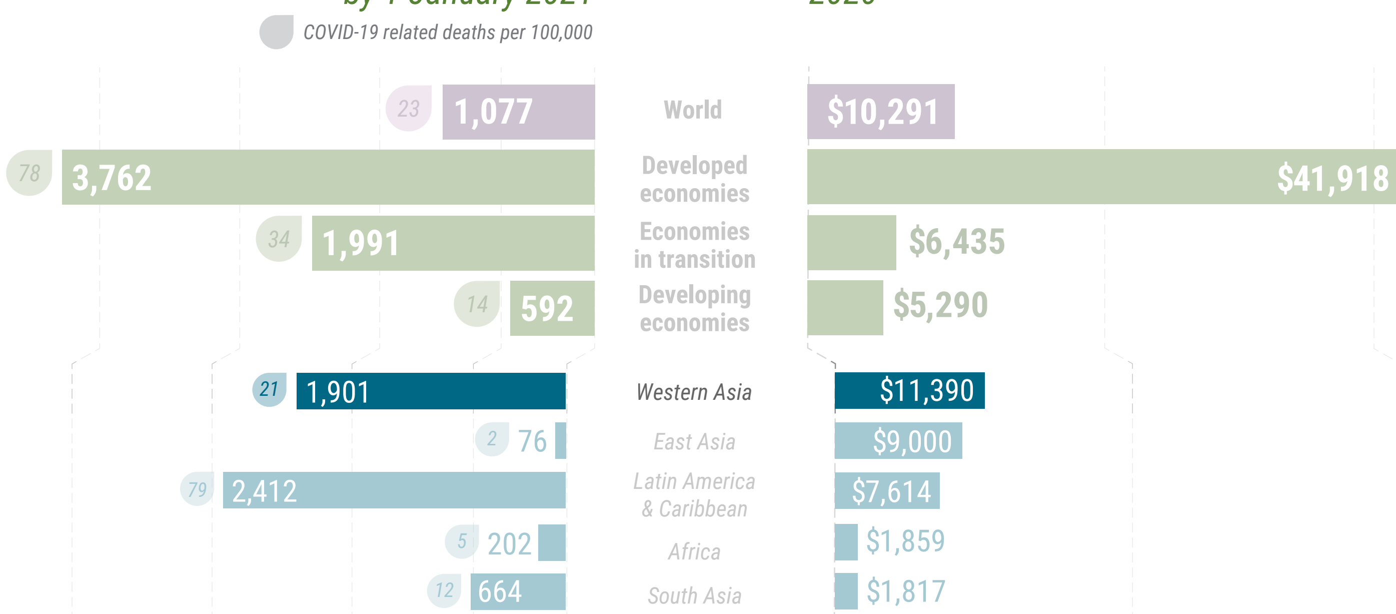


COVID-19 Cases per 100,000 people

by 1 January 2021

GDP per capita

2020



Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

The map represents countries and/or territories or parts thereof for which data is available and/or analysed in *World Economic Situation and Prospects 2021*. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries.

Aggregate data for Africa, excluding Libya.

e: 2020 estimates, **f:** 2021-22 forecasts.

Source for COVID-19 data: UNDESA calculations, based on data from Johns Hopkins University.

Western Asia: deteriorating fiscal positions cloud post-crisis recovery prospects

- The region faces plunging domestic and external demand.
- The midyear recovery in 2020 was weak given the region's excessive dependence on energy and tourism.
- Fiscal space has shrunk, except for a few high-income countries in the region, which clouds post-crisis recovery prospects.

Western Asia, on average, is estimated to have contracted by 4.8 per cent in 2020 and a slow recovery with growth of 3.8 per cent is expected in 2021. The COVID-19 pandemic and mitigation measures for the ensuing public health emergencies stalled economic activities in the region. Early in the second half of the year, those emergency measures were gradually relaxed; this, however, rendered several countries in the region susceptible to a second wave of outbreaks. Consequently, Western Asia's midyear rebound was weak. The pandemic's impact was felt most acutely in the region's high-performing tourism sector, and that impact led to a significant weakening of accommodation, transport, and wholesale and retail trade services. Only a few sectors—telecommunications and financial services—have managed to maintain positive growth.[3]

Heavy suffering has been inflicted on the energy sector

The energy sector, the main driver of the region's growth and government revenues, suffered significant contractions. In compliance with the Organization of the Petroleum Exporting Countries (OPEC)-led crude oil production quota, the region's major oil exporters cut crude oil production substantially. For example, crude oil production was cut by 6 per cent in Saudi Arabia and by 14 per cent in Iraq. Despite the production cuts, however, oil prices remained 35 per cent lower than the 2019 average, as global energy demand failed to recover completely from the shock of the initial shutdowns. Government revenues of the Member States of the Gulf Cooperation Council (GCC)[4] are estimated to have declined by 54 per cent on average and that of Iraq is estimated to have declined by 69 per cent (United Nations, ESCWA, 2020a).

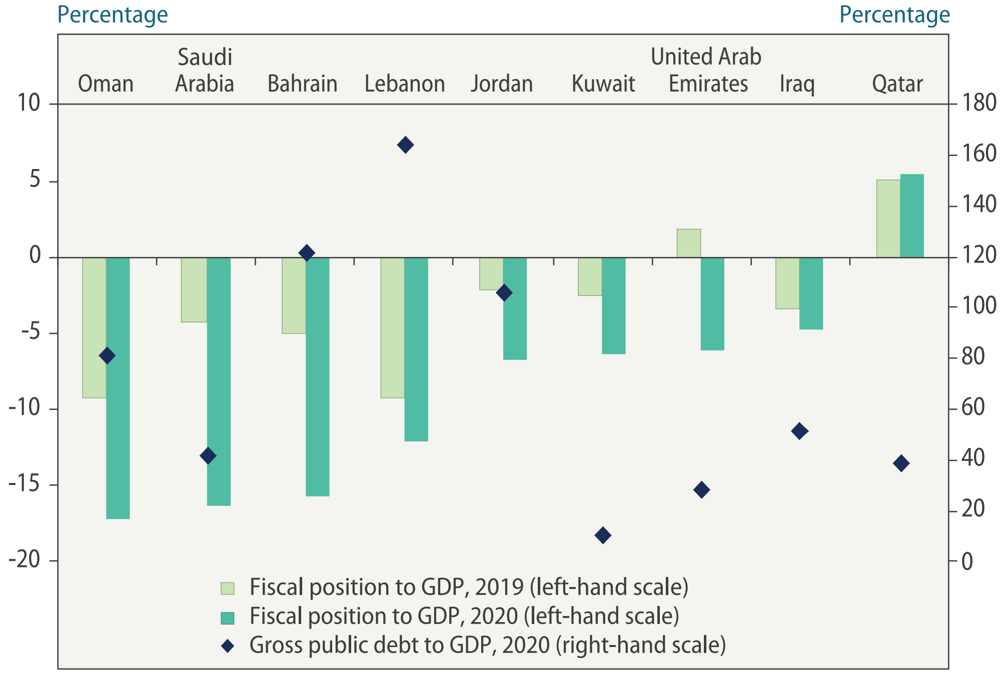
Fiscal positions have deteriorated rapidly

Nevertheless, the GCC countries utilized their available fiscal space to implement stimulus packages of an estimated size of $194 billion to combat the current crisis (United Nations, ESCWA, 2020a). Other countries in the region, however—particularly Iraq, Jordan, Lebanon, the Syrian Arab Republic and Yemen—were not able to take countercyclical economic measures to deal with their overstretched health expenditures. The fiscal space of Iraq, despite its being the world's fifth-largest crude oil producer, contracted sharply as oil revenues were estimated to have declined by 69 per cent. In view of this general deterioration of fiscal positions (figure III.11), Governments attempted to diversify revenue sources. Saudi Arabia, for example, hiked the value added tax (VAT) rate in July from 5 to 15 per cent. However, most countries—including Saudi Arabia—became more dependent on debt to finance growing fiscal outlays.

3 See annex table A.3 for GDP estimates and forecasts for individual countries.

4 Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Figure III.11
Fiscal position and public debt as a percentage of GDP in selected ESCWA countries



Source: United Nations, ESCWA, Survey of Economic and Social Developments in the Arab Region, 2019–2020 (forthcoming).

Conflicts and political instability are exacerbating the dire economic situation

Iraq, Lebanon, the Syrian Arab Republic, Yemen and the State of Palestine continue to endure conflicts, political instability and tense geopolitical situations. Despite the international community's appeal for a global ceasefire during the pandemic, continuing hostilities have made the region more prone to humanitarian crises. In Lebanon, the situation swiftly became dire owing to the rapid deterioration of living standards and rising poverty (box III.4).

The midyear rebound in Israel has been substantially weak

In Israel, the renewed lockdown in September instituted to contain the spread of the pandemic's second wave dented the midyear rebound, despite the Government's large-scale fiscal stimulus. In Turkey, despite an early reopening of the borders for tourists, third-quarter tourism revenue plunged by 71 per cent, compared with the same period in 2019. In addition, continuing high inflation due to a rapid depreciation of the Turkish lira has eroded real household income.

There has been a jump in the unemployment rate

Except for a few oil exporting high-income economies, the employment situation in Western Asia, was already dire before the onset of the pandemic, owing partly to ongoing armed conflicts and displacements. Along with the plunge in economic activities, job losses mounted in the second quarter of 2020. For Saudi nationals, the unemployment rate jumped to 15.4 per cent, from 11.8 per cent in the first quarter; and in Jordan, it surged to 23 per cent from 19.3 per cent in the first quarter.

Recovery prospects are highly uncertain

Economic recovery in the region will depend on global energy demand, international tourism and the extent of the recovery of domestic demand on the back of fiscal support measures. Both global energy demand and international tourism are projected to recover slowly, and to reach pre-crisis levels only after 2022. Domestic demand is projected to recover to a certain extent with the stabilization of the pandemic situation; still, without additional fiscal support, it is projected to remain below the pre-crisis level. As there are no

Box III.4

Overlapping crises in Lebanon: rising poverty, urgent needs for reform and significant regional fallout

Before the tragic explosion at the port of Beirut on 4 August 2020, Lebanon was already undergoing one of the most severe economic crises in the modern period of its history. The crisis began in autumn 2019, when the banks imposed limits on the withdrawal of dollars from Lebanese accounts in order to prevent a bank run and assure an adequate supply of dollars. Unfortunately, owing to the inability of the government to pursue economic reforms and reduce twin deficits and a massive government debt burden of more than 150 per cent of GDP, the Central Bank of Lebanon could not provide the supply of dollars needed to maintain the pegged exchange rate. This led to a further exacerbation of the economic crisis, fuelling protests where protesters called for the abolishment of the sectarian power-sharing system and the overthrow of the political elite. The COVID-19 pandemic and lockdowns initiated to contain the disease further aggravated the crisis; and the explosion at the port of Beirut only added fuel to the public discontent in Lebanese society which was already at high levels.

The Rapid Damage and Needs Assessment conducted by the World Bank in cooperation with the European Union and the United Nations in August estimates that, besides exacting a heavy human toll, the explosion has inflicted significant economic damage in the short run stemming from (a) the destruction of physical capital stock, resulting in up to 0.4 and 0.6 percentage point declines in the growth rate of real GDP in 2020 and 2021, respectively; and (b) an increase of trade costs stemming directly from the destruction of port facilities, resulting in an additional loss of 0.4 and 1.3 percentage points of GDP growth in 2020 and 2021, respectively (World Bank, European Union and United Nations, 2020).

These impacts are further deepening the double-digit contraction in real GDP growth resulting from the pre-existing economic and financial crisis and the repercussions of COVID-19. Moreover, the explosion will have important social repercussions. Before the explosion, general and extreme poverty rates as measured at the thresholds of $14 per day (2011 PPP) and $8.5 per day (2011 PPP) were at 45 per cent and 23 per cent, respectively. The headcount poverty rate is expected to have jumped from 28 per cent in 2019 to 55 per cent in May 2020, with a corresponding increase in the extreme poverty rate from 8 to 23 per cent. This would bring the total number of poor in the Lebanese population to 1.1 million and 2.7 million for the lower and upper poverty lines (as referred to above), respectively. The figure of $2.7 million poor represents an increase of 1.3 million from the figure under the reference growth scenario for 2020 (pre-COVID-19 and pre-explosion). The corresponding rise in the number of extreme poor would be 750,000 (ESCWA, 2020b).

The crisis does, however, present a unique opportunity to implement a number of required policy and social reforms, which would include:

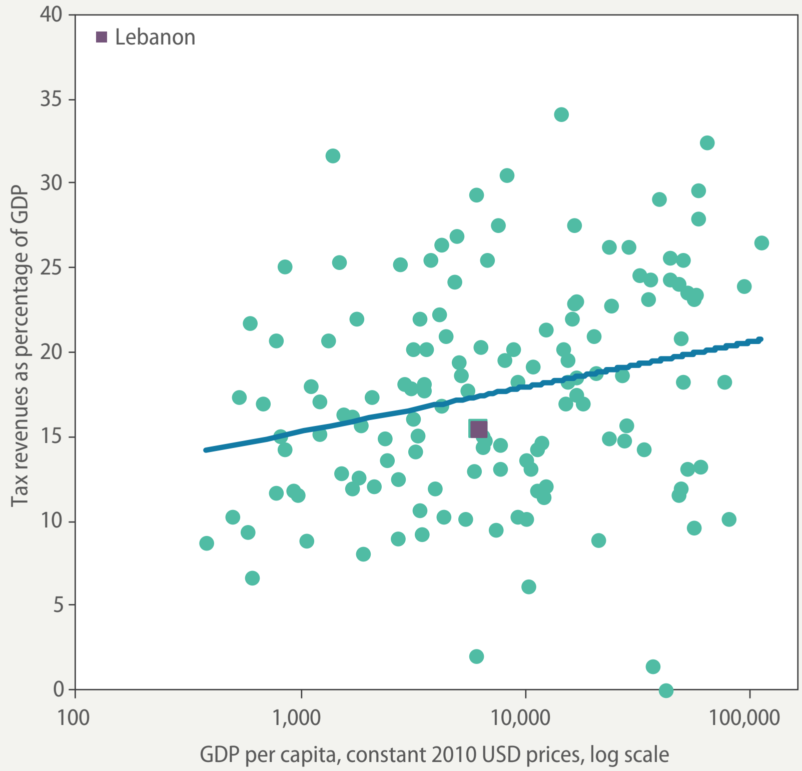
1. Establishment of a national solidarity fund to tackle the country's humanitarian crisis and close the poverty gap. For this purpose, Lebanon should mobilize its own substantial resources, based on a fair system of shared responsibility. Currently, Lebanon has lower tax revenues as a share of GDP than other countries at a similar level of income (figure III.4.1). To reduce poverty, progressive income taxation should be introduced and taxes increased and this should be accompanied by political will and strong institutional capacity so as to ensure societal solidarity.
2. Bolstering of food and health security and social protection, which urgently requires the support of the international community.
3. Enactment of necessary economic governance reforms, limits on rent-seeking activities and enhancement of transparency and accountability. Greater transparency with respect to income and wealth would allow the ministries of finance and social affairs as well as related institutions to improve poverty-targeting practices.

While the political and economic crisis is deeply rooted in Lebanon, it will nevertheless exert significant pressure on the entire Arab world. The most important impact will be on the Syrian Arab

(*continued*)

Box III.4 (*continued*)

Figure III.4.1
GDP per capita vs. tax revenues as a percentage of GDP (latest available year)



Source: World Bank, World Development Indicators database.

Republic, as the economies of both countries are deeply intertwined. Indeed, many Syrians have been affected by the informal capital controls, as they parked their savings in Lebanese banks. The crisis has also had a profound impact on the approximately 1.5 million Syrian refugees residing in Lebanon who, as a result of losing their jobs, have been unable to provide remittances to their families. Despite various obstacles, some evidence regarding return migration to the Syrian Arab Republic has emerged (Center for Operational Analysis and Research (COAR), 2019). At the same time, the current crisis will also accelerate the process through which the location of the Arab world's financial hub has been shifting to Dubai. This would extinguish Lebanon's aspirations towards building a modern economy based on financial and information technology services.

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prospects for improvement in public revenue over 2021 and 2022, the region's high-income countries are likely to depend to a greater extent on debt financing. However, without international financial support, the current situation would likely compel the region's middle- and low-income countries to curtail or roll back fiscal support measures that could impede their economic recovery.