Regional socioeconomic trends

2

Key messages

The war on Gaza is expected to weigh on Arab economies. The three-month war scenario expects that these economies will grow at a slower pace compared with the pre-war scenario from 2023 to 2025, at an annual average of 3.6 per cent compared with 3.8 per cent, respectively.

While the cut in oil production and decreased demand are expected to slow economies in GCC countries, expansion in non-hydrocarbon sectors, particularly tourism, services and infrastructure projects, will accelerate GDP growth, which is expected to reach 4.1 per cent on average from 2023 to 2025.

Increased phosphate and gas production in Arab middle-income countries is expected to drive economic growth. However, GDP growth will be affected by the war on Gaza and the spillover effects on neighbouring countries. The three-month war scenario expects that GDP will grow by 3.3 per cent on average from 2023 to 2025 compared with 3.8 per cent in the pre-war scenario.

The situation in conflict-affected countries remains uncertain and is overshadowed by the war on Gaza, political divides and security concerns. The three-month war scenario expects that GDP will increase by 4.2 per cent on average from 2023 to 2025 compared with 4.6 per cent in the pre-war scenario.

The emerging conflict in the Sudan negatively affects the outlook for the Arab least developed countries. GDP for these countries is expected to contract by 4 per cent on average from 2023 to 2025.

A. Overview of Arab subregions

With the persistence of the war in Ukraine for the second consecutive year, economic uncertainty continues to prevail globally and in the Arab region. Uncertainty increased further in the Arab region with the eruption of the war on Gaza in October 2023, and with mounting fear that this war could expand in duration and geographical scope. Moreover, in July 2023, the Russian Federation stopped the Black Sea Grain Initiative, which allowed the export of Ukrainian grains to resume in July 2022. Future increases in global food prices are expected, putting further pressures on global prices and slowing global economic recovery following the COVID-19 pandemic. The expected increase in prices might prolong quantitative tightening policies by developed countries that began in 2022, decreasing the money supply and raising interest rates. This tightening policy will restrict liquidity in financial markets and will lead to a slowdown in economic growth as the global economy will not be operating at full capacity. Higher interest rates will increase borrowing costs and make it more challenging for developing countries, including Arab countries, to access financial markets, threatening debt sustainability even as these countries have not yet fully recovered from the repercussions of the pandemic and are struggling to make progress in achieving sustainable development goals. Additionally, higher interest rates are crowding out private investments, further slowing economic recovery in the Arab region. Interest rates have increased significantly from a low of 0.15 per cent in the United Arab Emirates at the beginning of 2022 to 4.5 per cent in a 12-month period, reaching up to 16.25 per cent in Egypt and 8 per cent in Tunisia (table 2.1).

With the stabilization of oil and gas prices at moderate levels in 2023, regional GDP was expected to grow at a moderate pace of around 3.6 per cent in 2024, accelerating to around 4.2 per cent in 2025 based on the pre-war scenario. Growth will likely stem from moderate economic expansion in oil-producing countries; phosphate and gas production; non-oil sectors, particularly the entertainment business, tourism and services; and infrastructure projects, despite the persistence of the economic crisis in some middle-income countries and political instability in other countries. However, as the war on Gaza has entered its third month, the impact of the war on the State of Palestine and neighbouring countries has become more significant. The three-month war scenario expects that GDP in the Arab region will grow by 3.3 per cent in 2024 and 4.2 per cent in 2025.

Table 2.1 Interest rates by country

	Beginning of 2022 (percentage)	Beginning of 2023 (percentage)
Bahrain	1	5.25
Egypt	8.25	16.25
Jordan	2.5	6.5
Kuwait	1.5	3.5
Mauritania	5	7
Morocco	1.5	2.5
Oman	0.15	4.5
Qatar	2.75	5.5
Saudi Arabia	1	5
Tunisia	6.25	8
United Arab Emirates	0.15	4.5

Source: Arab Monetary Fund, 2023.

Inflation reached 12.3 per cent in 2023 mainly as a result of the halting of the Black Sea Grain Initiative and the significantly negative impact on the prices of essential food items imported by Arab countries. Inflation is expected to decrease to 7.5 and 6 per cent in 2024 and 2025, respectively (table 2.2). Many countries are facing challenging political and economic circumstances that affect inflation rates, including socioeconomic crises and the depreciation of local currencies, in addition to tight financial conditions. To ease the burden of rising prices, several countries have either expanded their subsidies or implemented targeted assistance for vulnerable households.

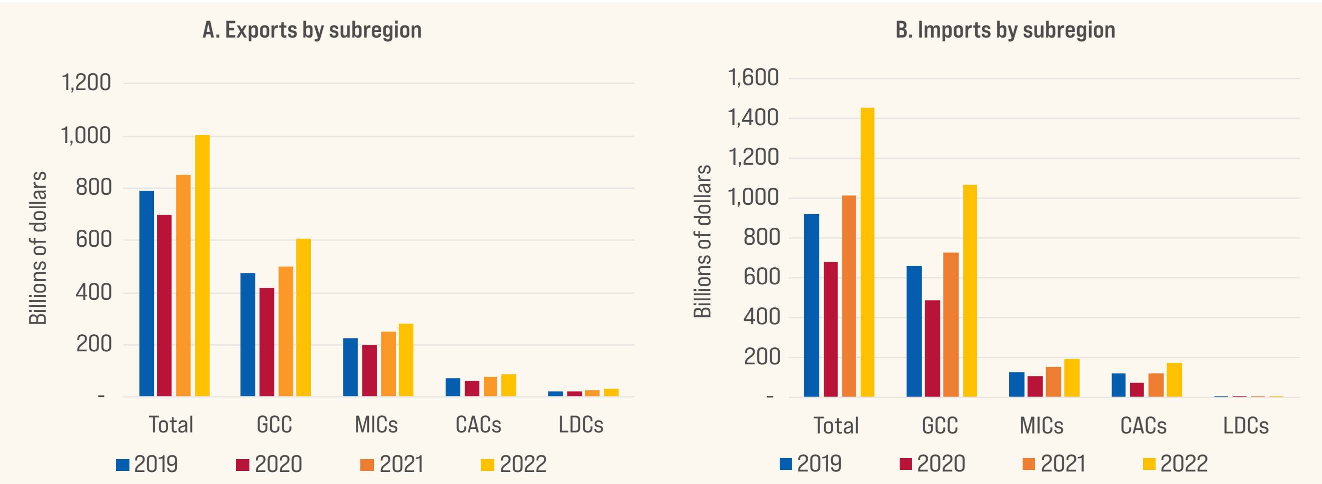
Table 2.2 GDP and inflation by subregion, 2023–2025

	Real GDP growth rate (percentage per year)					
	Pre-war scenario			Three-month war scenario[a]		
	2023	2024	2025	2023	2024	2025
All Arab countries	3.4	3.6	4.2	3.2	3.3	4.2
GCC countries	4.3	3.8	4.2	4.3	3.8	4.2
Middle-income countries	3.2	3.7	4.4	2.5	3.1	4.3
Conflict-affected countries	5.2	3.7	4.7	4.5	3.3	4.7
Least developed countries	-12.5	-1.5	2.5	-12.5	-1.5	2.5
	Consumer inflation rate (percentage per year)					
	Pre-war scenario			**Three-month war scenario[a]**		
	2023	**2024**	**2025**	**2023**	**2024**	**2025**
All Arab countries	12.3	7.5	6.0	12.3	7.4	5.9
GCC countries	3.0	2.6	3.2	3.0	2.6	3.2
Middle-income countries	26.7	15.4	10.7	26.5	15.2	10.6
Conflict-affected countries	9.7	6.0	4.8	9.6	5.8	4.7
Least developed countries	47.9	22.8	13.7	47.9	22.8	13.7

Source: ESCWA projections based on the World Economic Forecasting Model for 2023.

[a] ESCWA projections based on the World Economic Forecasting Model for 2023 and on the ESCWA-UNDP Expected Socio-Economic Impacts of the Gaza Crisis on Neighbouring Countries in the Arab States Region (forthcoming).

Figure 2.1 Exports and imports by subregion



Source: ESCWA staff calculations based on the IMF Direction of Trade Statistics.

Notes: MICs refers to middle-income countries, CACs to conflict-affected countries and LDCs to least developed countries.

The complete relaxation of COVID-19 restrictions in 2022 and the spike in global commodity prices, including for energy and food, led to a significant increase in Arab exports and imports. The former increased by 18 per cent and the latter by 43 per cent in 2022 (figures 2.1A and 2.1B). This trend is expected to continue during the 2023–2025 period, where exports are predicted to grow by an annual average of 5.6 per cent and imports by 4.1 per cent (table 2.3). The war on Gaza is likely to affect trade flows, particularly through an increase in trade costs resulting from higher insurance premiums. However, it is too early to estimate this impact, which depends on the length and scope of the war.

The fiscal position of Arab countries remains very challenging. While energy-producing countries benefited from higher energy prices in 2022, the situation changed in 2023 with the decrease in global energy prices. The fiscal deficit is expected to reach 4.1 per cent of GDP on average during the 2023–2025 period. The drop in energy prices in 2023 and elevated inflation rates will limit fiscal space and widen fiscal deficits across all Arab subregions. Countries that have either expanded coverage of subsidies or adopted targeted measures to mitigate the impacts of elevated inflation rates on vulnerable households could see further pressures on budgets and widening fiscal deficits.

The regional debt-to-GDP ratio is expected to decline from 46.8 per cent in 2023 to 45.8 per cent in 2025, driven by a decrease in debt levels in some middle-income and least developed countries with significant depreciations of local currencies (table 2.4). The war on Gaza will likely increase country risk, particularly for middle-income countries that neighbour the State of Palestine, and will likely increase the cost of borrowing.

Table 2.3 Real export and import growth rates by subregion

	Exports (percentage)			Imports (percentage)		
	2023	2024	2025	2023	2024	2025
All Arab countries	5.5	6.2	5.2	4.1	4.1	4.2
GCC countries	5.4	6.2	5.1	4.5	3.7	3.6
Middle-income countries	7.4	7.4	7.1	3.5	4.7	5.0
Conflict-affected countries	4.7	4.2	3.4	6.0	4.9	5.7
Least developed countries	-7.8	6.1	5.5	-4.1	5.3	4.1

Source: ESCWA projections based on the World Economic Forecasting Model for 2023.

Table 2.4 Fiscal deficit and debt as a percentage of GDP by subregion

	Fiscal balance (percentage)			Government debt (percentage)		
	2023	2024	2025	2023	2024	2025
All Arab countries	-4.0	-4.2	-4.0	46.8	46.1	45.8
GCC countries	-2.0	-2.1	-2.0	30.9	31.9	32.2
Middle-income countries	-7.6	-7.3	-6.6	71.1	67.4	64.9
Conflict-affected countries	-3.8	-6.2	-8.0	52.1	55.0	58.7
Least developed countries	-3.2	-2.6	-2.3	78.0	70.3	70.4

Source: ESCWA projections based on the World Economic Forecasting Model for 2023.

B. Gulf Cooperation Council countries

The GCC countries, like most developing countries, will be affected by global economic developments. The global recession has decreased demand for energy products and led to a drop in Brent crude oil prices from a high of $120 per barrel in June 2022 to around $71 per barrel in March 2023. The situation in the oil market improved slightly following the OPEC+ decision to cut production by 1.6 million barrels per day in April 2023 and the June decision to extend production cuts until the end of 2023. Since then, Brent crude oil prices have fluctuated significantly, reaching $85 per barrel in August 2023. Uncertainties in hydrocarbon markets are counterbalanced by the significant growth in non-energy sectors in the GCC countries. In 2023, GDP grew by 4.3 per cent, driven by growth in non-oil sectors of around 4.6 per cent[9] – particularly the entertainment business, a recovering tourism sector, an expanding services sector and numerous infrastructure projects. The war on Gaza is expected to have very limited impact on GCC countries given their distance from the conflict. This subregion is expected to grow at moderate levels in 2024 and 2025 of around 3.8 and 4.2 per cent, respectively. Inflation will likely remain relatively low at around 3 per cent during the 2023–2025 period as a result of persistent fuel subsidies (table 2.5).

The Saudi Arabia GDP is expected to grow by 5.1 per cent in 2023, 4.1 per cent in 2024 and 5.9 per cent in 2025. This positive outlook is driven by significant growth in non-oil sectors of around 4.6 per cent in 2023,[10] particularly increased investments though the Public Investment Fund. The fund's latest strategy indicated an intention to invest around $40 billion annually until 2025.[11] Growth has also come from private consumption, a significant expansion of the entertainment sector and positive tourism returns as the country has resumed religious tourism and promoted internal tourism. In addition, Saudi Arabia is expected to hold several major international and regional conferences, including hosting the Middle East and North Africa Climate Week in October 2023. An estimated 28 million tourists will likely visit the country in 2023, a figure 69 per cent higher than the previous year. Inflation rates are expected to remain low, ranging between 2.7 per cent in 2024 and 3.5 per cent in 2025.

Qatar will benefit from increased demand for gas following the war in Ukraine. It is continuing to expand its North Field to boost production and diversify its customer base. GDP is expected to rise by 5 per cent in 2023 and 3.7 and 3.5 per cent in 2024 and 2025, respectively. Inflation is predicted to remain at moderate levels, at around 2.9 per cent during the 2023–2025 period.

Oman will continue to expand its gas production and access new markets, taking advantage of increased demand as the war in Ukraine persists. The non-oil sector grew by 3.1 per cent in 2023, driven by increases in infrastructure projects and the recovery of tourism.[12] GDP is expected to grow by 3 per cent in 2023 and 2.6 and 4.7 per cent in 2024 and 2025, respectively. Inflation is expected to remain at moderate levels, ranging between 1.5 and 2.5 per cent between 2023 and 2025.

Table 2.5 GDP and inflation in GCC countries, 2023–2025

Real GDP growth rate (percentage per year)			
	2023	**2024**	**2025**
Bahrain	2.7	2.5	2.8
Kuwait	2.7	2.0	2.8
Oman	3.0	2.6	4.7
Qatar	5.0	3.7	3.5
Saudi Arabia	5.1	4.1	5.9
United Arab Emirates	3.5	4.0	5.9
GCC countries	4.3	3.8	4.2

Consumer inflation rate (percentage per year)			
	2023	2024	2025
Bahrain	1.8	2.0	2.5
Kuwait	3.0	2.3	2.6
Oman	1.5	1.8	2.5
Qatar	2.9	2.8	2.9
Saudi Arabia	2.8	2.7	3.5
United Arab Emirates	3.8	2.7	3.1
GCC countries	3.0	2.6	3.2

Source: ESCWA projections based on the World Economic Forecasting Model for 2023.

Bahrain will witness moderate growth, with the non-oil sector expected to expand by 3.5 per cent in 2023,[13] notably through tourism, services and infrastructure projects. GDP is projected to rise by 2.7 per cent in 2023, and 2.5 and 2.8 per cent in 2024 and 2025, respectively. Inflation rates are predicted to range between 1.8 and 2.5 per cent from 2023 to 2025.

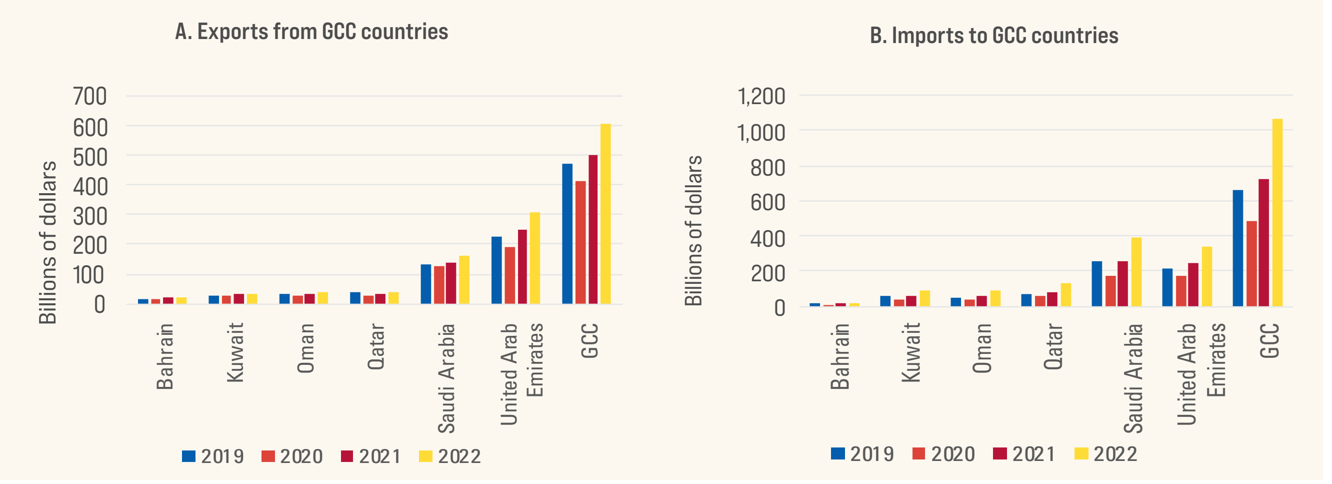
In Kuwait, growth rates are expected to be low between 2023 and 2025, affected by the OPEC+ oil production cuts and moderate oil price levels. Growth in the non-oil sector, however, at around 4.4 per cent,[14] could recover some losses from declining oil revenues. GDP is expected to grow by 2 per cent in 2024 and 2.8 per cent in 2025. Inflation rates are projected to be moderate, at around 2.3 and 2.6 per cent in 2024 and 2025, respectively.

Decreased oil production in 2023 will likely crimp economic growth in the United Arab Emirates although the slowdown was counterbalanced to some extent by expansion in the non-oil sector. It grew by around 4.8 per cent in 2023,[15] leading to a moderate overall growth rate of around 3.5 per cent. The tourism sector continued to play an important role, contributing to the services sector and increasing domestic consumption. In November 2023, the United Arab Emirates hosted the twenty-eighth Conference of the Parties on climate change, a major international event that increased demand and prices. Inflation in 2023 averaged 3.8 per cent. The outlook for 2024 to 2025 is more positive as GDP is expected to rise by 4 and 5.9 per cent, respectively, while inflation rates are predicted to be moderate at around 2.7 and 3.1 per cent, respectively.

Economic recovery in the GCC countries in 2022 was accompanied by significant economic growth, a recovery in domestic and global consumption, and increased commodity prices. As a result, exports and imports rose significantly in 2022, exceeding pre-COVID-19 levels. Exports increased by 20 per cent, reaching $603 billion, while imports climbed by 45 per cent, totalling $1,064 billion (figures 2.2A and 2.2B).

This trend is expected to continue in the 2023–2025 period (table 2.6). Exports are expected to grow by 5.6 per cent on average. Saudi Arabia could have the largest increase with 10 per cent growth between 2023 and 2024, and 8 per cent in 2025, resulting from an expected recovery in the oil market and increased domestic investments that are likely to boost exports. Oman and Qatar may also witness significant growth in exports due to expanded gas production and heightened demand for gas products. Bahrain, Kuwait and the United Arab Emirates could have moderate growth rates for their exports. Imports to the GCC are expected to grow by 4.5 per cent in 2023, and 3.7 and 3.6 per cent in 2024 and 2025, respectively. Projected growth in imports ranges between 2 per cent in Saudi Arabia and 7.4 per cent in Kuwait in 2023, and between 1.4 per cent in Oman and 5.9 per cent in Bahrain in 2025.

Figure 2.2 Exports and imports in GCC countries



Source: ESCWA staff calculations based on the IMF Direction of Trade Statistics.

Table 2.6 Real export and import growth rates in GCC countries, 2023–2025

	Exports (percentage)			Imports (percentage)		
	2023	2024	2025	2023	2024	2025
All Arab countries	**5.4**	**6.0**	**5.0**	**4.2**	**4.1**	**4.0**
Bahrain	2.9	3.8	3.9	6.1	5.3	5.9
Kuwait	1.4	4.9	4.1	7.4	3.2	2.7
Oman	5.2	5.6	7.1	6.0	2.5	1.4
Qatar	5.0	5.3	4.3	5.0	5.9	5.0
Saudi Arabia	10.0	10.0	8.0	2.0	2.0	2.0
United Arab Emirates	3.8	4.6	3.5	5.2	4.4	4.5
GCC countries	**5.4**	**6.2**	**5.1**	**4.5**	**3.7**	**3.6**

Source: Based on data from the United Nations Statistics Division and national sources for 2023.

The decline in global oil prices coupled with generous subsidies and national support programmes aimed at mitigating imported high inflation negatively affected revenues in the GCC countries and created a fiscal deficit in 2023, estimated at around 2 per cent of GDP (table 2.7). This deficit is expected to continue in 2024 and 2025, reaching 2.1 and 2 per cent of GDP, respectively. All GCC countries are expected to maintain the peg of their national currencies to the United States dollar and other major currencies. This could raise interest rates in line with rising rates in the United States and the euro area. A widening fiscal deficit coupled with climbing interest rates is expected to increase financing needs and costs, resulting in an increase in the debt-to-GDP ratio from 30.9 per cent of GDP in 2023 to 32.2 per cent in 2025.

Benefiting from greater demand for and production of gas, Qatar could widen its fiscal surplus from 2.8 per cent of GDP in 2023 to 3.2 per cent in 2025. Qatar still does not plan to introduce a value-added tax, part of the Common VAT Agreement among GCC countries. The debt-to-GDP ratio is expected to decline from 44.8 per cent of GDP in 2023 to around 41.6 per cent in 2025. Kuwait and the United Arab Emirates are predicted to maintain a fiscal surplus during the outlook period, but it will likely decline from an estimated 2.9 to 1.8 per cent of GDP in Kuwait and 1.1 to 0.6 per cent in the United Arab Emirates in 2023 and 2025, respectively. In the latter, a corporate tax law passed in late 2022 is expected to increase government revenues and diversify sources away from the energy sector. In Kuwait, debt levels are expected to remain stable, at between 9.8 and 10.6 per cent of GDP from 2023 to 2025. In the United Arab Emirates, the fiscal surplus will be used to repay part of current debt, with the debt level expected to drop from 25.6 to 20.1 per cent of GDP over the same period.

Oman could also benefit from increased demand for gas and see an improved fiscal position from a deficit of 1.8 per cent of GDP in 2023 to only 0.9 per cent in 2025. An improved fiscal balance could go hand in hand with an improved debt position where the debt-to-GDP ratio could decrease from 56.7 per cent in 2023 to 51.8 per cent in 2025. In Bahrain, the fiscal deficit reached 12.2 per cent of GDP in 2023, driven by increased spending on infrastructure projects, but is predicted to decline to 6.6 per cent in 2025 following the expected recovery in global demand. Debt levels are expected to remain elevated, however, ranging between 133.5 per cent of GDP in 2023 and 137 per cent in 2025, signalling the need for debt consolidation. In Saudi Arabia, expansionary policy, increased public investments, the Citizen Account Programme to protect households from fluctuations in prices, and tax exemptions to foreign companies relocating to the country are expected to increase expenses and decrease revenues, widening the fiscal deficit. The deficit is projected to fluctuate at around 5.1 per cent of GDP from 2023 to 2025, while the debt-to-GDP ratio is expected to increase from 26.3 to 33 per cent of GDP.

Table 2.7 Fiscal deficit and debt as a percentage of GDP in GCC countries

	Fiscal balance (percentage)			Government debt (percentage)		
	2023	2024	2025	2023	2024	2025
Bahrain	-12.2	-10.1	-6.6	133.5	137.6	137.0
Kuwait	2.9	2.4	1.8	9.8	11.2	10.6
Oman	-1.8	-1.0	-0.9	56.7	55.0	51.8
Qatar	2.8	3.1	3.2	44.8	43.1	41.6
Saudi Arabia	-5.1	-5.5	-4.9	26.3	30.0	33.0
United Arab Emirates	1.1	1.1	0.6	25.6	22.7	20.1
GCC countries	**-2.0**	**-2.1**	**-2.0**	**30.9**	**31.9**	**32.2**

Source: ESCWA projections based on the World Economic Forecasting Model for 2023.

C. Middle-income countries

The economic performance of Arab middle-income countries improved significantly in the first three quarters of 2023 after a difficult 2022. While oil prices have stabilized at moderate levels, some uncertainty clouds the prices of essential food items after the halting of the Black Sea Grain Initiative. The war on Gaza will weigh significantly on this subregion, particularly on the economies of Egypt, Jordan and Lebanon given their proximity to the conflict. GDP was expected to grow by 3.2 per cent in 2023, 3.7 and 4.4 per cent in 2024 and 2025, respectively, driven by an expansion in gas and phosphate production and a good agricultural season in the pre-war scenario. However, as the war on Gaza has entered its third month, GDP is expected to grow at a slow pace of around 2.5 per cent in 2023, and of 3.1 and 4.3 per cent in 2024 and 2025, respectively, in the three-month war scenario. Inflation is projected to remain elevated at double-digit rates between 26.7 per cent in 2023 and 10.7 per cent in 2025 in both scenarios (table 2.8).

Egypt was expected to record the highest growth rate during the outlook period in the pre-war scenario, driven by increased gas production and demand from European countries, stepped-up public investments, a recovery in tourism and resumption of Suez Canal activities at full capacity. In December 2022, Egypt received IMF approval for a 46-month arrangement under the Extended Fund Facility amounting to around $3 billion.[16] GDP was expected to increase by 3.5 per cent in 2023, and by 4 and 5.2 per cent in 2024 and 2025, respectively. However, given its proximity to Gaza, the tourism sector and foreign direct investment inflows to Egypt are expected to be affected by the ongoing war in neighbouring Gaza. The three-month scenario expects that GDP will grow at a slower pace at around 2.7 per cent in 2023, and at 3.1 and 5.2 per cent in 2024 and 2025, respectively. The depreciation of the local currency in addition to monetary tightening are exerting significant pressures on prices, however, and are expected to cause double-digit inflation of between 35.3 per cent in 2023 and 16.9 per cent in 2025.

In 2023, Morocco had a good agricultural season after a year of low productivity caused by severe droughts. It benefited significantly from increased demand for phosphates. These positive developments were countered by the devastating earthquake that hit the country in September 2023, killing more than 2,900 persons, injuring more than 5,500 and causing massive destruction.[17] In 2023, GDP grew by around 2.7 per cent. It is expected to grow by 4.2 and 4.3 per cent in 2024 and 2025, respectively. Inflation is projected to remain at moderate levels of around 4.8 per cent in 2023, and 3.8 and 2.9 per cent in 2024 and 2025, respectively. Preliminary estimates suggest that the earthquake could cost around 8 per cent of GDP,[18] although humanitarian and international aid started flowing into the country in the wake of the event, mitigating a significant share of economic losses.

In Lebanon, the outlook was positive in 2023 driven by strong tourism and an inflow of remittances, which revived domestic consumption. However, the situation was overshadowed by uncertainty with the eruption of the war on Gaza and Israeli aggressions in southern Lebanon in the fourth quarter of the year. GDP was expected to grow by around 1.2 per cent in 2023 in the pre-war scenario but is likely to contract by 3 per cent in the three-month war scenario as a result of a significant drop in tourism in the fourth quarter. Since the first half of October 2023, many airlines have suspended their flights to Beirut, and many countries have advised their citizens against travelling to Lebanon. In addition, the national air-carrier has cut its flights in and out of Beirut by a third for at least two months, discouraging Lebanese expatriates from visiting the country. Meanwhile, the country continues to suffer from a lack of basic services, the deterioration of infrastructure and the prevalence of multiple exchange rates – the revised official exchange rate of 15,000 Lebanese pounds (LBP) per dollar, the customs rate of LBP 86,000 per dollar, the Sayrafa rate at around LBP 85,500 per dollar in September 2023, and black-market rates that reached LBP 140,000 per dollar and then decreased to around LBP 89,600 per dollar in September. The absence of reforms in addition to the reluctance to elect a president and fill other key positions like the Governor of the Central Bank have worsened the situation. In 2024 and 2025, GDP was expected to increase by 1.3 and 2.2 per cent, respectively. However, the three-month war scenario estimates that GDP will contract by a further 0.9 per cent in 2024 and will grow by 1.9 per cent in 2025. This outlook in the three-month war scenario is subject to change, positively if the war in Gaza ends soon, if the political bottleneck is resolved, and if reforms facilitating the IMF programme are enforced, but negatively if the war persists longer and if escalations in Lebanon expand beyond the south of the country. Inflation continues to weigh on the economy at a time when prices are soaring, the national currency is deteriorating and a cash dollarized economy is prevalent. Inflation reached 117.4 per cent in 2023 and is expected to fall to 45.8 and 11.9 per cent in 2024 and 2025, respectively.

Algeria may be affected by oil production cuts and moderate oil prices but may benefit from increased demand for gas by European countries and growth in the non-hydrocarbon sector. GDP is expected to grow by moderate levels of around 3.4 per cent in 2023, 3.2 per cent in 2024 and 2.6 per cent in 2025. Inflation is predicted to be moderate, ranging between 6.5 in 2023 and 5.4 per cent in 2025.

In Jordan, GDP was expected to grow modestly by 2.2 per cent in 2023, 2.5 and 3.3 per cent in 2024 and 2025, respectively, in the pre-war scenario, driven by recovery in tourism and increased revenues from phosphate production. However, the war on Gaza will affect the tourism sector – there has been many tours and ticket cancellations in the last quarter of 2023 – and the inflow of foreign direct investments. The three-month war scenario expects that GDP will not grow in 2023, will grow by 0.3 per cent in 2024 and by 2.7 per cent in 2024. Inflation rates are expected to be moderate at 3.7 per cent in 2023, and 2.9 and 3.4 per cent in 2024 and 2025, respectively.

In Tunisia, GDP growth is expected to increase by 2.5 per cent in 2023, 4.5 and 5.5 per cent in 2024 and 2025, respectively, subject to the enforcement of structural reforms that facilitate the adoption of an IMF programme. Inflation rates are expected to remain elevated, ranging from 9.1 in 2023 to 8 per cent in 2025.

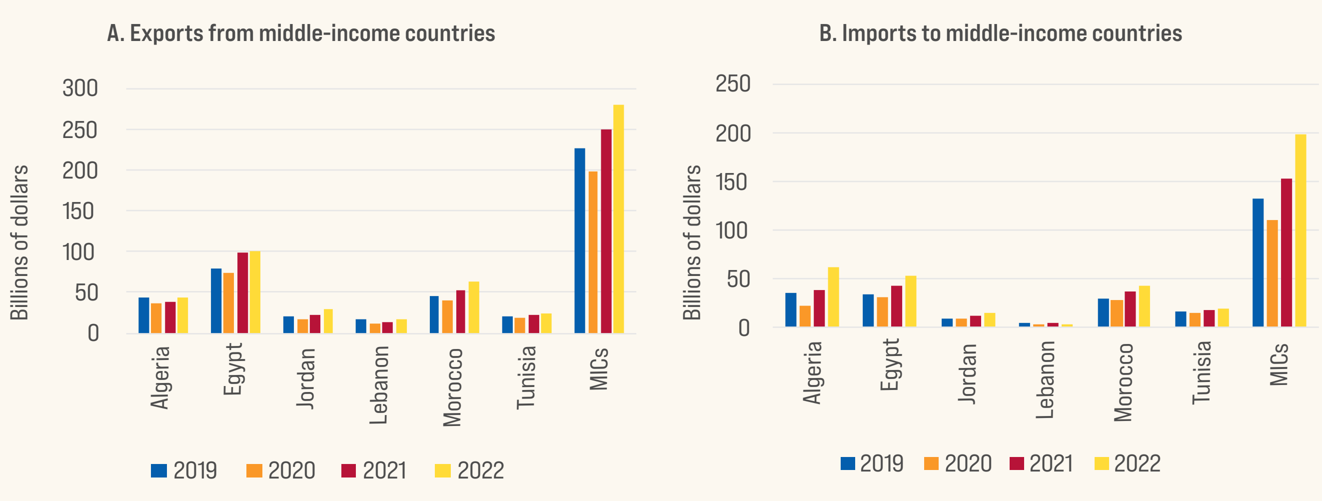
Table 2.8 GDP and inflation in middle-income countries, 2023–2025

Real GDP growth rate (percentage per year)						
	Pre-war scenario			Three-month war scenario[a]		
	2023	2024	2025	2023	2024	2025
Algeria	3.4	3.2	2.6	3.4	3.2	2.6
Egypt	3.5	4.0	5.2	2.7	4.2	4.3
Jordan	2.2	2.5	3.3	0.0	0.3	2.7
Lebanon	1.2	1.3	2.2	-3.0	-0.9	1.9
Morocco	2.7	4.2	4.3	2.7	4.2	4.3
Tunisia	2.5	4.5	5.5	2.5	4.5	5.5
Arab middle-income countries	**3.2**	**3.7**	**4.4**	**2.5**	**3.1**	**4.3**
Consumer inflation rate (percentage per year)						
	Pre-war scenario			Three-month war scenario[a]		
	2023	2024	2023	2024	2023	2024
Algeria	6.5	6.0	5.4	6.5	6.0	5.4
Egypt	35.3	21.7	16.9	35.2	21.5	16.8
Jordan	3.7	2.9	3.4	3.5	2.5	3.1
Lebanon	117.4	45.8	11.9	116.1	45.0	11.6
Morocco	4.8	3.8	2.9	4.8	3.8	2.9
Tunisia	9.1	8.1	8.0	9.1	8.1	8.0
Arab middle-income countries	**26.7**	**15.7**	**10.7**	**26.5**	**15.2**	**10.6**

Source: ESCWA projections based on the World Economic Forecasting Model for 2023.

[a] ESCWA projections based on the World Economic Forecasting Model for 2023 and based on the ESCWA-UNDP Expected Socio-Economic Impacts of the Gaza Crisis on Neighbouring Countries in the Arab States Region (forthcoming).

Figure 2.3 Exports and imports in middle-income countries



Source: ESCWA staff calculations based on the IMF Direction of Trade Statistics.

Table 2.9 Real export and import growth rates in middle-income countries, 2023–2025

	Exports			Imports		
	2023	2024	2025	2023	2024	2025
All Arab countries	**5.5**	**6.2**	**5.2**	**4.1**	**4.1**	**4.2**
Algeria	3.0	4.3	4.0	2.0	2.7	3.0
Morocco	5.5	8.9	11.2	3.0	5.7	6.0
Tunisia	5.6	3.3	3.5	2.5	2.1	0.2
Egypt	12.0	10.0	8.0	5.0	5.0	5.0
Jordan	5.9	4.7	4.9	0.4	1.0	1.6
Lebanon	3.0	4.0	5.7	5.0	5.2	8.2
Arab middle-income countries	**7.4**	**7.4**	**7.1**	**3.5**	**4.7**	**5.0**

Source: Based on data from the United Nations Statistics Division and national sources.

Exports and imports significantly increased in 2022 in middle-income countries. Exports rose by 12 per cent in 2022, reaching $280 billion, driven by a significant jump in phosphate exports from Jordan and Morocco (figure 2.3A). Imports climbed by 29 per cent, reaching $199 billion due to a large increase in Algeria (figure 2.3B).

In 2023, exports increased by around 7.4 per cent on the back of a 12 per cent increase from Egypt, mainly gas and phosphate exports, coupled with enhanced demand for cheaper Egyptian products as a result of currency depreciation. This trend is expected to continue, with exports predicted to increase by 7.4 in 2024 and 7.1 per cent in 2025. Imports are projected to increase by 3.5 per cent in 2023, and by 4.8 per cent on average from 2024 to 2025, based on a significant increase in Lebanon (table 2.9). Exports and imports from this subregion are subject to uncertainty as the war on Gaza is increasing transport costs, particularly through the Arabian Gulf following the rise of insurance premiums.

Arab middle-income countries are expected to continue facing constrained fiscal space and fluctuations in commodity prices. To lessen the impact of the latter, many countries have maintained food and energy subsidies, and several have expanded social safety net coverage. In 2023, the fiscal deficit reached 7.6 per cent of GDP. It is expected to top 7.3 per cent in 2024 and 6.6 per cent in 2025. Debt levels are projected to improve as a result of the better debt position of Egypt and changes in Lebanon. The debt-to-GDP ratio is expected to decline from 71 per cent in 2023 to around 65 per cent in 2025 (table 2.10). However, with the war on Gaza and the uncertainties surrounding neighbouring Egypt, Jordan and Lebanon, country risks in these countries are increasing and the cost of borrowing is likely to rise.

Egypt is predicted to witness a deterioration in its fiscal position. The depreciation of the local currency in addition to increased public investments, expanded food and energy subsidies, and greater coverage of vulnerable households by the Takaful and Karama Cash Transfer will widen fiscal deficits. The deficit is expected to reach 8.6 per cent of GDP in 2023, 8.1 per cent in 2024 and 6.9 per cent in 2025. Local currency depreciation will likely have a positive impact on debt levels, particularly on outstanding debts in the local currency. The debt-to-GDP ratio is expected to decline from 79 per cent in 2023 to around 66 per cent in 2025. Egypt joined an IMF programme and received $3 billion as part of a 46-month arrangement under the Extended Fund Facility; it also issued $1.5 billion worth of sukuk bonds in 2023.

In Morocco, the Government maintained its food and energy subsidies and expanded subsidies for transportation in order to control costs. It increased humanitarian spending in the wake of its devastating earthquake. These policies will likely put additional pressure on the budget and widen the fiscal deficit. The latter is expected to reach 6.2 per cent of GDP in 2023, and 5.5 and 5 per cent in 2024 and 2025, respectively. Morocco received $5 billion from the IMF as part of a two-year Flexible Credit Line Arrangement for crisis prevention, in addition to significant financial support following the earthquake. Debt levels are expected to increase from 56.7 per cent of GDP in 2023 to around 58.7 per cent in 2025.

Table 2.10 Fiscal deficit and debt as a percentage of GDP in middle-income countries

	Fiscal balance (percentage)			Government debt (percentage)		
	2023	2024	2025	2023	2024	2025
Algeria	-5.6	-7.0	-8.0	57.5	60.6	63.4
Morocco	-6.2	-5.5	-5.0	56.7	58.0	58.7
Tunisia	-8.6	-7.4	-6.4	84.8	81.7	77.7
Egypt	-8.6	-8.1	-6.9	79.0	71.1	65.7
Jordan	-9.3	-7.7	-4.9	99.0	101.2	99.8
Lebanon	-5.7	-3.8	-3.7	28.0	19.6	15.5
Arab middle-income countries	**-7.6**	**-7.3**	**-6.6**	**71.1**	**67.4**	**64.9**

Source: ESCWA projections based on the World Economic Forecasting Model 2023.

In Tunisia, the fiscal deficit is expected to rise to 8.6 per cent of GDP in 2023 and to range between 7.4 and 6.4 per cent in 2024 and 2025, respectively. Depreciation of the national currency is projected to affect debt denominated in the local currency. The debt-to-GDP ratio is expected to decrease from around 85 per cent in 2023 to around 78 per cent in 2025. Delays in adopting structural reforms present a risk of debt distress.

In Algeria, the Government has increased public wages and strengthened food subsidies. These policies, in addition to a drop in hydrocarbon revenues, have pressured the fiscal position, which moved from a surplus to a 5.6 per cent deficit as a percentage of GDP in 2023. This deficit is expected to widen in 2024 and 2025, reaching 7 and 8 per cent of GDP, respectively. The debt-to GDP ratio is projected to increase from 58 per cent in 2023 to around 63 per cent in 2025.

Fluctuations in energy and food prices are expected to widen the fiscal deficit in Jordan, which is projected to reach 9.3 per cent of GDP in 2023 before decreasing to 7.7 per cent in 2024 and 4.9 per cent in 2025 as commodity prices stabilize. Debt levels are expected to increase and fluctuate at around 100 per cent of GDP during the 2023–2025 period.

In Lebanon, the political deadlock is putting public investment projects on hold. Government spending is very limited, covering basic items, including civil service salaries and subsidies of critical products like selected medicines and cash transfers to vulnerable households, which are covered through an additional loan from the World Bank as part of the Emergency Crisis and COVID-19 Response Social Safety Net Project. The fiscal deficit remained around 5.7 per cent of GDP in 2023 and is expected to decline to 3.8 and 3.7 per cent in 2024 and 2025, respectively. Debt levels are expected to diminish as a result of the significant depreciation of the national currency and the decrease in the value of debts denominated in the local currency. The debt-to-GDP ratio is expected to drop from 34 to 27 per cent between 2023 and 2025.

D. Conflict-affected countries

The situation in conflict-affected Arab countries remains uncertain, overshadowed by the war or Gaza, political divides and security concerns. Political mediation promises to break the status quo and to broker some consensus among conflicting parties. This could translate into higher growth rates during the outlook period, except in Palestine. GDP was expected to increase by 5.2 per cent in 2023 and by 3.7 and 4.7 per cent in 2024 and 2025, respectively, in the pre-war scenario. However, the war on Gaza will havea significant impact on the State of Palestine and very limited impact on the other countries in this subregion due to their distance from the conflict. The three-month war scenario predicts that GDP will grow by 4.5 per cent in 2023, and by 3.3 and 4.7 per cent in 2024 and 2025, respectively. Inflation is projected to decline from a high of 9.7 per cent in 2023 to 6 and 4.8 per cent in 2024 and 2025, respectively (table 2.11).

Political disagreement continues to cloud the economic outlook in Libya. National elections have been postponed several times since 2021. Intense floods that hit coastal areas in September 2023 caused immense damages, with the bursting of the Mansour and Derna dams killing more than 4,250 people and resulting in over 8,500 missing people amid massive destruction and displacement.[19] With the flow of financial assistance, and in the absence of an impact on oil production, which resumed earlier in 2023, GDP is expected to grow by 16.4 per cent following a severe economic contraction in 2022, and then to increase by 6.1 and 6.8 per cent in 2024 and 2025, respectively. Inflation is projected to remain low, ranging between 3.5 and 2.5 per cent from 2023 to 2025. The halting of the Black Sea Grain Initiative and the expected increase in global food prices might affect the inflation outlook.

In Iraq, GDP is expected to grow at moderate levels as a result of oil production cuts and moderate price levels. GDP growth is predicted to range from 3.4 per cent in 2023 to 4.3 per cent in 2025. Inflation is expected to reach 6 per cent in 2023 as a result of higher food prices, and to decrease to 3.7 and 3.6 per cent in 2024 and 2025, respectively.

In Yemen, the ceasefire agreement reached earlier this year between conflicting parties will have a positive impact on the economic outlook. In 2023, GDP is expected to witness minor growth at 0.4 per cent, followed by a strong recovery of 4 and 3.2 per cent in 2024 and 2025, respectively. Inflation rates are expected to decrease from 20 per cent in 2023 to 9.5 per cent in 2024 and 5.7 per cent in 2025.

In Palestine, and prior to the eruption of the war on Gaza, GDP was expected to grow by 3.2 per cent in 2023 and 2.6 per cent from 2024 to 2025, while inflation was estimated to be around 3.1 per cent on average during the 2023–2025 period. However, this outlook is reversed by Israeli aggressions and excessive violence, particularly since 7 October 2023. The war on Gaza has caused the death of at least 18,205 persons between 7 October and 12 December 2023, 70 per cent of whom are children and women, in addition to at least 50,100 injured[20]. This war is pushing the Gaza strip into dire economic and social conditions and has propagated to the whole State of Palestine. If the war lasts for three months, GDP is expected to decline by 9.6 per cent in 2023 and 5.7 per cent in 2024, and to grow modestly by 2 per cent in 2025. The drop in GDP is expected to be due to a reduction in trade and capital inflows, halting of investments and productivity, higher production costs including for transport, and greater overall insecurity, and will have lasting negative effects on potential output and productivity for years to come, especially with the destruction of the health and education sectors. Total investment is expected to decline between 15 and 44 per cent, exports between 13 and 28 per cent, and imports between 4 and 14 per cent.[21] The war and the massive number of casualties and injured in addition to the vast destruction in housing and infrastructure will likely push the State of Palestine 10 to 15 years back.[22]

The Syrian Arab Republic had a difficult year in 2023 as two devastating earthquakes in February hit the northern and western parts of the country. Despite these challenges, GDP is expected to increase by 2.9 per cent in 2023, 3.8 per cent in 2024, then to grow at a faster of 7.2 per cent pace in 2025. Inflation rates are expected to remain elevated but to follow a decreasing path from 30.2 per cent in 2024 to 20 per cent in 2025.

Table 2.11 GDP and inflation in conflict-affected countries, 2023–2025

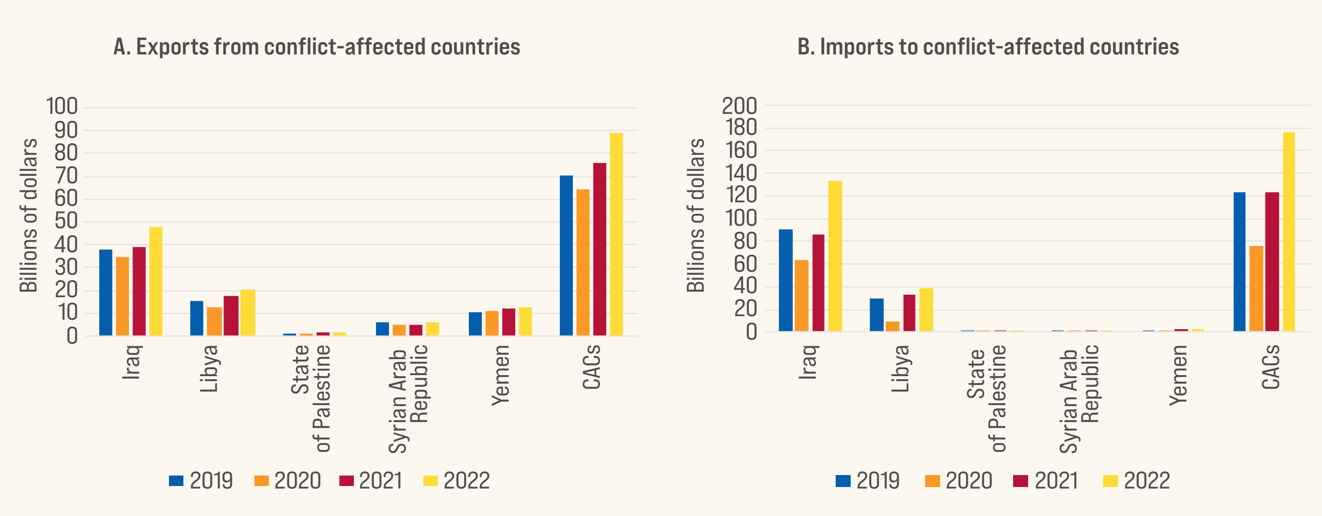
Real GDP growth rate (percentage per year)						
	Pre-war scenario			The three-month war scenario[a]		
	2023	2024	2025	2023	2024	2025
Yemen	0.4	4.0	3.2	0.4	4.0	3.2
Libya	16.4	6.1	6.8	16.4	6.1	6.8
Iraq	3.4	3.1	4.3	3.4	3.1	4.3

State of Palestine	3.2	2.6	2.6	**-9.6**	**-5.7**	**2.0**
Syrian Arab Republic	2.9	3.8	7.2	2.9	3.8	7.2
Arab conflict-affected countries	**5.2**	**3.7**	**4.7**	**4.5**	**3.3**	**4.7**
Consumer inflation rate (percentage per year)						
	Pre-war scenario			**Three-month war scenario[a]**		
	2023	**2024**	**2025**	**2023**	**2024**	**2025**
Yemen	19.9	9.5	5.7	19.9	9.5	5.7
Libya	3.5	2.6	2.5	3.5	2.6	2.5
Iraq	6.0	3.7	3.6	6.0	3.7	3.6
State of Palestine	3.4	2.8	3.1	1.0	0.4	2.1
Syrian Arab Republic	44.5	30.2	20.0	44.5	30.2	20.0
Arab conflict-affected countries	**9.7**	**6.0**	**4.8**	**9.6**	**5.8**	**4.7**

Source: ESCWA projections based on the World Economic Forecasting Model for 2023.

[a] ESCWA projections based on the World Economic Forecasting Model for 2023 and based on the ESCWA-UNDP Expected Socio-Economic Impacts of the Gaza Crisis on Neighbouring Countries in the Arab States Region (forthcoming).

Figure 2.4 Exports and imports in conflict-affected countries



Source: ESCWA staff calculations based on the IMF Direction of Trade Statistics.

Note: CACs refers to conflict-affected countries.

Exports from conflict-affected countries improved significantly in 2022, increasing by 18 per cent, reaching $89 billion as a result of greater oil exports from Iraq and Libya (figure 2.4A). Imports increased even more, by around 43 per cent, reaching $177 billion due to higher import bills following the increase in commodity prices (figure 2.4B).

Exports are expected to grow by 4.1 per cent on average during the 2023–2025 period as several conflict-affected countries are expected to resume economic activities and ties with neighbouring countries. Imports are projected to grow by 5.5 per cent on average to secure goods needed for reconstruction and recovery (table 2.12).

Table 2.12 Real export and import growth rates in conflict-affected countries, 2023–2025

	Exports (percentage)			Imports (percentage)		
	2023	2024	2025	2023	2024	2025
All Arab countries	**5.4**	**6.0**	**5.0**	**4.2**	**4.1**	**4.0**
Yemen	9.2	7.5	8.0	5.0	2.8	2.3
Libya	3.7	3.1	3.1	5.8	5.0	5.0
Iraq	5.0	4.4	3.1	5.0	4.4	3.1
State of Palestine	NA	4.4	5.7	NA	4.4	5.7
Syrian Arab Republic	5.0	5.2	8.2	5.0	5.2	8.2
Arab conflict-affected countries	**4.7**	**4.2**	**3.4**	**6.0**	**4.9**	**5.7**

Source: Data from the United Nations Statistics Division and national sources.

Table 2.13 Fiscal deficit and debt as a percentage of GDP in conflict-affected countries

	Fiscal balance (percentage)			Government debt (percentage)		
	2023	2024	2025	2023	2024	2025
Yemen	-21.0	-24.1	-25.3	72.3	86.1	103.4
Libya	2.3	-3.6	-8.7	NA	NA	NA
Iraq	-3.5	-5.0	-6.1	54.2	55.7	58.1
State of Palestine	NA	NA	NA	NA	NA	NA
Syrian Arab Republic	-1.2	-3.4	-3.3	3.1	5.8	7.9
Arab conflict-affected countries	**-3.8**	**-6.2**	**-8.0**	**52.1**	**55.0**	**58.7**

Source: ESCWA projections based on the World Economic Forecasting Model.

Conflict-affected countries are expected to witness a deterioration in their fiscal position, reaching a deficit worth 3.8 per cent of GDP in 2023, and 6.2 and 8 per cent in 2024 and 2025, respectively. This large increase is mainly due to a widening fiscal deficit in individual countries, expected in 2025 to reach 8.7 per cent of GDP in Libya, 6.1 per cent in Iraq, 25.3 per cent in Yemen and 3.3 per cent in the Syrian Arab Republic. Libya and Yemen are projected to increase their spending to finance reconstruction, while Iraq is maintaining costly fuel and food subsidies to mitigate the impacts of fluctuating global commodity prices on vulnerable communities. The fiscal position of the State of Palestine is expected to worsen. Revenues collected by Israel on behalf of and transferred to the Palestinian Authority (representing around 64 per cent of total revenues in 2022) are expected to be reduced or halted, which will affect debt payments and risk of causing debt default.[23]

The debt-to-GDP ratio is expected to increase in conflict-affected countries from around 52 per cent in 2023 to 58.7 per cent in 2025. In Yemen, debt levels are predicted to increase significantly to finance reconstruction; the debt-to-GDP ratio could reach 103.4 per cent in 2025. In Iraq, it may reach 58.1 per cent. The ratio is expected to increase to 7.9 per cent in the Syrian Arab Republic in 2025, given uncertainty regarding the persistence of economic sanctions under the Caesar Act adopted by the United States (table 2.13).

E. Least developed countries

The outlook for the Arab least developed countries is highly uncertain and gloomy, and is affected by the escalating conflict in the Sudan. GDP is expected to contract by 12.5 per cent in 2023 and 1.5 per cent in 2024, and then to grow by 2.5 per cent in 2025. Inflation rates are projected to be elevated, reaching 48 per cent in 2023 before declining to 22.8 per cent in 2024 and 13.7 per cent in 2025 (table 2.14).

The Sudan is undergoing a civil conflict that started in April 2023, further aggravating dire socioeconomic conditions and generating a humanitarian crisis. The conflict has disrupted production, agricultural activities and exports, and generated a wave of refugees and internally displaced people. GDP is expected to contract by around 15.7 per cent in 2023 and 3.4 per cent in 2024 should the conflict endure until then, before growing by 2.1 per cent in 2025. Prices are expected to soar. Imports have been severely affected by conflict, and the country relies heavily on imported food and medicines. Inflation rates are expected to reach 55.5 per cent in 2023, 26 per cent in 2024 and 15.3 per cent in 2025.

Mauritania is expected to grow by 4.9 per cent in 2023, 9 per cent in 2024 and 4.8 per cent in 2025 based on significant growth in the extractives sector, particularly iron ore and gold. Inflation will reach moderate levels and will fluctuate between 6.4 per cent in 2023 and 5.7 per cent in 2025.

GDP in Comoros is expected to grow by 2.8 per cent in 2023 and 2.9 per cent in 2024 to 2025, while inflation rates are expected to be around 5.4 per cent on average during the 2023–2025 period.

In Djibouti, GDP is expected to grow by 3.1 per cent in 2023, 5.5 per cent in 2024 and 4.5 per cent in 2025, driven by peace in Ethiopia and the resumption of economic activities, while inflation rates are projected to be around 3.9 per cent during the 2023–2025 period.

In Somalia, GDP is expected to grow by 2.5 per cent in 2023, 3.2 per cent in 2024 and 3 per cent in 2025. Inflation is predicted to be 5 per cent on average during the 2023–2025 period.

Table 2.14 GDP and inflation in least developed countries, 2023–2025

Real GDP growth rate (percentage per year)			
	2023	**2024**	**2025**
Comoros	2.8	2.9	2.9
Djibouti	3.1	5.5	4.5
Mauritania	4.9	9.0	4.8
Somalia	2.5	3.2	3.0
Sudan	-15.7	-3.4	2.1
Arab least developed countries	**-12.5**	**-1.5**	**2.5**
Consumer inflation rate (percentage per year)			
	2023	**2024**	**2025**
Comoros	6.8	5.1	4.4
Djibouti	4.0	3.9	3.7
Mauritania	6.4	6.2	5.7
Somalia	6.5	4.3	4.1
Sudan	55.5	26.0	15.3
Arab least developed countries	**47.9**	**22.8**	**13.7**

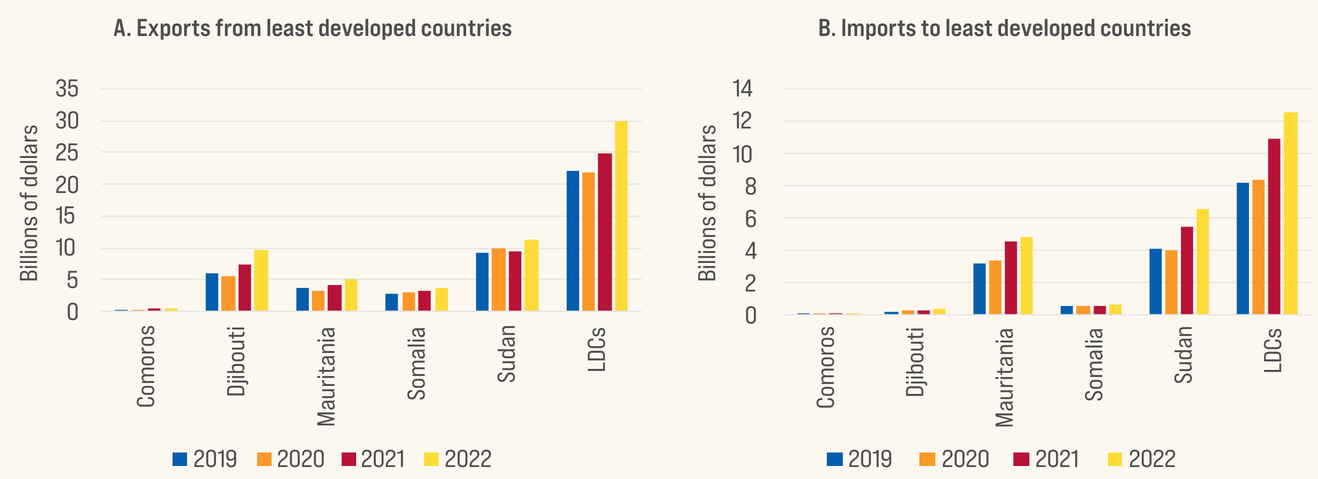
Source: ESCWA projections based on the World Economic Forecasting Model for 2023.

Exports from the least developed countries increased by 21 per cent in 2022, reaching $30 billion, while imports rose by 15 per cent to $13 billion (figures 2.5A and 2.5B). Both were driven by significant growth in trade in Mauritania and the Sudan. The escalating conflict in the Sudan, however, is expected to affect trade growth in the least developed countries. Exports are projected to contract by 7.8 per cent in 2023, caused by a 30 per cent decline in exports from the Sudan, before later edging up by 5.5 per cent in 2025. Similarly, imports are expected to contract by 4.1 per cent in 2023, following a 30 per cent decline in the Sudan, before increasing by 4.1 per cent in 2025 (table 2.15).

The least developed countries continue to face constrained fiscal space and challenging socioeconomic conditions. The fiscal deficit is expected to increase and reach 3.2 per cent of GDP in 2023, with projections of 2.6 and 2.3 per cent in 2024 and 2025, respectively. The debt-to-GDP ratio is expected to decline from 78 per cent in 2023 to around 70 per cent in 2025, mainly driven by a decrease in debt levels in the Sudan (table 2.16).

The fiscal situation in the Sudan is very challenging. The local currency has depreciated significantly, and the ongoing conflict is diminishing revenue collection. The fiscal position is expected to worsen, with the fiscal deficit projected to reach 3.3 per cent of GDP in 2023 and to improve slightly to 2.7 per cent in 2024 and 2.4 per cent in 2025 should the conflict end early in 2024. Given the depreciation in the local currency, debt levels are expected to decrease from 83.4 per cent of GDP in 2023 to around 75 per cent in 2024 and 2025.

Figure 2.5 Exports and imports in least developed countries



Source: ESCWA staff calculations based on the IMF Direction of Trade Statistics.

Note: LDCs refers to least developed countries.

Table 2.15 Real export and import growth rates in least developed countries, 2023–2025

	Exports (percentage)			Imports (percentage)		
	2023	**2024**	**2025**	**2023**	**2024**	**2025**
All Arab countries	**5.4**	**6.0**	**5.0**	**4.2**	**4.1**	**4.0**
Comoros	9.1	10.1	7.6	10.0	8.0	7.0
Djibouti	8.3	8.7	5.9	4.7	4.5	3.5
Mauritania	3.3	4.1	5.9	3.3	4.1	5.9
Somalia	7.9	4.9	3.9	7.9	4.9	3.9
Sudan	-30.0	3.3	5.4	-30.0	3.3	5.4
Arab least developed countries	**-7.8**	**6.1**	**5.5**	**-4.1**	**5.3**	**4.1**

Source: Based on data from the United Nations Statistics Division and national sources.

Table 2.16 Fiscal deficit and debt as a percentage of GDP in least developed countries

	Fiscal balance (percentage)			Government debt (percentage)		
	2023	2024	2025	2023	2024	2025
Comoros	-3.9	-3.8	-4.1	31.6	33.3	35.5
Djibouti	-1.8	-2.3	-1.5	45.1	43.5	41.6
Mauritania	-2.0	-1.9	-1.9	47.6	44.7	45.0
Somalia	NA	NA	NA	NA	NA	NA
Sudan	-3.3	-2.7	-2.4	83.4	75.3	75.6
Arab least developed countries	**-3.2**	**-2.6**	**-2.3**	**78.0**	**70.3**	**70.4**

Source: ESCWA projections based on the World Economic Forecasting Model.

In Mauritania, the fiscal deficit is expected to be stable at around 2 per cent of GDP during the 2023–2025 period, while the debt-to-GDP ratio is projected to decrease from 47.6 per cent in 2023 to around 45 per cent in 2025. In 2023, Mauritania received IMF approval for $86.9 million for a 42-month arrangement under the Extended Fund Facility.

In Djibouti, the fiscal deficit is expected to reach 1.8 per cent of GDP in 2023, 2.3 per cent in 2024 and around 1.5 per cent in 2025, while the debt-to-GDP ratio is projected to drop from 45.1 per cent in 2023 to 41.6 per cent in 2025.

In the Comoros, the fiscal deficit is expected to increase from 3.9 per cent of GDP in 2023 to 4.1 per cent in 2025, while the debt-to-GDP ratio is predicted to increase from 31.6 to 35.5 per cent over the same period.

F. Concluding remarks

The outlook for the Arab region in highly uncertain. It depends on several factors, including the ongoing war on Gaza, the future of the war in Ukraine, and related repercussions such as fluctuations in energy prices and the resumption of grain exports from countries in conflict. The outlook also depends on lasting truces and ceasefire agreements among several conflicting parties, policymaking and measures to rebuild fragmented institutions, efforts to end political deadlocks, economic and social reforms, international aid to support reconstruction and recovery, and the sustainable reconciliation of conflicting parties.

Climate change adds another element of uncertainty. The repercussions are increasingly visible in the region, which struggles with recurrent heat waves, droughts and flooding, and more frequent natural disasters. These are threatening food, water and energy security along with livelihoods. Addressing climate change is essential for developed and developing countries alike globally, including Arab countries.