The global context and its implications for the Arab region

1

Key messages

After the tumultuous 2020–2022 period caused by the COVID-19 pandemic, the war in Ukraine and the great comeback of high inflation to the developed economies, 2023 brought a moderately optimistic outlook with slowly moderating inflation, decreases in commodity prices and the successful avoidance of crisis in European industries.

This has had, however, significant costs for middle-income economies and least developed countries. Interest rate hikes increased the cost of capital and triggered outflows to high-income economies. A deep reform of the international financial architecture is needed to distribute costs and benefits more evenly.

A food crisis was averted with the Black Sea Grain Export Initiative and higher-than-usual yields around the world. The El Niño-Southern Oscillation cycle, however, could bring unprecedented natural disasters and the return of high global food prices.

The resilience of advanced economies to a sudden halt in the flow of hydrocarbon exports from the Russian Federation, achieved through firm policy actions, behavioural changes and energy conservation measures, shows that the world is becoming increasingly independent from oil and gas. Prices are expected to decrease in the medium to long run, which calls for action by Arab oil exporters to accelerate the development of new growth models.

A. Global context

The global economy saw a difficult year in 2022. Growth was sluggish and inflation remarkable. Hopes for a post-pandemic recovery were dashed by the war in Ukraine and resultant disruptions in trade. Skyrocketing prices of grains and edible oils as well as hydrocarbons significantly affected the emerging economies. Nevertheless, these problems were by and large solved in the second half of the year by the Black Sea Grain Export Initiative as well as shifts in supply chains. As of 2023, the prices of food and hydrocarbons were already at pre-war levels. Inflation problems eased in developed economies as a result of tight monetary policy.

Two main challenges are threatening recovery prospects in 2024 and onwards. The first is the impact on developing countries of interest rate hikes and monetary tightening in developed countries. In a world of record-high debt, this policy approach can result in a broad wave of bankruptcies among financial institutions (as was already visible in the first half of 2023 in the bankruptcy of Silicon Valley Bank in the United States of America and the takeover of Credit Suisse brokered by the Swiss National Bank) and the Governments of developing countries. The second challenge is connected to climate change. El Niño conditions are developing in the Pacific with surface water temperatures that as at June 2023 were higher than ever recorded. It is expected that 2024 will be the hottest year on record, beating 2016. This could bring unprecedented droughts to Southern Africa, Central America and the Caribbean, and to food exporters such as Australia, Brazil and South Africa, causing an increase in the prices of agricultural commodities and threatening food security in the Arab region (box 1.1).[1] Nevertheless, while monetary policy tightening will strain debt sustainability in developing countries and agricultural prices may rise, it is not yet clear how fully these risks will materialize.

Table 1.1 Output growth and inflation in the main economies worldwide, 2021–2024 (Percentage)

	Real GDP				Inflation			
	2022	2023	2024	2025	2022	2023	2024	2025
World	3.1	2.3	2.5	4.1	9.8	7.7	4.9	4.1
Developed economies	2.7	1.0	1.2	3.3	7.8	4.8	2.4	2.1
United States of America	2.1	1.1	1.0	2.4	8.7	4.4	2.4	1.8
Japan	1.1	1.2	1.0	2.1	2.5	2.1	0.8	1.3
European Union	3.5	0.9	1.5	4.5	8.8	6.1	2.8	2.6
Euro area	3.2	1.3	1.4	3.5	9.4	6.5	6.0	5.4
Economies in transition	3.2	2.0	3.0	6.2	14.1	9.1	6.6	4.7
Russian Federation	-2.1	-0.6	1.4	1.9	13.8	8.2	6.2	4.1
Developing economies	3.9	4.2	4.2	5.2	12.8	12.2	8.9	7.1
Africa	3.8	3.3	3.8	4.4	18.4	17.4	12.6	10.8
East Asia	3.2	4.7	4.3	5.9	2.8	2.2	2.2	2.6
China	3.0	5.3	4.5	6.1	2.0	1.5	2.0	2.4
India	6.8	5.8	6.7	6.1	5.9	5.5	5.0	6.3
Latin America and the Caribbean	3.8	1.4	2.4	2.7	29.2	33.8	22.7	15.4
Least developed countries	4.3	2.9	4.9	6.1	26.0	15.0	10.1	9.8
World trade	5.1	2.3	3.7	4.2				
World output growth with purchasing power parity (PPP) weights	3.3	2.7	3.0	4.4				

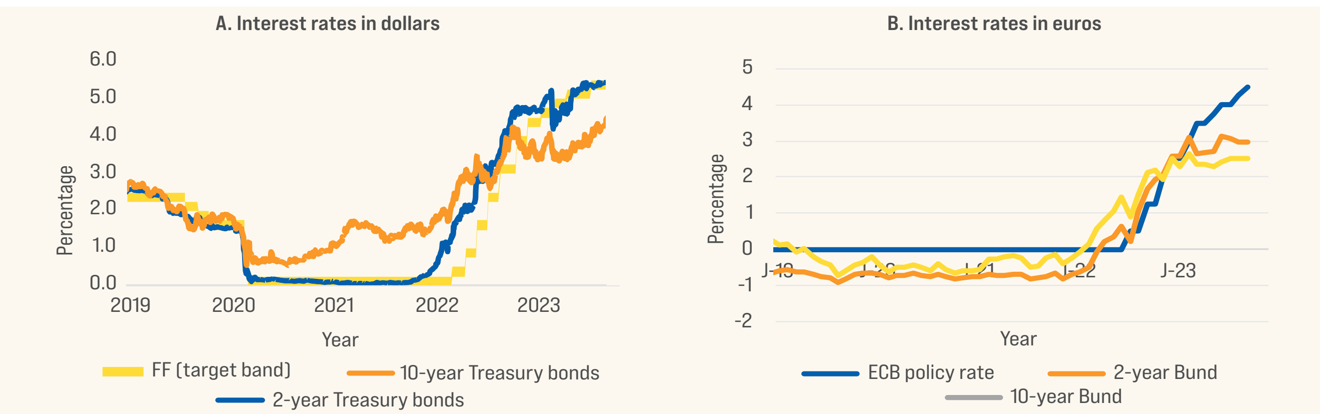
Source: United Nations Department of Economic and Social Affairs (UNDESA), 2023.

Against this background, growth in output is projected to remain subdued in 2023 and 2024 at 2.3 and 2.5 per cent, respectively, significantly below the midterm average of 3.1 per cent. The recovery will be minimal in the developed economies with projected gross domestic product (GDP) growth of 1 per cent in 2023 and 1.2 in 2024, driven mainly by tightening monetary policy that will curb investment. In the second half of 2023, these policies are expected to bear fruit and lower inflation towards targets. This process is expected to be faster in the United States as the Federal Reserve began its hike cycle earlier than the European Central Bank. Nevertheless, GDP growth is expected to amount to about 1.1 per cent in the United States, 1.2 per cent in Japan and 0.9 per cent in the European Union. The outlook in 2024 is expected to be slightly better with 1.2 per cent growth in developed economies: 1 per cent in the United States and Japan, and 1.4 per cent in the European Union. Full recovery is not expected in these countries before 2025 (table 1.1).

Although inflation in 2023 is already lower than in 2022 and is likely to further recede in 2024, it will probably remain at a heightened level for a few years to come. Globally, the consumer price index (CPI) is expected to reach 7.7 per cent in 2023 and 4.9 per cent in 2024, well above the medium-term average of 3.1 per cent. In the United States, the actions of the Federal Reserve will likely have an impact, with inflation predicted to be 4.4 per cent in 2023 and 2.4 per cent in 2024, before hitting the 2 per cent target in 2025. Disinflation in the euro area is expected to be slower due to less pronounced and delayed policy action by the European Central Bank, though it is expected to fall to 6.5 per cent in 2023 and 6 per cent in 2024. Inflation in Japan will remain low at 2.1 per cent in 2023 and 0.8 per cent in 2024. In these countries, disinflation will be driven mostly by the actions of the central banks, which will hamper the recovery of consumer demand.

The surge in interest rates in the developed economies will attract investment, leading to the strengthening of the dollar, euro and yen. The central banks in developing countries will face difficult choices – either they will increase their rates to halt capital outflow to developed countries, significantly diminishing the availability of funds for Governments and domestic borrowers, or they will allow their currencies to depreciate, which will increase the prices of imported goods and drive inflation. Due to governance difficulties, the latter seems more probable, so inflation is expected to remain quite high. This is especially relevant to Latin America and the Caribbean, where inflation is expected to reach 33.8 per cent in 2023 and 22.7 per cent in 2024. Similarly, it will remain high in Africa, at 17.4 per cent in 2023 and 12.6 per cent in 2024, especially in the western part of the continent at 19.4 and 16.3 per cent in 2023 and 2024, consecutively. China and India are expected to keep inflation low as they are not that import dependent, and their central banks have more influence on price levels. Inflation is expected to reach 1.5 and 2 per cent in China and 5.5 and 5 per cent in India in 2023 and 2024, respectively. It will remain elevated in the Asia region as a whole, however, with South Asia heading towards 11 per cent inflation in 2023 and 9.4 per cent in 2024, driven by the surge in demand and the inflow of tourists from a recovering China. Demand pressures in the countries of the Commonwealth of Independent States will be somewhat mitigated by sanctions on the Russian Federation and spillovers to neighbouring countries; inflation is expected to reach 9.2 per cent in 2023 and 6.7 per cent in 2024.

Figure 1.1 Interest rates in dollars and euros



Sources: ESCWA staff calculations based on the Board of Governors of the Federal Reserve System, Open Market Operations; ICE Benchmark Administration, 3-Month London Interbank Offered Rate; Federal Reserve Bank of St. Louis and the Deutsche Bundesbank database.

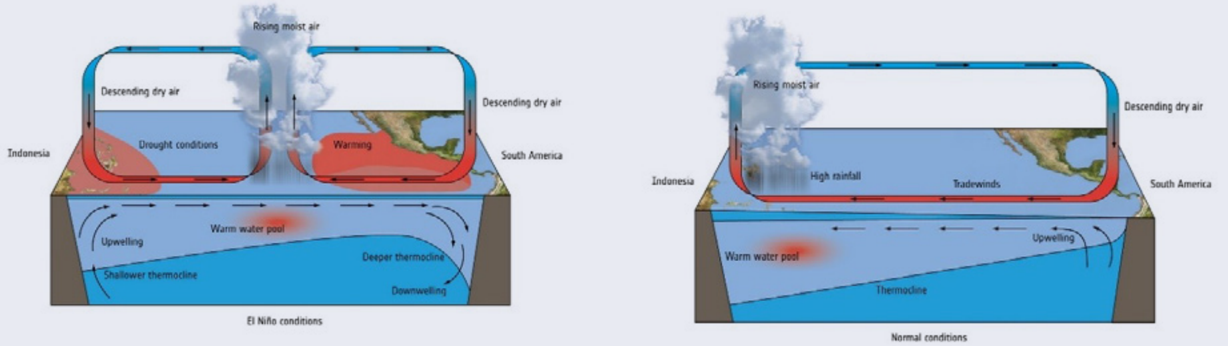
Note: ECB refers to European Central Bank.

Box 1.1 El Niño and its potential impact on the global recovery

According to the National Oceanic and Atmospheric Administration in the United States, the hottest 10 years in recorded history all fall within the last 13 years, with 2016 being the hottest – it saw global average temperatures increase by 1 degree Celsius above preindustrial levels. This record would have been broken since then without the occurrence of three consecutive La Niña episodes between 2020 and 2022. These countered the effects of human-caused climate change. Nonetheless, 2022 still managed to secure a solid second place on the list of hottest years, and 2023 is anticipated to be even hotter with an increase of 1.1 degrees Celsius, bringing the world dangerously closer to the 1.5-degree mark set in the 2015 Paris Agreement on climate change. Beyond that threshold, the impacts of catastrophic heat waves, disrupted ecosystems, flooding, drought, crop failures and species extinction become much harder for humanity to handle.

The El Niño-Southern Oscillation cycle is one of the most important factors influencing weather in Australia, South-Eastern Asia and the Americas over the next few years (figure 1A). During normal oceanic circulations, equatorial trade winds blow west, moving warm Pacific surface water away from the Americas towards Asia. This water is then replaced by a rise of cold water from the depths to the surface through a process called upwelling. These normal conditions are interrupted by two opposing climate patterns called El Niño (little boy) and La Niña (little girl), which together form the El Niño Southern Oscillation cycle. El Niño represents the warming phase of the cycle and is marked by an increase in ocean surface water across the Pacific, releasing more heat into the atmosphere and thus increasing global temperatures. La Niña forms the cooling phase of the cycle and tends to have global climate impacts opposite to those of El Niño. Both phases can significantly impact global weather, ecosystems and economies. These events occur every two to seven years, on average. They last typically between 9 and 12 months but can sometimes continue for years, with El Niño generally occurring more frequently than La Niña.

Figure 1A The impact of El Niño on the weather



Source: European Space Agency.

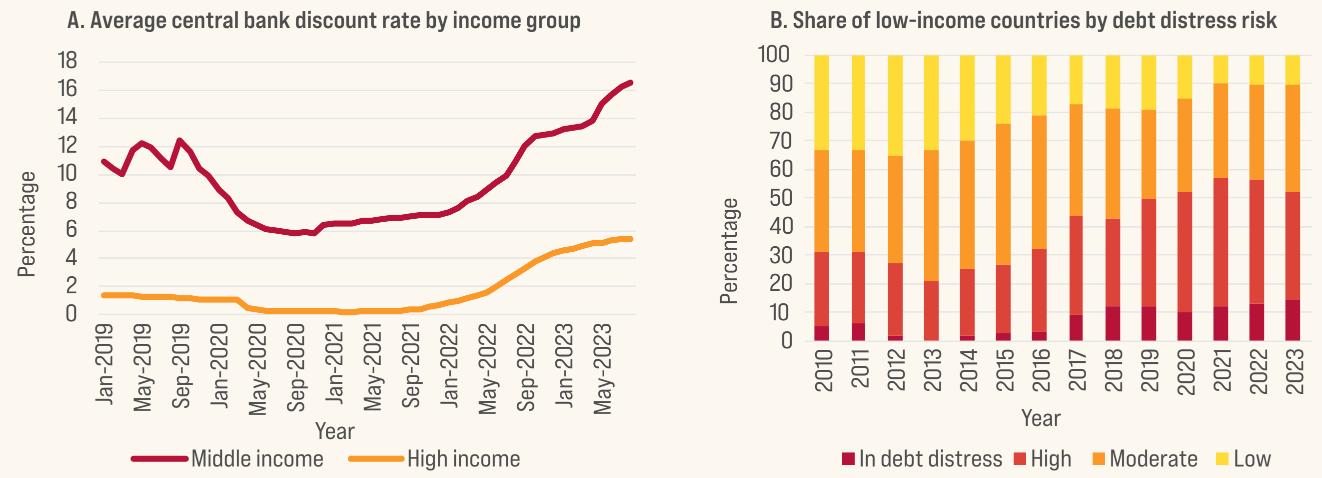
The arrival of a new El Niño in 2023 is expected to disrupt the global economy, which is already struggling to recover from COVID-19 and the war in Ukraine, and wreak havoc especially in the most vulnerable countries. Carbon emissions amplify the effects of naturally occurring climate phenomena and lead to accelerated climate change, setting the stage for the costliest El Niño to date. Previous El Niños weighed heavily on economies and caused spikes in global inflation as they directly impacted prices of oil and non-energy commodities. They also affected economic growth, especially in countries vulnerable to the phenomenon, such as Australia, Brazil, China and India. A Dartmouth University study concluded that the 1997–1998 El Niño led to a $5.7 trillion loss in GDP over the next five years.[a] The same model estimated that future El Niños may trim some $87 trillion from GDP by the end of the century. The risk is higher nearer the tropics and in the southern hemisphere. In Argentina and India, for example, El Niño could shave as much as half a percentage point off annual GDP growth.

The shift from La Niña could have severe macroeconomic repercussions. For example, reduced monsoons could affect rice, cotton, corn and soybean production in India. Potential droughts in parts of West and South Africa could hinder the production of cocoa and corn. The United States will witness a resurgence in winter storms despite the drop in the number of hurricanes. Drought could hit Brazil and Colombia, crimping coffee output, while Peru may see widespread flooding and a reduced anchovy catch. In Australia, severe droughts could instigate forest fires that would jeopardize the production of wheat and other crops. In Chile, heavy rains and floods will disrupt access to mines that supply 30 per cent of the world's copper, causing delays in production and a spike in the prices of electronics. In China, heatwaves will threaten livestock viability and stretch the power grid ever thinner, prompting officials to shut down power.

Even though it is not yet entirely known how strong the next El Niño cycle will be, it could have significant impacts on the global economy by prolonging droughts, exacerbating floods and producing more disastrous typhoons. On the other hand, as precipitation during the El Niño phase is usually higher, some agricultural areas may benefit as more rain is usually good for crops. One thing is certain: unprecedented climate change will bring even more uncertainty to the global economy over the next few decades.

[a] Dartmouth College, 2023.

Figure 1.2 Interest rates in different economies by income group and share of countries by debt distress status



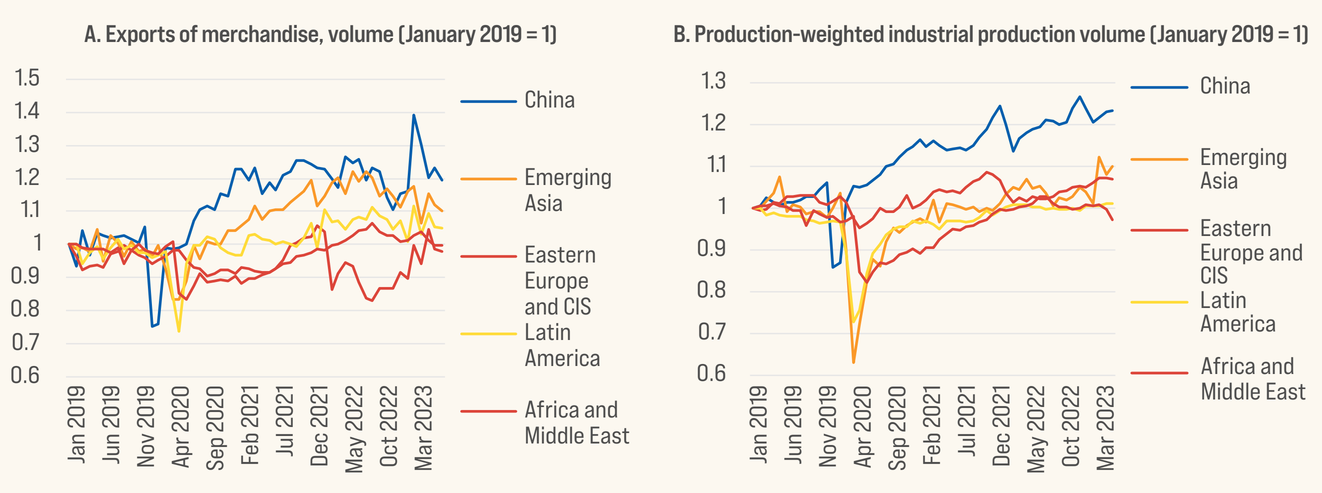
Source: International Monetary Fund (IMF) International Financial Statistics and low-income countries debt sustainability analysis database.

The first half of 2023 saw continued hikes in interest rates by the Federal Reserve in the United States. As inflation remained high, the bank kept raising rates, albeit at a slower pace than in 2022. Rates rose by a quarter percentage point in February, March and May (figure 1.1). The rate hike cycle was officially "paused" in June 2023, although the Federal Reserve continued to reduce its securities holdings. Furthermore, it issued statements that indicated that further hikes may be necessary to bring inflation back to the 2 per cent target. The future is still uncertain as the macroeconomic effects of previous hikes are not yet fully apparent. In contrast, in Europe, the European Central Bank hiked interest rates by 25 basis points in June, but it is expected to end its rate hikes around the middle of 2023 as inflation slows. Rapid decreases in the prices of commodities on international markets helped to ease inflation pressures in the first half of 2023, though it is still uncertain how these changes will translate into inflation expectations over the long run and whether they will help the central banks to bring inflation back to their targets.

The gap between interest rates in high- and middle-income countries not only remained significant in 2022 and 2023 but increased as fears of recession spread around the world (figure 1.2A). Furthermore, the reduction of inflation may be more difficult for the central banks of the less developed countries as they are perceived as less credible and inflation expectations are more difficult to re-anchor. Consequently, central banks may need to continue to increase interest rates, pushing labour market contraction to achieve their targets. As at August 2023, the policy rate equalled 118 per cent in Argentina, 13.25 per cent in Brazil, 13.25 in Colombia, 13 per cent in Hungary and 11.25 per cent in Mexico, dragging up government borrowing costs. Türkiye, which previously conducted an unconventional monetary policy, drastically changed its stance and increased the interest rate from 8.5 per cent to 25 per cent in just three months, between May and August 2023. As at the end of September 2023, government 10-year-bond yields equalled 49.7 per cent in Argentina, 11.8 per cent in Brazil, 24.9 per cent in Egypt, 12.9 per cent in the Russian Federation and 28.1 per cent in Türkiye. Therefore, even with no large increase from 2022, rates remain elevated, threatening the solvency of countries that already had problems before, such as Argentina, Egypt and Türkiye. The share of countries already in debt distress or at high risk of debt distress fell from 56 per cent in 2022 to 52 per cent in 2023, indicating that declining international commodities prices as well as the Debt Service Suspension Initiative brought some relief for oil-importing countries (figure 1.2B). The risks remain high, however, especially amid global uncertainty and further interest rate hikes in developed economies. More countries could face debt distress.

These developments have translated into disparities in labour market developments across the world. Labour markets in high-income countries have shown stronger-than-expected resilience to increases in interest rates, especially in the United States and the European Union, where they barely reacted to monetary policy tightening. Positive labour market data strongly contributed to the hawkish stance of the central banks. The picture in low- and middle-income economies is much worse, however. In high-income economies, unemployment is expected to touch 4.6 per cent in 2023, lower than the 2019 value of 4.8 per cent. In contrast, in Northern Africa, sub-Saharan Africa and the Arab States, unemployment is expected to reach 11.2, 6.3 and 9.3 per cent, notably above the pre-crisis levels of 10.9, 5.7 and 8.7 per cent, respectively. Labour markets in Asia are the main beneficiary of the global recovery, with unemployment expected to reach 7.8 per cent in Central and Western Asia and 5.5 per cent in Southern Asia, well below the pre-crisis values of 9.2 and 6.4 per cent, respectively. Other regions of the world are expected to reach pre-crisis levels of unemployment in 2023.

Figure 1.3 Merchandise trade



Source: ESCWA staff calculations based on the World Trade Monitor by the CPB Netherlands Bureau for Economic Policy Analysis.

Note: CIS refers to Commonwealth of Independent States.

In the first half of 2022, global trade recovered to and exceeded the pre-pandemic level. Sanctions on Russian oil that entered into force towards the end of 2022 then contributed to a fall in the volume of global trade in the first half of 2023. The World Trade Organization indicates that world trade volume is expected to rise by 1.7 per cent in 2023, before increasing by 3.2 per cent in 2024, owing to the rebound in GDP growth, mostly in emerging economies and least developed countries.[2] The value of trade is expected to surge even more due to the expected uptick in the prices of agricultural commodities. As is the case for other macroeconomic trends in 2023 to 2024, the main drivers of the volume of trade will be the course of the war in Ukraine and the extent of monetary policy tightening and its impact on the government budgets of emerging countries. Heavy sanctions and blockades by the Western coalition against the Russian Federation could significantly limit global trade. On the other hand, the possible ceasefire and reconstruction of Ukraine as well as structural changes in Europe to make its industry independent of Russian energy may intensify the inflow of goods and services to Europe and the Ukraine.

Trends in the growth of trade were similar across developing and developed economies in 2022 and 2023. Growth occurred everywhere except the Russian Federation and countries in the Commonwealth of Independent States, although it was marginal in Asia and the Pacific (figure 1.3A). In addition, the war in Ukraine and the decoupling of the United States–China relationship accelerated a trend dubbed “friend-shoring”, in other words, integrating countries that share similar values into value chains. No increase in nearshoring was observed. Trade growth is expected to continue in all regions in line with the rebound of economic activity although it will be slightly faster in the services sector than in goods. Industrial production will remain stagnant in all major economies (figure 1.3B). The only exceptions are the Russian Federation and Ukraine, where developments heavily depend on the situation on the ground. The end of conflict and a peace treaty could bring massive resources to Ukraine; commencement of reconstruction activities should generate a trade boom in the region.

The economies of African commodity exporters should benefit from the recovery in China. Similarly, trade in the Arab region should increase in line with the embargo on oil produced by the Russian Federation and the substitution of energy commodities originating from that country with liquid natural gas and oil from Arab suppliers. Nevertheless, it has yet to be seen whether these commodities will be replaced by imports from other destinations or by renewable energy sources. The latter is likely to prevail in the medium to long run.

In 2023, global tourism is likely to fully recover to its pre-pandemic levels. This is especially true for the Middle East, where tourism saw 15 per cent growth in the first quarter of 2023. The Middle East was the first region to recover to pre-pandemic levels of tourist arrivals. Europe reached 90 per cent of the pre-pandemic level, a trend fuelled by strong intraregional demand. Africa and the Americas both managed to achieve 85 per cent, while for Asia and the Pacific, this figure stood at 54 per cent. In 2022, international tourism receipts passed the $1 trillion mark but still fell 36 per cent short of pre-pandemic levels in real terms. The summer season in 2023 in the Northern Hemisphere is likely to release huge pent-up demand, leading to recovery in particular in Europe and Asia and the Pacific.[3] Even though surveys conducted by the International Air Transport Agency indicate strong demand for air travel, the revenue passenger-kilometres in 2023 is expected to reach 88 per cent of 2019 levels, with full recovery envisaged only in 2024.[4]

These outlooks are subject to several downside risks. First, measures targeting inflation in developed economies are likely to succeed in curbing demand, leading to the substitution of distant travel with closer destinations and affecting countries receiving international tourists, in particular in the Arab region and Asia and the Pacific. Second, the potential increase in global oil prices and climate change measures could translate into a surge in airline operating costs, suppressing demand for overseas holidays. In addition, the airline industry is struggling to secure aircraft and spare parts amid global supply chain disruptions. Third, the global uncertainty surrounding the war in Ukraine could emanate to developed countries, prompting tourists to stay in their home countries. Nevertheless, as of mid-2023, the outlook remains positive.

B. Natural resource commodities

1. Oil

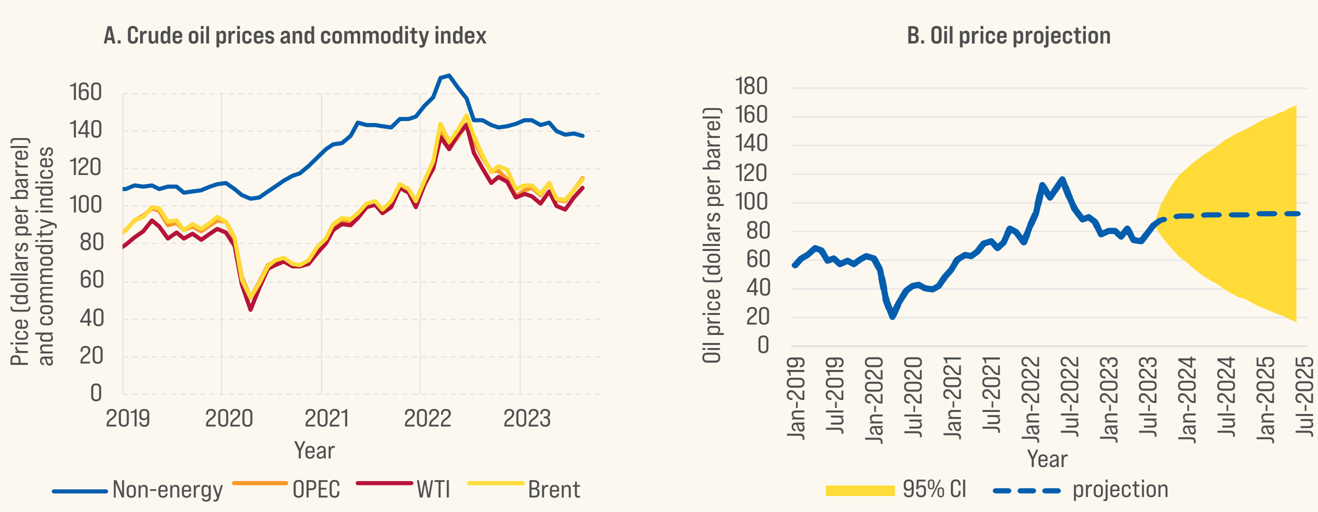
Following a tumultuous 2022, 2023 brought a stabilization in oil prices on the international market, and a slow but steady decline from about $80 per barrel in January to $75 in June. The price has since increased to around $90 per barrel in September owing mostly to production cuts in Saudi Arabia (figure 1.4A). The price is expected to stay at this level in 2024 and 2025 against global monetary tightening that curbs demand, the slower-than-expected recovery of China, an uncertain geopolitical situation and the development of climate policy (figure 1.4B). The market proved to be resilient to sanctions on Russian oil, introduced gradually in 2022. The prices of the basket for the Organization of Petroleum Exporting Countries (OPEC) did not react significantly.

The United States Energy Information Administration projects that global consumption of oil recovered to the December 2019 pre-COVID-19 levels only in June 2023, and slowly but steadily increased afterwards in line with the usual seasonal patterns. Overall, consumption is expected to rise to 102.7 million barrels per day in 2024, from 101 million barrels per day in 2023. Oil consumption is expected to slightly surpass the 2019 level in 2024. This rise will be driven mostly by the expected surge in the consumption of oil in China and other Asian countries as well as emerging economies. Consequently, while climate policies and economic stagnation will likely marginally depress oil consumption in the countries of the Organisation for Economic Co-operation and Development (OECD), they will not affect the consumption of petroleum in other economies, where the continuation of long-standing trends in oil consumption is expected. This is especially visible in China, where the COVID-19 recession did not significantly affect consumption and where, historically, it has climbed faster than in other regions of the world.

On the supply side, similar growth is expected with production, almost perfectly balancing the consumption increase in 2023 and 2024. In contrast to consumption, the main developments on the production side are expected in the OECD countries. While OPEC+ (OPEC, the Russian Federation and countries in the Commonwealth of Independent States) in June decided to extend production cuts through the end of 2023, the United States alone is responsible for almost 70 per cent of the global surge in production during the year. A continuing switch of oil production away from OPEC countries is envisaged, driven by increased crude oil production in the Permian shale region in Texas and New Mexico. In Canada, the development of oil sands production in Alberta is expected, which, together with the Trans Mountain Expansion project, scheduled to begin operations in late 2023, will unleash some production potential and allow oil exports to Asian markets. In Brazil, production is expected to grow by 0.3 million barrels per day due to the completion of several new floating production, storage and offloading projects, and increased production in existing offshore fields. Argentina and Guyana will also contribute to increased oil production from offshore fields and shale formation. In Europe, the completion of the Johan Sverdrup Phase 2 project added significant production capacity for Norway. Sanctions on the Russian Federation have been partially effective; current production by countries in the Commonwealth of Independent States is expected to reach the global market despite price caps and limitations in transport, but will likely remain stagnant in 2023 and 2024.[5]

Production in OPEC countries has been affected by production cuts. In July 2023, the Saudi Arabia output fell to 9 million barrels a day from 10 million in May, the biggest decline in years. In April 2023, OPEC+ countries announced total production cuts of around 3.7 million barrels per day. The greatest cuts announced are in the Russian Federation and Saudi Arabia (0.5 million barrels per day each), followed by Iraq (211,000 barrels per day), United Arab Emirates (144,000 barrels per day), Kuwait (118,000 barrels per day), Kazakhstan (78,000 barrels per day), Algeria (48,000 barrels per day) and Oman (40,000 barrels per day). OPEC countries plan no significant increases in production capacities.

Figure 1.4 Oil prices, 2015-2024



Source: ESCWA staff calculations based on the World Bank commodity prices database and the United States Energy Information Administration database.

Note: The oil price forecast is based on the vector error-correction model, including OPEC production, other suppliers' production, total oil consumption, the world industrial production index, oil price, CPI inflation in dollars and interest rates in the United States. WTI refers to West Texas Intermediate and CI refers to carbon intensity.

This equilibrium is reflected in forecasts of the price of oil, which is expected to remain relatively stable over 2023 and 2024 at $91.7 and $92.9 per barrel, respectively (figure 1.4B). This slight fall is the effect of the delicate balance between the demand and supply sides. As of 2024, pent-up demand for travel is expected to ease due to monetary policy tightening and the slowing of the global economy. Furthermore, transport demand could decrease as an increase in nearshoring and friend-shoring may overlap with the global macroeconomic situation. On the supply side, the significant technological developments and investment resulting from Western countries gaining independence from Russian oil, especially in Norway and the United States, are countering production cuts announced by OPEC+. In general, the situation on the oil and gas market following the war in Ukraine indicates that OECD countries, which consume 46 per cent of global oil, are increasingly oil self-sufficient. In 2010, they produced 47 per cent of the oil they consumed; in 2015, it was 58 per cent, and in 2022, it was 70 per cent. This trend will act as a stabilizer of the global oil market.

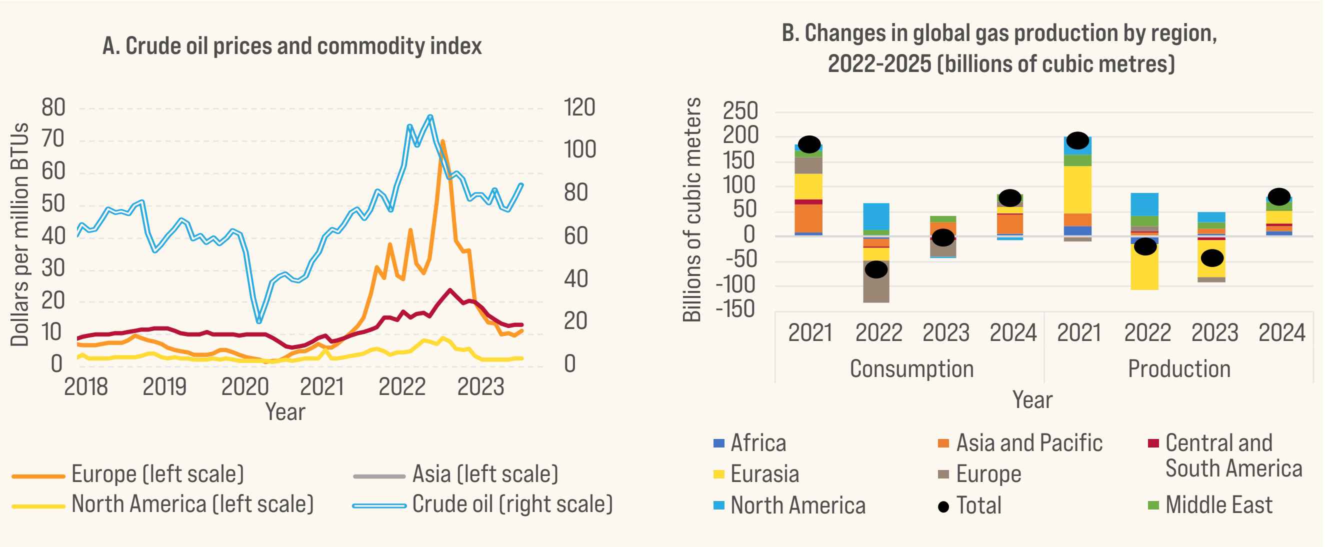
2. Natural gas and phosphates

The trajectory of natural gas prices in the wake of the war in Ukraine proved the resilience of the European economy to energy shocks. After the initial surge in gas prices by 160 per cent between February and August 2022, many analysts and pundits predicted the fall of European industry, especially in Germany, where cheap gas from the Russian Federation was considered a cornerstone of industrial competitiveness. Nothing like this happened. Industrial production fell marginally, and companies quickly adapted to the new reality. In January 2023, natural gas prices in Europe were already at the pre-war level, and in May, they fell to $10 per million metric British thermal units (BTUs), the level last seen in June 2021 (figure 1.5A).

After the fall in consumption in 2022, induced by unprecedented consumption cuts in Europe, Eurasia and the Pacific, the demand for gas is expected to remain flat in 2023 (figure 1.5B). North America saw increased natural gas consumption during the 2022–2023 heating season, induced by an unusually harsh winter and the high prices of coal, which caused a switch to natural gas in electricity generation. Overall, gas demand in the United States in 2023 is expected to fall by 2.9 per cent, resulting from the expansion of renewable energy sources and the overall macroeconomic situation depressing the gas industry.

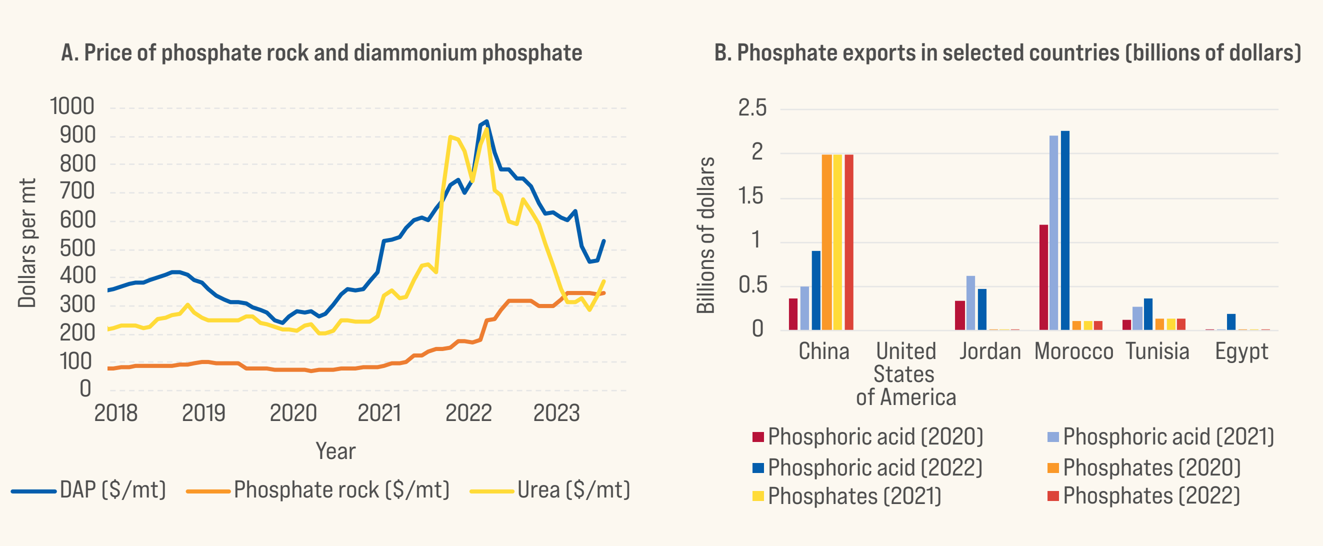
Timely policy action in Europe, inducing gas-saving measures in public buildings, fuel switches in rural households, the installation of heat pumps, efficiency gains and behavioural changes, accompanied an unusually mild winter, allowing for an unprecedented 16 per cent fall in demand in the residential sector in the 2022–2023 winter season. Gas burned for electricity generation fell by 12 per cent due to lower electricity consumption and a switch to renewables. Industrial demand dropped by almost 20 per cent as prices induced fuel switching and reduced the operational rates of gas-intensive industries. On the supply side, liquid natural gas became the baseload supply for Europe, largely replacing gas pumped from the Russian Federation via pipelines. Supplies increased by over 25 per cent, reaching 94 billion cubic metres, fuelled by additional flows from Qatar and the United States. In addition, the pipeline supply from Azerbaijan increased by 15 per cent. Nevertheless, after an initial surge, demand for liquid natural gas in Europe is expected to remain flat for 2023. The switch towards renewable energy sources will further depress natural gas consumption, albeit at a slower pace than in 2022.

Figure 1.5 Natural gas prices



Source: ESCWA staff calculations based on the World Bank Commodity prices database and the International Trade Centre Trade Map.

Figure 1.6 Phosphate exports and prices



Sources: ESCWA staff calculations based on the International Trade Centre Trade Map and the World Bank commodity prices database.

Note: DAP refers to diammonium phosphate; mt refers to metric ton.

Gas consumption in Asia and the Pacific is satisfied mostly by liquid natural gas. Demand there has reacted to the surge in prices, prompting a 2 per cent fall in consumption in 2022 for power generation in China and India, which was further helped by a mild winter. In 2023, 3 per cent growth is expected, mostly due to the lifting of China's zero-COVID-19 policy and an assumption of the normalization of the weather. Similarly, gas consumption in Central and South America saw a small decline due to a fall in demand for electricity generation in Brazil following record droughts. Consumption is expected to stabilize in 2023. A 2 per cent surge in demand for gas in the Middle East is expected in 2023, driven by increased consumption in Saudi Arabia.

On the supply side, global gas production fell by 0.3 per cent in 2022 and is expected to further decrease by 1 per cent in 2023, with additional production in North America and the Middle East not able to fully counteract the fall in the supply from the Russian Federation. The surge in natural gas production in the United States, which accounted for 42 per cent of the overall increase in gas production in 2022 (or 38 billion cubic metres), is driven mostly by greater production from oil-driven shale plays, mainly in the Permian Basin. In 2023, an additional supply of 47 billion cubic metres is expected in line with conservative upstream spending, an escalation in costs and a decline in domestic demand. The other supplier of gas to Europe is the Middle East, with Egypt and Qatar supplementing exports of liquid natural gas from the United States. These producers are expected to ramp up production, with Egypt's two liquid natural gas facilities, Damietta and Idku, operating at full capacity and Qatar's North Field continuously expanding production.

The strains on the global fertilizer market eased off in the second half of 2022 and 2023 due to supply chain support by Governments and non-governmental organizations aimed at making sure that the war in Ukraine did not disrupt trade in fertilizers. The supply from the Russian Federation was barely disrupted by sanctions amid the rerouting of trade to such countries as Brazil and India. As a result, and given decreases in natural gas prices, the price of urea and diammonium phosphate by June 2023 had receded to levels last seen at the beginning of 2021, despite continuously high prices for phosphate rock (figure 1.6A).

Morocco is the world's largest phosphate producer, possessing around 70 per cent of global reserves (50 out of 71 billion tonnes), even though this position is likely to change soon given the recent discovery of huge phosphate reserves in Norway. The Moroccan giant OCP is ramping up production through a massive $13 billion Green Investment Programme launched in December 2022 and planned for 2023 to 2027. It aims to increase production capacity from the current 12 million tons of fertilizer to 20 million, and achieve full carbon neutrality by 2040. In Meskala, new mining of phosphate rock is planned in addition to the new fertilizer production complex in Mzinda. To reduce dependence on imported natural gas and ammonia, the programme is slated to ramp up production of green hydrogen through electrolysis and the use of renewable energy and green ammonia. It intends to develop desalination plants and boost photovoltaic capacity to produce renewable energy. In addition, research is being conducted on supplying elements for lithium iron phosphate batteries in line with global trends. The Saudi company Ma'aden awarded a contract to construct new fertilizer production plants in Wa'ad Al Shamal and Ras Al-Khair that are expected to produce up to 1.5 million metric tons of phosphate fertilizers. Overall, the export of phosphate fertilizers from the region is expected to further increase (figure 1.6B).

On the demand side, the consumption of fertilizers is predicted to surge by 4 per cent in 2023, while the demand for phosphorus is expected to increase by 5 per cent.[6] The main contributors to this growth are South Asia, where Pakistan is expected to recover consumption after the 2022 flood, and Latin America, with expanded consumption in light of El Niño. In Eastern Europe, demand is predicted to remain flat, with the recovery of fertilizer use in Ukraine offset by the decrease in the Russian Federation after winter losses and heavy rains during the planting season. Recovery in Africa is expected to be relatively moderate. The transition from La Niña to El Niño could cause droughts in northern Latin America, southern Africa, South-East Asia and Australia, leading to suppressed demand (box 1.1). Over the medium term, the growth of fertilizer use will slow in line with efficiency gains and government regulations. The development of lithium iron phosphate batteries and production of electric vehicles (Tesla is already using these batteries in its vehicles, and Hyundai and Toyota are expected to follow) will be additional sources of demand for phosphates over the medium run.

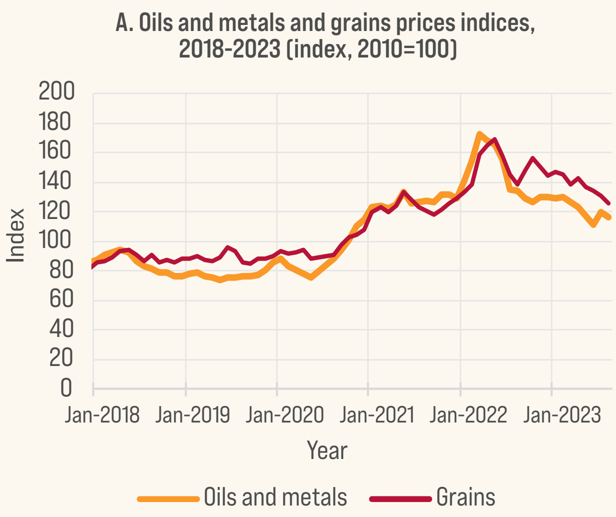
3. Food commodities

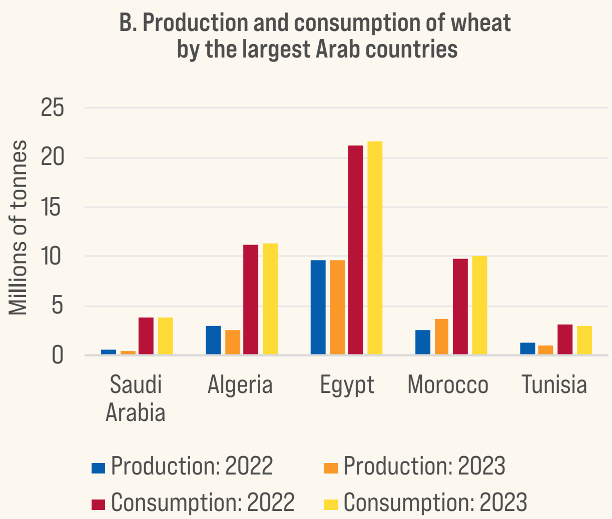
Despite the slowdown in the prices of food commodities and the successful aversion of a food crisis after the outbreak of the war in Ukraine, including through the Black Sea Grain Export Initiative, global prices of food commodities remain elevated (figure 1.7A). As the Arab region is one of the world's largest food importers, with many Governments subsidizing food products, global prices remain a concern (figure 1.7B).

In 2022, global wheat production passed the 800 million tonnes mark for the first time in history, leading to record high stocks. In 2023, production is expected to tighten although the world will remain adequately supplied with 777 million tonnes, the third largest output on record, as predicted by the Food and Agriculture Organization (FAO).[7] Most of the decline is expected in Australia and the Russian Federation, reflecting wet weather conditions during the 2022–2023 winter and the shortfalls in precipitation associated with the El Niño event. Smaller falls are predicted in other leading producers such as Kazakhstan and Ukraine due to the war affecting wheat plantings. The output of leading producers such as Canada, China, the European Union, India, Pakistan and the United States is expected to remain stable or even moderately increase. The harvest is expected to decrease in Northern Africa (including Algeria, Morocco and Tunisia) due to the persistent soil moisture deficit. These developments plus record global wheat stocks are likely to exert downward pressure on prices, leading to some easing of the pressure on government and household budgets in Arab food importers.

Like wheat, the prices of edible oils decreased from record highs in March 2023, reaching levels not observed since late 2020, following the decline of international prices for soybean, rapeseed and sunflower seeds. Global soybean production is expected to rebound in 2022 and 2023, following a contraction in the previous year driven by the recovery of harvests of soybean in Brazil, China, India and Paraguay. Rapeseed production is expected to reach a record-high harvest of 89 million tonnes, prompted by the recovery in output in Canada and the continuous expansion of production in Australia. Outputs of other key producers, including China, the European Union and India, are also expected to increase. In contrast, the global production of sunflower seed is expected to drop by 8 per cent in 2022 and 2023 amid lower production in Ukraine due to the war and a decline in the European Union due to unfavourable weather conditions. The only major producer to increase its crops is the Russian Federation. These developments, in line with expected further increases in 2023 and 2024, will exert further downward pressure on the prices of oils in the short and medium term.

Figure 1.7 Food imports and prices





Sources: World Bank commodity prices database; FAO, 2023.

C. Trade, financial interlinkages and financing conditions

In line with the stabilization of the situation in the war in Ukraine, resilience to the energy shock prompted by the Russian halt of gas exports to Europe and the relatively minor reactions of labour markets to increased interest rates, markets in advanced economies witnessed a relatively bullish environment in the first half of 2023. The S&P500 and DAX both gained 16 per cent; the French CAC40 index rose by 14.3 per cent. This came, however, after a weak 2022, when these indices lost 20, 14 and 10 per cent, respectively. Nevertheless, the French index reached its record in April 2023 and the DAX came close, showing the resilience of European economies. As the tightening cycle is almost over in Europe, and inflation has slightly receded without requiring a deep recession as in the 1980s, the prospects are moderately optimistic. The European economy proved resilient to the risk stemming from the sudden stop in the supply of Russian commodities, and the actions of the Federal Reserve and the European Central Bank managed to reduce inflation. Nevertheless, risks remain. Consumption receded over 2022 and 2023, and massive protests shook France in June 2023. Inflation is still elevated, and unexpected consequences of the war in Ukraine may still occur.

Of the Gulf Cooperation Council (GCC) stock exchanges, only the Dubai DFM Index noted growth comparable in magnitude to that observed in France and Germany, with a 13.7 per cent increase in the first half of 2023. The Bahrain index rose by 3.7 per cent over the same period, Oman by 2.1 per cent and the Saudi Tadawul by 9 per cent. Other stock exchange indices fell by around 6 per cent – Abu Dhabi by 6.4 per cent, Kuwait by 6.3 and Qatar by 5.8. These numbers are in stark contrast to 2022, when stock exchanges in GCC countries performed relatively well – Abu Dhabi rose by 20.6 per cent and Oman by 17.9 per cent. Bahrain, Dubai and Kuwait noted moderate growth of 5.3 per cent, 2.5 per cent and 8.3 per cent, respectively, while Qatar and the Saudi Tadawul fell by 6.8 per cent each. In contrast to the European economies, the short to medium term outlook for the GCC countries is moderately negative – the increased production of oil and gas by Canada and the United States, continued efficiency gains in line with climate policies and the rapid technological development of carbon neutral transport options do not leave much time for the GCC countries to diversify their economies. Over the long run, high oil prices seem unlikely. Oil exporters will not be able to sustain their lifestyles without jumpstarting other development engines.

The situation of Arab middle-income economies is much more positive. In the first half of 2023, the Egypt EGX30 Index rose by 18.1 per cent, the Moroccan MASI by 8 per cent and Tunisia's TUNIDEX by 10.6 per cent. In Egypt and Tunisia, growth came after a relatively robust 2022, clocking in at 25.6 and 16 per cent, respectively. In Morocco, there was a fall of 19.4 per cent amid catastrophic droughts. The Jordan ASI Index retreated moderately by 3.7 per cent in the first half of 2023 after an 18.9 per cent increase in 2022. These developments indicate that middle-income economies may be less resilient to global shocks than advanced economies. Dark clouds still hang above them. Egypt is on the verge of a solvency crisis; currency devaluation will significantly affect the affordability of imported goods and the welfare of households. The country is now undergoing a balance-of-payment crisis with significant inflation (37.4 per cent in August 2023) and a foreign exchange shortage. To alleviate these problems, the Government announced a huge privatization programme to sell stakes in 32 publicly owned companies by March 2024.

Similarly, Tunisia is facing a debt crisis amid increased borrowing costs. As of mid-2023, it is negotiating a reform programme and bailout package with the International Monetary Fund (IMF). Morocco is in substantively better shape, although a major drought and the catastrophic earthquake in Marrakech in September 2023 will continue to weigh on growth prospects into 2024. The outlook for Jordan is moderately positive amid prudent fiscal policy and an expected growth in remittances from the GCC countries. All middle-income countries will benefit from the pause in monetary policy tightening and possible cuts in interest rates in the advanced economies in 2024, and the inflow of tourists resulting from significant pent-up demand accrued over the COVID-19 pandemic.

The banking system in Lebanon remains frozen in a political vacuum, with a caretaker prime minister and no president as of late 2022. There is no solution in sight to cover $72 billion in losses in the banking sector, more than three times the size of GDP, given the divergent views of key stakeholders. They have proven reluctant to follow global best practices to restructure the sector and address losses upfront instead of calling on the State to bear responsibility. In Egypt, the vulnerability of the financial system is rising due to the sovereign debt crisis, falling availability of hard currency and expected negative impact of the likely depreciation of the pound on bank capitalization. Furthermore, in case of a crisis, the Egyptian Government has limited room to act. As of mid-2023, Egyptian banks remained solvent despite the negative outlook.

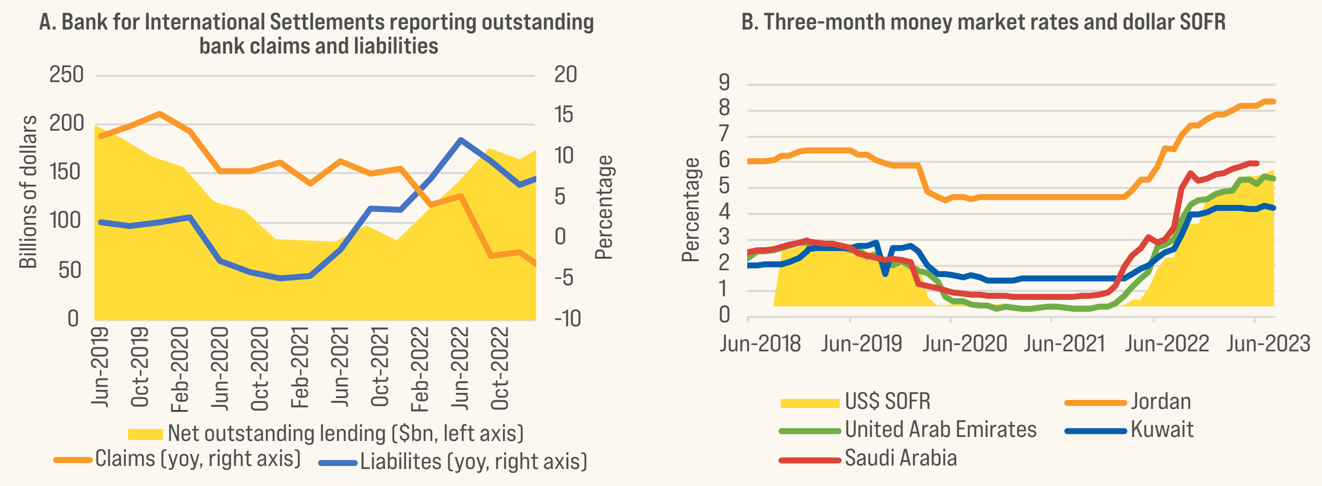
Tunisian banks are also exposed to government debt. Liquidity is tight and non-performing loans are at elevated levels. In addition, banks are subject to a default risk from State-owned enterprises. The Moroccan financial system remains resilient in a turbulent environment – in 2022, capital adequacy remained above the regulatory minimum despite the fall in profitability. The Central Bank of Jordan keeps managing to safeguard the stability of the Jordanian banking system with a firm reaction to global monetary policy tightening. As a result, the banking system remains healthy, with capital adequacy well above the regulatory minimum and decreases in non-performing loans.

Banks in GCC countries keep healthy balance sheets in line with the inflow of assets spurred by high oil prices in 2022; this boosted both private consumption and government spending. The ratings of these banks have remained stable and even improved in Saudi Arabia in the first half of 2023.

The net outstanding international position of Arab countries increased substantially in the first three quarters of 2022 in line with the surge in the prices of hydrocarbons (figure 1.8A). Rapid increases in liabilities and the moderate surge in claims in the first half and fall in the second half of 2022 led to a net regional position of $182 billion in the first quarter of 2023, the highest value since 2019. Saudi Arabia remained the biggest lender with a more than $121 billion net position, followed by Kuwait and Libya. Qatar was the largest borrower, although its net outstanding claims decreased over 2022 from $92 billion to $82 billon. Egypt was the second largest borrower, followed by Morocco, Oman and Bahrain, despite Egypt's reduction of net outstanding claims from $18 billion to $4 billion. Recent decreases in hydrocarbon prices in line with the pause in monetary policy tightening should lead to further declines in the Arab net outstanding international position over 2023 and 2024.

The first half of 2023 brought further tightening of financing conditions in the Arab economies in line with the trend in the United States, but the pace of hikes was smaller than in 2022 (figure 1.8B). Jordan managed to decrease its spread to the United States benchmark from 4.5 percentage points in mid-2022 to 3.1 percentage points in mid-2023, apparently reaching a plateau and leaving little probability of further increases in JODIBOR, with possible decreases in 2024. As historically observed, the money market rates in GCC countries co-moved with the United States benchmark, indicating that these economies are perceived as almost as safe as the United States. Recent improvement in the rating of Saudi banks confirms this view. As long as oil rents continue and their currencies are pegged, GCC countries should expect financing conditions similar to those of the United States.

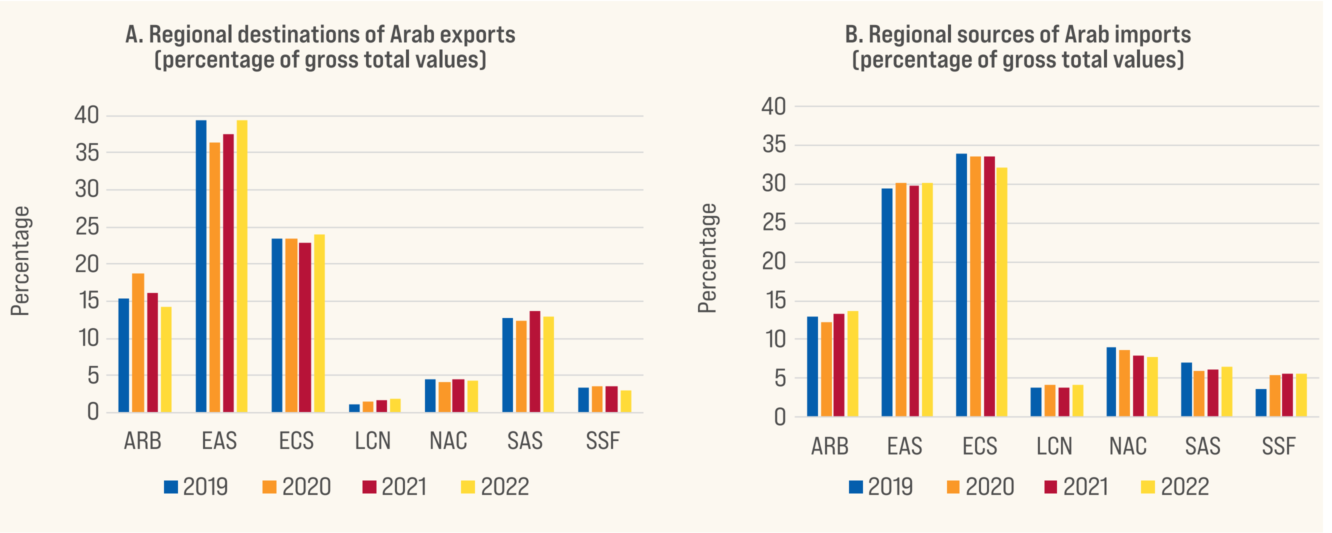
Figure 1.8 Global financial linkages in the Arab region



Sources: ESCWA staff calculations based on national statistical sources; the Arab Monetary Fund markets performance, stock market capitalization and financial markets database; and the Bank for International Settlements locational banking statistics database.

Note: SOFR indicates the secured overnight financing rate.

Figure 1.9 Global trade linkages in the Arab region



Source: IMF Direction of Trade Statistics.

Notes: ARB refers to Arab countries; EAS refers to East Asia and the Pacific; ECS refers to Europe and Central Asia; NAC refers to North America; LCN refers to Latin America and the Caribbean; SAS refers to South Asia; and SSF refers to sub-Saharan Africa.

Regional shifts in destinations for Arab exports in 2022 reflected the prices of hydrocarbons and their share in exports. Overall, exports rose by almost 28 per cent to $1.13 trillion, the highest value since 2012. The biggest regional recipient of additional exports was East Asia and the Pacific, with a $139 billion increase in 2022 compared to 2021. It was followed by Europe and South Asia with $86 billion and $35 billion increases, respectively. The structure of the destinations for Arab exports broadly returned to pre-pandemic levels, with the Arab regional share falling below 15 per cent, Asia and Pacific returning to almost 40 per cent, Europe and Central Asia passing the 24 per cent mark, and South Asia falling to 13 per cent. Trade within the Arab region increased by 17 per cent, far less than with other regions (excluding sub-Saharan Africa), indicating that the friend-shoring trend, in other words, including countries that share similar values in value chains, does not apply to Arab countries.

Sources of imports continued trends of the last decade. In particular, the share of Europe and Central Asia fell to 32 per cent, only 2 percentage points above the 30 per cent share of East Asia and Pacific. If this direction continues, 2024 may be the first year in history when the Arab region's imports from East Asia and Pacific will surpass those from Europe and Central Asia. Intraregional trade oscillates at around 13 per cent of the total, while other regions play minor roles as sources of imports, with an 8 per cent share for North America, 6 per cent for both South Asia and sub-Saharan Africa, and 4 per cent for Latin America and the Caribbean. Arab imports from Latin America rose by 22 per cent in 2022, a rate of increase far exceeding that seen for imports from other regions.

Contrary to some forecasts, the trade balances of Arab countries did not improve in 2023 as the price of oil receded to pre-war levels and supplies of liquid natural gas to Europe were provided mostly by the United States and to a lesser extent by Qatar. The Black Sea Grain Export Initiative proved to be effective, the food crisis was averted, and prices returned to pre-war levels (that were, however, elevated). The outlook for 2023 and 2024 is stable amid the increase in oil production in Canada and the United States, and sluggish growth in demand in China and the advanced economies. The prices of food staples should also remain stable as storages all over the world are full and production in 2023 and 2024 is expected to be maintained at sufficient levels. While Egypt, Lebanon and Tunisia are facing balance-of-payments crises that will continue to exert pressure on their trade balances, the GCC countries still benefit from their hydrocarbon reserves. Trends in 2022 and 2023 show that the world is becoming increasingly independent from their exports, however. Efforts to diversify their economies and improve competitiveness should be continued and strengthened in the medium and long run.

D. Concluding remarks

While high-income economies and the developed world have almost recovered from the COVID-19 crisis and proved resilient to the energy shock caused by the sudden stop of hydrocarbon imports from the Russian Federation, the developing economies, including Arab countries, are struggling to deal with long-term consequences such as a surge in labour market informality and a growing gender gap. Recovery from these problems is hindered by high interest rates required to return inflation to targets, which for developing economies has increased the cost of capital for companies and Governments. Consequently, while overall prospects for the world are stable to moderately optimistic, middle-income economies and least developed countries will continue to struggle with high borrowing costs and uncertainty around natural resources and global food prices.

Amid the repercussions of the war in Ukraine and the COVID-19 pandemic, international cooperation is especially important. There is room for intervention for international financial institutions and other international organizations, and donors and other supporters of international development. In his sixth policy brief,[8] the United Nations Secretary-General called for the reform of international financial infrastructure in line with this need.

A lesson for the Arab oil exporters is that advanced economies are increasingly independent from energy commodities. It is unlikely that prices of hydrocarbons will increase in the medium to long run, underlining that Arab oil exporters need to significantly accelerate new development models.